Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report
30 June 2012

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

Table of Contents

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

Introduction

Bank Negara Malaysia ("BNM") announced a two-phase approach for implementing the standards recommended by the Bank of International Settlement set out in "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II) in Malaysia.

In the first phase, banking institutions are required to adopt the Standardised Approach for credit risk by the end of 2008. In the second phase, qualified banking institutions are allowed to migrate directly to the Internal Rating-Based approach (IRB Approach) in January 2010. Banks on the Standardised Approach are not mandated to migrate to the IRB Approach.

Deutsche Bank (Malaysia) Berhad ("The Bank") operates under the BNM's Risk Weighted Capital Adequacy Framework (Basel II – Risk Weighted Assets Computation) "RWCAF". The computation of the risk weighted assets is consistent with Pillar 1 requirements set out by the Basel Committee on Banking Supervision ("BCBS") and the Islamic Financial Services Board (IFSB) in their respective documents – *"International Convergence of Capital Measurement and Capital Standards: A Revised Framework"* issued in June 2006 and the *"Capital Adequacy Standard"* issued in December 2005. BNM had proposed some customisations to the BCBS specification in an effort to avoid under estimation of risk within the industry as well as to ensure suitability of the framework in the local environment.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. The minimum regulatory capital adequacy requirement is 8% for the risk-weighted capital ratio.

The information provided herein has been reviewed and verified by a competent independent internal party and certified by the Bank's Chief Executive Officer. The information is not audited as there is no requirement for external auditing of these disclosures under the BNM's RWCAF. The Pillar 3 Disclosure will be published in the Bank's website, www.db.com/malaysia.

Basel II Pillar 3 Report - 30 June 2012

1 Scope of Application

Deutsche Bank (Malaysia) Berhad and its subsidiaries ("DBMB Group") are incorporated and domiciled in Malaysia. The DBMB Group is principally engaged in all aspect of banking and related financial services which includes Islamic Banking ("IBW") business.

The regulatory principles of consolidation are not identical to those for the DBMB Group's financial statements, which are prepared in accordance with the Financial Reporting Standards ("FRS") as modified by Bank Negara Malaysia's Guidelines, accounting principles generally accepted in Malaysia and the Companies Act, 1965. The subsidiary companies of the Bank, which are incorporated in Malaysia, are consolidated with the financial statements of the Bank, made up to the end of the financial year. The accounting policy for consolidation is provided in Note 2(a) to the Financial Statements.

The treatment of equity investment in the Risk Weighted Capital Adequacy Framework ("RWCAF"), at entity and consolidated level, is as follows:

Type of Investment	Treatment	
	At entity level	At consolidated level
Other Commercial Entities - Subsidiaries	Deduction from capital base	Deduction from capital base

There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, Deutsche Bank (Malaysia) Berhad and its subsidiaries when due.

The subsidiary companies of the Bank are deducted from capital base of DBMB's RWCAF as follows:

Deutsche Bank (Malaysia) Nominee (Tempatan) Sdn Bhd – equity investment of RM10,000-00.
Deutsche Bank (Malaysia) Nominee (Asing) Sdn Bhd – equity investment of RM10,000-00.

2 Capital Adequacy

2.1 Deutsche Bank (Malaysia) Berhad's Approach

The Bank manages risk and capital through a framework of principles, organisational structures, as well as measurement and monitoring processes that are closely aligned with the activities of the Bank's divisions.

The Deutsche Bank Group ("DB Group") Treasury function manages the Bank's capital at group level and locally in each region. The allocation of financial resources, in general, and capital, in particular, favors business portfolios with the highest positive impact on the Bank's profitability and shareholder value.

Regional capital plans covering the capital needs of DB Group's branches and subsidiaries are prepared on an annual basis and presented to the DB Group Investment Committee (GIC). At a country level, capital is maintained on the basis of the local regulator's requirements. It is overseen by the local Asset and Liability Committee ("ALCO"), which is responsible for managing the country level statement of financial position, capital and liquidity.

2.2 Risk Weighted Assets and Capital Requirements

	2012		2011	
	Risk Weighted Assets	Min Capital Requirement at 8%	Risk Weighted Assets	Min Capital Requirement at 8%
Bank	RM'000	RM'000	RM'000	RM'000
Credit Risk	4,416,123	353,290	4,004,524	320,362
Market Risk	6,402,545	512,204	5,089,609	407,169
Operational Risk	478,513	38,280	457,788	36,623
Total	**11,297,181**	**903,774**	**9,551,921**	**764,154**
Islamic Banking Window				
Credit Risk	96	8	103	8
Market Risk	20,810	1,665	20,346	1,628
Operational Risk	2,223	177	1,931	154
Total	**23,129**	**1,850**	**22,380**	**1,790**

Table 1 - Risk Weighted Capital Ratio and Tier 1 capital

	2012		2011	
	Risk Weighted Capital Ratio	Tier 1 Capital Ratio	Risk Weighted Capital Ratio	Tier 1 Capital Ratio
Deutsche Bank (Malaysia) Berhad	12.28%	12.17%	14.52%	14.39%
Islamic Banking Window	118.10%	118.10%	122.06%	122.06%

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

2 Capital Adequacy (continued)

2.2 Risk Weighted Assets and Capital Requirements (continued)

Table 2 – Risk weighted assets and capital requirements for credit risk (2012)

30-Jun-2012

RISK TYPE	Gross Exposures	Net Exposures	Risk-Weighted Assets	Minimum Capital Requirement at 8%
Credit Risk	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	4,898,085	104,251	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	677,576	677,576	325,278	26,022
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-
Corporates	645,772	645,772	614,520	49,162
Regulatory Retail	615	615	462	37
Residential Mortgages	26,888	26,888	9,538	763
Higher Risk Assets	-	-	-	-
Other Assets	114,623	114,623	112,420	8,994
Equity Exposure	6,340	6,340	5,242	419
Defaulted Exposures	6,538	6,538	6,538	523
Total On-Balance Sheet Exposures	**6,376,437**	**1,582,603**	**1,073,998**	**85,920**
Off-Balance Sheet Exposures				
OTC Derivatives	7,684,200	7,401,217	3,326,013	266,081
Credit Derivatives	65,505	65,505	16,112	1,289
Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	**7,749,705**	**7,466,722**	**3,342,125**	**267,370**
Total On and Off- Balance Sheet Exposures	**14,126,142**	**9,049,325**	**4,416,123**	**353,290**

Under RWCAF, exposures to the Federal Government of Malaysia, Bank Negara Malaysia, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

2 Capital Adequacy (continued)

2.2 Risk Weighted Assets and Capital Requirements (continued)

Table 2.1 - Risk weighted assets and capital requirements for credit risk (2011)

31-Dec-2011

RISK TYPE	Gross Exposures	Net Exposures	Risk-Weighted Assets	Minimum Capital Requirement at 8%
Credit Risk	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,508,037	91,540	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	544,465	544,465	260,724	20,858
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-
Corporates	756,286	756,286	712,506	57,000
Regulatory Retail	549	549	412	33
Residential Mortgages	27,398	27,398	9,745	780
Higher Risk Assets	-	-	-	-
Other Assets	96,403	96,403	92,825	7,426
Equity Exposure	7,205	7,205	6,107	489
Defaulted Exposures	7,114	7,114	7,114	569
Total On-Balance Sheet Exposures	**4,947,457**	**1,530,960**	**1,089,433**	**87,155**
Off-Balance Sheet Exposures				
OTC Derivatives	6,653,399	6,423,504	2,898,948	231,916
Credit Derivatives	43,321	43,321	16,143	1,291
Defaulted Exposures	-	-	-	
Total for Off-Balance Sheet Exposures	**6,696,720**	**6,466,825**	**2,915,091**	**233,207**
Total On and Off- Balance Sheet Exposures	**11,644,177**	**7,997,785**	**4,004,524**	**320,362**

Under RWCAF, exposures to the Federal Government of Malaysia, Bank Negara Malaysia, overseas federal governments and central banks of their respective jurisdictions are accorded a preferential sovereign risk weight of 0%.

Table 3 – Risk weighted assets and capital requirements for market risk (2012)

30-Jun-2012

RISK TYPE	Gross Exposures		Net Exposures	Risk Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
			RM'000	RM'000	RM'000	RM'000	RM'000
Market Risk	Long Position	Short Position					
Interest Rate Risk	181,044,634	173,794,243	-	4,824,570			385,966
Foreign Currency Risk	1,077,397	-	-	1,077,400			86,192
Options	122,364	-	-	500,575			40,046
	182,244,395	173,794,243	-	6,402,545			512,204

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

2 Capital Adequacy (continued)

2.2 Risk Weighted Assets and Capital Requirements (continued)

Table 3.1 - Risk weighted assets and capital requirements for market risk (2011)

31-Dec-2011

RISK TYPE	Gross Exposures		Net Exposures	Risk Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
			RM'000	RM'000	RM'000	RM'000	RM'000
Market Risk	Long Position	Short Position					
Interest Rate Risk	161,287,799	154,477,733	-	3,688,871			295,110
Foreign Currency Risk	1,096,395	274	-	1,096,400			87,712
Options	104,168	-	-	304,338			24,347
	162,488,362	154,478,007	-	5,089,609			407,169

Table 4 – Risk weighted assets and capital requirements for operational risk (2012)

30-Jun-2012

RISK TYPE	Gross Exposures		Net Exposures	Risk Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
			RM'000	RM'000	RM'000	RM'000	RM'000
Operational Risk				478,513			38,280

Table 4.1 - Risk weighted assets and capital requirements for operational risk (2011)

31-Dec-2011

RISK TYPE	Gross Exposures		Net Exposures	Risk Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000		RM'000	RM'000	RM'000	RM'000	RM'000
Operational Risk	-	-	-	457,788	-	-	36,623

Table 5 – Risk weighted assets and capital requirements arising from Large Exposure Risk

2012 & 2011

RISK TYPE	Gross Exposures		Net Exposures	Risk Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
			RM'000	RM'000	RM'000	RM'000	RM'000
Large Exposures Risk Requirements	-	-	-			-	-

The Bank does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in BNM's RWCAF.

