

Company No. 823437K



Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

**Financial statements for the financial year
ended 31 December 2009**

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2009

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the year ended 31 December 2009.

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 | 17,460 |
| Tax expense | <u>(4,617)</u> |
| Profit for the year | <u><u>12,843</u></u> |

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.

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 doubtful financing, and satisfied themselves that all known bad financing had been written off and adequate provisions made for doubtful 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 doubtful 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.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

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.

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 RM17.5 million (2008: RM4.2million), achieved from gross financing assets of RM1.9 billion (2008: RM1.4 billion) and customer deposits of RM1.5 billion (2008: RM4.4 billion). The Bank's asset quality was healthy with net non-performing financing ratio of 0.65% (2008: 0.61%). Risk weighted capital ratio stood at a healthy 20% (2008: 13.39%).

Strategy and Economic Environment

The global economic downturn that started in the second half of 2008 has shown some signs of abating. The Malaysian economy has exhibited signs of improvement in the third quarter and the pace of recovery in the domestic economy is gaining momentum. Domestic demand, particularly private consumption and public sector spending, has been the main impetus for growth. Gross Domestic Product ("GDP") growth has registered a reduced contraction of 1.2% in the third quarter, compared to a reduced contraction of 3.9% in the previous quarter amidst positive growth in domestic demand and stabilization of external demand. GDP is expected to expand by 4.2% in 2010, following an estimated 2.2% contraction in 2009, as the domestic and global economies continue to improve.

Islamic banking and finance continues to expand and demonstrate its resilience in the current challenging economic environment. Malaysia, as the pioneer in the industry continues to advance the Islamic architecture to ensure growth trajectory and instill public confidence in the Islamic financial system.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

Business plan and strategy (continued)

Strategy and Economic Environment (continued)

Our Islamic banking business continues to grow year on year. Since last year, we have successfully launched many new products in the market. In line with improvements both in Consumer banking ("CB") and Wholesale banking ("WB"), our financing and advances has grown since last year. This year, we have achieved steady growth in CB and executed milestone deals in WB. Our direction is to continue building the business whilst taking a cautious approach.

Statement of Corporate Governance

The Bank is committed to maintaining good 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 the Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance for Licensed Islamic Institutions issued by BNM. 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 2009.

Board of Directors

Composition of the Board of Directors

The Board of Directors (the "Board") comprises members from diverse professional backgrounds, skills and extensive international experiences and knowledge in the areas of banking and finance, general management and strategy that are vital to the successful direction of the Bank. The Board presently has six (6) members, the majority of whom are Non-Executive Directors, of which two (2) 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

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman
Datuk Abu Hassan bin Kendut
Raymond John Ferguson - Deputy Chairman
Muhammad Afaq Khan
Azrulnizam Abdul Aziz
Osman Tarique Morad (appointed on 6 January 2010)
Julian Francis Wynter (resigned on 6 January 2010)
Dato' Lim Say Chong (resigned on 20 March 2009)

Status of Directorship

Independent Non-Executive Director
Independent Non-Executive Director
Non-Independent Non-Executive Director
Non-Independent Non-Executive Director
Non-Independent Executive Director
Non-Independent Non-Executive Director
Non-Independent Non-Executive Director
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 investment, 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 an approved terms of reference which set out their roles and responsibilities towards the Bank.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

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 Shariah Advisory Committee comprising of Shariah 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 2009, 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:-

| <u>Members</u> | <u>Attendance and Number of Board Meetings</u> |
|---|--|
| Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman | 6/6 |
| Datuk Abu Hassan bin Kendut | 6/6 |
| Raymond John Ferguson - Deputy Chairman | 6/6 |
| Muhammad Afaq Khan | 5/6 |
| Azrulnizam Abdul Aziz | 6/6 |
| Osman Tarique Morad (appointed on 6 January 2010) | - |
| Julian Francis Wynter (resigned on 6 January 2010) | 4/6 |
| Dato' Lim Say Chong (resigned on 20 March 2009) | 1/1 |

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

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 Masters in 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. 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 is on the Board of Directors for the Institute of International Bankers. He holds an MBA from Henley Management College and Brunel University, UK.

(e) Azrulnizam Abdul Aziz

Azrulnizam 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.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

Key information and background of Directors (continued)

(f) 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 the 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) Shariah Advisory Committee

Membership and composition

The members of Shariah Advisory Committee are:-

Prof. Madya Dr. Shamsiah binti Mohamad - Lead Shariah Adviser

Dr. Hikmatullah Babu Sahib

Dr. Nurdianawati Irwani Abdullah

Ustaz Zaharuddin Abdul Rahman (appointed on 3 September 2009)

Functions and responsibilities and terms of reference

Main Responsibilities of the Shariah Advisory Committee

An Advisory Committee to advise the Board of Standard Chartered Saadiq Berhad on its Islamic Banking business.

Responsibilities of the Shariah 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 Islamic Banking business and to ensure that it is in compliance with the Islamic Banking 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 Shariah matters to the Bank as required from time to time.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

a) Shariah Advisory Committee (continued)

Responsibilities of the Shariah Advisers (continued)

6. To advise the Chairman on matters that require consultation from the Bank Negara Malaysia's Shariah Advisory Council and to prepare a written opinion when such matter is referred to the Council.
7. The approval by the Consultants will be deemed to have been obtained if majority have given their approval in writing. Similarly, any opinions endorsed by majority will be deemed as consensus amongst all four (4) consultants.
8. To review the terms of reference of this committee from time to time and propose to the Board of Standard Chartered Saadiq Berhad any change that it considers appropriate.

Shariah Compliance Review

1. Suitable Shariah 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 Shariah Compliance Manuals for the time being shall cover all decisions made by Bank Negara Malaysia's National Shariah Advisory Council as well as SCBMB's Shariah Advisory Committee.
2. The Operational Risk Assurance and Audit team ("ORAA") established at the immediate holding company will be using the Shariah Compliance Manuals to undertake Shariah Compliance Reviews as may be required from time to time.
3. The ORAA established at the immediate holding company shall report and discuss its findings directly with the committee.

Number of meetings held

| <u>Members</u> | <u>Attendance and Number of Meetings</u> |
|---|--|
| Prof. Madya Dr. Shamsiah binti Mohamad - Lead Shariah Adviser | 10/10 |
| Dr. Hikmatullah Babu Sahib | 10/10 |
| Dr. Nurdianawati Irwani Abdullah | 10/10 |
| Ustaz Zaharuddin Abdul Rahman (appointed on 3 September 2009) | 2/2 |

b) Nomination Committee

The Nomination Committee was established on 27 November 2008.

