Standard Chartered Saadiq Berhad

(Company No.823437K)
(Incorporated in Malaysia)

Financial statements for the financial year ended 31 December 2010

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the year ended 31 December 2010.

Principal activities

The Bank is principally engaged in the Islamic banking business and related financial services. There have been no significant changes in the principal activities during the financial year.

Results

	RM'000
Profit before taxation	63,795
Tax expense	(16,304)
Profit for the year	47,491

Dividends

The Directors do not recommend the payment of any dividend in respect of the current financial year under review.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the year except as disclosed in the financial statements.

Bad and doubtful financing

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

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

Current assets

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than financing, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Bank, have been written down to their estimated realisable value.

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

Valuation methods

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

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Contingent and other liabilities

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

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

(b) any contingent liabilities in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

Change of circumstances

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

Items of an unusual nature

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

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

Business plan and strategy

Results

For the year under review, the Bank registered a pre-tax profit of RM63.8 million (2009: RM17.5 million), achieved from gross financing assets of RM2.4 billion (2009: RM1.9 billion) and customer deposits of RM1.3 billion (2009: RM1.5 billion). The Bank's asset quality was healthy with net impaired financing ratio of 0.42% (2009: 0.65%). Following the implementation of the Basel II approach, Advanced IRB, risk weighted capital ratio stood at 14.4% as compared against 20% previously under Basel I measurement.

Strategy and Economic Environment

The Malaysia economy is expected to continue its moderate recovery path amid the uncertainties in the advanced economies, particularly in the Euro zone. Gross Domestic Product ("GDP") growth for 2010 is expected to be in the 4.5% – 5.5% range. The government recently unveiled the Economic Transformation Programme, which aims to attract RM1.4 trillion of investments into Malaysia over the next 10 years and propel Malaysia into a high-income nation by 2020, with the Financial Services sector expected to be a significant contributor.

The Malaysian banking system remains stable with ample liquidity and cost of borrowing at reasonable levels. Amid a strengthening Ringgit against several major currencies, Overnight Policy Rate ("OPR") increased 75 basis points during the year to 2.75%, a level which is accommodative and consistent with growth and inflation prospects.

Business plan and strategy (continued)

Strategy and Economic Environment (continued)

The bank achieved significant income momentum in a dynamic, growing market as Malaysia vies to become the international Islamic Banking hub. The year 2010 saw the opening of five new dedicated Saadiq branches while continuing to leverage on the conventional infrastructure and distribution platforms.

The bank will focus on investing to maintain momentum with competitors and maximize its proposition in Malaysia. Our target business model includes full leverage of conventional infrastructure, establishing dedicated organisation structure with clear tracking of Key Performance Indicators ("KPI") and introducing a full range of product suite on par with our conventional banking business and competitors while maintaining friendly, fast and accurate service.

Statement of Corporate Governance

The Bank is committed to high standards of corporate governance and strives to continually improve the governance processes and structures as articulated in the Principles and Best Practices promulgated in the Malaysian Code of Corporate Governance and the Revised Code (the "Code") as well as in conformity with Bank Negara Malaysia ("BNM") Revised Guidelines on Corporate Governance for Licensed Islamic Institutions issued by BNM in December 2010. The Board is pleased to set out below how the Bank has adhered to the aforesaid principles of the Code and the extent to which the Bank has complied in all material aspects with the best practices of the Code and BNM Guidelines during the financial year ended 31 December 2010.

Board of Directors

Composition of the Board of Directors

The Board of Directors (the "Board") bring a wide range of business, financial and global experience to the Board. The Board presently has seven (7) members, the majority of whom are Non-Executive Directors, three (3) of whom are Independent Non-Executive Directors, hence fulfilling the prescribed requirements for one-third of the membership of the Board to be Independent Board members by BNM. The Directors who served since the date of the last report are:-

Members	Status of Directorship
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman	Independent Non-Executive Director
Raymond John Ferguson - Deputy Chairman	Non-Independent Non-Executive Director
Datuk Abu Hassan bin Kendut	Independent Non-Executive Director
Muhammad Afaq Khan	Non-Independent Non-Executive Director
Azrulnizam bin Abdul Aziz	Non-Independent Executive Director
Osman Tarique Morad	Non-Independent Non-Executive Director
Datuk Ishak bin Imam Abas (appointed on 3 March 2010)	Independent Non-Executive Director

Roles and responsibilities of the Board

Besides carrying out its statutory responsibilities, the Board approves the Bank's long-term objectives and commercial strategy and the annual operating budget. It oversees the management of the business and the Bank's affairs and regularly monitors the Bank's performance against budget and plans. Matters reserved for the Board's decision include major investments, strategic plans, business plans, key financial and operating policies, financial results and corporate governance matters. The Board carries out various functions and responsibilities laid down in guidelines and directives that are issued by BNM from time to time. The Board also operates under approved terms of reference which set out their roles and responsibilities towards the Bank.

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Appointments to the Board

The appointment and re-appointment of Directors to the Bank's Board had been approved by BNM pursuant to the Banking and Financial Institutions Act, 1989 ("BAFIA") and in compliance with the guidelines issued by BNM.

In accordance with the Bank’s Articles of Association, all newly appointed Directors during the financial year are subjected to re-election by shareholders at the next Annual General Meeting. The Articles further provides for one-third of the remaining directors to retire from office by rotation and be subjected to re-election at the Annual General Meeting of the Bank. As guided by BNM’s Guidelines, re-appointment or re-election of Directors are made with the prior approval from BNM.

Board's conduct of its affairs and board meetings

The Board has established specialised Board Committees to assist to carry out its responsibilities more effectively and provide oversight over the Bank's operations. These committees are the Nomination Committee, the Audit Committee and the Risk Committee. The Board also established a Syariah Advisory Committee comprising of Syariah Consultants to advise on the Islamic banking business. These committees operate under clearly defined terms of reference approved by the Board and the Board receives reports of their proceedings and deliberations. These committees have the authority to examine certain issues and report back to the Board with their recommendations. Ultimately, the Board is responsible for making the final decisions on all matters.

The Bank has obtained a waiver from BNM from establishing a Remuneration Committee on 23 September 2008. Although the Bank is exempted from establishing a Remuneration Committee as required under the Revised Guidelines, the Board takes note of all remuneration and performance appraisal policies determined by the Group.

Frequency and attendance of each director at board meetings

The Board meets regularly and has a formal schedule of matters specifically reserved for its decision. Meetings for the year are scheduled early in the year with due notice given for all scheduled meetings. During the financial year 2010, the Board met six (6) times to deliberate on and consider a variety of significant matters that required its guidance and approval. Relevant management personnel are invited to Board meetings to report and appraise the Board on financials, operations and other developments within their respective purview. Where appropriate, decisions are taken by way of circular resolutions in between scheduled meetings. The record of the attendance at the Board Meetings is as follows:-

Members	Attendance and Number of Board Meetings
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman	5/6
Raymond John Ferguson - Deputy Chairman	5/6
Datuk Abu Hassan bin Kendut	5/6
Muhammad Afaq Khan	5/6
Azrulnizam bin Abdul Aziz	5/6
Osman Tarique Morad	6/6
Datuk Ishak bin Imam Abas (appointed on 3 March 2010)	5/5

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Key information and background of Directors

The Bank is led by an experienced Board comprising members from diverse backgrounds and collectively has a wide range of business and management experience, knowledge and capabilities in areas that include banking, financial services, accounting and economics.

(a) Tan Sri Dato' Mohd Sheriff bin Mohd Kassim

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim was appointed to the Board as an Independent Non-Executive Director on 12 October 2008. He held various positions in Civil Service since 1963 and was appointed as the Secretary General to the Treasury in the Malaysian Ministry of Finance in 1991. He later took up the position of Managing Director in Khazanah Nasional Berhad in 1994 till 2003. He holds a Bachelor of Arts (Honours) in Economics from the University of Malaya, a Diploma in Economic Development from Oxford University in the UK and a Master of Arts (Economics) from Vanderbilt University in USA.

(b) Datuk Abu Hassan bin Kendut

Datuk Abu Hassan bin Kendut was appointed to the Board as an Independent Non-Executive Director on 12 October 2008. He is a member of the Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants ("MIA"). He was a past President of MICPA, and was formerly the Senior Partner of Coopers & Lybrand (now known as PricewaterhouseCoopers).

(c) Muhammad Afaq Khan

Muhammad Afaq Khan was appointed as a member of the Board on 12 October 2008 as a Non-Independent and Non-Executive Director. He is currently the Global Head of Islamic Banking of Standard Chartered Bank and is responsible for the Islamic Banking initiative of Standard Chartered Group. He joined Standard Chartered in June 2003 and has been involved in the Islamic banking industry for 11 years. He was involved in a number of landmark transactions including sukuks, aircraft finance and project finance. He holds an MBA from the University of Western Illinois.

(d) Raymond John Ferguson

Raymond John Ferguson was appointed to the Board as a Non-Independent Non-Executive Director on 12 October 2008. He is currently the Regional Chief Executive Officer of Standard Chartered Bank for Singapore and South East Asia. He is an experienced international banker with over 20 years of senior management experience, including his tenure as the Chief Executive of Standard Chartered Bank in the Americas. He held various senior positions with the Bank and had worked in UAE, Singapore, Philippines, Taiwan and Indonesia. He is an Associate of the Institute of Bankers in Scotland and a full member of the Singapore Institute of Directors. He holds a MBA from Henley Management College and Brunel University, UK.

(e) Azrulnizam bin Abdul Aziz

Azrulnizam bin Abdul Aziz was appointed to the Board on 30 June 2008 and as the Chief Executive Officer of Standard Chartered Saadiq Berhad on 12 October 2008. He joined Standard Chartered Bank Malaysia Berhad in 2005 with a mandate to launch the Islamic Banking initiative for the Bank. He has over 9 years of extensive experience in Islamic banking and finance, mortgages, asset sales, banking services and products. He holds a Bachelor of Administration, Marketing from Wichita State University, Kansas and MBA (International) from University of Hartford, Connecticut, USA.

(f) Datuk Ishak bin Imam Abas

Datuk Ishak bin Imam Abas was appointed as an Independent Non-Executive Director on 3 March 2010. He held various senior positions during his 26 year career with Petronas including Deputy General Manager, Commercial of Petronas Dagangan Berhad, Senior General Manager, Finance of Petronas, Vice-President, Finance Petronas, Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad. He retired from Petronas as the Senior Vice-President in 2006 but continued to be the Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad and retired from the aforesaid executive positions in 2007. He is a fellow member of Chartered Institute of Management Accountants ("CIMA") and a member of MIA.

Key information and background of Directors (continued)

(g) Osman Tarique Morad

Osman Tarique Morad was appointed to the Board on 20 October 2009 as the Managing Director and Chief Executive Officer of Standard Chartered Bank Malaysia Berhad. Prior to this, he was the Chief Executive Officer of Standard Chartered Bank in Bangladesh and Bahrain. Osman joined Standard Chartered Bank in 1993 as the Regional Head of Institutional Banking Middle East and South Asia in Dubai and was responsible for the Standard Chartered Bank Financial Institutions business teams in India, Bangladesh, Pakistan, Sri Lanka and the Middle East. He started his banking career at Bank of America as a Management Trainee in 1977 and worked in the bank's Operations, Credit and Corporate & Institutional Banking departments in the Gulf. In 1987 he joined the First Interstate Bank of California and was appointed Vice-President and Middle East Representative based in the UAE and Singapore. He graduated from the Punjab University and the Marlboro College of Vermont, U.S.A.

Committees

a) Syariah Advisory Committee

Membership and composition

The members of the Syariah Advisory Committee ("SAC") are:-
Prof. Madya Dr. Shamsiah binti Mohamad - Chairperson
Prof. Madya Dr. Nurdianawati Irwani Abdullah
Dr. Hikmatullah Babu Sahib
Ustaz Zaharuddin Abdul Rahman

Functions and responsibilities and terms of reference

Main Responsibilities of the Syariah Advisory Committee

An Advisory Committee to advise the Board of Standard Chartered Saadiq Berhad on Syariah matters.

Responsibilities of the Syariah Advisers

1. To endorse, approve and review all Islamic Banking products and services offered by the Bank. The Consultants' approval is thus required on all Product Programme documents, Product Development documents, Country Addenda, Transaction Programme and the subsequent reviews of these documents.

2. To advise and review the operations of the Bank to ensure that it is in compliance with the Syariah principles.

3. To guide and review the Bank's Islamic Banking practice. The Consultants must therefore approve all legal contracts, agreements and documentation. Similarly, all marketing materials, sales illustrations, advertisements and brochures must carry the Consultants' approval.

4. To satisfy itself that the formulated endorsement, approval, advice and guidelines are being properly undertaken by the Bank.

5. To provide guidance and advice upon request from the Bank's legal council, auditors and consultants. In addition, to provide written opinions on Syariah matters to the Bank as required from time to time.

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Committees (continued)

a) Syariah Advisory Committee (continued)

Responsibilities of the Syariah Advisers (continued)

6. To advise the Chairperson on matters that require consultation from the Bank Negara Malaysia's Syariah Advisory Council and to prepare a written opinion when such matter is referred to the Council.

7. To review the terms of reference of the Syariah Advisory Committee from time to time and propose to the Board of Standard Chartered Saadiq Berhad any change that it considers appropriate.