2 Capital Adequacy (continued)

2.3 Capital Structure

2.3.1 Main features of capital instruments

The Bank's total regulatory capital is made up of Tier 1 and Tier 2 capital and the sum of Tier 1 and Tier 2 capital is also referred to as Total Capital.

Tier 1 capital consists primarily of ordinary paid-up share capital, share premium, statutory reserve fund and retained profits less deferred tax assets.

Share capital is the issued and fully paid share capital and there is no obligation to pay dividend to the shareholders. No dividend is proposed for the financial year ended 30 June 2012.

Tier 2 capital consists of collective assessment allowance.

For the purpose of calculating the capital base, the investments in unconsolidated subsidiaries are deducted from total capital. Deferred tax assets are excluded from the computation of the Bank's capital base.

2.3.2 Components of capital

Table 6 – Components of Tier 1 and Tier 2 capital on consolidated basis:

	Group and Bank	
	30-Jun-12 RM'000	31-Dec-11 RM'000
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	686,155	686,155
Less: Deferred tax assets	(17,745)	(17,745)
Total Tier 1 Capital	1,374,494	1,374,494
Tier 2 Capital		
Collective assessment allowance	12,672	12,672
Total Capital	1,387,166	1,387,166
Less: Investments in subsidiary companies	(20)	(20)
Capital Base	1,387,146	1,387,146
Tier 1 Capital Ratio	12.17%	14.39%
Risk-Weighted Capital Ratio	12.28%	14.52%

3 Risk Management

3.1 Risk and Capital Management

Risk Management Principles

DB Group actively takes risks in connection with its business and as such the following principles underpin risk management within DB Group:

— Risk is taken within a defined risk appetite.
— Every risk taken needs to be approved within the risk management framework.
— Risk taken needs to be adequately compensated.
— Risk should be continuously monitored and
— A strong risk management culture helps reinforcing Deutsche Bank's resilience.

DB Group expects its employees to behave in a manner that maintains a strong risk culture by taking a holistic approach to managing risk and return and by effectively managing the bank's risk, capital and reputational profile.

The consideration of risk is consequently inherent in the DB Group's compensation philosophy and is monitored on an ongoing basis.

Risk Management Framework

The wide variety of the DB Group's businesses requires it to identify, measure, aggregate and manage its risks effectively, and to allocate its capital among it businesses appropriately. DB Group operates as an integrated group though its division, business units and infrastructure functions. Risk and capital are managed through a framework of principles, organisational structures, as well as measurement and monitoring processes that are closely aligned with the activities of the DB Group's divisions and business units:

- The DB Group's Management Board provides overall risk and capital management supervision for its consolidated DB Group entities.
- DB Group operates a three-line defense risk management model whereby business management, risk management oversight and assurance roles are played by functions independent of one another.
- Risk strategy and risk appetite are defined based on the DB Group's strategic plans in order to align risk, capital and performance targets.
- Reviews will be conducted across the DB Group to verify that sound risk management practices and a holistic awareness of risk exist across the organization and to help each business manage the balance between their risk appetite and reward.
- All major risk classes are managed via risk management processes, including credit risk, market risk, operational risk, liquidity risk, business risk, reputational risk and risk concentrations.
- Where applicable modeling and measurement approaches for quantifying risk and capital demand are implemented across the major risk classes.
- Effective systems, processes and policies are a critical component of the DB Group's risk management capability.

At the local level, the Board Risk Management Committee (BRMC) of the Bank 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 meeting. The risks areas are actively managed by dedicated divisions such as the DB Group Market Risk Management, DB Group Credit Risk Management, DB Group Treasury, DB Group Corporate Security and Business Continuity and DB Group Operational Risk.

3 Risk Management (continued)

3.1 Risk and Capital Management (continued)

Risk and Capital Management Organisation

The DB Group's Chief Risk Officer (CRO), who is a member of the DB Group Management Board, and is responsible for the identification, assessment, management and reporting or risks arising within operations across all businesses and risk types. The below functional committees are central to the Risk function:

- The DB Group's Risk Executive Committee identifies controls and manages all risks including risk concentrations at the DB Group. To fulfill this mandate, the Risk Executive Committee is supported by sub-committees that are responsible for dedicated areas of risk management, including several policy committees and the DB Group Reputational Risk Committee.
- The DB Group Capital and Risk Committee oversees and controls integrated planning and monitoring of the DB Group's risk profile and capital capacity, ensuring alignment of risk appetite, capitalization requirements and funding needs with the DB Group, divisional and sub-divisional business strategies.
- The Cross Risk Review Committee supports the Risk Executive Committee and the Capital and Risk Committee with particular emphasis on the management of DB Group wide risk patterns. The Cross Risk Review Committee, under a delegation of authority from the Capital and Risk Committee has responsibility for the day-to-day oversight and control of DB Group's Internal Capital Adequacy Assessment Process ("ICAAP") ensuring compliance with respective regulatory requirements and policy setting for local ICAAPs.
- Multiple members of the Capital and Risk Committee are also members of the DB Group Investment Committee, ensuring a close link between both committees as proposals for strategic investments are analyzed by the DB Group Investment Committee. Depending on the size of the strategic investment it may require approval from the DB Group Investment Committee, the Management Board or even the Supervisory Board. The development of the strategic investment is monitored by the DB Group Investment Committee on a regular basis.

Dedicated Risk units are established with the mandate to:

- Ensure that the business conducted within each division is consistent with the risk appetite that the Capital and Risk Committee has set within a framework established by the Management Board;
- Formulate and implement risk and capital management policies, procedures and methodologies that are appropriate to the businesses within each division;
- Approve credit, market and liquidity risk limits;
- Conduct periodic portfolio reviews to ensure that the portfolio of risks is within acceptable parameters; and
- Develop and implement risk and capital management infrastructures and systems that are appropriate for each division.

The heads of the DB Group's Legal, Risk & Capital units, who are the members of the DB Group's Risk Executive Committee, are responsible for the performance of the units and report directly to the DB Group's Chief Risk Officer.

3 Risk Management (continued)

3.1 Risk and Capital Management (continued)

Risk and Capital Management Organisation (continued)

An Enterprise-wide Risk Management ("ERM") unit plays a role in monitoring the portfolio of risk against the appetite articulated in the capital plan and manages cross-risk initiatives in the DB Group. The objectives of the ERM unit are to:

- Develop a comprehensive view of the risks across the businesses in the bank and to focus on cross-risk concentrations and risk-reward "hotspots";
- Provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the bank (risk appetite, stress testing framework);
- Strengthen risk culture in the bank; and
- Foster the implementation of consistent risk management standards across the DB Group's local entities.

The DB Group's Finance and Audit departments support the legal, risk & capital function. They operate independently of both the group divisions and of the legal, risk & capital function. The role of the Finance department is to help quantify and verify the risk that the DB Group assumes and ensure the quality and integrity of risk-related data. The DB Group's Audit department performs risk-oriented reviews of the design and operating effectiveness of its internal control procedures.

3.2 Risk Strategy and Appetite

DB Group's risk strategy statement is expressed as follows:
— balanced performance across business units;
— positive development of earnings quality;
— compliance with regulatory capital requirements;
— capital adequacy; and
— stable funding and strategic liquidity allowing for business planning within the liquidity risk tolerance and regulatory requirements.

DB Group defines its risk strategy and risk appetite on the basis of the strategic plans to ensure alignment of risk, capital and performance targets.

DB Group conducts an annual strategic planning process which considers its future strategic direction, decisions on key initiatives and the allocation of resources to the businesses. DB Group's plan comprises profit and loss, capital supply and capital demand, other resources, such as headcount, and business-specific key performance indicators. This process is performed at the business division and business unit level covering the next three years, projected onto a five-year period for purposes of the goodwill impairment test. In addition, the first year is detailed on a month by month basis (operative plan). DB Group Strategy & Planning and Finance coordinate the strategic planning process and present the resulting strategic plan to the DB Group Executive Committee and Management Board for discussion and final approval. The final plan is also presented to the Supervisory Board at the beginning of each year.

3 Risk Management (continued)

3.2 Risk Strategy and Appetite (continued)

DB Group's strategic plans include the Risk & Capital Plan and risk appetite, which allows the DB Group to:
— set capital adequacy goals with respect to risk, considering the DB Group's strategic focus and business plans;
— assess the DB Group's risk-bearing capacity with regard to internal and external requirements (i.e. regulatory and economic capital); and
— apply stress testing to assess the impact on the capital demand, capital base and liquidity position.

Risk appetite is an expression of the maximum level of risk that the DB Group is prepared to accept in order to deliver its business objectives. The risk appetite statement defines the DB Group-level risk tolerance that is translated into financial targets for business divisions and risk limits, targets or measures for major risk categories throughout the DB Group. The setting of the risk appetite thus ensures that risk is proactively managed to the level desired by the Management Board and shareholders and is congruent with the DB Group's overall risk appetite statement. The Management Board reviews and approves the risk appetite on an annual basis to ensure that it is consistent with the DB Group strategy, business environment and stakeholder requirements. Risk appetite tolerance levels are set at different trigger levels, with clearly defined escalation and action schemes. In cases where the tolerance levels are breached, it is the responsibility of the Enterprise-wide Risk Management unit to bring it to the attention of respective risk committees, and ultimately the Chief Risk Officer.

Amendments to the risk and capital strategy must be approved by the DB Group Chief Risk Officer or the full DB Group Management Board, depending on significance.

3.3 Risk Management Tools

The DB Group uses a comprehensive range of quantitative methodologies for assessing and managing risks. As a matter of policy, the DB Group continually assesses the appropriateness and the reliability of its quantitative tools and metrics in light of the DB Group's changing risk environment. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories. The advanced internal tools and metrics the DB Group currently uses to measure, manage and report its risk are:

3.3.1 Economic capital

Economic capital measures the amount of capital DB Group needs to absorb very severe unexpected losses arising from the DB Group's exposures. "Very severe" in this context means that economic capital is set at a level to cover with a probability of 99.98% the aggregated unexpected losses within one year. DB Group calculates economic capital for the default risk, transfer risk and settlement risk elements of credit risk, for market risk, for operational risk and for general business risk. DB Group continuously reviews and enhances its economic capital model as appropriate. It uses economic capital to show an aggregated view of its risk position from individual business lines up to its consolidated Group level. In addition, the Group considers economic capital, in particular for credit risk, when the Group measures the risk-adjusted profitability of its client relationships.