Membership and composition

The members of Nomination Committee are:-

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman
Raymond John Ferguson - Deputy Chairman
Muhammad Afaq Khan
Azrulnizam Abdul Aziz
Osman Tarique Morad (appointed as a member on 6 January 2010)
Julian Francis Wynter (resigned as a member on 6 January 2010)

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

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

b) Nomination Committee (continued)

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 review 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 Nomination Committee has made assessment of one (1) new director and was convinced that their appointments 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 2009, the committee met two (2) times and the attendance of the members are as follows:-

| <u>Members</u> | <u>Attendance and Number of Meetings</u> |
|--|--|
| Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman | 2/2 |
| Muhammad Afaq Khan | 2/2 |
| Raymond John Ferguson - Deputy Chairman | 2/2 |
| Azrulnizam Abdul Aziz | 2/2 |
| Osman Tarique Morad (appointed as a member on 6 January 2010) | - |
| Julian Francis Wynter (resigned as a member on 6 January 2010) | 1/2 |

c) Audit Committee

The Audit Committee was established on 27 November 2008.

Membership and composition

The members of Audit Committee are:-

- Datuk Abu Hassan bin Kendut - Chairman
- Tan Sri Dato' Mohd Sheriff bin Mohd Kassim
- Osman Tarique Morad (appointed as a member on 6 January 2010)
- Julian Francis Wynter (resigned as a member on 6 January 2010)

All of the Audit Committee members are independent non-executive directors, with the exception of Mr Osman Tarique Morad who is a non-independent non-executive director.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

c) Audit Committee (continued)

Terms of Reference

The primary functions of the Audit Committee 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; and
- 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 any 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 Audit Committee meets on a quarterly basis and during the financial year 2009, the committee met four (4) times and the attendance of the members are as follows:-

| <u>Members</u> | <u>Attendance and Number of Meetings</u> |
|--|--|
| Datuk Abu Hassan bin Kendut - Chairman | 4/4 |
| Tan Sri Dato' Mohd Sheriff bin Mohd Kassim | 4/4 |
| Osman Tarique Morad (appointed as a member on 6 January 2010) | - |
| Julian Francis Wynter (resigned as a member on 6 January 2010) | 3/4 |

d) Risk Committee

The Risk Committee was established on 27 November 2008.

Membership and composition

The members of the Risk Committee are:-

Datuk Abu Hassan bin Kendut - Chairman
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim
Osman Tarique Morad (appointed as a member on 6 January 2010)
Julian Francis Wynter (resigned as a member on 6 January 2010)

All of the Risk Committee 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 Risk Committee 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.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

d) Risk Committee (continued)

Number of meetings held

The Committee meets on a quarterly basis and during the financial year 2009, the committee met five (5) times and the attendance of the members are as follows:-

| <u>Members</u> | <u>Attendance and Number of Meetings</u> |
|---|--|
| Tan Sri Dato' Mohd Sheriff bin Mohd Kassim | 5/5 |
| Datuk Abu Hassan bin Kendut - Chairman | 5/5 |
| Osman Tarique Morad (appointed as a member on 6 January 2010) | - |
| Julian Francis Wynter (resigned as member on 6 January 2010) | 3/5 |

Risk Management

Through the Group's risk management structure established at the immediate holding company, the Bank seeks to manage efficiently the core risks: credit, market and liquidity risk, which arise directly through the Bank's commercial activities whilst operational, business, country, reputational, social, environmental and ethical compliance and legal risk are normal consequences of any business undertaking. The key element of risk management philosophy is for the risk functions to operate as an independent control working in partnership with the business units to provide a competitive advantage to the Bank. Detailed description of the primary risk management tools used by the Group are documented in Note 27 to the financial statements.

The basic principles of risk management, as practised by the immediate holding company, followed by the Bank include:-

- ensuring that business activities are controlled on the basis of risk adjusted returns;
- managing risk within agreed parameters with risk quantified wherever possible;
- assessing risk at the outset and throughout the time that we continue to be exposed to it;
- abiding by all applicable laws, regulations and governance standards of the country in which we do business;
- applying high and consistent ethical standards to our relationship with all customers, employees and other stakeholders; and
- undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorization and approval, recording, reconciliation and valuation.

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 risk management framework described above, which is underpinned by policy statements, written procedures and control manuals.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

Internal Audit and Control activities (continued)

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 Group 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.

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 Management 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.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

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:-

| | As at 1.1.2009 | Number of shares | | As at 31.12.2009 |
|--|----------------|---------------------|----------------------|------------------|
| | | Acquired | Disposed | |
| <u>In Standard Chartered PLC</u> | | | | |
| <u>Ordinary shares of US\$0.50 each</u> | | | | |
| Raymond John Ferguson | 15,410 | 12,547 (A) | (22,239) | 5,718 |
| Julian Francis Wynter | 6,675 | 12,086 | - | 18,761 |
| | | | | |
| | As at 1.1.2009 | Number of options | | As at 31.12.2009 |
| | | Awarded/ Granted | Lapsed/ Exercised | |
| <u>Deferred Bonus Share Plan</u> | | | | |
| Raymond John Ferguson | 2,095 | - | (2,095) | - |
| Julian Francis Wynter | 553 | - | (553) | - |
| | | | | |
| <u>International Sharesave Scheme</u> | | | | |
| Raymond John Ferguson | 542 | 506 | - | 1,048 |
| Julian Francis Wynter | 1,912 * | - | - | 1,912 * |
| | | | | |
| <u>Restricted Share Scheme</u> | | | | |
| Azrulnizam Abdul Aziz | 2,867 | 651 | (1,434) | 2,084 |
| Julian Francis Wynter | - | 3,839 | - | 3,839 |
| Muhammad Afaq Khan | 11,639 * | 15,838 | - | 27,477 * |
| Raymond John Ferguson | - | 9,356 | - | 9,356 |
| | | | | |
| <u>Options Over Performance Share Plan</u> | | | | |
| Raymond John Ferguson | 33,800 | 2,469 | (10,452) | 25,817 * |
| Julian Francis Wynter | 20,986 * | 10,493 | (7,164) | 24,315 * |

(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.

Standard Chartered Saadiq Berhad
(Incorporated in Malaysia)

Issue of shares and debentures

During the financial year, the Bank issued 25,000,000 new ordinary shares of RM1 each for cash at an issue price of RM4 per share for working capital purposes.

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 and Options Over Performance Share Plan.

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.