Syariah Compliance Review

1. Suitable Syariah Compliance Manuals will be prepared and reviewed by the Committee from time to time covering gradually all products and services introduced by the Bank to the market. The Syariah Compliance Manuals shall guide the Bank's officers and personnel in ensuring its standard operating procedures and practices are in compliance with Syariah principles.

2. The Country Assurance and Audit and Group Internal Audit established at the immediate holding company will be using the Syariah Compliance Manuals to undertake Syariah Compliance Reviews as may be required from time to time.

3. The Country Assurance and Audit and Group Internal Audit established at the immediate holding company shall report and discuss its findings directly with the committee.

Non-Syariah Income

Non-Syariah Income is income generated or received from events that are non compliant to Syariah principles, for example, profit charges and income derived from non-Syariah compliant business.

Any non-Syariah income identified must be escalated to the SAC for their decision on the appropriate course of action. Compliance to the SAC decision must be tracked in Business Operational Risk Group ("BORG") by the responsible unit.

Number of meetings held

Members	Attendance and Number of Meetings
Prof. Madya Dr. Shamsiah binti Mohamad - Lead Syariah Adviser	12/12
Prof. Madya Dr. Nurdianawati Irwani Abdullah	10/12
Dr. Hikmatullah Babu Sahib	11/12
Ustaz Zaharuddin Abdul Rahman	10/12

b) Nomination Committee

The Nomination Committee was established on 27 November 2008.

Membership and composition

The members of the Nomination Committee are:-
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman
Raymond John Ferguson - Deputy Chairman
Muhammad Afaq Khan
Azrulnizam bin Abdul Aziz
Osman Tarique Morad

Committees (continued)

b) Nomination Committee (continued)

Membership and composition (continued)

All of the Nomination Committee members are non-executive directors except for Mr. Azrulnizam bin Abdul Aziz.

Functions and responsibilities and terms of reference

The Nomination Committee is empowered by the Board to bring to the Board recommendations as to the minimum requirements (including skills, experience, qualifications and competencies) for appointees to the Board and for the Chief Executive Officer ("CEO"). Through the recommendations of the Nomination Committee, the Board has established a policy on Fit and Proper Criteria for Appointment of Directors in the Bank which provides guidance for the Committee to determine the overall suitability of the candidate. During the year, the Board has approved the frameworks on the Board Effectiveness Review and Succession Planning in relation to the Directors, Chief Executive Officer and senior executives.

In addition, the Nomination Committee regularly reviews the overall structure, size and the composition in accordance with the criteria set and make recommendations to the Board with regard to any adjustments that are deemed necessary. This includes identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise, subject to such application for approval to BNM as may be required from time to time. During the year, the Board appointed one (1) new director to the Company who is also a member of the Board of the holding company and was convinced that his appointment would assist in achieving a mix of Board Members that represents a diversity of background and experience that would best complement the current Board effectiveness.

The Nomination Committee is also tasked to determine and implement a process for the evaluation of the performance and effectiveness of the Board, its committees and each individual director. In 2009, the Board has adopted a self-evaluation to evaluate the performance of the Board and its committees. The purpose of the evaluation is to determine whether the Board and its committees are functioning effectively and to increase the effectiveness of the Board. By including individual directors, the evaluation is intended to capitalize on the strengths that each director brings to the Board and enhance each director's contribution.

Number of meetings held

The Nomination Committee meets at least once a year and during the financial year 2010, the committee met two (2) times and the attendance of the members are as follows:-

Members	Attendance and Number of Meetings
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman	2/2
Raymond John Ferguson	1/2
Muhammad Afaq Khan	1/2
Azrulnizam bin Abdul Aziz	1/2
Osman Tarique Morad	2/2

Committees (continued)

c) Audit Committee

The Audit Committee ("AC") was established on 27 November 2008.

Membership and composition

The members of the AC are:-
Datuk Abu Hassan bin Kendut - Chairman
Osman Tarique Morad
Datuk Ishak bin Imam Abas (appointed as a member on 3 March 2010)
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim (ceased as a member on 3 March 2010)

All of the AC members are Independent Non-Executive Directors, with the exception of Mr Osman Tarique Morad who is a Non-Independent Non-Executive Director.

Terms of Reference

The primary functions of the AC are to assist the Board to:-

- examine the manner in which management ensures and monitors the accuracy, quality and objectivity of the Bank's financial reporting to external bodies, including shareholders and regulators in accordance with the Law and appropriate accounting standards;
- examine the manner in which management ensures and monitors the effectiveness and appropriateness of management accounting practices and other internal control systems; and
- ensure compliance with all banking regulations which relate to the responsibilities and obligations of a locally incorporated bank, as defined by the BAFIA, BNM and the Financial Services Authority, UK from time to time, and any other appropriate regulators and bodies which are or will become relevant to the conduct of our business.

Number of meetings held

The AC meets on a quarterly basis and during the financial year 2010, the committee met five (5) times and the attendance of the members are as follows:-

Members	Attendance and Number of Meetings
Datuk Abu Hassan bin Kendut - Chairman	5/5
Osman Tarique Morad	5/5
Datuk Ishak bin Imam Abas (appointed as a member on 3 March 2010)	4/4
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim (ceased as a member on 3 March 2010)	1/1

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Committees (continued)

d) Board Risk Committee

The Board Risk Committee ("BRC") was established on 27 November 2008.

Membership and composition

The members of the BRC are:-

Datuk Ishak bin Imam Abas - Chairman (appointed as a member and Chairman on 3 March 2010)
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim
Datuk Abu Hassan bin Kendut
Osman Tarique Morad

All of the BRC members are Independent Non-Executive Directors, with the exception of Mr Osman Tarique Morad who is a Non-Independent Non-Executive Director.

Terms of reference

The primary functions of the BRC are to assist the Board to:-
- review and recommend risk management strategies, policies and risk tolerance for the Board's approval;
- review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively; and
- ensure infrastructure, resources and systems are in place for risk management, i.e. to ensure that the staff responsible for implementing risk management system perform those duties independently of the financial institutions' risk-taking activities.

Number of meetings held

The Committee meets on a quarterly basis and during the financial year 2010, the committee met six (6) times and the attendance of the members are as follows:-

Members	Attendance and Number of Meetings
Datuk Ishak bin Imam Abas - Chairman (appointed as a member on 3 March 2010)	5/5
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim	6/6
Datuk Abu Hassan bin Kendut	6/6
Osman Tarique Morad	6/6

Risk Management

The management of risk lies at the heart of the Bank's business. One of the main risks incurred arises from extending credit to customers through lending operations. Beyond credit risk, the Bank is also exposed to a range of other risk types such as market, liquidity, operational, reputational and other risks which are inherent to the Bank’s strategy and business the Bank has chosen to participate in.

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank.

Through the Risk Management Framework ("RMF") and the risk management structure at the immediate holding company, the Bank manages enterprise-wide risks, with the objective of maximizing risk-adjusted returns while remaining within the Bank’s risk appetite.

As part of this RMF, the Bank uses a set of principles that describe the risk management culture it wishes to sustain:-

- Balancing risk and reward: risk is taken in support of the requirements of stakeholders, in line with the Bank’s strategy and within its risk appetite;
- Responsibility: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. The Bank takes account of its social, environmental and ethical responsibilities in taking risk to produce a return;
- Accountability: risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk taking must be transparent, controlled and reported;
- Anticipation: seek to anticipate future risks and maximise awareness of all risks; and
- Competitive advantage: seek competitive advantage through efficient and effective risk management and control.

Risk Governance

Ultimate responsibility for setting the Bank’s risk appetite and for the effective management of risk rests with the Board. Governance responsibility for risk management is with the Bank's BRC which comprises of Non-Executive Directors of its immediate holding company. Executive responsibility for risk management is held by SCBMB's Risk Management Committee (“RMC”).

The Board delegates authority for the management of risk to several committees.

The RMC, being the executive committee is responsible for the management of all risks other than those delegated by the Board to SCBMB's Asset and Liability Committee ("ALCO") and Retirement Benefit Scheme Management Committee. The RMC is responsible for the establishment of, and compliance with, policies relating to credit risk, country cross-border risk, market risk, operational risk, regulatory risk and reputational risk. The RMC also defines the overall risk management framework.

SCBMB's ALCO is responsible for the management of capital ratios and the establishment of, and compliance with, policies relating to balance sheet management, including management of liquidity, capital adequacy and structural foreign exchange rate risk.

Members of SCBMB's Executive Committee ("ExCo") are also members of both RMC and ALCO. The RMC is chaired by SCBMB's Country Chief Risk Officer (“CCRO”). The ALCO is chaired by CEO of SCBMB.

Risk Management (continued)

Risk Governance (continued)

Risk limits and risk exposure approval authority frameworks are set by the RMC in respect of credit risk, country cross-border risk and market risk. The ALCO sets the approval authority framework in respect of liquidity risk. Risk approval authorities may be exercised by risk committees or authorised individuals.

Acting within an authority delegated by the Board, the AC and BRC, whose members are all Non-Executive Directors of the Bank, reviews specific risk areas and monitors the activities of the RMC and ALCO. The AC and BRC receives regular reports on risk management, including portfolio trends, policies and standards, adherence with internal controls, regulatory compliance, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down through the organisation from the Board through to the appropriate committees. Information regarding material risk issues and compliance with policies and standards is communicated through the business and functional committees up to the country level committees.

The CCRO directly manages a risk function which is separate from the origination, trading and sales functions of the businesses and also chairs the RMC. The Senior Credit Officer for Consumer Banking has his primary reporting line into the CCRO, the latter is also the Chief Risk Officer for Wholesale Banking. CCRO takes overall responsibility for risk in the Bank.

The Risk function is responsible for upholding the integrity of the Bank’s risk/return decisions, and in particular for ensuring that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with the Bank’s standards.

The Risk function is independent of the origination and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised immediately while losses arising from risk positions only manifest themselves over time.

The Risk function is also responsible for maintaining the Bank’s RMF, ensuring it remains appropriate to the Bank’s activities, and is effectively communicated and implemented across the Bank. The Risk function also administers risk-related governance and reporting processes.

The RMF identifies the risk types to which the Bank is exposed, each of which is controlled by a designated risk control owner. The major risk types are described individually in Note 27. The risk control owners have responsibility for establishing minimum standards and for implementing governance and assurance processes, under the oversight of the RMC or ALCO and their sub-committees.

The Country Assurance and Audit function is a separate country function that reports to the Chairman of the AC. It provides independent assurance to management and to the AC that:-

- significant risks associated with all aspects of the business and operations have been identified and prioritised;
- an effective system of controls over these risks is in place and is working as intended; and
- Standard Chartered PLC Group's and the Bank’s plans, policies and principles have been effectively communicated and implemented in the country.

Risk Management (continued)

<u>Risk appetite</u>

Risk appetite is an expression of the amount of risk the Bank is willing to take in pursuit of its strategic objectives, reflecting the Bank's capacity to sustain losses and continue to meet its obligations arising from a range of different stress trading conditions. The Bank defines risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. The Bank also defines risk appetite with respect to liquidity risk and reputational risk. The Bank's quantitative risk profile is assessed through a 'bottom-up' analytical approach covering all of the major businesses and portfolios. The risk appetite forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

<u>Stress testing</u>

Stress testing and scenario analysis are used to assess the capability of the Bank to continue operating effectively under extreme but plausible trading conditions. Stress testing activities are performed as necessary, to evaluate the impact on the portfolio or on certain customer segments, as a result of developments in the market. Such developments include, but are not limited to the following - interest rate and exchange rate movements, oil price fluctuations, property price changes.

Internal Audit and Control activities

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. This is supported by the RMF described above, which is underpinned by policy statements, written procedures and control manuals.

The Bank has also established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Various risk committees are established to regularly review the Bank's risk profile. The performance of the Bank's business is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

The effectiveness of the Bank's internal control system is reviewed by the Board of Directors, its committees and the ultimate holding company's Internal Audit.

The internal audit function is organised on a Group basis, which previously used to cover the Islamic banking operations of the immediate holding company as well. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal controls structures of the Group and highlights significant findings in respect of any non-compliance. The work of Group Internal Audit is focused on areas of greatest risk as determined by a risk assessment approach. Group Internal Audit reports regularly to the Audit Committee. The annual audit plan is reviewed and approved by the Audit Committee. All medium and high risk issues are tracked and reported to Audit Committee and immediate corrective action is required.

Related Party Transactions

There were no other significant related party transactions other than as reported in Note 22.

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Management Report

The Board, as a whole, receives and reviews regular reports from the management on the key operating statistics, legal and regulatory matters and minutes of the Executive Committee Meetings. In addition, the CEO holds a monthly briefing to the independent directors on the performance and operations of the Bank and any strategic, financial, operational, compliance or governance issues.

From time to time between meetings, the management (ordinarily by way of the Chief Executive Officer), advise the Board of any significant developments through a suitable method of communication.

Ratings Statement

The Bank was not rated by any external rating agencies during the financial year.