3 Risk Management (continued)

3.3 Risk Management Tools (continued)

3.3.2 Expected Loss

The DB Group uses expected loss as a measure of the credit and operational risk. Expected loss is a measurement of the loss the DB Group can expect within a one-year period from these risks as of the respective reporting date, based on historical loss experience. When calculating expected loss for credit risk, the DB Group takes into account credit risk ratings, collateral, maturities and statistical averaging procedures to reflect the risk characteristics of different types of exposures and facilities. All parameter assumptions are based on statistical averages of up to seven years based on the DB Group's internal default and loss history as well as external benchmarks. The DB Group uses expected loss as a tool of the risk management process and as part of the DB Group's management reporting systems. The DB Group also considers the applicable results of the expected loss calculations as a component of its collectively assessed allowance for credit losses included in its financial statements. For operational risk the DB Group determines the expected loss from statistical averages of internal loss history, recent risk trends as well as forward looking expert estimates.

3.3.3 Value at Risk

The DB Group uses the value-at-risk approach to derive quantitative measures for trading book market risks under normal market conditions. The Group's value-at-risk figures play a role in both internal and external (regulatory) reporting. For a given portfolio, value-at-risk measures the potential future loss (in terms of market value) that, under normal market conditions, will not be exceeded with a defined confidence level in a defined period. The value-at-risk for a total portfolio represents a measure of diversified market risk (aggregated using pre-determined correlations) in that portfolio.

3.3.4 Stress Testing

Credit, market and operational risk as well as liquidity risk are subject to a program of regular stress tests. The Cross Risk Review Committee oversees the inventory of stress tests used for managing the DB Group's risk appetite, reviews the results and proposes management action, if required. The Cross Risk Review Committee monitors the effectiveness of the stress test process and drives continuous improvement of the DB Group's stress testing framework. It is supported by a dedicated Stress Testing Oversight Committee which has the responsibility for the definition of the DB Group-wide stress test scenarios, ensuring common standards and consistent scenarios across risk types, and reviewing the DB Group-wide stress test results. The stress testing framework at DB Group level comprises regular group-wide stress based on a consistent macroeconomic global downturn scenario, annual reverse and capital plan relevant stress test as well as ad-hoc scenarios.

DB Group also supplements its risk type specific analysis of credit, market, operational and liquidity risk with stress testing. For credit risk management purposes, DB Group performs stress tests to assess the impact of changes in general economic conditions or specific parameters on its credit exposures or parts thereof as well as the impact on the creditworthiness of the DB Group's portfolio. For market risk management purposes, DB Group performs stress tests because value-at-risk calculations are based on relatively recent historical data, only purport to estimate risk up to a defined confidence level and assume good asset liquidity. Therefore, they only reflect possible losses under relatively normal market conditions. Stress tests help the DB Group determine the effects of potentially extreme market developments on the value of its market risk sensitive exposures, both on the DB Group's highly liquid and less liquid trading positions as well as its investments. The correlations between market risk factors used in the DB Group's current stress tests are estimated from historic volatile market conditions and proved to be consistent with those observed during recent periods of market stress. DB Group uses stress testing to determine the amount of economic capital the DB Group needs to allocate to cover its market risk exposure under the scenarios of extreme market conditions DB

3 Risk Management (continued)

3.3 Risk Management Tools (continued)

3.3.4 Stress Testing (continued)

Group selects for its simulations. For operational risk management purposes, DB Group performs stress tests on its economic capital model to assess its sensitivity to changes in key model components, which include external losses. For liquidity risk management purposes, DB Group performs stress tests and scenario analysis to evaluate the impact of sudden stress events on its liquidity position.

3.4 Risk Reporting and Measurement Systems

The DB Group has centralised risk data warehouses and systems supporting regulatory reporting and external disclosures, as well as internal management reporting for credit, market, operational and liquidity risk. The DB Group's risk infrastructure incorporates the relevant legal entities and business divisions and provides the basis for tailor-made reporting on risk positions, capital adequacy and limit utilisation to the relevant functions on a regular and ad-hoc basis. Established units within Finance and Legal, Risk and Capital assume responsibility for measurement, analysis and reporting of risk while ensuring sufficient quality and integrity of risk related data.

The main reports on risk and capital management that are used to provide the central governance bodies with information relating to DB Group risk exposures are the following:

— DB Group's Risk & Capital Profile which is presented quarterly to the Management Board. It comprises an overview of the current risk, capital and liquidity situation of the Bank incorporating information on regulatory capital and economic capital adequacy.

— Stress tests are performed quarterly and reported to the Management Board. These are supplemented, as required, by ad-hoc stress tests.

3.5 Capital Management

The DB Group's Treasury function manages the DB Group's capital at group level and locally in each region. The allocation of financial resources, in general, and capital, in particular, favors business portfolios with the highest positive impact on the DB Group's profitability and shareholder value.

Treasury implements the DB Group's capital strategy, which itself is developed by the DB Group Capital and Risk Committee and approved by the DB Group Management Board. The Group is committed to maintain its sound capitalisation. Overall capital demand and supply are constantly monitored and adjusted, if necessary, to meet the need for capital from various perspectives. These include book equity based on IFRS accounting standards, regulatory capital and economic capital. Since October 2008, the Group's target for the Tier 1 capital ratio continued to be at 10% or above.

The allocation of capital, determination of the DB Group's funding plan and other resource issues are presented to and approved by the DB Group Capital and Risk Committee.

3 Risk Management (continued)

3.5 Capital Management (continued)

The DB Group conducts an annual planning process to determine the DB Group's future strategic direction, decide on key initiatives and allocate resources to the businesses. The DB Group's plan comprises profit and loss, capital supply and capital demand, other resources, such as headcount, and business-specific key performance indicators. This process is performed at the business division level comprising the next five years, with business unit details for the first three years. In addition, the first of the five years are detailed by quarter (operative plan). Based upon a range of economic scenarios, the business areas discuss their strategic development with the required risk management functions in order to align their revenue potential with the Group's risk appetite/resources. Group Strategy & Planning and Finance coordinate the strategic planning process and present the resulting strategic plan to the Group Executive Committee for discussion and final approval. The final plan is also presented to the Supervisory Board at the beginning of each year. The approved planned risk-weighted assets and capital deduction items form the basis for quarterly capital demand limits by business area. The risk and performance plans feed into Treasury's capital and liquidity planning. Depending on the development of risk-weighted assets and capital deduction items, Treasury regularly updates contingency measures in light of the Group's Tier 1 capital ratio target.

Regional capital plans covering the capital needs of the DB Group's branches and subsidiaries are prepared on a semi-annual basis and presented to the DB Group Investment Committee. Local Asset and Liability Committees attend to the needs of legal and regulatory capital requirements under the stewardship of regional Treasury teams. Furthermore, they safeguard compliance with requirements such as restrictions on dividends allocable for remittance to Deutsche Bank AG or on the ability of the Group's subsidiaries to make loans or advances to the parent bank. In developing, implementing and testing the DB Group's capital and liquidity, the DB Group takes such legal and regulatory requirements into account.

4 Credit Risk

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, borrower or obligor. The DB Group distinguishes between three kinds of credit risk:

- Default risk is the risk that counterparties fail to meet contractual payment obligations.
- Country risk is the risk that the DB Group may suffer a loss, in any given country, due to any of the following reasons: a possible deterioration of economic conditions, political and social upheaval, nationalisation and expropriation of assets, government repudiation of indebtedness, exchange controls and disruptive currency depreciation or devaluation. Country risk includes transfer risk which arises when debtors are unable to meet their obligations owing to an inability to transfer assets to no residents due to direct sovereign intervention.
- Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

4.1 Credit Risk Management Principles and Strategy

The key principle of credit risk management is client due diligence, which is aligned with the Group's country and industry portfolio strategies. Prudent client selection is achieved in collaboration with the Group's business line counterparts as a first line of defence. In all group divisions, consistent standards are applied in the respective credit decision processes.

The DB Group actively aims to prevent undue concentration and long tail-risks (large unexpected losses) by ensuring a diversified and marketable credit portfolio, effectively protecting the bank's capital in all market conditions. Client, industry, country and product-specific concentrations are actively assessed and managed against the Group's risk appetite.

The DB Group aims to avoid large directional credit risk on a counterparty and portfolio level by applying stringent underwriting standards combined with a pro-active hedging and distribution model and collateralisation of the Group's hold portfolio where feasible.

The DB Group is selective in taking outright cash risk positions unless secured, guaranteed and/or adequately hedged. Exceptions to this general principle are lower risk, short-term transactions and facilities supporting specific trade finance requests as well as low risk businesses where the margin allows for adequate loss coverage.

The DB Group aims to secure its derivative portfolio through collateral agreements and may additionally hedge concentration risks to further mitigate credit risks from underlying market movements.

The DB Group manages credit risk in a coordinated manner at all relevant levels with the organisation. The following principles underpin the DB Group's approach to credit risk management:

- In all group divisions consistent standards are applied in the respective credit decision processes.
- The approval of credit limits for counterparties and the management of the DB Group's individual credit exposures must fit within the DB Group's portfolio guidelines and credit strategies.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.
- The DB Group assigns credit approval authorities to individuals according to their qualifications, experience and training, and the DB Group reviews these periodically.

The DB Group measures and consolidates all credit exposures to each obligor on a global consolidated basis that applies across the consolidated DB Group.

4 Credit Risk (continued)

4.2 Past Due Loans

The Bank considers loans to be past due once contractually agreed payments on principal and/or interest remain unpaid by the borrower. Gnerally the Bank distinguishes between loans that are less than 90 days past due and loans being more than 90 days past due.