Shariah Advisory Committee

The Shariah Advisory Committee was formed in October 2000 by SCBMB. The Committee was given the mandate by the Board of Directors of SCBMB to oversee the Bank's business, ensuring that the Bank complies with the strict requirements of Shariah Law. The Committee is made up of officers and independent consultants who are experts in Shariah. The Committee meets regularly to discuss amongst others the development of new Islamic Banking products and to review the various procedures and practices related to the Islamic Banking business.

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: 25 March 2010

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 20 to 60 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 2009 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: 25 March 2010

Company No. 823437K

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 20 to 60 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 25 March 2010.

.....
Wong Lai Loong

Before me:

Independent Auditors' Report to the member of Standard Chartered Saadiq Berhad
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 balance sheet as at 31 December 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 20 to 60.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

We believe that the audit evidence 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 2009 and of its financial performance and cash flows for the year then ended.

Company No. 823437 K

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 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
Partner
Approval Number: 2229/04/10(J)

Petaling Jaya
Date: 25 March 2010

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

SHARIAH ADVISORY COMMITTEE'S REPORT



“In the name of Allah, the Compassionate, the Merciful”

We, Professor Madya Dr Shamsiah binti Mohamad and Dr Hikmatullah Babu Sahib being two of the members of the Shariah Advisory Committee of Standard Chartered Saadiq Berhad, do hereby confirm on behalf of the members of the Shariah Advisory Committee, that in our opinion, the operations of the Bank for the year ended 31 December 2009 have been conducted in conformity with the Shariah principles.

On behalf of the Shariah Advisory Committee

Professor Madya Dr Shamsiah binti Mohamad
Lead Shariah Adviser

Dr Hikmatullah Babu Sahib
Shariah Adviser

Kuala Lumpur
Date: 25 March 2010

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

BALANCE SHEET AS AT 31 DECEMBER 2009

| | Note | 2009 RM'000 | 2008 RM'000 |
|---|------|-------------------------|-------------------------|
| Assets | | | |
| Cash and short term funds | 3 | 2,592,117 | 2,585,476 |
| Deposits and placements with banks and other financial institutions | 4 | - | 200,270 |
| Securities available-for-sale | 5 | 185,866 | 242,072 |
| Financing and advances | 6 | 1,911,270 | 1,368,041 |
| Other receivables | 8 | 75,918 | 908,187 |
| Tax recoverable | | 334 | - |
| Statutory deposits with Bank Negara Malaysia | 9 | 14,322 | 54,000 |
| Deferred tax assets | 24 | 1,424 | 766 |
| Total assets | | <u>4,781,251</u> | <u>5,358,812</u> |
| Liabilities | | | |
| Deposits from customers | 10 | 1,459,537 | 4,423,290 |
| Deposits and placements of banks and other financial institutions | 11 | 2,766,514 | 627,179 |
| Bills and acceptances payable | | - | 28,942 |
| Other payables | 12 | 238,708 | 75,652 |
| Tax payable | | - | 1,572 |
| Total liabilities | | <u>4,464,759</u> | <u>5,156,635</u> |
| Equity | | | |
| Share capital | 13 | 75,000 | 50,000 |
| Reserves | 14 | 241,492 | 152,177 |
| Total equity attributable to equity holder of the Bank | | <u>316,492</u> | <u>202,177</u> |
| Total liabilities and equity | | <u>4,781,251</u> | <u>5,358,812</u> |
| Commitments and contingencies | 26 | <u>2,383,585</u> | <u>1,005,434</u> |

The notes set out on pages 25 to 60 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

**INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2009**

| | Note | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|---|------|----------------------|---|
| Income derived from investment of depositors' funds and others | 15 | 85,998 | 25,557 |
| Income derived from investment of shareholder's funds | 17 | 118,129 | 22,970 |
| Allowance for bad and doubtful financing | 20 | (41,580) | (5,789) |
| Transfer to profit equalisation reserves | 12 | (1,734) | (1,010) |
| Total distributable income | | <u>160,813</u> | <u>41,728</u> |
| Income attributable to depositors | 16 | (83,873) | (27,369) |
| Total net income | | <u>76,940</u> | <u>14,359</u> |
| Other operating expenses | 18 | (59,480) | (10,174) |
| Profit before taxation | | <u>17,460</u> | <u>4,185</u> |
| Tax expense | 23 | (4,617) | (1,107) |
| Profit for the year/period | | <u><u>12,843</u></u> | <u><u>3,078</u></u> |
| Attributable to:- | | | |
| Equity holder of the Bank | | <u><u>12,843</u></u> | <u><u>3,078</u></u> |
| Basic earnings per ordinary share (sen) | 25 | <u><u>20.8</u></u> | <u><u>13.7</u></u> |

The notes set out on pages 25 to 60 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

| | ← <i>Non Distributable Reserves</i> → | | | | <i>Distributable Reserves Retained profits</i> | Total RM'000 |
|--|---------------------------------------|--------------------------------|-------------------------------------|-------------------------------|--|------------------------|
| | Share capital RM'000 | Share premium RM'000 | Statutory reserves RM'000 | AFS reserves RM'000 | RM'000 | |
| At 1 January 2009 | 50,000 | 150,000 | 1,539 | (901) | 1,539 | 202,177 |
| Unrealised net loss on revaluation of securities available-for-sale, net of tax | - | - | - | (194) | - | (194) |
| Realised loss from disposal of securities available-for-sale transferred to income statement, net of tax | - | - | - | 1,666 | - | 1,666 |
| Net gains recognised directly in equity | - | - | - | 1,472 | - | 1,472 |
| Issuance of shares | 25,000 | 75,000 | - | - | - | 100,000 |
| Profit for the year | - | - | - | - | 12,843 | 12,843 |
| Transfer to statutory reserves | - | - | 6,421 | - | (6,421) | - |
| | 25,000 | 75,000 | 6,421 | 1,472 | 6,422 | 114,315 |
| 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 25 to 60 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2008

| | ← <i>Non Distributable Reserves</i> → | | | | <i>Distributable Reserves</i> | Total RM'000 |
|--|---------------------------------------|-------------------------|------------------------------|------------------------|-------------------------------|-----------------|
| | Share capital RM'000 | Share premium RM'000 | Statutory reserves RM'000 | AFS reserves RM'000 | Retained profits RM'000 | |
| At 30 June 2008 (date of incorporation) | - | - | - | - | - | - |
| Unrealised net loss on revaluation of securities available-for-sale, net of tax | - | - | - | (1,610) | - | (1,610) |
| Realised loss from disposal of securities available-for-sale transferred to income statement, net of tax | - | - | - | 709 | - | 709 |
| Net loss recognised directly in equity | - | - | - | (901) | - | (901) |
| Issuance of shares | 50,000 | 150,000 | - | - | - | 200,000 |
| Profit for the period | - | - | - | - | 3,078 | 3,078 |
| Transfer to statutory reserves | - | - | 1,539 | - | (1,539) | - |
| | 50,000 | 150,000 | 1,539 | (901) | 1,539 | 202,177 |
| At 31 December 2008 | 50,000 | 150,000 | 1,539 | (901) | 1,539 | 202,177 |
| | Note 13 | Note 14 | Note 14 | Note 14 | Note 14 | |