Board of Directors and their interests in shares

According to the Register of Directors' Shareholdings, the interest of directors in office at the end of the financial year in the shares of the Bank and its related corporations are as follows:-

	Number of shares			
	As at 1.1.2010	Acquired	Disposed	As at 31.12.2010
In Standard Chartered PLC				
<u>Ordinary shares of US$0.50 each</u>				
Osman Tarique Morad	18,423	-	(8,000)	10,423
Raymond John Ferguson	5,718	11,400	(12,700)	4,418

	Number of options			
	As at 1.1.2010	Awarded/ Granted	Lapsed/ Exercised	As at 31.12.2010
<u>Deferred Bonus Share Plan</u>				
Osman Tarique Morad	702	1,846	-	2,548
<u>International Sharesave Scheme</u>				
Osman Tarique Morad	777	-	-	777
Raymond John Ferguson	1,167 *	-	-	1,167
<u>Restricted Share Scheme</u>				
Azrulnizam bin Abdul Aziz	2,084	392	(1,165)	1,311
Osman Tarique Morad	3,675	1,937	-	5,612
Muhammad Afaq Khan	11,639	5,233	-	16,872
Raymond John Ferguson	5,965	-	-	5,965
<u>Options Over Performance Share Plan</u>				
Osman Tarique Morad	11,505	-	-	11,505
Raymond John Ferguson	52,835 *	-	(12,596)	40,239
<u>Deferred Supplemental Restricted Share Scheme</u>				
Osman Tarique Morad	-	922	-	922
Raymond John Ferguson	-	3,749	-	3,749
Muhammad Afaq Khan	-	10,466	-	10,466
<u>Deferred Restricted Share Scheme</u>				
Raymond John Ferguson	3,391	13,821	-	17,212
Muhammad Afaq Khan	15,838	-	-	15,838

Board of Directors and their interests in shares (continued)

(A) Acquired by way of the exercise of Deferred Bonus Share Plan and Performance Share Plan.
* Adjusted for Rights Issue.

The other Directors did not hold or deal in the shares of the Bank or its related corporations during the financial year.

Issue of shares and debentures

During the financial year, the Bank increased its:-

(a) authorised ordinary share capital from RM100,000,000 to RM1,000,000,000 by the creation of 900,000,000 new ordinary shares of RM1 each; and

(b) issued and paid up share capital from RM75,000,000 to RM96,500,000 by the issuance of 21,500,000 new ordinary shares of RM1 each for cash at an issue price of RM4 per share for working capital purpose.

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Directors' benefits

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangements to which the Bank is a party whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except for shares and options awarded under the Standard Chartered Deferred Bonus Share Plan, Restricted Share Scheme, International Sharesave Scheme, Options Over Performance Share Plan, Deferred Supplemental Restricted Share Sheme and Deferred Restricted Share Scheme.

Since the end of the previous financial period, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 19 to the financial statements or the fixed salary of a full time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Holding companies

The Directors regard Standard Chartered Bank Malaysia Berhad ("SCBMB"), a company incorporated in Malaysia, as the immediate holding company of the Bank and Standard Chartered PLC, a company incorporated in Great Britain, as the ultimate holding company of the Bank.

Zakat Obligation

The Bank does not pay zakat on behalf of the shareholders or depositors.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Auditors

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

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

....
Azrulnizam bin Abdul Aziz

....
Osman Tarique Morad

Kuala Lumpur
Date: 30 March 2011

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Standard Chartered Saadiq Berhad
(Company No. 823437 K)
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 22 to 82 are drawn up in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as at 31 December 2010 and of the financial performance and cash flows for the year then ended on that date.

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

....
Azrulnizam bin Abdul Aziz

....
Osman Tarique Morad

Kuala Lumpur
Date: 30 March 2011

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

Standard Chartered Saadiq Berhad
(Company No. 823437 K)
(Incorporated in Malaysia)

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

I, Wong Lai Loong, the officer primarily responsible for the financial management of Standard Chartered Saadiq Berhad, do solemnly and sincerely declare that the financial statements set out on pages 22 to 82 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on 30 March 2011.

....
Wong Lai Loong

Before me:

Independent Auditors' Report to the member of
Standard Chartered Saadiq Berhad
(Company No. 823437 K)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Standard Chartered Saadiq Berhad, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 82.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose.

We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Khaw Hock Hoe
Approval Number: 2229/04/12(J)
Chartered Accountant

Petaling Jaya
Date: 30 March 2011

بسم الله الرحمن الرحيم

"In the name of Allah, the Compassionate, the Merciful"

SYARIAH ADVISORY COMMITTEE'S REPORT

On behalf of the Syariah Advisory Committee, Standard Chartered Saadiq Berhad, we hereby submit the following report to the Board of Standard Chartered Saadiq Berhad:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Standard Chartered Saadiq Berhad during the period ended 31 December 2010. We have also conducted our review to form an opinion as to whether the Standard Chartered Saadiq Berhad has complied with the Syariah principles and with the Syariah rulings issued by the Syariah Advisory Council of Bank Negara Malaysia, as well as Syariah decisions made by us.

The management of Standard Chartered Saadiq Berhad is responsible for ensuring that the financial institution conducts its business in accordance with Syariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Standard Chartered Saadiq Berhad, and to report to the Board.

We have assessed the work carried out by Syariah review and Syariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by Standard Chartered Saadiq Berhad.

We planned and performed our assessment so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Standard Chartered Saadiq Berhad has not violated the Syariah principles.

In our opinion:

1. the contracts, transactions and dealings entered into by the Standard Chartered Saadiq Berhad during the year ended 31 December 2010 that we have reviewed are in compliance with the Syariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Syariah principles;
3. all earnings that have been realized from sources or by means prohibited by the Syariah principles have been considered for disposal to charitable causes;
4. Standard Chartered Saadiq Berhad during the year ended 31 December 2010 is not required to pay *zakat* because its shareholder is non-Muslim.

We, the members of the Syariah Advisory Committee of Standard Chartered Saadiq Berhad, do hereby confirm that the operations of the Standard Chartered Saadiq Berhad for the year ended 31 December 2010 have been conducted in conformity with the Syariah principles.

On behalf of the Syariah Advisory Committee

Chairman of the Syariah Advisory Committee
Associate Professor
Dr Shamsiah Mohamad

Syariah Advisory Committee Member
Associate Professor
Dr Nurdianawati Irwani Abdullah

Kuala Lumpur
Date: 30 March 2011

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 RM'000	2009 RM'000
Assets			
Cash and short term funds	3	940,388	2,592,117
Deposits and placements with banks and other financial institutions	4	-	-
Investment securities available-for-sale	5	623,326	185,866
Financing and advances	6	2,342,145	1,911,270
Derivative financial assets	29	59,781	24,481
Other assets	8	74,421	51,437
Tax recoverable		3,271	334
Statutory deposits with Bank Negara Malaysia	9	24,760	14,322
Deferred tax assets	24	3,486	1,424
Total assets		**4,071,578**	**4,781,251**
Liabilities			
Deposits from customers	10	1,321,460	1,459,537
Deposits and placements of banks and other financial institutions	11	2,092,510	2,766,514
Derivative financial liabilities	29	58,863	24,248
Other liabilities	12	156,615	214,460
Total liabilities		**3,629,448**	**4,464,759**
Equity			
Share capital	13	96,500	75,000
Reserves	14	345,630	241,492
Total equity attributable to equity holder of the Bank		**442,130**	**316,492**
Total liabilities and equity		**4,071,578**	**4,781,251**
Commitments and contingencies	26	**12,645,894**	**2,383,585**

The notes set out on pages 27 to 82 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	2010 RM'000	2009 RM'000
Income derived from investment of depositors' funds and others	15	79,465	85,998
Income derived from investment of shareholder's funds	17	183,402	118,129
Provisions for financing	20	(52,717)	(41,580)
Transfer to profit equalisation reserves	12	-	(1,734)
Total distributable income		210,150	160,813
Income attributable to depositors	16	(70,533)	(83,873)
Total net income		139,617	76,940
Other operating expenses	18	(75,822)	(59,480)
Profit before taxation		63,795	17,460
Tax expense	23	(16,304)	(4,617)
Profit for the year		47,491	12,843
Other comprehensive income, net of income tax			
Fair value reserve (investment securities available-for-sale):-			
Net change in fair value		(518)	(194)
Net amount transferred to profit or loss		-	1,666
Other comprehensive income/(loss) for the year, net of income tax		(518)	1,472
Total comprehensive income for the year		46,973	14,315
Profit for the year attributable to:-			
Equity holder of the Bank		47,491	12,843
Total comprehensive income attributable to:-			
Equity holder of the Bank		46,973	14,315
Basic earnings per ordinary share (sen)	25	56.3	20.8

The notes set out on pages 27 to 82 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	← *Non-Distributable Reserves* →				*Distributable Reserves*	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**AFS reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2010, as previously stated	75,000	225,000	7,960	571	7,961	316,492
Effect of adoption of FRS 139 (Note 34)	-	-	-	-	(7,335)	(7,335)
At 1 January 2010, as restated	75,000	225,000	7,960	571	626	309,157
Profit for the year	-	-	-	-	47,491	47,491
Other comprehensive income for the year	-	-	-	(518)	-	(518)
Transfer to statutory reserves	-	-	23,746	-	(23,746)	-
Total comprehensive income for the year	-	-	23,746	(518)	23,745	46,973
Issuance of shares	21,500	64,500	-	-	-	86,000
At 31 December 2010	**96,500**	**289,500**	**31,706**	**53**	**24,371**	**442,130**
	Note 13	**Note 14**	**Note 14**	**Note 14**	**Note 14**	

The notes set out on pages 27 to 82 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	← *Non-Distributable Reserves*			→	*Distributable Reserves*	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**AFS reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2009	50,000	150,000	1,539	(901)	1,539	202,177
Profit for the year	-	-	-	-	12,843	12,843
Other comprehensive income for the year	-	-	-	1,472	-	1,472
Transfer to statutory reserves	-	-	6,421	-	(6,421)	-
Total comprehensive income for the year	-	-	6,421	1,472	6,422	14,315
Issuance of shares	25,000	75,000	-	-	-	100,000
At 31 December 2009	**75,000**	**225,000**	**7,960**	**571**	**7,961**	**316,492**
	Note 13	**Note 14**	**Note 14**	**Note 14**	**Note 14**	

The notes set out on pages 27 to 82 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

	2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit before taxation	63,795	17,460
Adjustments for:-		
Profit equalisation reserves	-	1,734
Amortisation of premium less accretion of discount on investment securities available-for-sale	12,127	(602)
Operating profit before working capital changes	75,922	18,592
Changes in working capital:-		
Deposits and placements with banks and other financial institutions	-	200,270
Financing and advances	(438,210)	(543,229)
Derivative financial instruments	(685)	(233)
Other assets	(22,984)	856,750
Statutory deposits with Bank Negara Malaysia	(10,438)	39,677
Deposits from customers	(138,077)	(2,963,753)
Deposits and placements of banks and other financial institutions	(674,004)	2,139,335
Bills and acceptances payable	-	(28,942)
Other liabilities	(57,845)	137,074
Cash used in operations	(1,266,321)	(144,459)
Income taxes paid	(21,130)	(7,672)
Net cash used in operating activities	**(1,287,451)**	**(152,131)**
Cash flows from investing activities		
Purchase of investment securities available-for-sale	(2,477,500)	(150,000)
Proceeds from disposal of investment securities available-for-sale	2,027,222	208,772
Net cash (used in)/generated from investing activities	**(450,278)**	**58,772**
Cash flows from financing activity		
Proceeds from issuance of shares	86,000	100,000
Net cash generated from financing activity	**86,000**	**100,000**
Net (decrease)/increase in cash and cash equivalents	(1,651,729)	6,641
Cash and cash equivalents brought forward	2,592,117	2,585,476
Cash and cash equivalents carried forward	**940,388**	**2,592,117**
Cash and cash equivalents comprise:		
Cash and short term funds (Note 3)	**940,388**	**2,592,117**

The notes set out on pages 27 to 82 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Notes to the financial statements

Standard Chartered Saadiq Berhad is a limited company incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:-

Level 16, Menara Standard Chartered
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

The principal activities of the Bank are Islamic banking and related financial services.

1. Basis of preparation of the financial statements

(a) Statement of Compliance

The financial statements of the Bank have been prepared in accordance with the Companies Act, 1965 in Malaysia, Financial Reporting Standards ("FRSs") issued by the MASB as modified by Bank Negara Malaysia Guidelines and accounting principles generally accepted in Malaysia and Syariah requirements.

New accounting standards adopted

The following standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB"), which became effective on 1 January 2010 are relevant to the Bank:

i) FRS 7, *Financial Instruments: Disclosures*

ii) FRS 101, *Presentation of Financial Statements*

iii) FRS 123, *Borrowing Costs*

iv) FRS 139, *Financial Instruments: Recognition and Measurement*

v) Amendments to FRS 2, *Share-based Payment – Vesting Conditions and Cancellations*

vi) Amendments to FRS 101, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

vii) Amendments to FRS 117, *Leases*

viii) Amendments to FRS 132, Financial Instruments: Presentation
– Puttable Financial Instruments and Obligations Arising on Liquidation
– Separation of Compound Instruments

ix) Amendments to FRS 139, *Financial Instruments: Recognition and Measurement,* FRS 7*, Financial Instruments: Disclosures* and *IC Interpretation 9, Reassessment of Embedded Derivatives*

x) IC Interpretation 9, *Reassessment of Embedded Derivatives*

xi) IC Interpretation 10, *Interim Financial Reporting and Impairment*

xii) IC Interpretation 14, FRS 119 *– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

xiii) Improvements to FRSs (2009)

1. Basis of preparation of the financial statements (continued)

(a) Statement of Compliance (continued)

The effects, if any, arising from the adoption of the above standards, amendments and interpretations are set out in Note 34 to the financial statements.