4.3 Impairment of Loans and Allowance for Loan Losses

Loans, advances and financing of the Bank are classified as impaired when they fulfill either of the following criteria:

- principal or interest or both are past due for three (3) months or more;
- where a loan is in arrears for less than three (3) months, the loan exhibits indications of credit weaknesses; or
- where an impaired loan has been rescheduled or restructured, the loan will continue 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.

At each statement of financial position date, the Bank assesses whether there is objective evidence that a loan is impaired. A loan is impaired and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognitions of the loan and up to the reporting date,
- the loss event had an impact on the estimated future cash flows of the loan, and
- a reliable estimate of the loss amount can be made

Credit Risk Management's loss assessments are subject to regular review in collaboration with Group Finance. The results of this review are reported to and approved by an oversight committee comprised of Group Finance and Legal, Risk & Capital senior management.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

If there is evidence of impairment leading to an impairment loss for an individual counterparty relationship, then the amount of the loss is determined as the difference between the carrying amount of the loan, including accrued interest, and the present value of expected future cash flows discounted at the loan's original effective interest rate of the effective interest rate established upon reclassification to loans, including cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the loans is reduced by the use of an allowance account and the amount of the loss is recognised in the profit or loss as a component of the provision for credit losses.

The collective assessment of impairment is principally to establish an allowance amount relating to loans that are either individually significant but for which there is no objective evidence of impairment, or are not individually significant but for which there is, on a portfolio basis, a loss amount that is probable of having occurred and is reasonably estimable. The transitional provision in accordance with BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing is applied to the Bank's financials for the year ended 30 June 2012.

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

4 Credit Risk (continued)

4.4 Geographic distribution of credit exposures, broken down in significant areas by major types of gross credit exposures

Table 7

Credit Exposure	Geography							30-Jun-12
Category	America RM'000	Europe RM'000	India RM'000	Japan RM'000	Malaysia RM'000	Singapore RM'000	Others RM'000	Total RM'000
Sovereigns/Central Banks	-	-	-	-	4,905,886	-	-	4,905,886
Banks, DFIs & MDBs	208,311	1,224,602	9,985	-	5,050,203	577,067	148,179	7,218,347
Public Sector Entities	-	-	-	-	26,830	-	-	26,830
Insurance Companies, Securities Firms and Fund	-	-	-	-	2,258	-	-	2,258
Corporates	-	57,302	-	-	1,760,509	-	-	1,817,811
Regulatory Retails	-	-	-	-	615	-	-	615
Residential Mortgages	-	-	-	-	26,894	-	-	26,894
Other Asset	-	-	-	-	114,623	-	-	114,623
Equity Exposure	-	-	-	-	6,340	-	-	6,340
Defaulted Exposures	-	-	-	-	6,538	-	-	6,538
Grand Total	208,311	1,281,904	9,985	-	11,900,696	577,067	148,179	14,126,142

Table 7.1

Credit Exposure	Geography							31-Dec-11
Category	America RM'000	Europe RM'000	India RM'000	Japan RM'000	Malaysia RM'000	Singapore RM'000	Others RM'000	Total RM'000
Sovereigns/Central Banks	-	-	-	-	3,509,793	-	-	3,509,793
Banks, DFIs & MDBs	139,621	1,083,913	35,893	60,759	4,172,769	634,213	77,000	6,204,168
Public Sector Entities	-	-	-	-	26,830	-	-	26,830
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	2,166	-	-	2,166
Corporates	-	-	-	-	1,762,551	-	-	1,762,551
Regulatory Retails	-	-	-	-	549	-	-	549
Residential Mortgages	-	-	-	-	27,398	-	-	27,398
Other Asset	-	-	-	-	96,403	-	-	96,403
Equity Exposure	-	-	-	-	7,205	-	-	7,205
Defaulted Exposures	-	-	-	-	7,114	-	-	7,114
Grand Total	139,621	1,083,913	35,893	60,759	9,612,778	634,213	77,000	11,644,177

4 Credit Risk (continued)

4.5 Distribution of exposures by sector or economic purpose, broken down by major types of gross credit exposures

Table 8

Credit Exposure	Sector											30-Jun-12
Category	Construction	Education, Health & Others	Electricity, Gas & Water Supply	Finance, Insurance, Real Estate & Business Activities	Household	Manufacturing	Mining & Quarrying	Others	Primary Agriculture	Transport, Storage & Communication	Wholesale & Retail Trade & Restaurants & Hotels	Total RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Sovereigns/Central Banks	-	-	-	4,905,886	-	-	-	-	-	-	-	4,905,886
Public Sector Entities	-	-	-	26,830	-	-	-	-	-	-	-	26,830
Banks, DFIs & MDBs	-	-	-	7,218,347	-	-	-	-	-	-	-	7,218,347
Insurance Companies, Securities Firms and Fund Managers	-	-	-	2,258	-	-	-	-	-	-	-	2,258
Corporates	74,972	48,650	466	209,663	-	804,124	168,514	2,842	59,929	219,101	229,550	1,817,811
Regulatory Retail	-	-	-	-	615	-	-	-	-	-	-	615
Residential Mortgages	-	-	-	-	26,894	-	-	-	-	-	-	26,894
Other Assets	-	-	-	114,623	-	-	-	-	-	-	-	114,623
Equity Exposure	-	-	-	6,340	-	-	-	-	-	-	-	6,340
Defaulted Exposures	-	-	-	-	4,911	1,627	-	-	-	-	-	6,538
Grand Total	74,972	48,650	466	12,483,947	32,420	805,751	168,514	2,842	59,929	219,101	229,550	14,126,142

Table 8.1

Credit Exposure	Sector											31-Dec-11
Category	Construction	Education, Health & Others	Electricity, Gas & Water Supply	Finance, Insurance, Real Estate & Business Activities	Household	Manufacturing	Mining & Quarrying	Others	Primary Agriculture	Transport, Storage & Communication	Wholesale & Retail Trade & Restaurants & Hotels	Total RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Sovereigns/Central Banks	-	-	-	3,509,793	-	-	-	-	-	-	-	3,509,793
Public Sector Entities	-	-	-	26,830	-	-	-	-	-	-	-	26,830
Banks, DFIs & MDBs	-	-	-	6,204,168	-	-	-	-	-	-	-	6,204,168
Insurance Companies, Securities Firms and Fund Managers	-	-	-	2,166	-	-	-	-	-	-	-	2,166
Corporates	63,147	53,778	1,771	129,339	-	946,972	82,015	657	16,506	218,392	249,974	1,762,551
Regulatory Retail	-	-	-	-	549	-	-	-	-	-	-	549
Residential Mortgages	-	-	-	-	27,398	-	-	-	-	-	-	27,398
Other Assets	-	-	-	96,403	-	-	-	-	-	-	-	96,403
Equity Exposure	-	-	-	7,205	-	-	-	-	-	-	-	7,205
Defaulted Exposures	-	-	-	-	5,189	1,925	-	-	-	-	-	7,114
Grand Total	63,147	53,778	1,771	9,975,904	33,136	948,897	82,015	657	16,506	218,392	249,974	11,644,177

4 Credit Risk (continued)

4.6 Residual contractual maturity breakdown by major types of gross credit exposures

Table 9

Credit Exposure	Maturity			30-Jun-12
Category	Upto 1year	1-5 year	> 5 years	Total RM'000
Sovereigns/Central Banks	4,905,886			4,905,886
Public Sector Entities		26,830		26,830
Banks, DFIs & MDBs	1,458,068	3,282,018	2,478,261	7,218,347
Insurance Cos, Securities Firms & Fund Managers	2,258			2,258
Corporates	1,463,393	252,976	101,442	1,817,811
Regulatory Retail	615			615
Residential Mortgages	26,894			26,894
Other Assets	114,623			114,623
Equity Exposure	6,340			6,340
Defaulted Exposures	4,911	1,627		6,538
Grand Total	7,982,988	3,563,451	2,579,703	14,126,142

Table 9.1

Credit Exposure	Maturity			31-Dec-11
Category	Upto 1year	1-5 year	> 5 years	Total RM'000
Sovereigns/Central Banks	3,509,793			3,509,793
Public Sector Entities		26,830		26,830
Banks, DFIs & MDBs	969,032	2,722,873	2,512,263	6,204,168
Insurance Cos, Securities Firms & Fund Managers	2,166			2,166
Corporates	1,492,337	156,032	114,182	1,762,551
Regulatory Retail	49	383	117	549
Residential Mortgages		1,633	25,765	27,398
Other Assets	96,403			96,403
Equity Exposure	7,205			7,205
Defaulted Exposures	1,990	329	4,795	7,114
Grand Total	6,078,975	2,908,080	2,657,122	11,644,177

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

4 Credit Risk (continued)

4.7 Impaired loans and impairment provisions by sector

Table 10: Impaired loans, advances and financing analysed by economic purpose which are wholly incurred in Malaysia are as follows:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Manufacturing	3,555	4,186
Purchase of landed properties - residential	5,280	5,638
Others	43	43
	8,878	9,867

4.8 Reconciliation of loan impairment provisions

Table 11: Movements in gross impaired loans, advances and financing which are all wholly incurred in Malaysia:

	Group and Bank	
	2012	2011
	RM'000	RM'000
Balance at 1 January		
- as previously stated	9,867	11,499
Classified as impaired during the year	1,404	3,375
Reclassified as non-impaired during the year	(994)	(2,075)
Amount recovered	(1,399)	(2,932)
Amount written off	0	0
At 31 December	8,878	9,867
Gross impaired loans as a percentage of gross loans, advances and financing	1.23%	1.17%

4 Credit Risk (continued)

4.8 Reconciliation of loan impairment provisions (continued)

Table 11.1: Movements in collective assessment allowance for impaired loans, advances and financing which are all wholly incurred in Malaysia:

	Group and Bank	
	2012	2011
	RM'000	RM'000
<u>Collective Assessment Allowance</u>		
At 1 January	12,672	23,946
Reversal during year	- -	11,274
At 30 June	12,672	12,672

Table 11.2: Movements in individual assessment allowance for impaired loans, advances and financing which are all wholly incurred in Malaysia:

	Group and Bank			
	2012	2012	2011	2011
	RM'000	RM'000	RM'000	RM'000
<u>Individual Assessment Allowance</u>	Household	Manufacturing	Household	Manufacturing
At 1 January	493	2,260	643	2,776
Allowance made during year:	109	425	66	750
Amount written off	(1)	-	-	-
Amount recovered	(114)	(765)	(216)	(1,266)
At 31 December	487	1,920	493	2,260
Direct impact to Income Statement:				
Impairment writen off	(1)	-	-	-
Impairment recovered	(114)	(765)	(216)	(1,266)
	(115)	(765)	(216)	(1,266)

4 Credit Risk (continued)

4.9 Standardised Approach to Credit Risk

Under the standardised approach for credit risk, the determination of capital requirements is based on an approach that links predefined risk weights by BNM to predefined asset class to which the credit exposure is assigned across sovereigns, central banks, public sector entities, banks, corporates, residential mortgages, regulatory retail portfolios, non-performing loans, high risk exposures and other assets. These credit exposures are risk-weighted based on recognised external credit ratings.