The notes set out on pages 25 to 60 are an integral part of these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2009**

| | 2009 | 30.6.2008 |
|--|-------------------------|-------------------------|
| | RM'000 | to |
| | | 31.12.2008 |
| | | RM'000 |
| Cash flows from operating activities | | |
| Profit before taxation | 17,460 | 4,185 |
| Adjustments for:- | | |
| Profit equalisation reserves | 1,734 | 1,010 |
| Amortisation of premium less accretion of discount on securities available-for-sale | (602) | 96 |
| Operating profit before working capital changes | <u>18,592</u> | <u>5,291</u> |
| Changes in working capital:- | | |
| Deposits and placements with banks and other financial institutions | 200,270 | (200,270) |
| Financing and advances | (543,229) | (1,368,041) |
| Other receivables | 832,269 | (908,187) |
| Statutory deposits with Bank Negara Malaysia | 39,677 | (54,000) |
| Deposits from customers | (2,963,753) | 4,423,290 |
| Deposits and placements of banks and other financial institutions | 2,139,335 | 627,179 |
| Bills and acceptances payable | (28,942) | 28,942 |
| Other payables | 161,322 | 74,642 |
| Cash (used in)/ generated from operations | <u>(144,459)</u> | <u>2,628,846</u> |
| Income taxes paid | (7,672) | - |
| Net cash (used in)/ generated from operating activities | <u>(152,131)</u> | <u>2,628,846</u> |
| Cash flows from investing activities | | |
| Purchase of securities available-for-sale | (150,000) | (285,000) |
| Proceeds from disposal of securities available-for-sale | 208,772 | 41,630 |
| Net cash generated from/ (used in) investing activities | <u>58,772</u> | <u>(243,370)</u> |
| Cash flows from financing activity | | |
| Proceeds from issuance of shares | 100,000 | 200,000 |
| Net cash generated from financing activity | <u>100,000</u> | <u>200,000</u> |
| Net increase in cash and cash equivalents | 6,641 | 2,585,476 |
| Cash and cash equivalents brought forward | 2,585,476 | - |
| Cash and cash equivalents carried forward | <u>2,592,117</u> | <u>2,585,476</u> |
| Cash and cash equivalents comprise: | | |
| Cash and short term funds (Note 3) | <u>2,592,117</u> | <u>2,585,476</u> |

The notes set out on pages 25 to 60 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 Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia Guidelines and accounting principles generally accepted in Malaysia and Shariah requirements.

The Bank has chosen to early adopt IC Interpretation 13, *Customer Loyalty Program* which is effective for annual periods beginning on or after 1 January 2010. There is no material impact to the financial statements upon the early adoption of IC Interpretation 13.

The Bank has not applied the following accounting standards, amendments and interpretation that have been issued by the Malaysian Accounting Standards Board ("MASB") as of 8 January 2010 but are not yet effective for the Bank.

| FRSs/ Interpretations | Effective date |
|---|----------------|
| i) FRS 1, <i>First-time Adoption of Financial Reporting Standards (revised)</i> | 1 July 2010 |
| ii) FRS 3, <i>Business Combinations (revised)</i> | 1 July 2010 |
| iii) FRS 4, <i>Insurance Contracts</i> | 1 January 2010 |
| iv) FRS 7, <i>Financial Instruments: Disclosures</i> | 1 January 2010 |
| v) FRS 8, <i>Operating Segments</i> | 1 July 2009 |
| vi) FRS 101, <i>Presentation of Financial Statements</i> | 1 January 2010 |
| vii) FRS 123, <i>Borrowing Costs</i> | 1 January 2010 |
| viii) FRS 127, <i>Consolidated and Separate Financial Statements (revised)</i> | 1 July 2010 |
| ix) FRS 139, <i>Financial Instruments: Recognition and Measurement</i> | 1 January 2010 |
| x) Amendments to FRS 1, <i>First-time Adoption of Financial Reporting Standards</i> and FRS 127, <i>Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> | 1 January 2010 |
| xi) Amendments to FRS 1, <i>First-time Adoption of Financial Reporting Standards - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adoptors</i> | 1 January 2011 |

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

(a) Statement of Compliance (continued)

| FRSs/ Interpretations | Effective date |
|--|-----------------------|
| xii) Amendments to FRS 2, <i>Share-based Payment: Vesting Conditions and Cancellations</i> | 1 January 2010 |
| xiii) Amendments to FRS 2, <i>Share-based Payment</i> | 1 July 2010 |
| xiv) Amendments to FRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i> | 1 July 2010 |
| xv) Amendments to FRS 7, <i>Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments</i> | 1 January 2011 |
| xvi) Amendments to FRS 101, <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> | 1 January 2010 |
| xvii) Amendments to FRS 132, <i>Financial Instruments: Presentation - Puttable Financial Statements and Obligations Arising on Liquidation - Separation of Compound Instruments</i> | 1 January 2010 |
| xviii) Amendments to FRS 132, <i>Financial Instruments: Presentation - Classification of Right Issues</i> | 1 March 2010 |
| xix) Amendments to FRS 138, <i>Intangible Assets</i> | 1 July 2010 |
| xx) Amendments to FRS 139, <i>Financial Instruments: Recognition and Measurement</i> , FRS 7, <i>Financial Instruments: Disclosures</i> and IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i> | 1 January 2010 |
| xxi) Amendments to FRS 139, <i>Financial Instruments: Recognition and Measurement</i> | 1 January 2010 |
| xxii) IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i> | 1 January 2010 |
| xxiii) IC Interpretation 10, <i>Interim Financial Reporting and Impairment</i> | 1 January 2010 |
| xxiv) IC Interpretation 11, <i>FRS 2 – Group and Treasury Share Transactions</i> | 1 January 2010 |
| xxv) IC Interpretation 12, <i>Service Concession Agreements</i> | 1 July 2010 |
| xxvi) IC Interpretation 14, <i>FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction</i> | 1 January 2010 |
| xxvii) IC Interpretation 15, <i>Agreements for the Construction of Real Estate</i> | 1 July 2010 |
| xxviii) IC Interpretation 16, <i>Hedges of a Net Investment in a Foreign Operation</i> | 1 July 2010 |
| xxix) IC Interpretation 17, <i>Distribution of Non-cash Assets to Owners</i> | 1 July 2010 |
| xxx) Amendments to IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i> | 1 July 2010 |
| xxxi) Improvements to FRSs (2009) | 1 January 2010 |