Accounting standards not yet effective

The Bank have not applied the following accounting standards, amendments and interpretations that have been issued by the MASB but are not yet effective for the Bank:

	FRSs / Interpretations	**Effective date**
i)	FRS 1, *First-time Adoption of Financial Reporting Standards* [revised]	1 July 2010
ii)	FRS 3, *Business Combinations* [revised]	1 July 2010
iii)	FRS 127, *Consolidated and Separate Financial Statements* [revised]	1 July 2010
iv)	FRS 124, *Related Party Disclosures [revised]*	1 January 2012
v)	Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards* - *Limited Exemption from Comparative FRS 7 Disclosure for First-time Adopters* - *Additional Exemption for First-time Adopters*	1 January 2011
vi)	Amendments to FRS 2, *Share-based Payment*	1 July 2010
vii)	Amendments to FRS 2, *Group Cash-settled Share-Based Payment Transactions*	1 January 2011
viii)	Amendments to FRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*	1 January 2011
ix)	Amendments to FRS 132, *Financial Instruments: Presentation - Classification of Right Issues*	1 March 2010
x)	Amendments to FRS 138, *Intangible Assets*	1 July 2010
xi)	IC Interpretation 4, *Determining whether an Arrangement contains a Lease*	1 January 2011
xii)	IC Interpretation 12, *Service Concession Agreements*	1 July 2010
xiii)	IC Interpretation 15, *Agreements for the Construction of Real Estate*	1 January 2012
xiv)	IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*	1 July 2010
xv)	IC Interpretation 17, *Distribution of Non-cash Assets to Owners*	1 July 2010
xvi)	IC Interpretation 18, *Transfers of Assets from Customers*	1 January 2011
xvii)	IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2011

1. Basis of preparation of the financial statements (continued)

(a) Statement of Compliance (continued)

	FRSs / Interpretations	**Effective date**
xviii)	Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*	1 July 2010
xix)	Amendments to IC Interpretation 14, *Repayment of a Minimum Funding Requirement*	1 July 2011
xx)	Improvements to FRSs (2010)	1 January 2011

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

i) from the annual period beginning on 1 January 2011 for the aforesaid standards, amendments or interpretations above that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 or 1 January 2011, except for FRS 1, FRS 3, Amendments to FRS 1, Amendments to FRS 138, IC Interpretation 12 and IC Interpretation 16, which are not applicable to the Bank.

ii) from the annual period beginning on 1 January 2012 for the aforesaid standards, amendments or interpretations above that will be effective for annual periods beginning on or after 1 July 2011 or 1 January 2012, except for IC Interpretation 15, which is not applicable to the Bank.

The initial application of all the above applicable standards, amendments or interpretations is not expected to have any material financial impact to the financial statements upon their first adoption.

The financial statements were approved by the Board of Directors on 30 March 2011.

(b) Functional and presentation currency

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

(c) Use of estimates and judgements

The preparation of financial statements in conformity with the MASB's Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from these estimates.

In determining the carrying amounts of some assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the statement of financial position date. The Bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are described in the following notes:-

i) Estimation of recoverable amounts based on the discounted cash flow methodology for impaired financing (Note 2(b)(viii)(B))
ii) Estimation of actuarial life for recognition of financing income, financing expense and effective profit method (Note 2(g)(i) and Note 2(i) and Note2(l))
iii) Fair value estimation of financial assets and financial liabilities (Note 29)

2. Significant accounting policies

The accounting policies set out below have been applied consistently in these financial statements.

(a) Basis of measurement

The financial statements have been prepared under the historical cost basis except as mentioned in the respective accounting policy notes.

(b) Financial instruments

Arising from the adoption of FRS 139, *Financial Instruments: Recognition and Measurement*, with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. The accounting policies applied in the previous years are largely in line with those required under FRS 139 except for that discussed in Note 34.

i) *Initial recognition and measurement*

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

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

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

ii) Financial instrument categories and subsequent measurement

Financial assets

The financial assets of the Bank include Cash and short term funds, Investment securities available-for-sale, Financing and advances, Financial derivatives and Other assets.

The Bank categorise financial instruments as follows:-

A) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises two sub-categories: financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial assets that are specifically designated into this category upon initial recognition.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

<u>Financial assets (continued)</u>

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

A financial asset is classified as trading if acquired principally for the purpose of selling in short term. Financial assets may be designated at fair value through profit or loss when:-

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets included embedded derivatives and such derivatives are required to be recognised separately.

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

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised as net trading income in the statement of comprehensive income. Profit income from the financial assets held for trading, calculated using the effective profit method, is recognised in the statement of comprehensive income.

B) Investment securities held-to-maturity

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturities that the Bank have the positive intent and ability to hold to maturity and which are not designated as held for trading nor available-for-sale. These securities are measured at amortised cost using the effective interest method. A gain or loss is recognised in the statement of comprehensive income when the securities are derecognised. Amortisation of premium or accretion of discount for securities are also recognised in the statement of comprehensive income.

Any sale or reclassification of a significant amount of investment securities held-to-maturity not close to their maturity would result in the reclassification of all investment securities held-to-maturity to investment securities available-for-sale, and prevent the Bank from classifying similar class of securities as investment securities held-to-maturity for the current and following two financial years.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

C) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than those due to credit deterioration. Financial assets classified under this category are Cash and short term funds and Financing and advances.

Financial assets categorised as financing and receivables are subsequently measured at amortised cost using the effective profit method. The amortised cost of the financial asset is the amount at which the financial asset is measured at initial recognition, less principal repayment, plus or less the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment. Profit income is recognised as income in the statement of comprehensive income using effective profit method.

D) Available-for-sale financial assets

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in market conditions.

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

Income from investment securities available-for-sale (including zero coupon debt instruments), calculated using the effective profit method, is recognised in the statement of comprehensive income.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment stated in Note 2(b)(viii) to the financial statements.

Financial liabilities

The financial liabilities of the Bank include Deposits from customers, Deposits and placements of banks and other financial institutions, Financial derivatives and Other liabilities.

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

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

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

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in the statement of comprehensive income.

iii) Financial guarantee contracts

In the ordinary course of business, the Bank give financial guarantees, consisting letters of credit, guarantees and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

iv) Regular way purchase or sale of financial assets

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

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

- the recognition of an asset to be received and the liability to pay for it on the trade date, and
- derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

v) Derivative financial instruments and hedge accounting

The derivative financial instruments are recognised at inception on the statement of financial position (including the transaction costs), which are usually zero or negligible at inception, and subsequent changes in fair value as a result of fluctuation in market interest rates or foreign exchange rates are recorded as derivative financial assets (favourable) and derivative financial liabilities (unfavourable).

In addition, the Bank enters into derivative transactions for hedging purposes, largely to manage exposures to profit rate and foreign currency, arising from its core banking activities of lending and accepting deposits.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

v) Derivative financial instruments and hedge accounting (continued)

The objective of applying hedge accounting is to reduce volatility in the statement of comprehensive income arising from fair valuation of derivatives. Derivative instruments are recognised at inception on the statement of financial position (including the transaction costs), which are usually zero or negligible at inception, and subsequent changes in fair value as a result of fluctuation in market profit rates or foreign exchange rates are recorded as derivative financial assets (favourable) and derivative financial liabilities (unfavourable).

The Bank formally assess, both at the inception of the hedge and on an on-going basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items. 'Hedge effectiveness' represents the amount by which the changes in the fair value of the hedging derivatives differ from changes in the fair value of the hedged item relating to the hedged risk. Such gains or losses are recorded in current period earnings.

<u>Fair value hedge</u>

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period is recognised in profit or loss. The gain or loss on the hedged item, except for hedged items categorised as available-for-sale, attributable to the hedged risk is adjusted to the carrying amount of the hedged item and recognised in profit or loss. For a hedged item categorised as available-for-sale, the fair value gain or loss attributable to the hedged risk is recognised in statement of comprehensive income.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

<u>Cash flow hedge</u>

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

v) Derivative financial instruments and hedge accounting (continued)

Cash flow hedge (continued)

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedged item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

vi) Derecognition

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

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

vii) Offsetting

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when there is a legally enforceable right to offset the amounts and the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted by the accounting standards.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

viii) Impairment of financial assets

The Bank assess at each end of reporting period whether there is any objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the present value of estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that an issuer of securities or a borrower or a group of borrowers is experiencing significant financial difficulties, default or delinquency in interest or principal repayments, that it is possible that they will enter bankrupty or other financial recognition and that there are observable data indicating a reasonable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlates with default.

A) *Securities*

The carrying amount of the Bank's securities are reviewed at each statement of financial position date to determine whether there is any objective evidence of impairment on the securities or group of securities. If any such evidence exists, the Bank will apply the following:-

- *Securities carried at amortised cost*
  The impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at its original effective interest rate. The carrying amount of the securities is reduced through the use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

  If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

- *Securities carried at cost*
  The amount of impairment loss is measured as the difference between the carrying amount of unquoted equity securities and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment loss shall not be reversed.

- *Investment securities available-for-sale*
  The cumulative loss that had been recognised directly in other comprehensive income shall be removed from equity and recognised in the statement of comprehensive income even though the securities have not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that securities previously recognised in the statement of comprehensive income.

  Impairment losses recognised in the statement of comprehensive income for an investment in an equity investment classified as available-for-sale, is not reversed through the statement of comprehensive income.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

viii) Impairment of securities (continued)

- *Investment securities available-for-sale (continued)*

  If, in subsequent periods, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the statement of comprehensive income, that portion of impairment loss is reversed through the statement of comprehensive income.

B) Financing and advances

The carrying amount of the Bank's financing and advances are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment subject to BNM's minimum requirement of classifying financing and advances as impaired where customers accounts are classified as 'impaired', where repayments are in arrears for more than 90 days for financing, and 30 days after maturity date for trade bills, bankers' acceptance and trust receipts. If such evidence exists, the recoverable amount of the financing and advances is estimated. Individual impairment provisions is provided in the statement of comprehensive income whenever the carrying amount of the impaired financing and advances exceeds its recoverable amount (being the present value of estimated future cash flows discounted at customer effective rate). The estimated future cash flows are based on projection of liquidation proceeds from realisation of collateral assets or estimates of future operating cash flows.

Collective impairment provisions is maintained by the Bank against risks which are not specifically identified. The percentage is in compliance with the minimum requirement of 1.5% set by BNM.

Uncollectible financing and advances or portion of financing and advances which are classified as bad is written off after taking into consideration the discounted realisable value of the collateral, if any, when in the judgement of the management, there is no prospect of recovery.

For financing converted into debt or equity instruments, these financial instruments are measured at their fair value. The difference between the net book value of the restructured financing (outstanding amounts of financing and advances net of individual impairment provisions) and the fair value of the debt or equity instruments will be the gain or loss from the conversion exercise.

Where the net book value of the restructured financing is higher than the fair value of the debt or equity instruments, the loss shall be recognised in the statement of comprehensive income in the current financial year.

Where the fair value of the debt or equity instrument is higher than the net book value of the restructured financing, the gain from the conversion exercise is transferred to the impairment loss account, which would be netted off from the "Securities" account in the statement of financial position.

2. Significant accounting policies (continued)

(c) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(d) Impairment of other assets

The carrying amount of the Bank's assets, other than deferred tax asset and financial assets (excluding securities, where policies are as stated in Note 2 (b)(viii)(A)), are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of the asset's fair value less costs to sell and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus of the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus of the same asset.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (groups of units) on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is credited to the statement of comprehensive income in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus.

(e) Staff retirement and service benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank contributes to the Employees Provident Fund ("EPF") for eligible employees on a monthly basis. Obligations for contributions to EPF are recognised as an expense in the statement of comprehensive income in the year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

2. Significant accounting policies (continued)

(e) Staff retirement and service benefits (continued)

(ii) Share-based compensation

The Bank participates in equity-settled and cash-settled share-based compensation plan for its employees that is offered by its ultimate holding company, Standard Chartered PLC. The fair value of the services received in exchange for the grant of the options is recognised as an expense in the statement of comprehensive income over the vesting periods of the grant.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each statement of financial position date, the Bank revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income.

(f) Operating leases

Rentals payable under operating leases are accounted for on the straight line basis over the period of the lease and are included in the statement of comprehensive income as "establishment costs".

(g) Income recognition

(i) Financing income

Financing income is recognised in the statement of comprehensive income using the effective profit method for financial assets measured at amortised cost. The effective profit rate is the rate that exactly discounts estimated future receipts through the expected life of the financial assets.

Where an account is classified as impaired, impairment provisions is made on principal outstanding and profit/fee accrued prior to an account being impaired. Upon impairment, subsequent contractual profit due will not be recognised as income. This policy was adopted in the current year as explained in Note 34.

(ii) Hibah

Dividend income from securities portfolio and placements which includes coupons earned, accrued discount and amortisation of premium of these securities is recognised on an accrual basis applying the effective profit method in accordance to the principles of Syariah and Guidelines on Financial Reporting for Licensed Islamic Banks ("BNM/GP8-i").

2. Significant accounting policies (continued)

(g) Income recognition (continued)

(iii) Other operating income

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

Service charges and processing fees are recognised when earned.

(h) Tax expense

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

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

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax liability is recognised for all taxable temporary differences.