For Sovereigns, Corporates and Banking Institutions, external ratings are used to assign risk weights. These external ratings must come from BNM approved rating agencies, known as External Credit Assessment Institutions ("ECAI"); namely
(a) Standard & Poor's ("S&P")
(b) Moody's Investors Services ("Moody's")
(c) Rating Agency Malaysia Berhad ("RAM")
(d) Malaysian Rating Corporation Berhad ("MARC")

The Bank uses ratings from these agencies as part of its day to day business. External ratings for the counterparty are determined as soon as a relationship is established and these ratings are tracked and kept updated. Assessments provided by approved ECAI are mapped to credit quality steps as prescribed by BNM. Where a counterparty or exposure is rated by more than one ECAI, the second highest rating is used to determine the risk weight.

The following is a summary of the rules governing the assignment of risk weights under the Standardised Approach. Each exposure must be assigned to one of the five credit quality rating categories defined in the table below. For counterparty exposure class of Banking Institutions, those with original maturity of below three months and denominated in RM are all risk-weighted at 20% regardless of credit rating.

Sovereigns and Central Banks

Rating Category	Standard & Poor's Rating Services (S&P)	Moody's Investors Service (Moody's)	Risk weight
1	AAA to AA-	Aaa toAa3	0%
2	A+ to A-	A1 to A3	20%
3	BBB+ to BBB-	Baa1 to Baa3	50%
4	BB+ to B-	Ba1 to B3	100%
5	CCC+ to D	Caa1 to C	150%
Unrated			100%

Banking Institutions

Rating Category	S&P	Moody's	RAM Rating Services Berhad (RAM)	Malaysian Rating Corporation Berhad (MARC)	Risk weight	Risk weight (original maturity of 6 months or less)	Risk weight (original maturity of 3 months or less)
1	AAA to AA-	Aaa to Aa3	AAA to AA3	AAA to AA-	20%	20%	20%
2	A+ to A-	A1 to A3	A1 to A3	A+ to A-	50%	20%	
3	BBB+ to BBB-	Baa1 to Baa3	BBB1 to BBB3	BBB+ to BBB-	50%	20%	
4	BB+ to B-	Ba1 to B3	BB1 to B3	BB+ to B-	100%	50%	
5	CCC+ to D	Caa1 to C	C1 to D	C+ to D	150%	150%	
Unrated					50%	20%	

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

4 Credit Risk (continued)

4.9 Standardised Approach to Credit Risk (continued)

Corporates

Rating Category	S&P	Moody's	RAM	MARC	Risk weight
1	AAA to AA-	Aaa to Aa3	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A1 to A3	A+ to A-	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB1 to BB3	BBB+ to BB-	100%
4	B+ to D	B1 to C	B1 to D	B+ to D	150%
Unrated					100%

Table 12: Rated and Unrated Counterparties (2012)

CREDIT EXPOSURE (30-June-2012)	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys S&P	Aaa to Aa3 AAA to AA-	A1 to A3 A+ to A-	Baa1 to Baa3 BBB+ to BBB-	B1 to B3 BB+ to B-	Caa1 to C CCC+ to D	Unrated Unrated
<u>On and Off Balance-Sheet Exposures</u>							
Sovereigns/Central Banks			4,905,886				
Total	4,905,886	-	4,905,886	-	-	-	-

CREDIT EXPOSURE (30-June-2012)	Ratings of Banking Institutions by Approved ECAIs						
	Moodys S&P RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A1 to A3 A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB-	B1 to B3 BB+ to B- BB1 to B3 BB+ to B-	Caa1 to C CCC+ to D C1 to D C+ to D	Unrated Unrated Unrated Unrated
<u>On and Off Balance-Sheet Exposures</u>							
Banks, Development Financial Institutions & MDBs		3,272,452	3,461,969	355,586		-	128,340
Total	7,218,347	3,272,452	3,461,969	355,586	-	-	128,340

CREDIT EXPOSURE (30-June-2012)	Ratings Corporate by Approved ECAIs					
	Moodys S&P RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB1 to BB3 BBB+ to BB-	B1 to C B+ to D B to D B+ to D	Unrated Unrated Unrated Unrated
<u>On and Off Balance-Sheet Exposures</u> <u>Credit Exposures (using Corporate Risk Weights)</u>						
Public Sector Entities						26,830
Insurance Cos, Securities Firms & Fund Managers						2,257
Corporates		46,270	121,252	16,328		1,633,962
Regulatory Retail						615
Residential Mortgages						26,894
Other Assets			2,203			112,420
Equity Exposure		1,348				4,992
Defaulted Exposure						6,538
Total	2,001,909	47,618	123,455	16,328	-	1,814,508

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

4 Credit Risk (continued)

4.9 Standardised Approach to Credit Risk (continued)

Table 12.1: Rated and Unrated Counterparties (2011)

CREDIT EXPOSURE (31-Dec-2011)	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys S&P RM'000	Aaa to Aa3 AAA to AA- RM'000	A1 to A3 A+ to A- RM'000	Baa1 to Baa3 BBB+ to BBB- RM'000	B1 to B3 BB+ to B- RM'000	Caa1 to C CCC+ to D RM'000	Unrated Unrated RM'000
On and Off Balance-Sheet Exposures							
Sovereigns/Central Banks	-	-	3,509,793	-	-	-	-
Total	3,509,793	-	3,509,793	-	-	-	-

CREDIT EXPOSURE (31-Dec-2011)	Ratings of Banking Institutions by Approved ECAIs						
	Moodys S&P RAM MARC RM'000	Aaa to Aa3 AAA to AA- AAA to AA3 AAA to AA- RM'000	A1 to A3 A+ to A- A1 to A3 A+ to A- RM'000	Baa1 to Baa3 BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB- RM'000	B1 to B3 BB+ to B- BB1 to B3 BB+ to B- RM'000	Caa1 to C CCC+ to D C1 to D C+ to D RM'000	Unrated Unrated Unrated Unrated RM'000
On and Off Balance-Sheet Exposures							
Banks, Development Financial Institutions & MDBs	-	2,731,139	3,060,955	361,290	-	-	50,784
Total	6,204,168	2,731,139	3,060,955	361,290	-	-	50,784

CREDIT EXPOSURE (31-Dec-2011)	Ratings Corporate by Approved ECAIs					
	Moodys S&P RAM MARC RM'000	Aaa to Aa3 AAA to AA- AAA to AA3 AAA to AA- RM'000	A1 to A3 A+ to A- A to A3 A+ to A- RM'000	Baa1 to Ba3 BBB+ to BB- BBB1 to BB3 BBB+ to BB- RM'000	B1 to C B+ to D B to D B+ to D RM'000	Unrated Unrated Unrated Unrated RM'000
On and Off Balance-Sheet Exposures Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities	-	-	-	-	-	26,830
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	2,166
Corporates	-	64,327	99,559	15,260	-	1,583,405
Regulatory Retail	-	-	-	-	-	549
Residential Mortgages	-	-	-	-	-	27,398
Other Assets	-	-	3,577	-	-	92,826
Equity Exposure	-	1,348	-	-	-	5,857
Defaulted Exposure		-	-	-	-	7,114
Total	1,930,216	65,675	103,136	15,260	-	1,746,145

The Bank has opted for the comprehensive approach for CRM which takes into account the scaling factor when applying the standard haircut.

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

4 Credit Risk (continued)

4.9 Standardised Approach to Credit Risk (continued)

The following table shows the DBMB Group's exposure values in the standardised approach by risk weight. The information is shown before and after credit risk mitigation obtained in the form of eligible financial collateral, guarantees and credit derivatives.