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

(a) Statement of Compliance (continued)

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

- from the annual period beginning on 1 January 2010 for those standards, amendments or interpretations above that will be effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, except for FRS 4 and FRS 8 which are not applicable to the Bank.
- from the annual period beginning on 1 January 2011 for those standards, amendments or interpretations above that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for FRS 1, amendments to FRS 138, IC Interpretation 12, IC Interpretation 15 and IC Interpretation 16, which are 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 impacts and disclosures as required by FRS 108.30(b), *Accounting Policies, Changes in Accounting Estimates and Errors*, in respect of applying FRS 7 and FRS 139 are not disclosed by virtue of the exemptions given in these respective FRSS.

The financial statements were approved by the Board of Directors on 25 March 2010.

(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 balance sheet 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(h))
- ii) Estimation of actuarial life for recognition of financing income, financing expense and effective profit method (Note 2(r)(i) and Note 2(t))
- iii) Fair value estimation of financial assets and financial liabilities (Note 29)

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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) Cash and short term funds

Cash and short term funds are held for the purpose of meeting short term commitments and are readily convertible into cash without significant risk of changes in value.

For the purpose of the cashflow statement, cash and cash equivalents comprise cash and short term funds.

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

Deposits and placements with banks and other financial institutions are stated at placement value.

(d) Securities held for trading

Securities are classified as held for trading if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or they are part of a portfolio of identified securities that the Bank manages together and for which there is evidence of a recent actual pattern of short-term profit taking. Securities classified as held for trading are stated at fair value and any gains or losses arising from a change in the fair value, or on the derecognition of the securities, are recognised in the income statement.

No security is reclassified into or out of the held for trading category while it is held. Any gains or losses arising from a change in the fair value are recognised in the income statement.

(e) Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturities that the Bank has 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 profit method. A gain or loss is recognised in the income statement when the securities are derecognised. Amortisation of premium or accretion of discount for securities are also recognised in the income statement.

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(f) Securities available-for-sale

Securities available-for-sale are securities that are not classified as held for trading nor held-to-maturity, and are measured at fair value. Securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Unrealised gains or losses arising from the change in the fair value of securities available-for-sale are recognised directly in equity through the statement of changes in equity, except for foreign exchange gains and losses of debt securities and impairment losses, which are recognised in the income statement. The cumulative gains or losses arising on disposal of securities available-for-sale which were previously recognised in equity, will be transferred to the income statement upon derecognition of the securities.

Income from securities available-for-sale (including zero coupon debt instruments), calculated using the effective profit method is recognised in the income statement while dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive the payment is established.

(g) Impairment of securities

The carrying amount of the Bank's securities are reviewed at each balance sheet 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:-

i) 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 profit 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 income statement.

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 income statement.

ii) Securities carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of 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.

iii) Securities available-for-sale

The cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement 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 payment and amortisation) and current fair value, less any impairment loss on that securities previously recognised in the income statement.

Impairment losses previously recognised in the income statement for an investment in an equity investment classified as available-for-sale, is reversed through the income statement.

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 income statement, that portion of impairment loss is reversed through the income statement.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(h) Financing and advances

Financing and advances are carried at their outstanding principal and profit sharing balances net of unearned profit income, general and specific allowances for bad and doubtful financing.

The carrying amount of the Bank's financing and advances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the financing and advances is estimated. A specific allowance is provided in the income statement whenever the carrying amount of the financing and advances exceeds its recoverable amount (being the present value of estimated future cash flows discounted at customer rate). The estimated future cash flows are based on projection of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

A general allowance 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 Bank Negara Malaysia.

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

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 immediately in the income statement.

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-available-for-sale" account in the balance sheet.

(i) Other receivables

Other receivables are recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

(j) Deposits from customers

Demand deposits, savings deposits, fixed/investment deposits, negotiable instruments of deposits and other deposits are stated at placement value.

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

Deposits and placements of banks and other financial institutions are stated at placement value.

(l) Bills and acceptances payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(m) Other payables

Other payables are measured at cost and are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(n) 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.

(o) Impairment of assets

The carrying amount of the Bank's assets, other than deferred tax asset and financial assets (excluding securities as discussed in Note 2 (g)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement, 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.

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.

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 income statement 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.

(p) 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 income statement in the year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(p) 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 income statement 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 balance sheet 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 income statement.

(q) Derivative financial instruments

Derivatives are recognised at fair value with changes in fair value recognised in the income statements.

Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through income statements. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(r) Income recognition

(i) Financing income

Financing income is recognised in the income statement 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 non-performing, the recognition of income from financing is suspended and shall be accounted for on a cash basis. Financing income recognised prior to the non-performing classification are reversed out of income.

Customers' accounts are classified as "non-performing" where payments are in arrears for more than 90 days for financings, and 30 days after maturity date for trade bills, bankers' acceptances and trust receipts. The policy on suspension of income adopted by the Bank complies with that required by BNM/GP8-*i*.

(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 Shariah and BNM/GP8-*i*.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(r) 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.

(s) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement 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 balance sheet 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 balance sheet 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.

Zakat represents tithes payable by the Bank in accordance with the principles of Shariah and as approved by the Shariah Supervisory Council.

(t) Recognition of financing expense

Attributable profits on deposits and financing of the Bank are recognised on an effective profit method. The effective profit rate is the rate that exactly discounts estimated future payments through the expected life of the financial liabilities.

(u) 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 payables' of the Bank.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(v) Currency translations

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

(w) 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.