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

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(i) Recognition of financing expense

Attributable profits on deposits and financing of the Bank are recognised on an effective profit method as described in Note 2(l). The effective profit rate is the rate that exactly discounts estimated future payments through the expected life of the financial liabilities.

(j) Profit equalisation reserves

Profit equalisation reserves ("PER") is a mechanism to reduce the fluctuations in the profit rate payable to the depositors. It is provided based on the framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from or written back to the total gross income. PER is reflected under 'other liabilities' of the Bank.

2. Significant accounting policies (continued)

(k) Currency translations

Individual foreign currency assets and liabilities are stated in the statement of financial position at spot rates of exchange, which closely approximate those ruling at the statement of financial position date. Items in the statement of comprehensive income are translated at rates prevailing on transaction dates. Exchange gains and losses are recognised in the statement of comprehensive income in the period in which they arise.

(l) Effective profit rate

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the profit income or profit expense over the relevant period. The effective profit rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs and all other premiums or discounts.

(m) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3. Cash and short term funds

	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	6,797	1,745
Money at call and deposit placements maturing within one month	933,591	2,590,372
	940,388	2,592,117

4. Deposits and placements with banks and other financial institutions

There are no deposits and placements with banks and other financial institutions which are of a duration that is greater than one month.

5. Investment securities available-for-sale

	2010 RM'000	2009 RM'000
<u>At fair value</u>		
Bank Negara Malaysia bills	548,105	-
Cagamas bonds	25,077	65,250
Islamic negotiable instruments of deposits	35,000	34,992
Government Islamic bonds	-	25,072
Islamic private debt securities	15,144	60,552
	623,326	185,866

6. Financing and advances

(i) By type

	2010 RM'000	2009 RM'000
Term financing		
- House financing	834,699	279,564
- Hire purchase receivables	101,845	36,972
- Lease receivables	365,030	218,873
- Other term financing	1,389,013	1,331,143
Bill receivables	1,700	4,364
Trust receipts	184,694	40,020
Staff financing	3,318	3,514
Revolving credit	397,767	544,787
	3,278,066	2,459,237
Less:Unearned income	(892,266)	(522,922)
Gross financing and advances	2,385,800	1,936,315
Less: Impairment provision on financing and advances:-		
- Individual impairment provisions (2009: Specific allowance)	(12,356)	(1,304)
- Collective impairment provisions (2009: General allowance)	(31,299)	(23,741)
Total net financing and advances	2,342,145	1,911,270

(ii) By contract

	2010 RM'000	2009 RM'000
Bai Bithaman Ajil *(deferred payment sale)*	395,010	213,580
Ijarah Thumma Al-Bai *(finance lease)*	437,858	246,145
Murabahah *(cost plus)*	192,502	39,687
Bai'Al Inah *(sale and buy back)*	1,309,606	1,379,721
Other term loans	50,824	57,182
	2,385,800	1,936,315

(iii) By type of customer

	2010 RM'000	2009 RM'000
Domestic non-bank financial institutions	60,133	196,776
Domestic business enterprises	1,103,336	785,682
Small medium enterprises	*126,366*	*107,782*
Others	*976,970*	*677,900*
Individuals	1,192,503	942,075
Foreign entities	29,828	11,782
	2,385,800	1,936,315

6. Financing and advances (continued)

(iv) By profit rate sensitivity

	2010 RM'000	2009 RM'000
Fixed rate		
- House financing	4,694	5,471
- Hire purchase receivables	101,845	36,972
- Other financing	1,178,866	928,279
Variable rate		
- House financing	305,619	116,122
- Revolving credit	395,045	535,393
- Other financing	399,731	314,078
	2,385,800	1,936,315

(v) By sector

	2010 RM'000	2009 RM'000
Agriculture	123,635	20,004
Mining and quarrying	8,855	1,722
Manufacturing	254,196	117,421
Electricity, gas and water	192	-
Construction	17,396	84,504
Real estate	175,320	91,828
Wholesale & retail trade and restaurants & hotels	101,745	134,510
Transport, storage and communication	232,598	202,895
Finance, insurance and business services	212,444	303,896
Household	1,222,331	953,868
Others	37,088	25,667
	2,385,800	1,936,315

(vi) By purpose

	2010 RM'000	2009 RM'000
Purchase of landed property		
- *Residential*	311,625	127,188
- *Non-residential*	83,401	91,287
Fixed assets excluding land and building	53,237	9,521
Personal use	874,854	785,693
Working capital	1,062,683	922,626
	2,385,800	1,936,315

6. Financing and advances (continued)

(vii) By maturity structure

	2010 RM'000	2009 RM'000
Maturing within one year	961,806	799,311
One year to three years	386,189	280,050
Three years to five years	607,758	588,778
Over five years	430,047	268,176
	2,385,800	1,936,315

(viii) By geographical distribution

	2010 RM'000	2009 RM'000
Within Malaysia	2,385,800	1,936,315

(ix) Analysis of foreign currency exposure

Financing and advances denominated in currencies other than the functional currency comprise RM132,014,366 (2009: RM30,715,046) of financing and advances denominated in US dollar and RM272,128 (2009: Nil) denominated in other currencies.

7. Impaired financing and advances

(i) Movements in impaired financing and advances

	2010 RM'000	2009 RM'000
At 1 January as previously stated	13,969	9,254
Effect of adoption of FRS 139 (Note 34)	158	-
At 1 January, as restated	14,127	9,254
Classified as impaired/non-performing during the financial year	60,849	47,732
Reclassified as performing during the financial year	(887)	(1,415)
Amount recovered during the financial year	(7,614)	(3,338)
Amount written off	(44,045)	(38,264)
At 31 December	22,430	13,969
Individual impairment provisions (2009: Specific allowance)	(12,356)	(1,304)
Net impaired/non-performing financing and advances	10,074	12,665
Ratio of net impaired/non-performing financing and advances to net financing and advances	0.42%	0.65%

7. Impaired financing and advances (continued)

(ii) Movements in impairment provisions for financing and advances

	2010 RM'000	2009 RM'000
Collective Impairment Provisions (2009: General allowance)		
At 1 January	23,741	20,881
Impairment provisions made during the financial year	20,997	2,860
Amount written back	(13,439)	-
At 31 December	31,299	23,741
As a percentage of gross financing and advances less individual impairment provisions	1.3% *	1.2% *

* Under Bank Negara Malaysia's ("BNM") Guidelines on Classification and Impairment Provisions for Loans/Financing, banking institutions are required to maintain at least a minimum collective impairment provision of 1.5% on its gross financing and advances.

Included in the gross financing and advances of the Bank are RM291,224,000 (2009: RM358,904,000) worth of financing funded by Specific Investment Account ("SIA") placements from SCBMB. As stipulated in Note 4.4(i) of Bank Negara Malaysia's Guidelines on the Booking of General and Specific Provisions for Financing Asset Funded by SIA, the proportion of collective impairment provision for financing funded by the SIA can be transferred to its immediate holding company, SCBMB as the fund provider. Had the abovementioned gross financing and advances been excluded from the computation, the collective impairment provision maintained by the Bank would be 1.5% (2009: 1.5%).

	2010 RM'000	2009 RM'000
Individual Impairment Provisions (2009: Specific allowance)		
At 1 January	1,304	848
Effect of adoption of FRS 139 (Note 34)	9,938	-
	11,242	848
Impairment/specific provisions made during the financial year	46,046	38,990
Amount written back in respect of recoveries	(887)	(270)
Amount written off	(44,045)	(38,264)
At 31 December	12,356	1,304

7. Impaired financing and advances (continued)

(iii) Impaired financing and advances by sector

	2010 RM'000	2009 RM'000
Manufacturing	2,013	22
Household	20,417	13,947
	22,430	13,969

(iv) Impaired financing and advances by purpose

	2010 RM'000	2009 RM'000
Purchase of landed property *(Residential)*	9,499	4,028
Personal use	12,896	9,919
Working capital	35	22
	22,430	13,969

(v) Impaired financing and advances by geographical distribution

	2010 RM'000	2009 RM'000
Within Malaysia	22,430	13,969

8. Other assets

	2010 RM'000	2009 RM'000
Income receivable	1,451	2,290
Other receivables, deposits and prepayments	72,970	49,147
	74,421	51,437

9. Statutory deposits with Bank Negara Malaysia

The statutory deposits are maintained with BNM in accordance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined as set percentages of total eligible liabilities.

10. Deposits from customers

(i) By type of deposit

	2010 RM'000	2009 RM'000
Non-Mudharabah		
Demand deposits	466,223	496,521
Savings deposits	63,768	69,250
Negotiable instruments of deposits	185,851	435,776
	715,842	1,001,547
Mudharabah		
General investment deposits	605,618	457,990
	1,321,460	1,459,537

The maturity structure of the general investment deposits and negotiable instruments of deposits is as follows:-

	2010 RM'000	2009 RM'000
Due within six months	591,958	503,147
Six months to one year	87,267	200,064
One year to three years	26,398	89,539
Three years to five years	-	18,898
Over five years	85,846	82,118

(ii) By type of customers

	2010 RM'000	2009 RM'000
Government and statutory bodies	100,000	-
Business enterprises	545,682	549,539
Individuals	445,076	451,582
Others	230,702	458,416
	1,321,460	1,459,537

11. Deposits and placements of banks and other financial institutions

	2010 RM'000	2009 RM'000
Non-Mudharabah		
Licensed banks	25,574	7,269
Other financial institutions	75,823	187,245
	101,397	194,514
Mudharabah		
Licensed banks	1,991,113	2,572,000
	2,092,510	2,766,514

12. Other liabilities

	2010 RM'000	2009 RM'000
Income payable	6,840	4,847
Profit equalisation reserves	7,478	7,478
Other payables and accruals	142,297	202,135
	156,615	214,460

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12. Other liabilities (continued)

	2010 RM'000	2009 RM'000
Profit equalisation reserves:-		
At 1 January	7,478	5,744
Amount provided during the financial year	-	1,734
At 31 December	7,478	7,478

13. Share capital

	2010		2009	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Ordinary shares of RM1 each				
Authorised				
At 1 January	100,000	100,000	100,000	100,000
Increased during the year	900,000	900,000	-	-
At 31 December	1,000,000	1,000,000	100,000	100,000
Issued and fully paid				
At 1 January	75,000	75,000	50,000	50,000
Issued during the year	21,500	21,500	25,000	25,000
At 31 December	96,500	96,500	75,000	75,000

On 27 July 2010, the Bank increased its authorised share capital from RM100,000,000 to RM1,000,000,000 and issued 21,500,000 new ordinary shares of RM1 each at an issue price of RM4 per share for working capital purposes.

14. Reserves

	2010 RM'000	2009 RM'000
Non-distributable:		
Share premium	289,500	225,000
Statutory reserves	31,706	7,960
AFS reserves	53	571
	321,259	233,531
Distributable:		
Retained profits	24,371	7,961
	345,630	241,492

The statutory reserves are maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and are not distributable as cash dividends.

15. Income derived from investment of depositors' funds and others

	2010 RM'000	2009 RM'000
Income derived from investment of:-		
(i) General investment deposits	36,419	26,985
(ii) Other deposits	43,046	59,013
	79,465	85,998

(i) Income derived from investment of general investment deposits

	2010 RM'000	2009 RM'000
Finance income and hibah		
Financing and advances	29,625	13,781
Investment securities available-for-sale	1,067	1,068
Money at call and deposits with financial institutions	10,644	18,099
	41,336	32,948
Amortisation of premium less accretion of discount	(5,557)	(7,724)
Total finance income and hibah	35,779	25,224
Other operating income		
Fees and commission income:-		
Arising from financial instruments not fair valued through profit or loss	8,861	8,080
Fees and commission expense-		
Arising from financial instruments not fair valued through profit or loss	(8,221)	(5,775)
	640	2,305
Others	-	(544)
	36,419	26,985

(ii) Income derived from investment of other deposits

	2010 RM'000	2009 RM'000
Finance income and hibah		
Financing and advances	35,017	30,138
Investment securities available-for-sale	1,261	2,336
Money at call and deposits with financial institutions	12,582	39,580
	48,860	72,054
Amortisation of premium less accretion of discount	(6,570)	(16,894)
Total finance income and hibah	42,290	55,160
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss	10,474	17,671
Fees and commission expense-		
- Arising from financial instruments not fair valued through profit or loss	(9,718)	(12,628)
	756	5,043
Others	-	(1,190)
	43,046	59,013

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16. Income attributable to depositors

	2010 RM'000	2009 RM'000
Deposits from customers		
- Mudharabah fund	11,358	47,187
- Non-Mudharabah fund	7,483	9,768
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	50,466	25,497
- Non-Mudharabah fund	1,226	1,421
	70,533	83,873

17. Income derived from investment of shareholder's funds

	2010 RM'000	2009 RM'000
Finance income and hibah		
Financing and advances	145,193	113,207
Investment securities available-for-sale	2,497	4,922
Money at call and deposit with financial institutions	-	-
	147,690	118,129
Other operating income		
Others	35,712	-
	183,402	118,129

18. Other operating expenses

	2010 RM'000	2009 RM'000
Personnel costs		
- Salaries, bonuses, wages and allowances	2,826	1,262
- Other staff related costs	790	232
	3,616	1,494
Establishment costs		
- Rental	316	-
- Information technology and project expenses	514	2
- Utilities and maintenance	493	72
	1,323	74
Marketing expenses		
- Advertisement and publicity	384	1,174
- Others	43	52
	427	1,226
Administration and general expenses		
- Communication expenses	55	41
- Group administration fees and business support expenses	5,980	3,716
- Management and other fee	59,754	50,530
- Others	4,667	2,399
	70,456	56,686
Total other operating expenses	75,822	59,480

The above expenditure includes the following statutory disclosures:-

	2010 RM'000	2009 RM'000
Directors' remuneration, excluding benefits-in-kind (Note 19)	60	43
Contributions to defined contribution plan (included in personnel cost)	-	-
Auditor's remuneration:-		
- Statutory audit	60	50
- Other services	98	40

19. CEO, Directors' and Syariah Advisory Committee members' remuneration

	2010 RM'000	2009 RM'000
Directors		
- Fees	28	20
- Remuneration	-	-
- Other short-term employee benefits (including estimated monetary value of benefit-in-kind)	32	23
Total short-term employee benefits	60	43
- Post-employment benefits	-	-
- Other long-term benefits	-	-
- Share-based payments	-	-
	60	43
Syariah Advisory Committee members	176	109
	236	152

The Directors' remuneration are paid by its immediate holding company, SCBMB, which in turn recharges the Bank in the form of management fees.