Table 13 – Risk Weights under the Standardised Approach (2012)

30-Jun-2012

Risk Weights	Exposures after Netting & Credit Risk Mitigation												Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity Exposures		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	112,052	-	-	-	-	-	-	-	2,203	-	-	20	114,275	-
20%	-	-	3,177,421	-	46,269	-	-	-	-	-	-	1,348	3,225,038	645,008
35%	-	-	-	-	-	-	26,039	-	-	-	-	-	26,039	9,114
50%	-	-	3,737,272	-	105,515	-	849	-	-	-	-	-	3,843,636	1,921,817
75%	-	-	-	-	-	615	-	-	-	-	-	-	615	462
100%	-	26,830	23,734	2,258	1,664,605	-	4,903	-	112,420	-	-	4,972	1,839,722	1,839,722
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures	112,052	26,830	6,938,427	2,258	1,816,389	615	31,791	-	114,623	-	-	6,340	9,049,325	4,416,123
Risk-Weighted Assets by Exposures	-	26,830	2,527,854	2,258	1,726,617	462	14,440	-	112,420	-	-	5,242	4,416,123	
Average Risk Weight	-	100.0%	36.4%	100.0%	95.1%	75.1%	45.4%	0.0%	98.1%	0.0%	0.0%	82.7%	48.8%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

4 Credit Risk (continued)

4.9 Standardised Approach to Credit Risk (continued)

Table 13.1 – Risk Weights under the Standardised Approach (2011)

31-Dec-2011

Risk Weights	Exposures after Netting & Credit Risk Mitigation												Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity Exposures		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	93,295	-	-	-	-	-	-	-	3,578	-	-	20	96,893	-
20%	-	-	2,620,912	-	64,327	-	-	-	-	-	-	1,348	2,686,587	537,317
35%	-	-	-	-	-	-	26,360	-	-	-	-	-	26,360	9,226
50%	-	-	3,356,210	-	102,406	-	1,038	-	-	-	-	-	3,459,654	1,729,827
75%	-	-	-	-	-	549	-	-	-	-	-	-	549	412
100%	-	26,830	-	2,166	1,594,896	-	5,188	-	92,825	-	-	5,837	1,727,742	1,727,742
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures	93,295	26,830	5,977,122	2,166	1,761,629	549	32,586	-	96,403	-	-	7,205	7,997,785	4,004,524
Risk-Weighted Assets by Exposures	-	26,830	2,202,287	2,166	1,658,964	412	14,933	-	92,825	-	-	6,107	4,004,524	
Average Risk Weight	-	100.0%	36.8%	100.0%	94.2%	75.0%	45.8%	0.0%	96.3%	0.0%	0.0%	84.8%	50.1%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

4 Credit Risk (continued)

4.10 Credit Risk Mitigation under Standardised Approach

In addition to determining counterparty credit quality and the Group's risk appetite. Various risk mitigation techniques are proactively employed in order to reduce the risk in the Bank's credit portfolio. Risk mitigants are predominantly considered in three broad categories:

- Risk transfers, which shift the probability of default risk of an obligor to a third party;
- Collateral, which improves the recovery of obligations; and
- Netting, which reduces the credit risk exposure from derivatives and repo-style transactions.

Risk transfers to third parties form a key part of the Bank's overall risk management process and are executed in various forms, including outright sales, single name and portfolio hedging.

Collateral is used in various forms in order to mitigate the inherent risk in Bank's credit portfolio by reducing the loss severity of individual transactions.

For credit risk mitigation (CRM) purposes, the Bank adopts the comprehensive approach for collateralised transactions which allows greater offset of collateral against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. The collateral value is subject to standard supervisory haircuts and collateral haircuts.

To mitigate credit risk from derivatives, the Bank makes frequent use of margining arrangements. In these cases, counterparties post collateral periodically (usually daily) in the form of cash or liquid securities to cover outstanding trading positions. The Bank also engages in reciprocal margining agreements with counterparties under ISDA agreements where the Credit Support Annex ("CSA") contain provisions whereby margining thresholds will vary in relation to the credit ratings of the respective parties.

For capital adequacy purposes, eligible cash collateral is deducted from the gross credit exposure and this net balance will be used as the basis of calculating the capital requirement. For non-cash collateral, a regulatory haircut is applied to both the gross credit exposure and the value of the collateral, and these adjusted amounts are used as the basis of calculating the capital requirement.

Table 14 shows gross credit exposures by Basel II portfolio (Corporate, Sovereign and Bank) under the Standardised approach and the amount of risk exposure which is mitigated by BNM's defined eligible collateral, guarantees or credit derivatives.

Concentrations within Credit Risk Mitigation

Concentrations within credit risk mitigations taken may occur if a number of guarantors and credit derivative providers with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations.

The Bank uses a comprehensive range of quantitative tools and metrics to monitor its credit risk mitigating activities. Limits are established across all product categories including guarantees and credit derivative exposures used as risk mitigation. Limits exist at an individual guarantor or credit derivative provider level as part of the general credit risk management process and are also monitored on a portfolio basis with regard to industries, countries and other factors.

4 Credit Risk (continued)

4.10 Credit Risk Mitigation under Standardised Approach (continued)

Guarantees and credit derivative contracts are primarily entered into with banks and insurance companies. The majority of these exposures carry a rating within the investment grade band.

Table 14 Credit Risk Mitigation (2012)

30-Jun-2012

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	4,898,085	104,251	4,793,834	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	677,576	677,576	-	-
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-
Corporates	645,772	645,772		-
Regulatory Retail	615	615	-	-
Residential Mortgages	26,888	26,888	-	-
Higher Risk Assets	-	-	-	-
Other Assets	114,623	114,623	-	-
Equity Exposure	6,340	6,340	-	-
Defaulted Exposures	6,538	6,538	-	-
Total On-Balance Sheet Exposures	**6,376,437**	**1,582,603**	**4,793,834**	-
Off-Balance Sheet Exposures				
OTC Derivatives	6,751,730	7,401,217	282,983	320,164
Credit Derivatives	997,975	65,505	-	-
Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	**7,749,705**	**7,466,722**	**282,983**	**320,164**
Total On and Off- Balance Sheet Exposures	**14,126,142**	**9,049,325**	**5,076,817**	**320,164**

4 Credit Risk (continued)

4.10 Credit Risk Mitigation under Standardised Approach (continued)

Table 14.1 Credit Risk Mitigation (2011)

31-Dec-2011

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,508,037	91,540	3,416,498	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	544,465	544,465	-	-
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-
Corporates	756,286	756,286	-	-
Regulatory Retail	549	549	-	-
Residential Mortgages	27,398	27,398	-	-
Higher Risk Assets	-	-	-	-
Other Assets	96,403	96,403	-	-
Equity Exposure	7,205	7,205	-	-
Defaulted Exposures	7,114	7,114	-	-
Total On-Balance Sheet Exposures	**4,947,457**	**1,530,960**	**3,416,498**	**-**
Off-Balance Sheet Exposures				
OTC Derivatives	6,371,595	6,423,504	229,893	365,538
Credit Derivatives	325,125	43,321	-	-
Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	**6,696,720**	**6,466,825**	**229,893**	**365,538**
Total On and Off- Balance Sheet Exposures	**11,644,177**	**7,997,785**	**3,646,391**	**365,538**

4 Credit Risk (continued)

4.11 Off Balance Sheet Exposures and Counterparty Credit Risk (CCR)

Credit Exposure

The Bank defines its credit exposure as all transactions where losses might occur due to the fact that counterparties may not fulfill their contractual payment obligations. Counterparty credit exposure arises from the Bank's traditional non-trading lending activities which include elements such as loans and contingent liabilities. Counterparty credit exposure also arises via the Bank's direct trading activity with clients in certain instruments which include OTC derivatives, FX forwards and Forward Rate Agreements. A default risk also arises from the Bank's positions in traded credit products such as bonds. The Bank calculates the gross amount of the exposure without taking into account any collateral, other credit enhancement or credit risk mitigating transactions. In Table 15 below, the Bank shows details about several of its main credit exposure categories, namely loans, irrevocable lending commitments, contingent liabilities, over-the-counter ("OTC") derivatives, tradable assets and repo style transactions following the FRS-principles for consolidation.

Credit Exposure from Derivatives

Exchange-traded derivative transactions (e.g., futures and options) are regularly settled through a central counterparty, the rules and regulations of which provide for daily margining of all current and future credit risk positions emerging out of such transactions.

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to banks and customers. Also, the Bank enters into collateral support annexes ("CSA") to master agreements in order to further reduce the Bank's derivatives-related credit risk. These CSA generally provide risk mitigation through periodic (usually daily) margining of the covered exposure. The CSA also provides for the right to terminate the related derivative transactions upon the counterparty's failure to honor a margin call. As with netting, when the Bank believes the CSA is enforceable, the Bank reflects this in its exposure measurement.

Exposure value calculation

In respect of exposure values calculation for regulatory capital purposes, OTC traded products are calculated according to the Counterparty Credit Risk ("CCR") mark to market method. This is calculated as a sum of the current replacement cost and the potential future credit exposure. The current replacement cost is the MYR equivalent amount owed by the counterparty to the Bank for various financial derivative transactions. The potential future credit exposure is an add-on based on a percentage of the notional principal of each transaction. Such percentages are prescribed by BNM in the Basel II - RWCAF guidelines and vary according to the underlying asset class and tenor of each trade.

Credit Risk Limit Setting and Monitoring Credit Limits

Credit limits set forth the maximum credit exposures the Bank is willing to assume over specified periods. They relate to products, conditions of the exposure and other factors. Credit limits are established by the Credit Risk Management function via the execution of assigned credit authorities. Credit authority reflects the mandate to approve new credit limits as well as increases or the extension of existing credit limits. Credit authority is generally assigned to individuals as personal credit authority according to the individual's professional qualification and experience.

Ongoing active monitoring and management of credit risk positions is an integral part of the Bank's credit risk management activities. Monitoring tasks are primarily performed by the divisional risk units in close cooperation with the Bank's portfolio management function.

4 Credit Risk (continued)

4.11 Off Balance Sheet Exposures and Counterparty Credit Risk (CCR) (continued)

Credit counterparties are allocated to credit officers within specified divisional risk units which are aligned to types of counterparty (such as Financial Institution or Corporate). The individual credit officers within these divisional risk units have the relevant expertise and experience to manage the credit risks associated with these counterparties and their associated credit related transactions. It is the responsibility of each credit officer to undertake ongoing credit monitoring for their allocated portfolio of counterparties. The Bank also has procedures in place intended to identify at an early stage credit exposures for which there may be an increased risk of loss. In instances where the Bank has identified counterparties where problems might arise, the respective exposure is generally placed on a watchlist. The Bank aims to identify counterparties that, on the basis of the application of the Bank's risk management tools, demonstrate the likelihood of problems well in advance in order to effectively manage the credit exposure and maximise the recovery. The objective of this early warning system is to address potential problems while adequate options for action are still available. This early risk detection is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposures.

Credit Ratings Downgrade

The Bank has collateral arrangements under CSA which contains rating triggers as at 30 June 2012. In the event of one-notch downgrade, additional collateral required to be posted was estimated at RM 85.0 million.

Credit Derivatives

The Bank has no credit derivatives transactions for its own credit portfolio except for its intermediation activities.