(x) 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.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

3. Cash and short term funds

| | 2009 RM'000 | 2008 RM'000 |
|--|------------------------------|------------------------------|
| Cash and balances with banks and other financial institutions | 1,745 | 6,311 |
| Money at call and deposit placements maturing within one month | <u>2,590,372</u> | <u>2,579,165</u> |
| | <u>2,592,117</u> | <u>2,585,476</u> |

4. Deposits and placements with banks and other financial institutions

| | 2009 RM'000 | 2008 RM'000 |
|----------------------|------------------------------|------------------------------|
| Bank Negara Malaysia | <u>-</u> | <u>200,270</u> |

5. Securities available-for-sale

| | 2009 RM'000 | 2008 RM'000 |
|---|------------------------------|------------------------------|
| <u>At fair value</u> | | |
| Cagamas bonds | 65,250 | 64,478 |
| Islamic negotiable instruments of deposit | 34,992 | 44,995 |
| Government Islamic bonds | 25,072 | 25,138 |
| Islamic private debt securities | <u>60,552</u> | <u>107,461</u> |
| | <u>185,866</u> | <u>242,072</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

6. Financing and advances**(i) By type**

| | 2009 | 2008 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| Term financing | | |
| - House financing | 279,564 | 241,056 |
| - Hire purchase receivables | 36,972 | - |
| - Lease receivables | 218,873 | 20,142 |
| - Other term financing | 1,331,143 | 1,034,397 |
| Bill receivables | 4,364 | 33,869 |
| Trust receipts | 40,020 | 1,798 |
| Claims on customers under acceptance credits | - | 29,019 |
| Staff financing | 3,514 | 3,030 |
| Revolving credit | 544,787 | 460,254 |
| | <u>2,459,237</u> | <u>1,823,565</u> |
| Less: Unearned income | (522,922) | (433,795) |
| Gross financing and advances | 1,936,315 | 1,389,770 |
| Less: Allowance for bad and doubtful financing:- | | |
| Specific | (1,304) | (848) |
| General | (23,741) | (20,881) |
| Total net financing and advances | <u>1,911,270</u> | <u>1,368,041</u> |

(ii) By contract

| | 2009 | 2008 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| Bai Bithaman Ajil (<i>deferred payment sale</i>) | 213,580 | 218,402 |
| Ijarah Thumma Al-Bai (<i>finance lease</i>) | 246,145 | 18,606 |
| Murabahah (<i>cost plus</i>) | 39,687 | 63,190 |
| Bai'Al Inah (<i>sale and buy back</i>) | 1,379,721 | 1,062,349 |
| Other term loans | 57,182 | 27,223 |
| | <u>1,936,315</u> | <u>1,389,770</u> |

(iii) By type of customer

| | 2009 | 2008 |
|--|------------------|------------------|
| | RM'000 | RM'000 |
| Domestic non-bank financial institutions | 262,237 | 78,100 |
| <i>Stockbroking companies</i> | - | - |
| <i>Others</i> | 262,237 | 78,100 |
| Domestic business enterprises | 720,221 | 574,143 |
| <i>Small medium enterprises</i> | 107,782 | 82,771 |
| <i>Others</i> | 612,439 | 491,372 |
| Individuals | 942,075 | 731,863 |
| Foreign entities | 11,782 | 5,664 |
| | <u>1,936,315</u> | <u>1,389,770</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

6. Financing and advances (continued)**(iv) By profit rate sensitivity**

| | 2009 | 2008 |
|-----------------------------|------------------|------------------|
| | RM'000 | RM'000 |
| Fixed rate | | |
| - House financing | 5,471 | 6,019 |
| - Hire purchase receivables | 36,972 | - |
| - Other financing | 928,279 | 714,221 |
| Variable rate | | |
| - House financing | 241,302 | 212,368 |
| - Revolving credit | 535,393 | 457,162 |
| - Other financing | 188,898 | - |
| | <u>1,936,315</u> | <u>1,389,770</u> |

(v) By sector

| | 2009 | 2008 |
|---|------------------|------------------|
| | RM'000 | RM'000 |
| Agriculture | 20,005 | 21 |
| Mining and quarrying | 1,722 | 3,000 |
| Manufacturing | 117,420 | 49,947 |
| Construction | 84,504 | 6,483 |
| Real estate | 91,828 | 61,682 |
| Purchase of landed property | 168,140 | 162,942 |
| - Residential | <u>127,155</u> | <u>113,578</u> |
| - Non-residential | <u>40,985</u> | <u>49,364</u> |
| Wholesale & retail trade and restaurants & hotels | 134,510 | 299,211 |
| Transport, storage and communication | 202,895 | 86,404 |
| Finance, insurance and business services | 303,896 | 104,375 |
| Consumption credit | 785,728 | 574,595 |
| Others | 25,667 | 41,110 |
| | <u>1,936,315</u> | <u>1,389,770</u> |

(vi) Analysis of foreign currency exposure

Financing and advances denominated in currencies other than the functional currency comprise RM30,715,046 (2008: Nil) of financing and advances denominated in US dollar.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

7. Non-performing financing (NPF)**(i) Movements in the non-performing financing and advances**

| | 2009 | 2008 |
|--|-----------------|----------------|
| | RM'000 | RM'000 |
| At 1 January/Amount vested over from immediate holding company | 9,254 | 5,665 |
| Classified as non-performing during the financial year/period | 47,732 | 9,153 |
| Reclassified as performing during the financial year/period | (1,415) | (187) |
| Amount recovered during the financial year/period | (3,338) | (149) |
| Amount written off | <u>(38,264)</u> | <u>(5,228)</u> |
| At 31 December | 13,969 | 9,254 |
| Specific allowance | <u>(1,304)</u> | <u>(848)</u> |
| Net non-performing financing and advances | <u>12,665</u> | <u>8,406</u> |
| Ratio of net non-performing financing and advances to net financing and advances | <u>0.65%</u> | <u>0.61%</u> |

(ii) Movements in allowance for bad and doubtful financing

| | 2009 | 2008 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| General Allowance | | |
| At 1 January/Amount vested over from immediate holding company | 20,881 | 20,031 |
| Allowance made during the financial year/period | <u>2,860</u> | <u>850</u> |
| At 31 December | <u>23,741</u> | <u>20,881</u> |
| As a percentage of gross financing and advances less specific allowance | <u>1.2% *</u> | <u>1.5%</u> |

* Under Bank Negara Malaysia's ("BNM") Guidelines on Classification of Non-Performing Loans and Provision for Bad and Doubtful Loans ("GP3"), banking institutions are required to make a general provision of 1.5% on its gross financing and advances.

Included in the gross financing and advances of the bank are RM358,904,000 (2008: Nil) 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 general provision for financing funded by the SIA can be transferred to its immediate holding company, Standard Chartered Bank Malaysia Berhad ("SCBMB") as the fund provider. Had the abovementioned gross financing and advances been excluded from the computation, the general allowance maintained by the Bank would be 1.5% (2008: 1.5%).