All other key management personnel of the Bank is similar with the key management personnel of the immediate holding company, SCBMB. Hence, the key management personnel compensation of the Bank are disclosed in the financial statements of the immediate holding company.

20. Provisions for financing

	2010 RM'000	2009 RM'000
Impairment provisions for financing:-		
Individual impairment provisions (2009: Specific allowance)	45,159	38,720
- Made in the financial year	46,046	38,990
- Written back	(887)	(270)
Collective impairment provisions (2009: General allowance)		
- Made in the financial year	20,997	2,860
- Written back	(13,439)	-
	52,717	41,580

21. Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by Bank Negara Malaysia's 'Guidelines on Credit Transactions and Exposures with Connected Parties' are as follows:-

	2010 RM'000	2009 RM'000
Aggregate value of outstanding credit exposures to connected parties	100,399	48,858
As a percentage of total credit exposures	2.7%	1.7%

There are currently no exposures to connected parties which are classified as impaired.

22. Significant related party transactions and balances

Identity of related parties

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

The related parties of the Bank are:-

(i) Immediate holding company
The immediate holding company is Standard Chartered Bank Malaysia Berhad ("SCBMB"), a company incorporated in Malaysia.

(ii) Fellow subsidiaries of Standard Chartered PLC
Entities including the immediate holding company, which are related by virtue of having Standard Chartered PLC as the ultimate holding company.

(iii) Key management personnel
Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes all the Directors and certain members of senior management of the Bank.

(iv) Companies under control or significant influence of key management personnel
These are entities in which certain key management personnel have significant voting power.

Transactions and balances relating to (i) are disclosed in Note (a) below, (ii) are disclosed in Note (b) while Note (c) discloses those relating to (iii) and (iv).

22. Significant related party transactions and balances (continued)

(a) Transactions and balances with immediate holding company

	2010 RM'000	2009 RM'000
Transactions		
Expenditure		
Profit paid on inter-company financing	53,900	25,497
Management fee paid	59,754	50,530
	113,654	76,027

	2010 RM'000	2009 RM'000
Balances		
Amount due from immediate holding company		
Derivative financial instruments	15,348	12,668
Other balances	75,859	51,195
	91,207	63,863
Amount due to immediate holding company		
Inter-company financing	(1,991,113)	(2,574,956)
Derivative financial instruments	(42,511)	(14,771)
Other balances	(76,133)	(153,344)
	(2,109,757)	(2,743,071)

(b) Transactions and balances with fellow subsidiaries of Standard Chartered PLC

	2010 RM'000	2009 RM'000
Transactions		
Income derived from depositors' funds		
Profit received on inter-company financing	78	16
Expenditure		
Other operating expenses	8,170	6,290

22. Significant related party transactions and balances (continued)

(b) Transactions and balances with fellow subsidiaries of Standard Chartered PLC (continued)

	2010 RM'000	2009 RM'000
Balances		
Amount due from fellow subsidiaries of Standard Chartered PLC		
Current accounts	202,530	12,086
Derivatives	1,987	-
Inter-company financing	-	2
	204,517	12,088
Amount due to fellow subsidiaries of Standard Chartered PLC		
Current accounts	(57,147)	(183,293)
Derivatives	-	(862)
Amount due in respect of support charges	(8,980)	(4,136)
Other balances	(3,809)	(1,430)
	(69,936)	(189,721)

(c) Transactions and balances with key management personnel and companies under control or significant influence of key management personnel

Key management personnel compensation
Key management personnel compensation is disclosed in Note 19.

Transactions and balances other than compensation

Transactions	2010 RM'000	2009 RM'000
Income from depositors' funds		
Profit on financing and advances		
- Directors	1	13
- Other key management personnel	6	-
	7	13
Income attributable to depositors		
- Directors	2	-
- Other key management personnel	-	1
	2	1

	2010 RM'000	2009 RM'000
Balances		
Financing and advances		
- Directors	293	201
- Other key management personnel	42	-
Deposits		
- Directors	(198)	(55)
- Other key management personnel	(15)	(143)

Advances made to key management personnel (including Directors) of the Bank are on similar terms and conditions generally available to other employees of the Bank.

All related party transactions are conducted at arm's length basis.

23. Tax expense

	2010 RM'000	2009 RM'000
Income tax expense:-		
- Current period	18,193	5,765
Deferred tax expense (Note 24):-		
- Origination of temporary differences	(1,889)	(1,148)
Total tax expense	16,304	4,617
Reconciliation of effective tax expense:-		
Profit before taxation	63,795	17,460
Income tax using Malaysian tax rates @ 25%	15,949	4,365
Non-deductible expenses	355	252
Total tax expense	16,304	4,617
Tax recognised directly in equity:-		
AFS reserves	173	(490)

With effect from year of assessment 2009, the corporate tax rate is at 25%. Consequently, deferred tax assets and liabilities are measured using these tax rates.

24. Deferred tax

The recognised net deferred tax asset after offsetting are as follows:-

	2010 RM'000	2009 RM'000
Collective impairment provisions/general allowance for for bad and doubtful financing	2,816	927
Profit equalisation reserves	686	686
Available-for-sale reserves	(16)	(189)
	3,486	1,424

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24. Deferred tax (continued)

Movement in temporary differences during the year are as follows:-

	At 31 December 2008 RM'000	Recognised in statement of comprehensive income RM'000	Recognised in equity RM'000	At 31 December 2009 RM'000	Recognised in statement of comprehensive income RM'000	Recognised in equity RM'000	At 31 December 2010 RM'000
Collective impairment provision/ general allowance for bad and doubtful financing	212	715	-	927	1,889	-	2,816
Profit equalisation reserves	253	433	-	686	-	-	686
Reserves							
- Investment securities available -for-sale	301	-	(490)	(189)	-	173	(16)
	766	1,148	(490)	1,424	1,889	173	3,486
		Note 23	Note 23		Note 23	Note 23	

25. Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the financial year:-

	2010 RM'000	2009 RM'000
Profit attributable to ordinary shareholders	47,491	12,843
Weighted average number of ordinary shares ('000)		
As at 1 January	75,000	50,000
Effect of ordinary shares issued during the year	9,307	11,712
Weighted average number of ordinary shares as at 31 December	84,307	61,712
Basic earnings per ordinary share (sen)	56.3	20.8

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26. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies are as follows:-

	As at 31 December 2010			As at 31 December 2009		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000
Direct credit substitutes	33,827	33,827	14,105	36,203	36,203	35,316
Transaction-related contingent items	24,687	24,687	7,273	17,841	8,921	7,504
Short-term self liquidating trade-related contingencies	10,596	10,596	3,312	54,103	10,820	10,889
Obligations under underwriting agreement	30,825	30,825	1,442	-	-	-
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	966,546	51,351 **	38,176 **	717,341	-	-
- maturity exceeding one year	371,082	20,780	16,961	52,347	19,635 **	14,471 **
Foreign exchange related contracts:-						
- less than one year	2,155	32	20	444,625	11,340	2,489
- one year to less than five years	282,837	29,556	6,042	231,347	20,793	5,042
Profit rate related contracts						
- less than one year	-	-	-	-	-	-
- one year to less than five years	10,300,000	139,031	21,105	200,000	6,747	1,349
- five years and above	623,339	51,939	57,820	629,778	61,425	22,615
	12,645,894	392,624	166,256	2,383,585	175,884	99,675

* The credit equivalent amount and the risk weighted amount are arrived at using the credit conversion factors and risk weights respectively, as per Bank Negara Malaysia guidelines. With effect from 1 July 2010, the credit conversion factors and risk weights were based on Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks ("CAFIB") - Basel II.

No restatement is required for comparative figures which is computed based on Bank Negara Malaysia's CAFIB - Basel I.

** Excluded in the credit equivalent and risk weighted amount of the Bank are RM39.8million (2009: RM6.5million) and RM23.7million (2009: RM6.5million) respectively related to undrawn financing facilities funded by SIA placements from SCBMB as provided by BNM's guidelines on the Booking of General and Specific Provisions for Financing Asset Funded by Specific Investment Account. The facilities funded by the SIA is allowed to be transferred to SCBMB as the fund provider.

Foreign exchange and profit rate related contracts are subject to market risk and credit risk.

27. Risk management policies

The guidelines and policies adopted by the Bank to manage the risks that arise in the conduct of the business activities are as follows:-

(a) **Operational risk**
Operational risk is the risk of direct or indirect loss due to an event or action resulting from inadequate or failed internal processes, people and systems, or from external events.

Objective
Operational risk exposures arise as a result of business activities. It is the Bank's objective to minimise such exposures, subject to cost tradeoffs. This objective is met through a framework of policies and procedures originating from Standard Chartered PLC Group that drive risk identification, assessment, control and monitoring.

Governance Structure
Governance over operational risk management is achieved through a defined structure of committees at the group, business and function. At each level, operational risk governance committees integrate into Standard Chartered PLC Group's and the Bank's overall risk governance structure. Standard Chartered PLC Group Operational Risk Committee ("GORC"), a subcommittee of Standard Chartered PLC Group's RMC, supervises the management of operational risks across all businesses and functions, while at a Country level, this role is performed by the Country Operational Risk Group ("CORG"). Escalation rules, linked to risk tolerance limits, are in place to ensure that operational risk decisions are taken at the right level within the governance structure.

Roles and Responsibilities
Responsibility for the management of operational risk rests with business and function management as an integral component of the management task. An independent Operational Risk function within the Risk function works alongside them to ensure that exposure to operational risk remains within acceptable levels.

Risk Management Approach
Standard Chartered PLC Group's operational risk management procedures and processes are integral components of the broader RMF and is approved and adopted by the Board for local adoption. Operational risks are managed through an end to end process of identification, assessment, control and monitoring. This four step management process is performed at all levels across Standard Chartered PLC Group and is the foundation of the management approach. Once identified, risks are assessed against standard criteria to determine their significance and the degree of risk mitigation effort required to reduce the exposure to acceptable levels. Risk mitigation plans are overseen by the appropriate local and Standard Chartered PLC Group's governance committee.

Assurance
Independent assurance and audit/reviews provide management and governance bodies with confirmation that Standard Chartered PLC Group's risk management standards and controls are being adhered to. These audit/reviews are conducted by specialised control functions with the support of an independent audit and assurance function. Standard Chartered PLC's Group audit function conducts regular audits of assurance activities at Group and Country Level.

(b) **Credit risk**
Credit risk is the risk that the counterparty to a financial transaction will fail to discharge an obligation, resulting in financial loss to the Bank. Credit exposures may arise from the banking book. Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

27. Risk management policies (continued)

(b) **Credit risk (continued)**

Credit policies
The Bank adopts credit policies and standards issued by Standard Chartered PLC Group. Standard Chartered PLC Group-wide credit policies and standards are considered and approved by its Group Risk Committee ("GRC"), which also oversees the delegation of credit approval and financing impairment provisioning authorities. Policies and procedures that are specific to each business are established by authorised risk committees within Wholesale and Consumer Banking that cover financing and advances, investment securities and deposits and placements. These are consistent with the Standard Chartered PLC Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics.

Credit approval
Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by Standard Chartered PLC Group's Credit Committee ("GCC"). The GCC derives its authority from the GRC.

All other credit approval authorities are delegated by the GRC to individuals at country level based on their judgement and experience, and a risk adjusted scale which takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all except for a few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

Concentration risk
Credit concentration risk is managed within concentration caps set by counterparty or groups of connected counterparties, by industry sector and country in Wholesale Banking; and by product in Consumer Banking. Additional targets are set and monitored for concentrations by credit rating. Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to Standard Chartered PLC Group are reviewed and approved at least annually by the GCC.

Credit monitoring
The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends, portfolio delinquency and financing impairment performance, as well as IRB portfolio metrics including credit grade migration.

The Wholesale Banking Credit Issues Forum, which is a subcommittee of the Wholesale Banking Risk Committee, meets regularly to assess the impact of external events and trends on the credit risk portfolio and to define and implement the response in terms of appropriate changes to portfolio shape, underwriting standards, risk policy and procedures.

Corporate accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example, where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. Such accounts and portfolios are subjected to a dedicated process overseen by Group Special Assets Management ("GSAM"), the specialist recovery unit. Account plans are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of GSAM.

In Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and informs lending decisions. Accounts which are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by a specialised recovery team.

27. Risk management policies (continued)

(b) **Credit risk (continued)**

The Small and Medium Enterprise ("SME") business is managed within Consumer Banking in two distinct segments: small businesses, and medium enterprises, differentiated by the annual turnover of the counterparty. Medium enterprise accounts are monitored in line with Wholesale Banking procedures, while small business accounts are monitored in line with other Consumer Banking accounts. Medium enterprise past due accounts are managed by GSAM.

(i) **Credit risk mitigation**

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Risk mitigation policies determine the eligibility of collateral types. Collateral types which are eligible for risk mitigation include cash, residential, commercial and industrial property, marketable securities, commodities, bank guarantees and letters of credit.

Collateral is valued in accordance with the risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral.

For further information regarding credit risk mitigation in the trading book see Note 27(b)(iii).

The credit risk mitigation policy also takes into consideration of the following:-

- exposure to any particular counterparties;
- correlation of risk mitigant with the underlying assets;
- currency mismatch; and
- enforceability of legal documents.

In addition, stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks.

(ii) **Problem credit management**

<u>Consumer Banking</u>

In Consumer Banking, where there are large numbers of small value financing, a primary indicator of potential impairment is delinquency. However, not all delinquent financing (particularly those in the early stage of delinquency) will be impaired. Within Consumer Banking an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes the Bank measures delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are more closely monitored and subject to specific collections processes.

27. Risk management policies (continued)

(b) **Credit risk (continued)**

(ii) **Problem credit management (continued)**
The procedures for managing problem credits for medium enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking.

<u>Wholesale Banking</u>
Financing are classified as impaired and considered impaired where analysis and review indicates that full payment of either profit or principal is questionable, or as soon as payment of profit or principal is 90 days overdue. Impaired accounts are managed by GSAM which is separate from the main businesses.

All available sources, such as cash flow arising from operations, selling of assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, the Bank attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

(iii) **Counterparty credit risk in the trading book**
Counterparty credit risk ("CCR") is the risk that the Bank's counterparty in a foreign exchange, profit rate, commodity, equity or credit derivative contract defaults prior to maturity date of the contract and that the Bank at the time has a claim on the counterparty. CCR arises in the non-trading book due to hedging of external funding.

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to banks and customers.

The Bank will seek to negotiate Credit Support Annexes ("CSA") with counterparties or enter into contractual netting agreements to reduce its exposures to certain counterparties.

Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold set by management to provide an extra buffer to the daily variation margin process.

Note 28 provides further analysis on the Bank's exposure to credit risk.

(c) **Market risk**
The Bank recognises market risk as the risk of loss resulting from changes in market prices and rates. The Bank is exposed to market risk arising principally from customer-driven transactions. The objective of the Bank's market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements.

The primary categories of market risk for the Bank are:-

- Profit rate risk: arising from changes in yield curves, credit spreads and implied volatilities on profit rate options; and
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options.

27. Risk management policies (continued)

(c) **Market risk (continued)**

Market risk governance
The BRC approves the Bank's market risk appetite taking account of market volatility, the range of asset classes, the business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2010.

The BRC is responsible, under authority delegated by the Board, for setting Value at Risk ("VaR") limits at a business level. The BRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover the non-trading book of the Bank. Limits by portfolios are proposed by the businesses within the terms of agreed policy.

Standard Chartered PLC Group Market Risk ("GMR") approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools.

Value at Risk
The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk which applies recent historic market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

Two VaR methodologies used by the Bank in measuring its market risk are historic simulation and Monte Carlo simulation. VaR models are backtested against actual results.

VaR is calculated as the Bank's exposure as at the close of business. Intra-day risk levels may vary from those reported at the end of the day.

Stress testing
GMR complements the VaR measurement by quarterly stress testing market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books.

The BRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The BRC considers stress testing results as part of its supervision of risk appetite.

Regular stress test scenarios are applied to profit rates, credit spreads and exchange rates. This covers all major asset classes in the Financial Markets non-trading books. Ad-hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Valuation framework
Products may only be traded subject to a formally approved Product Programme which identifies the risks, controls and regulatory treatment. The control framework is assessed by the relevant Bank functions as well as Standard Chartered PLC Group's Internal Audit on an ongoing basis. It is the Bank's policy that all assets and liabilities held are to be recorded in the financial statements on a fair value basis that is consistent with FRS.

27. Risk management policies (continued)

(c) **Market risk (continued)**

Valuation framework (continued)
The Product Control function is responsible for valuation controls in accordance with policy. Where possible, positions held are marked to market on a consistent and daily basis using quoted prices within active markets. Where this is not possible, positions are marked to model using models which have been independently and periodically validated by GMR. Product Control ensure adherence to Standard Chartered PLC Group's policy for valuation adjustments to incorporate counterparty risk, bid/ask spreads, market liquidity and where appropriate model risk reserves to mark all positions on a prudent basis. The BRC provides oversight and governance of all policy.

Market risk VaR coverage
Profit rate risk from across the non-trading book portfolios is transferred to Financial Markets where it is managed by SCBMB's Asset and Liability Management ("ALM") desks under the supervision of ALCO. The ALM desks deal in the market in approved financial instruments in order to manage the net profit rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to non-trading book exposures in the same way as for the trading book, including listed available-for-sale securities. Securities classified as Financing and receivables are not reflected in VaR or stress tests since they are accounted on an amortised cost basis, so market price movements have no effect on either profit and loss or reserves.

Foreign exchange risk on the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency. Structural foreign exchange currency risks are not included within the Bank's VaR.

The table below analyses daily VaR by primary categories of market risk:-

Value at Risk (VaR at 97.5%, 1 day)

	← 2010	→		Actual
	Average	**High**	**Low**	**31 December 2010**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-trading	496	769	274	274

Note 28 provides further analysis on the bank's exposure to market risk.

27. Risk management policies (continued)

(d) **Liquidity risk**

The Bank defines liquidity risk as the risk that the Bank either does not have sufficient financial resources available to meet all its obligations and commitments as and when they fall due, or can access them only at excessive cost.

Liquidity risk is managed through SCBMB's ALCO. This committee, chaired by SCBMB's CEO, is responsible for both statutory and prudential liquidity.

Liquidity risk is monitored through BNM's New Liquidity Framework and the internal liquidity risk management policy. A range of tools are used for the management of liquidity. These comprise commitment and wholesale borrowing guidelines, key balance sheet ratios, medium term funding requirements and day to day monitoring of future cash flows.

In addition, liquidity contingency funding plans are reviewed periodically to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risk that may arise due to unforeseen adverse changes in the market place.

Note 28 provides further analysis on the Bank's exposure to liquidity risk.

28. Financial instruments

Certain comparative figures have not been presented for 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7.

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:-
(a) Financing and receivables ("F&R")
(b) Fair value through profit or loss ("FVTPL")
- Held for trading ("HFT")
(c) Available-for-sale financial assets ("AFS")
(d) Other liabilities ("OL")

2010	**Carrying amount RM'000**	**F&R / (OL) RM'000**	**FVTPL HFT RM'000**	**AFS RM'000**
Financial assets				
Cash and short term funds	940,388	940,388	-	-
Investment securities available-for-sale	623,326	-	-	623,326
Financing and advances	2,342,145	2,342,145	-	-
Derivative financial assets	59,781	-	59,781	-
Other balances	99,181	99,181	-	-
Total financial assets	4,064,821	3,381,714	59,781	623,326
Financial liabilities				
Deposits from customers	1,321,460	1,321,460	-	-
Deposits and placements of banks and other financial instruments	2,092,510	2,092,510	-	-
Other balances	156,615	156,615		
Derivative financial liabilities	58,863	-	58,863	-
Total financial liabilities	3,629,448	3,570,585	58,863	-

Net gains and losses arising from financial instruments

	RM'000
Investment securities available-for-sale - recognised in other comprehensive income	(518)
Financing and receivables	261,608
Financial liabilities measured at amortised cost	(71,792)
	189,298

28. Financial instruments (continued)

Credit risk

(i) Maximum exposure to credit risk

The following tables present the Bank's maximum exposure to credit risk of their on-balance sheet and off-balance sheet financial instruments at 31 December 2010, before taking into account any collateral held or other credit enhancements. For on-balance sheet financial instruments, the maximum exposure to credit risk is the carrying amount reported on the statement of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	RM'000
On-balance sheet assets	
Money at call and deposits placements maturing within one month	933,591
Investment securities available-for-sale	623,326
Financing and advances	2,342,145
Derivative financial assets	59,781
Income receivable	1,451
Statutory deposits with Bank Negara Malaysia	24,760
	3,985,054
Off-balance sheet items	
Contingent liabilities	99,935
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	1,337,628
	1,437,563
Total maximum exposure to credit risk	5,422,617

(ii) Summary analysis of the financing and advances

	Consumer Banking RM'000	**Wholesale Banking RM'000**	**Total RM'000**
Individually impaired financing and advances *	10,074	-	10,074
Past due but not impaired financing and advances	184,416	-	184,416
Neither past due nor impaired financing and advances	1,208,832	970,122	2,178,954
Total financing and advances	1,403,322	970,122	2,373,444
Collective impairment provisions	(18,505)	(12,794)	(31,299)
	1,384,817	957,328	2,342,145

* Included in the balance are RM2,745,000 for Consumer Banking in respect of financing and advances where no individual impairment provision was made as the recoverable amounts are in excess of carrying amounts.

28. Financial instruments (continued)

Credit risk (continued)

Financing and advances past due but not individually impaired

The following tables set out the ageing of financing and advances, which are past due and for which no individual impairment provisions have been raised. A financing is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that a financing is impaired.

Collateral held against Consumer Banking financing and Wholesale Banking financing largely comprises residential and commercial properties, other properties and securities respectively.

	Consumer Banking RM'000	Wholesale Banking RM'000	Total RM'000
Up to 30 days past due	149,367	-	149,367
Between 31 - 60 days past due	22,106	-	22,106
Between 61 - 90 days past due	12,943	-	12,943
	184,416	-	184,416
Estimated fair value of collateral held	59,780	-	59,780

Financing and advances neither past due nor impaired

Included in financing and advances neither past due nor impaired are renegotiated financing. Renegotiated financing stated below represent the carrying amount of financing that would otherwise be past due or impaired if their terms had not been renegotiated. Although not considered to be impaired in nature, these financing continue to be monitored in the same way as impaired financing until a minimum number of payments have been received under the new terms.

	Consumer Banking RM'000	Wholesale Banking RM'000	Total RM'000
Renegotiated financing	27,892	-	27,892

The following tables show the Bank's impaired financing and advances, individual impairment provisions and collective impairment provisions by significant geographic areas.

	Within Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Gross impaired loans, advances and financing	22,430	-	22,430
Individual impairment provisions	12,356	-	12,356
Collective impairment provisions	31,299	-	31,299

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28. Financial instruments (continued)

Credit risk (continued)

The following table summarises the financial assets held for trading, investment securities available-for-sale and securities purchased under resale agreements. As at statement of financial position date, the Bank does not have any impaired securities, all debt securities neither past due nor impaired by external credit rating are summarised as follows:-

	RM'000
Government securities	548,105
Debt securities	75,221
AAA	*60,077*
AA- to AA+	*15,144*
Total securities portfolio	623,326

28. Financial instruments (continued)

Liquidity risk

The following tables summarise assets and liabilities into relevant maturity groupings based on the remaining contractual maturities as at the financial year end, on an undiscounted basis. The assets and liabilities in this table will not agree to the balances reported on the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis.

As at 31 December 2010	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Financial assets					
Cash and short term funds	942,551	-	-	-	942,551
Deposits and placements with banks and other financial institutions	-	-	-	-	-
Investment securities available-for-sale	335,602	258,979	37,443	-	632,024
Financing and advances					
- Performing	532,941	431,580	1,252,247	888,032	3,104,800
- Impaired	-	-	-	10,074	10,074
Derivative financial assets	27	-	48,444	11,310	59,781
Other balances	99,181	-	-	-	99,181
	1,910,302	**690,559**	**1,338,134**	**909,416**	**4,848,411**
Financial liabilities					
Deposits from customers	906,308	309,834	27,927	100,334	1,344,403
Deposits and placements of banks and other financial institutions	971,665	950,856	7,948	223,367	2,153,836
Derivative financial liabilities	27	-	47,526	11,310	58,863
Other balances	153,103	3,512	-	-	156,615
	2,031,103	**1,264,202**	**83,401**	**335,011**	**3,713,717**
Net liquidity gap	**(120,801)**	**(573,643)**	**1,254,733**	**574,405**	**1,134,694**
Gross financing commitments	**12,086**	**1,300,048**	**6,513**	**18,980**	**1,337,627**

28. Financial instruments (continued)

Market risk

The table below summarises the Bank's financial instruments at carrying amounts, categorised by contractual re-pricing or maturity dates.