4 Credit Risk (continued)

4.11 Off Balance Sheet Exposures and Counterparty Credit Risk (CCR) (continued)

Table 15: Off-Balance Sheet and Counterparty Credit Risk (2012)

30-Jun-2012 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	-		-	-
Transaction related contingent Items	1,342,743		671,371	542,131
Short Term Self Liquidating trade related contingencies	131,340		26,268	24,774
Foreign exchange related contracts				
One year or less	25,200,698	237,327	586,069	286,455
Over one year to five years	11,158,254	293,248	1,067,393	486,784
Over five years	5,625,919	386,823	1,149,582	514,318
Interest/Profit rate related contracts				
One year or less	25,220,099	31,430	81,097	21,032
Over one year to five years	67,637,621	572,810	2,258,265	669,375
Over five years	15,232,602	434,103	1,430,111	468,382
Equity related contracts				
One year or less	108,555	338	11,528	4,796
Over one year to five years	1,113,947	9,074	143,085	71,543
Over five years	-	-	-	-
Credit Derivative Contracts				
One year or less	121,495	1,671	2,009	1,005
Over one year to five years	876,479	28,273	63,496	15,107
Over five years	-	-	-	-
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	1,297,154		259,431	236,423
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	155,066,906	1,995,097	7,749,705	3,342,125

4 Credit Risk (continued)

4.11 Off Balance Sheet Exposures and Counterparty Credit Risk (CCR) (continued)

Table 15.1: Off-Balance Sheet and Counterparty Credit Risk (2011)

31-Dec-2011 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	-		-	-
Transaction related contingent Items	963,205		481,603	416,700
Short Term Self Liquidating trade related contingencies	120,479		24,096	19,344
Foreign exchange related contracts				
One year or less	14,952,336	175,082	344,037	194,372
Over one year to five years	8,949,139	194,560	769,683	360,775
Over five years	5,597,133	477,871	1,209,122	546,968
Interest/Profit rate related contracts				
One year or less	29,067,309	36,481	81,646	22,988
Over one year to five years	60,292,816	520,632	1,941,932	580,580
Over five years	15,443,759	261,553	1,417,324	474,950
Equity related contracts				
One year or less	36,658	-	3,666	1,833
Over one year to five years	1,139,334	5,045	141,351	70,676
Over five years	-	-	-	-
Credit Derivative Contracts				
One year or less	79,425	403	8,345	4,173
Over one year to five years	245,700	5,492	34,975	11,970
Over five years	-	-	-	-
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	1,194,699		238,940	209,762
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	138,081,992	1,677,119	6,696,720	2,915,091

5 Market Risk

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

The primary objective of Market Risk Management is to ensure that the DB Group's business units optimise the risk-reward relationship and do not expose it to unacceptable losses. To achieve this objective, Market Risk Management works closely together with risk takers (the business units) and other control and support groups.

5.1 Market Risk Management Framework

The DB Group's primary instrument to manage trading market risk is the limit setting process. The DB Group's Management Board, supported by Market Risk Management, which is part of the DB Group's independent risk function, sets a Group-wide value-at-risk and economic capital limits for the market risk in the trading book. DB Group Market Risk Management sub-allocates this overall limit to the group divisions and individual business areas based on anticipated business plans and risk appetite. Within the individual business areas, the DB Group business heads or the DB Group entities' Chief Operating Officers may establish business limits by sub-allocating the Market Risk Management limit down to individual portfolios or geographical regions. VaR limits for Deutsche Bank (Malaysia) Berhad are endorsed by the Malaysian Board Risk Management Committee ("BRMC") and Board of Directors ("BOD").

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 our trading value-at-risk numbers. For the remaining risks that have not been transferred through those hedges, in general foreign exchange risk is mitigated through match funding the investment in the same currency.

5.2 Quantitative Risk Management Tools

Value-At-Risk

Value-at-risk ("VaR") is a quantitative measure of the potential loss (in value) of trading positions due to market movements that will not be exceeded in a defined period of time and with a defined confidence level.

The DB Group's value-at-risk for the trading businesses is based on its own internal value-at-risk model, which is calculated using a 99% confidence level and a holding period of one day. This means the DB Group estimates that there is a 1 in 100 chance that a mark-to-market loss from the DB Group's trading positions will be at least as large as the reported value-at-risk.

The DB Group uses historical market data to estimate value-at-risk, with an equally weighted 261 trading day history. The calculation employs a Monte Carlo simulation technique, and the DB Group assumes that changes in risk factors follow a certain distribution, e.g. normal or logarithmic normal distribution. To determine the DB Group's aggregated value-at-risk, the DB Group uses observed correlations between the risk factors during this 261 trading day period.

5 Market Risk (continued)

5.2 Quantitative Risk Management Tools (continued)

Value-At-Risk (Continued)

The DB Group's value-at-risk model is designed to take into account the following risk factors: interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices, as well as their implied volatilities and common basis risk. The model incorporates both linear and, especially for derivatives, non-linear effects of the risk factors on the portfolio value.

The value-at-risk measure enables the DB Group to apply a constant and uniform measure across all of the DB Group's trading businesses and products. It allows a comparison of risk in different businesses, and also provides a means of aggregating and netting positions within a portfolio to reflect correlations and offsets between different asset classes. Furthermore, it facilitates comparisons for the DB Group's market risk both over time and against the daily trading results.

The DB Group continuously analyses potential weaknesses of the DB Group's value-at-risk model using statistical techniques such as back-testing, but also rely on risk management experience and expert opinion. Back-testing provides an analysis of the predictive power of the value-at-risk calculations based on actual experience. The DB Group compares the hypothetical daily profits and losses under the buy-and-hold assumption with the estimates from the DB Group's value-at-risk model.

The value-at-risk measures are used by Deutsche Bank (Malaysia) Berhad for internal control purposes. The regulatory capital computation for market risk is based on the Standardised Approach prescribed by BNM.

5.3 Standardised Approach to Market Risk

Under the standardised approach for market risk defined by BNM, the market risk capital charge is divided into interest / profit rate risk, equity risk, foreign exchange risk and commodities risk charges. The capital charges for interest / profit rate and equity are applied to the current market value of the interest / profit rate and equity related financial instruments or positions in the trading book. The capital charge for foreign exchange risk and commodities risk however are applied to all foreign currency and commodities positions. Some of the foreign exchange commodity positions will be reported and hence evaluated at market value, while some may be reported and evaluated at book value.
The Standardised market risk approach is based on a building block approach where standardised supervisory capital charge is applied separately to each risk category. Interest / profit rate sensitive instruments are normally affected by general risk charges in market interest / profit rate, known as general risk and charges in factors related to a specific issuer, in particular issuer's credit quality, which would affect the instrument, known as specific risk.

Interest / profit rate risk
The capital requirements for general risk are designed to capture the risk of loss arising from changes in market interest / profit rate. Positions are allocated across a maturity ladder template of time bands and the capital charge is then calculated as the sum of four components:

- The net short or long weighted position across the entire time bands.

- The smaller proportion of the matched positions in each time band to capture basis risk

5 Market Risk (continued)

5.3 Standardised Approach to Market Risk (continued)

Interest / profit rate risk (continued)

- The larger proportion of the matched positions across different time bands to capture yield curve risk; and
- A net charge for positions in options, where appropriate.

Foreign exchange risk

Under the standardised approach, single currency position and the risk inherent in a banking institution's mix of net long and short positions in different currencies need to be measured, and capital charge of 8% of the higher total net long or total net short foreign currency position will be applied.

5.4 Risk weighted assets and capital requirements for market risk

Table 16: Risk weighted assets and capital requirements for market risk

	30-Jun-2012	31-Dec-2011
Minimum Capital Requirement at 8%	Standardised Approach	Standardised Approach
Interest Rate Risk	385,966	295,110
Equity Position Risk	-	-
Foreign Exchange Risk	86,192	87,712
Commodity Risk	-	-
Options	40,046	24,347
Total Risk Weighted Assets for Market Risk	6,402,545	5,089,609

6 Operational Risk

Operational risk is the potential failure (including legal and regulatory allegations) in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, external influences and customer relationships. This excludes business and reputational risk.

Organisational Structure

The DB Group Head of Operational Risk & Business Continuity Management chairs the Operational Risk Management Committee, which is a permanent subcommittee of the Risk Executive Committee and is composed of the Operational Risk Officers from the DB Group's Business Divisions and Infrastructure Functions. It is the main decision-making committee for all operational risk management matters.

While the day-to-day operational risk management lies with the DB Group's business divisions and infrastructure functions, the DB Group's Operational Risk Management function manages the cross divisional and cross regional operational risk as well as risk concentration and ensures a consistent application of the DB Group's operational risk management strategy across the Group. Based on this Business Partnership Model the DB Group ensures close monitoring and high awareness of operational risk.

For risk management purposes on a global level, DB Group uses an Advanced Measurement Approach framework across all divisions and legal entities to calculate the regulatory capital requirements for Operational Risk. Locally, DBMB Group uses the Basic Indicator Approach (BIA) to assess its local regulatory capital requirements for Operational Risk. The operational risk capital charge using BIA is equal to the average of a fixed percentage (15%) of positive annual gross income over the previous three years. Gross income figures are categorised into twelve quarters (equivalent to three years) and recent annual gross income is calculated by aggregating the gross income of the last four financial quarters. The calculation of the annual gross income for the two years preceding the most recent year is computed in a similar manner. If the annual gross income for any given year is negative or zero, the figure shall not be included for the purposes of calculating the operational risk charge.

The Bank's total operational risk capital charge is the sum of operational risk capital charge for conventional banking operations and operational risk capital charge for Islamic banking operations.

The DB Group applies a number of techniques to efficiently manage the operational risk in its business, for example:

- The DB Group performs systematic risk analysis, root cause analysis and lessons learned activities for events above € 1 million to identify inherent areas of risk and to define appropriate risk mitigating actions which are monitored for resolution. The prerequisite for these detailed analysis and the timely information of the DB Group's senior management on the development of the operational risk events and on single larger events is the continuous collection of all losses above € 10,000 arising from operational risk events in the DB Group's "db-Incident Reporting System". Locally, DBMB Group collects losses above € 500 arising from operational risk events in the DB Group's "db-Incident Reporting System".