Specific Allowance

| | | |
|--|-----------------|----------------|
| At 1 January/Amount vested over from immediate holding company | 848 | 841 |
| Allowance made during the financial year/period | 38,990 | 5,042 |
| Amount written back in respect of recoveries | (270) | (72) |
| Amount written off | <u>(38,264)</u> | <u>(4,963)</u> |
| At 31 December | <u>1,304</u> | <u>848</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

7. Non-performing financing (NPF) (continued)**(iii) NPF by sector**

| | 2009 | 2008 |
|--|---------------|---------------|
| | RM'000 | RM'000 |
| Purchase of landed property (<i>Residential</i>) | 4,046 | 2,871 |
| Consumption credit | 9,923 | 6,383 |
| | <u>13,969</u> | <u>9,254</u> |

8. Other receivables

| | 2009 | 2008 |
|---|---------------|----------------|
| | RM'000 | RM'000 |
| Derivatives (Note 29) | 24,481 | 10,708 |
| Income receivable | 2,290 | 3,277 |
| Other receivables, deposits and prepayments | 49,147 | 894,202 |
| | <u>75,918</u> | <u>908,187</u> |

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.

Based on the revised Statutory Reserve Requirement Guideline ("SRR") issued by BNM, the SRR rate was revised to 1% effective from 1 March 2009 (2008: 3.5%).

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

10. Deposits from customers**(i) By type of deposit**

| | 2009 | 2008 |
|------------------------------------|------------------|------------------|
| | RM'000 | RM'000 |
| Non-Mudharabah | | |
| Demand deposits | 496,521 | 246,231 |
| Savings deposits | 69,250 | 55,872 |
| Negotiable instruments of deposits | 435,776 | 443,011 |
| | <u>1,001,547</u> | <u>745,114</u> |
| Mudharabah | | |
| General investment deposits | 457,990 | 3,678,176 |
| | <u>1,459,537</u> | <u>4,423,290</u> |

(ii) By type of customers

| | 2009 | 2008 |
|----------------------|------------------|------------------|
| | RM'000 | RM'000 |
| Business enterprises | 549,539 | 3,474,895 |
| Individuals | 451,582 | 315,720 |
| Others | 458,416 | 632,675 |
| | <u>1,459,537</u> | <u>4,423,290</u> |

11. Deposits and placements of banks and other financial institutions

| | 2009 | 2008 |
|------------------------------|------------------|----------------|
| | RM'000 | RM'000 |
| Non-Mudharabah | | |
| Licensed banks | 7,269 | 44,650 |
| Bank Negara Malaysia | - | 324 |
| Other financial institutions | 187,245 | 2,205 |
| | <u>194,514</u> | <u>47,179</u> |
| Mudharabah | | |
| Licensed banks | 2,572,000 | 580,000 |
| | <u>2,766,514</u> | <u>627,179</u> |

12. Other payables

| | 2009 | 2008 |
|-----------------------------|----------------|---------------|
| | RM'000 | RM'000 |
| Derivatives (Note 29) | 24,248 | 10,429 |
| Income payable | 4,847 | 14,906 |
| Profit equalisation reserve | 7,478 | 5,744 |
| Other payables and accruals | 202,135 | 44,573 |
| | <u>238,708</u> | <u>75,652</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

12. Other payables (continued)

| | 2009 RM'000 | 2008 RM'000 |
|--|----------------|----------------|
| Profit equalisation reserves:- | | |
| At 1 January/Amount vested over from immediate holding company | 5,744 | 4,734 |
| Amount provided during the financial year/ period | 1,734 | 1,010 |
| At 31 December | <u>7,478</u> | <u>5,744</u> |

13. Share capital

| | 2009 | | 2008 | |
|------------------------------------|------------------|-----------------------------|------------------|-----------------------------|
| | Amount RM'000 | Number of shares '000 | Amount RM'000 | Number of shares '000 |
| Ordinary shares of RM1 each | | | | |
| Authorised | | | | |
| Ordinary shares of RM1 each | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> |
| Issued and fully paid | | | | |
| At 1 January/date of incorporation | 50,000 | 50,000 | .* | .* |
| Issued during the year | <u>25,000</u> | <u>25,000</u> | <u>50,000</u> | <u>50,000</u> |
| At 31 December | <u>75,000</u> | <u>75,000</u> | <u>50,000</u> | <u>50,000</u> |

* At date of incorporation, 2 subscriber's shares were issued for cash consideration of RM1 each.

On 14 July 2009, the Bank issued 25,000,000 new ordinary shares of RM1 each at an issue price of RM4 per share for working capital purposes.

14. Reserves

| | 2009 RM'000 | 2008 RM'000 |
|---------------------------|----------------|----------------|
| <i>Non-distributable:</i> | | |
| Share premium | 225,000 | 150,000 |
| Statutory reserves | 7,960 | 1,539 |
| AFS reserves | 571 | (901) |
| | <u>233,531</u> | <u>150,638</u> |
| <i>Distributable:</i> | | |
| Retained profits | 7,961 | 1,539 |
| | <u>241,492</u> | <u>152,177</u> |

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

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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

| | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|-------------------------------------|----------------|---|
| Income derived from investment of:- | | |
| (i) General investment deposits | 26,985 | 21,253 |
| (ii) Other deposits | 59,013 | 4,304 |
| | <u>85,998</u> | <u>25,557</u> |

(i) Income derived from investment of general investment deposits

| | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|--|----------------|---|
| Finance income and hibah | | |
| Financing and advances | 13,781 | 6,403 |
| Securities available-for-sale | 1,068 | 668 |
| Money at call and deposits with financial institutions | 18,099 | 17,086 |
| | 32,948 | 24,157 |
| Amortisation of premium less accretion of discount | (7,724) | (4,287) |
| Total finance income and hibah | <u>25,224</u> | <u>19,870</u> |
| Other operating income | | |
| Fees and commission | 1,761 | 1,383 |
| | <u>26,985</u> | <u>21,253</u> |

(ii) Income derived from investment of other deposits

| | | |
|--|---------------|--------------|
| Finance income and hibah | | |
| Financing and advances | 30,138 | 1,297 |
| Securities available-for-sale | 2,336 | 135 |
| Money at call and deposits with financial institutions | 39,580 | 3,461 |
| | 72,054 | 4,893 |
| Amortisation of premium less accretion of discount | (16,894) | (869) |
| Total finance income and hibah | <u>55,160</u> | <u>4,024</u> |
| Other operating income | | |
| Fees and commission | 3,853 | 280 |
| | <u>59,013</u> | <u>4,304</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

16. Income attributable to depositors

| | 2009 | 30.6.2008 |
|--|---------------|-------------------|
| | RM'000 | to |
| | | 31.12.2008 |
| | | RM'000 |
| Deposits from customers | | |
| - Mudharabah fund | 47,187 | 21,666 |
| - Non-Mudharabah fund | 9,768 | 935 |
| Deposits and placements of banks and other financial institutions | | |
| - Mudharabah fund | 25,497 | 1,644 |
| - Non-Mudharabah fund | 1,421 | 3,124 |
| | <u>83,873</u> | <u>27,369</u> |