Profit rate risk

As at 31 December 2010	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000	Effective profit rate (%)
Financial assets							
Cash and short term funds	720,000	-	-	-	220,388	940,388	2.76
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	
Investment securities available-for-sale	333,633	254,478	35,215	-	-	623,326	2.95
Financing and advances							
- Performing	788,310	104,222	921,570	516,730	1,239	2,332,071	8.34
- Impaired	-	-	-	-	10,074	10,074	
Derivative financial assets	27	-	48,444	11,310	-	59,781	
Other balances	-	-	-	-	99,181	99,181	
	1,841,970	358,700	1,005,229	528,040	330,882	4,064,821	
Financial liabilities							
Deposits from customers	903,748	305,454	26,414	85,844	-	1,321,460	2.11
Deposits and placements of banks and other financial institutions	967,671	936,673	7,551	180,615	-	2,092,510	2.63
Derivative financial liabilities	27	-	47,526	11,310	-	58,863	
Other balances	-	-	-	-	156,615	156,615	
	1,871,446	1,242,127	81,491	277,769	156,615	3,629,448	
On-balance sheet profit sensitivity gap	(29,476)	(883,427)	923,738	250,271	174,267		
Off-balance sheet profit sensitivity gap	-	-	-	-	-		
Total profit sensitivity gap	**(29,476)**	**(883,427)**	**923,738**	**250,271**	**174,267**		

The table below details the disclosure for rate of return risk in the Banking Book, the increase or decline in earnings and economic value for upward and downward rate shocks which are consistent with shocks applied in stress test for measuring profit rate risk, broken down by various currencies where relevant:-

Type of Currency	**Impact on Positions as at Reporting Period (200 basis points) Parallel Shift**	
	Increase/(Decline) in profit before taxation RM'000	Increase/(Decline) in equity RM'000
MYR	3,913	2,935
USD	3,529	2,647
EUR	(383)	(287)
GBP	255	191
JPY	(109)	(82)

28. Financial instruments (continued)

Market risk (continued)

Foreign currency risk

The table below summarises the Bank's foreign exchange position by major currencies. "Others" include mainly Australian Dollar, Euro, Japanese Yen and Hong Kong Dollar.

As at 31 December 2010	MYR RM'000	USD RM'000	GBP RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and short term funds	726,797	190,076	12,775	-	10,740	940,388
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Investment securities available-for-sale	623,326	-	-	-	-	623,326
Financing and advances	2,209,859	132,014	-	-	272	2,342,145
Other balances	98,316	565	-	220	80	99,181
Derivative financial assets	55,563	4,218	-	-	-	59,781
	3,713,861	**326,873**	**12,775**	**220**	**11,092**	**4,064,821**
Financial liabilities						
Deposits from customers	1,321,460	-	-	-	-	1,321,460
Deposits and placements of banks and other financial institutions	1,901,255	135,613	-	23,807	31,835	2,092,510
Other balances	103,157	4,802	-	48,656	-	156,615
Derivative financial liabilities	54,617	2,259	-	1,987	-	58,863
	3,380,489	**142,674**	**-**	**74,450**	**31,835**	**3,629,448**
Total foreign currency sensitivity gap	**333,372**	**184,199**	**12,775**	**(74,230)**	**(20,743)**	**435,373**

All foreign currency position in the banking book are hedged and subject to minimal foreign currency exposure.

29. Fair values of financial assets and liabilities

The following are the estimated fair values of the financial assets and liabilities followed by a general description of the methods and assumptions used in the estimation:-

	Carrying value		Fair Value	
	2010	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets				
Cash and short term funds	940,388	2,592,117	940,388	2,592,117
Deposits and placements with banks and other financial institutions	-	-	-	-
Investment securities available-for-sale	623,326	185,866	623,326	185,866
Derivative financial assets	59,781	24,481	59,781	24,481
Financing and advances *	2,373,444	1,935,011	2,365,951	1,945,473
Financial liabilities				
Deposits from customers	1,321,460	1,335,602	1,335,602	1,477,514
Deposits and placements of banks and other financial institutions	2,092,510	2,766,514	2,081,871	2,742,248
Derivative financial liabilities	58,863	24,248	58,863	24,248

Note:
Other assets and other liabilities are considered short term in nature. The fair values are estimated to approximate their carrying values.

* The collective impairment provision (2009: General allowance) of the Bank of RM31,299,000 (2009: RM23,741,000) is not included in the carrying value.

Methods and Assumptions

a) Financial Assets

(i) **Cash and short term funds, deposits and placements with banks and other financial institutions**

The fair values of cash and short term funds, deposits and placements with banks and other financial institutions are equivalent to placement value as these are regarded as short term financial instruments, defined as those with remaining maturities of less than one year and the carrying values are considered to be a reasonable estimate of their fair values. For deposits and placements with a remaining maturity greater than one year, the fair values are arrived at by discounting contractual future cash flows at the prevailing interbank rates for the remaining maturities as at statement of financial position date.

(ii) **Investment securities available-for-sale**

The estimated fair value is based on quoted or observable market prices at the statement of financial position date. Where such quoted or observable market prices are not available, the fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the statement of financial position date.

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

Methods and Assumptions (continued)

a) Financial Assets (continued)

(iii) **Financing and advances**

The fair values of profit rate financing with remaining maturity of less than one year and variable profit rate financing are estimated to approximate their carrying values. For fixed rate financing with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at statement of financial position date offered for similar financing to new customers with similar credit profiles, where applicable. In respect of impaired financing, the fair values are deemed to approximate the carrying values and individual impairment provision.

b) Financial Liabilities

(i) **Deposits and placements from customers, banks and other financial institutions**

The fair values for deposit liabilities payable on demand (demand and savings deposits) and fixed deposits with remaining maturities of less than one year, are estimated to approximate their carrying values at statement of financial position date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The fair values of deposits are deemed to approximate their carrying values as at statement of financial position date as the profit rates are determined at the end of their holding periods based on the profit generated from the assets invested. For negotiable instruments of deposits, the estimated fair values are based on quoted or observable market prices at the statement of financial position date. Where such quoted or observable market prices are not available, the fair values of negotiable instrument of deposits are estimated using discounted cash flow techniques.

c) Derivative financial instruments

Derivatives held for trading

	31 December 2010			**31 December 2009**		
	Notional principal amounts RM'000	**Positive fair value RM'000**	**Negative fair value RM'000**	**Notional principal amounts RM'000**	**Positive fair value RM'000**	**Negative fair value RM'000**
Foreign exchange derivative contracts:-						
- Forward foreign exchange contracts	2,155	27	27	444,625	4,670	4,670
- Currency swaps	282,837	15,415	15,415	231,347	4,599	4,599
Profit rate derivative contracts:-						
- Swaps	10,617,561	43,402	42,484	524,000	11,699	11,466
- Options purchased	152,889	937	-	152,889	3,513	-
- Options sold	152,889	-	937	152,889	-	3,513
Total derivatives held for trading	**11,208,331**	**59,781**	**58,863**	**1,505,750**	**24,481**	**24,248**

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

Methods and Assumptions (continued)

c) Derivative financial instruments (continued)

Fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

Derivative financial instruments by sector

	31 December 2010		
	Notional principal amounts RM'000	**Positive fair value RM'000**	**Negative fair value RM'000**
Real estate	50,000	51	-
Transportation, storage and communication	309,147	10,106	964
Finance, insurance and business services	10,849,184	49,624	57,899
	11,208,331	59,781	58,863

30. Lease commitments

The Bank have lease commitments in respect of rented premises, all of which are classified as operating leases.

Total future minimum lease payments under non-cancellable long term commitments, net of sub-leases is as follows:-

	2010 RM'000	**2009 RM'000**
Less than one year	924	-
Between one and five years	1,529	-
More than five years	-	-
	2,453	-

The leases typically run for an initial period of 1 month to 3 years, with an option to renew the leases. None of the leases include contingent rent.

31. Capital commitments

	2010 RM'000	**2009 RM'000**
Capital expenditure:-		
- authorised and contracted for	769	-

32. Capital management

(i) Capital management

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a three year horizon and approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support its strategy.

The capital plan takes the following into account:-

- regulatory capital requirements;
- forecast demand for capital to support the credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank's risk, performance and capital.

The Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae the amount of capital required to support them.

The Bank operates processes and controls to monitor and manage capital adequacy across the organisation. It is overseen by the local ALCO, which is responsible for managing the balance sheet, capital and liquidity. A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board.

ALCO sets internal triggers and target ranges for capital management and oversees adherence with these.

ALCO is also responsible for the ongoing assessment of the demand for capital and the updating of the Bank's capital plan.

Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory ratios in all legal entities. These processes are designed to ensure that the Bank has sufficient capital available to meet local regulatory requirements at all times.

(ii) Basel II

The Basel Committee on Banking Supervision ("BCBS") published a framework for International Convergence of Capital Measurement and Capital Standards (commonly referred to as 'Basel II'), which replaced the original 1988 Basel I Accord. Basel II is structured around three 'pillars' which are outlined below:-

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of regulatory capital banks must hold against the risks they assume;
- Pillar 2 sets out the key principles for supervisory review of a bank's risk management framework and its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices; and
- Pillar 3, covered in supplementary financial information (unaudited), aims to bolster market discipline through enhanced disclosure by banks.

Basel II provides three credit risk approaches of increasing sophistication, namely, The Standardised Approach ("TSA"), the Foundation Internal Ratings Based Approach ("FIRB") and the Advanced Internal Ratings Based Approach ("AIRB").

32. Capital management

(ii) Basel II (continued)

In Malaysia, Bank Negara Malaysia issued the Guidelines on Risk Weighted Capital Adequacy Framework and CAFIB Basel II: Risk Weighted Assets Computation on 19 April 2007, which came into effect on 1 January 2008. This Framework details the requirements on the calculation of risk-weighted assets developed based on BCBS and the Islamic Financial Services Board ("IFSB") paper "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" respectively.

BNM has formally approved the Bank's use of the AIRB approach for calculating and reporting regulatory capital in June 2010. As a result, since July 2010, the Bank has been using AIRB approach for calculating and reporting credit risk capital.

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33. Capital adequacy

The capital adequacy ratios of the Bank are analysed as follows:-

	2010 RM'000	2009 RM'000
Tier 1 Capital		
Paid-up ordinary share capital	96,500	75,000
Share premium	289,500	225,000
Other reserves	56,077	15,921
Less: Deferred tax asset	(3,502)	(1,613)
Deductions in excess of Tier 2 Capital	(57,363)	-
Total Tier 1 Capital	381,212	314,308
Tier 2 Capital		
General allowance for bad and doubtful financing	-	23,741
Collective impairment provisions	901	-
	901	23,741
Less : Excess of Expected Loss over Eligible Provisions under IRB approach	(901)	-
Eligible Tier 2 capital	-	23,741
Total Capital Base	381,212	338,049

Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:-

	2010 RM'000	2009 RM'000
Total risk-weighted assets		
- credit risk	2,437,694	1,690,444
- operational risk	209,837	-
	2,647,531	1,690,444

	2010	2009
Tier 1 capital ratio	14.40%	18.59%
Risk-weighted capital ratio	14.40%	20.00%

With effect from 1 July 2010, the capital ratios have been computed in accordance with Bank Negara Malaysia's CAFIB - Basel II.

Comparative figures have been computed in accordance with Bank Negara Malaysia's CAFIB - Basel I, and have not been restated for the first time adoption and disclosure of CAFIB - Basel II.

34. Significant changes in accounting policies

Guidelines on Financial Reporting for Licensed Institutions issued by BNM on 1 January 2005 have adopted certain principles of FRS 139 in connection with the recognition, derecognition and measurement of financial instruments, including derivative instruments, and hedge accounting. The Bank have, in the past, adopted these guidelines. With effect from 1 January 2010, the full adoption of FRS 139, Financial Instruments: Recognition and Measurement ("FRS 139") have resulted in several changes to the accounting policies especially those on recognition of income for impaired financing and impairment provisions.

Prior to FRS 139, income accrued and recognised as income prior to the date the financing are classified as impaired are reversed out of income. Thereafter, income on impaired financing were only recognised as income upon recovery. Impairment provision is made on principal outstanding.

With the adoption of FRS 139, such reversal of income accrued are no longer required. When financing are impaired, impairment provision is made on principal outstanding and income/fee accrued. Upon impairment, subsequent contractual income due will not be recognised as income as income accrued will be suspended in the statement of financial position.

As for collective impairment provisions (previously known as general allowance), BNM's “Guidelines on Classification and Impairment Provisions for Loans/Financing” issued on 8 January 2010 prescribes that banking institutions are required to maintain collective impairment provisions of at least 1.5% of total outstanding financing and advances, net of individual impairment provisions. This is similar to the previous regulatory requirement whereby banking institutions are required to maintain general allowance of at least 1.5% of total outstanding financing and advances, net of specific allowance. The determination of individual impairment provisions is required to be based on reasonable and well documented estimates of the net present value of the future cash flows that the banking institutions expect to recover. Previously, BNM allowed specific allowance to be made based on number of days in arrears of the financing and advances.

	RM'000
Retained earnings	
At 1 January 2010, as previously stated	7,961
Change in treatment of income accrued on impaired financing and advances	
- Impact on reversal of profit in suspense on impaired financing and advances	158
- Impact on impairment provisions made against profit accrued on financing and advances	(36)
Additional impairment provisions on financing and advances required due to financing impairment classification	(9,902)
	(1,819)
Tax effect at 25%	2,445
At 1 January 2010, as restated	626

35. Comparatives

Certain comparatives have been restated as a result of adoption of FRS 117, FRS 139 and to conform with current year presentation.

At 31 December 2009	**As previously reported RM'000**	**As restated RM'000**
Statement of financial position		
Derivative financial assets	-	24,481
Other assets	75,918	51,437
Derivative financial liabilities	-	24,248
Other liabilities	238,708	214,460