- The Group systematically utilises information on external events occurring in the banking industry to ensure that similar incidents will not happen to the Group.

6 Operational Risk (continued)

Organisational Structure (continued)

- Key Risk Indicators ("KRI") are used to monitor the operational risk profile and alert the organization to impending problems in a timely fashion. They allow via our tool "dbScore" the monitoring of the bank's control culture and business environment and trigger risk mitigating actions. KRIs facilitate the forward looking management of operational risk based on early warning signals returned by the KRIs and as such an allocation of capital via the qualitative adjustment.
- In the Group's bottom-up Self Assessment ("SA") process, which is conducted at least annually, areas with high risk potential are highlighted and risk mitigating measures to resolve issue are identified. In general, SAs are performed in the Group's tool "db-SAT". On a regular basis the Group conducts country risk workshops aiming to evaluate risks specific to countries and local legal entities the Group are operating in and takes appropriate risk mitigating actions.
- In addition to internal and external loss information scenarios are utilized and actions are derived from them. The set of scenarios consists of relevant external scenarios provided by a public database and internal scenarios. The latter are derived to achieve full coverage of the risks.
- Regular operational risk profile reports at DB Group level for our business divisions, the countries we are operating in and our infrastructure functions are reviewed and discussed with the department's senior management. The regular performance of the risk profile reviews enables us to early detect changes to the units risk profile as well as risk concentrations across the Group and to take corrective actions.
- The Group assesses the impact of changes to the Group's risk profile as a result of new products, outsourcings, strategic initiatives and acquisitions and divestments.
- Once operational risks are identified, mitigation is required following the "as low as reasonably practicable (ALARP)" principle by balancing the cost of mitigation with the benefits thereof and formally accepting the residual risk. Risks which contravene applicable national or international regulations and legislation cannot be accepted; once identified, such risks must always be mitigated.
- Within the DB Group's tracking tool "db-Track" DB Group monitors risk mitigating measures identified via these techniques for resolution. Higher than important residual operational risks need to be accepted by the Operational Risk Management Committee.
- The Group performs top risk analysis in which the results of the aforementioned activities are considered. The top risk analysis mainly contribute into the annual operational risk management strategy and planning process. Besides the operational risk management strategic and tactical planning the Group defines capital and expected loss targets which are monitored on a regular basis within the quarterly forecasting process.
- A standardised quality assurance process is applied to quality review risk management decisions and model inputs.

7 Liquidity Risk

Liquidity risk is the risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. 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 DB Malaysia liquidity risk management policy. A prudent liquidity limit setting process is in place for the maximum cash outflow ("MCO") limits which allows Treasury to monitor and control excessive short-term funding gaps up to an eight week period. The MCO limits are calibrated from local liquidity stress tests and reviewed on a regular basis so they can be adjusted to changing circumstances.

The Funding matrix and stress testing plays a central role in the liquidity risk management framework. Liquidity stress testing also incorporates an assessment of asset liquidity, i.e. the characteristics of the asset inventory, under various stress scenarios.

8 Equity Investments in the Banking Book

Equity investments which are neither consolidated for regulatory purposes nor deducted from the Bank's own funds are held as equity positions in the regulatory banking book. In the Bank's consolidated statement of financial position, these equity investments are classified as "Financial investments available-for-sale ("AFS")".

9 Interest Rate Risk in the Banking Book

Interest rate risk in the non-trading portfolios is transferred through internal hedges to Global Markets within the Corporate and Investment Bank and is thus managed on the basis of value-at-risk as reflected in the Bank's value-at-risk numbers. There is no interest rate risk in the Banking Book of the Bank. Further details on interest rate risk in Trading Book can be found in Note 31 to the Financial Statements.

10 Islamic Banking Operations

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.

10.1 Shariah Governance

The Bank conducts Islamic Banking through its Islamic Banking Window ("IBW") which commenced business on 20 April 2009.

The Shariah Committee was established under BNM's "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (BNM/GPS1) to advise the Board of Directors on Shariah matters in its Islamic business operations and to provide technical assistance in ensuring the Islamic banking products and services offered by the Bank and the relevant documentation are in compliance
with Shariah principles. The committee currently comprises Dr Hussein Hamed Sayed Hassan, Dr Muhammad Qaseem and Haji Ismail Aminuddin.

The Bank has obtained approval from BNM to operate with 3 Shariah Committee members.

10 Islamic Banking Operations (continued)

10.2 Restricted Profit Sharing Investment Accounts ('RPSIA')

These deposits are used to fund specific financing and follow the principle of Mudharabah which state that profits will be shared with the Bank as Mudharib and losses shall be borne solely by depositors.

In accordance with BNM's guidelines on the Recognition and Measurement of Profit Sharing Investment Account ('PSIA') as Risk Absorbent, the credit and market risks on the assets funded by the PSIA are excluded from the risk weighted capital ('RWCR') calculation.

As at 30 June 2012, RPSIA assets excluded from the RWCR calculation amounted to nil (2011: Nil).

10.3 Islamic Banking Window - Capital Adequacy

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

Table 17: Risk weighted assets and capital requirement

	2012		2011	
Islamic Banking Window	Risk Weighted Assets RM'000	Min Capital Requirement at 8% RM'000	Risk Weighted Assets RM'000	Min Capital Requirement at 8% RM'000
Credit Risk	96	8	103	8
Market Risk	20,810	1,665	20,346	1,628
Operational Risk	2,223	177	1,931	154
Total	**23,129**	**1,850**	**22,380**	**1,790**

10 Islamic Banking Operations (continued)

10.3 Islamic Banking Window - Capital Adequacy

Table 17.1: Risk weighted capital ratio and Tier 1 capital

	Islamic Banking Window	
	30-Jun-12 RM'000	31-Dec-11 RM'000
Tier 1 capital		
Paid-up share capital	25,000	25,000
Share premium	-	-
Statutory reserve	-	-
Retained profits	2,316	2,316
Less: Deferred tax assets	-	-
Total Tier 1 Capital	27,316	27,316
Tier 2 Capital		
Collective assessment allowance	-	-
Total Capital	27,316	27,316
Less: Investments in subsidiary companies	-	-
Capital Base	27,316	27,316
Tier 1 Capital Ratio	118.10%	122.06%
Risk-Weighted Capital Ratio	118.10%	122.06%

The capital ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB).

10 Islamic Banking Operations (continued)

10.4 Islamic Banking Window - Risk Weighted Assets and Capital Requirements for Credit Risk

Table 18: Islamic Banking Window - Risk Weighted Assets and Capital Requirements for Credit Risk (2012)

30-Jun-2012

RISK TYPE	Gross Exposures	Net Exposures	Risk-Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
Credit Risk	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures						
Sovereigns/Central Banks	5,739	5,739	-	-	-	-
Public Sector Entities	-	-		-	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	193	193	96	-	-	8
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Regulatory Retail	-	-	-	-	-	-
Residential Mortgages	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Equity Exposure	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	-
Total On-Balance Sheet Exposures	5,932	5,932	96	-	-	8
Off-Balance Sheet Exposures						
OTC Derivatives	-	-	-	-	-	-
Credit Derivatives	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	
Total for Off-Balance Sheet Exposures	-	-	-	-	-	-
Total On and Off- Balance Sheet Exposures	5,932	5,932	96	-	-	8

Table 18.1: Islamic Banking Window - Risk Weighted Assets and Capital Requirements for Credit Risk (2011)

31-Dec-2011

RISK TYPE	Gross Exposures	Net Exposures	Risk-Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
Credit Risk	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures						
Sovereigns/Central Banks	12,141	12,141	-	-	-	-
Public Sector Entities	-	-		-	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	205	205	103	-	-	8
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Regulatory Retail	-	-	-	-	-	-
Residential Mortgages	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Equity Exposure	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	-
Total On-Balance Sheet Exposures	12,346	12,346	103	-	-	8
Off-Balance Sheet Exposures						
OTC Derivatives	-	-	-	-	-	-
Credit Derivatives	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	
Total for Off-Balance Sheet Exposures	-	-	-	-	-	-
Total On and Off- Balance Sheet Exposures	12,346	12,346	103	-	-	8

Deutsche Bank (Malaysia) Berhad

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

Basel II Pillar 3 Report - 30 June 2012

10 Islamic Banking Operations (continued)

10.4 Islamic Banking Window - Risk Weighted Assets and Capital Requirements for Credit Risk (continued)

Table 19: Islamic Banking Window - Risk Weights Under the Standardised Approach (2012)

30-Jun-2012

Risk Weights	Exposures after Netting & Credit Risk Mitigation												Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity Exposures		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	5,739	-	-	-	-	-	-	-	-	-	-	-	5,739	-
20%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	193	-	-	-	-	-	-	-	-	-	193	96
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures	5,739	-	193	-	-	-	-	-	-	-	-	-	5,932	96
Risk-Weighted Assets by Exposures	-	-	96	-	-	-	-	-	-	-	-	-	96	
Average Risk Weight	0%	-	50.2%	-	-	-	-	-	-	-	-	-	1.6%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

10 Islamic Banking Operations (continued)

10.4 Islamic Banking Window - Risk Weighted Assets and Capital Requirements for Credit Risk (continued)

Table 19.1: Islamic Banking Window - Risk Weights Under the Standardised Approach (2011)

31-Dec-2011

Risk Weights	Exposures after Netting & Credit Risk Mitigation												Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing / Investment	Securitisation	Equity Exposures		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	12,141	-	-	-	-	-	-	-	-	-	-	-	12,141	-
20%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	205	-	-	-	-	-	-	-	-	-	205	103
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures	12,141	-	205	-	-	-	-	-	-	-	-	-	12,346	103
Risk-Weighted Assets by Exposures	-	-	103	-	-	-	-	-	-	-	-	-	103	
Average Risk Weight	0%	-	50.2%	-	-	-	-	-	-	-	-	-	0.8%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	