17. Income derived from investment of shareholder's funds

| | 2009 | 30.6.2008 |
|---|----------------|-------------------|
| | RM'000 | to |
| | | 31.12.2008 |
| | | RM'000 |
| Finance income and hibah | | |
| Financing and advances | 113,207 | 19,948 |
| Securities available-for-sale | 4,922 | 1,550 |
| Money at call and deposit with financial institutions | - | 1,472 |
| | <u>118,129</u> | <u>22,970</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

18. Other operating expenses

| | 2009 | 30.6.2008 |
|---|---------------|-------------------|
| | RM'000 | to |
| | | 31.12.2008 |
| | | RM'000 |
| Personnel costs | | |
| - Salaries, bonuses, wages and allowances | 1,262 | 532 |
| - Other staff related cost | 232 | 82 |
| | <u>1,494</u> | <u>614</u> |
| Establishment costs | | |
| - Information technology and project expenses | 2 | 22 |
| - Utilities and maintenance | 72 | 27 |
| | <u>74</u> | <u>49</u> |
| Marketing expenses | | |
| - Advertisement and publicity | 1,174 | 184 |
| - Others | 52 | 1 |
| | <u>1,226</u> | <u>185</u> |
| Administration and general expenses | | |
| - Communication expenses | 41 | 8 |
| - Group administration fees and business support expenses | 3,716 | 420 |
| - Management fee | 50,530 | 7,765 |
| - Others | 2,399 | 1,133 |
| | <u>56,686</u> | <u>9,326</u> |
| Total other operating expenses | <u>59,480</u> | <u>10,174</u> |

The above expenditure includes the following statutory disclosures:-

| | 2009 | 30.6.2008 |
|--|---------------|-------------------|
| | RM'000 | to |
| | | 31.12.2008 |
| | | RM'000 |
| Directors' remuneration, excluding benefits-in-kind (Note 19) | - | - |
| Contributions to defined contribution plan (included in personnel cost) | - | - |
| Auditor's remuneration:- | | |
| - Statutory audit | 50 | 50 |
| - Other services | 40 | - |
| | <u>40</u> | <u>-</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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

| | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|--|----------------|---|
| Directors | | |
| - Fees | - | - |
| - Remuneration | - | - |
| - Other short term employee benefits (including estimated monetary value of benefit-in-kind) | - | - |
| Total short-term employee benefits | - | - |
| - Post-employment benefits | - | - |
| - Other long term benefits | - | - |
| - Share-based payments | - | - |
| Shariah Advisory Committee members | 109 | - |
| | <u>109</u> | <u>-</u> |

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 part of 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. Allowance for bad and doubtful financing

| | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|--|----------------|---|
| Allowance for bad and doubtful financing on financing and advances:- | | |
| Specific allowance (net) | 38,720 | 4,970 |
| - Made in the financial year/period | 38,990 | 5,042 |
| - Written back | (270) | (72) |
| General allowance | | |
| - Made in the financial year/period | 2,860 | 850 |
| Bad and doubtful debts on financing and advances:- | | |
| Recovered | - | (31) |
| | <u>41,580</u> | <u>5,789</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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:-

| | 2009 RM'000 | 2008 RM'000 |
|--|------------------------------|------------------------------|
| Aggregate value of outstanding credit exposures to connected parties | <u>48,858</u> | <u>19,023</u> |
| As a percentage of total credit exposures | <u>1.7%</u> | <u>1.1%</u> |

There are currently no exposures to connected parties which are classified as non-performing.

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).

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

22. Significant related party transactions and balances (continued)**(a) Transactions and balances with immediate holding company**

| | 30.6.2008 | |
|--|--------------------|------------------|
| | to | |
| | 2009 | 31.12.2008 |
| | RM'000 | RM'000 |
| Transactions | | |
| Expenditure | | |
| ┆ Profit paid on inter-company financing | 25,497 | 4,592 |
| ┆ Management fee paid | 50,530 | 7,765 |
| | <u>76,027</u> | <u>12,357</u> |
| | 2009 | 2008 |
| | RM'000 | RM'000 |
| Balances | | |
| Amount due from immediate holding company | | |
| Derivatives | 12,668 | 7,088 |
| Other balances | 51,195 | 684,405 |
| | <u>63,863</u> | <u>691,493</u> |
| Amount due to immediate holding company | | |
| Inter-company financing | (2,574,956) | (582,228) |
| Derivatives | (14,771) | (1,019) |
| Other balances | (153,344) | - |
| | <u>(2,743,071)</u> | <u>(583,247)</u> |

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

| | 30.6.2008 | |
|--|--------------|--------------|
| | to | |
| | 2009 | 31.12.2008 |
| | RM'000 | RM'000 |
| Transactions | | |
| Income derived from depositors' funds | | |
| ┆ Profit received on inter-company financing | 16 | - |
| | <u>16</u> | <u>-</u> |
| Expenditure | | |
| Other operating expenses | 6,290 | 1,789 |
| | <u>6,290</u> | <u>1,789</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

22. Significant related party transactions and balances (continued)**(b) Transactions and balances with fellow subsidiaries of Standard Chartered PLC (continued)**

| | 2009 RM'000 | 2008 RM'000 |
|--|------------------|----------------|
| Balances | | |
| Amount due from fellow subsidiaries of Standard Chartered PLC | | |
| Current accounts | 12,086 | 4,952 |
| Inter-company financing | 2 | - |
| | <u>12,088</u> | <u>4,952</u> |
| Amount due to fellow subsidiaries of Standard Chartered PLC | | |
| Current accounts | (183,293) | (5,872) |
| Derivatives | (862) | (2,322) |
| Amount due in respect of support charges | (4,136) | (420) |
| Other balances | (1,430) | (227) |
| | <u>(189,721)</u> | <u>(8,841)</u> |

(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

| | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|-----------------------------------|----------------|---|
| Transactions | | |
| Income from depositors' funds | | |
| Profit on financing and advances | | |
| - Directors | 13 | 2 |
| | <u>13</u> | <u>2</u> |
| Income attributable to depositors | | |
| - Other key management personnel | 1 | - |
| | <u>1</u> | <u>-</u> |
| Balances | | |
| Financing and advances | | |
| - Directors | 201 | 362 |
| Deposits | | |
| - Directors | (55) | (11) |
| - Other key management personnel | (143) | - |
| | <u>(143)</u> | <u>-</u> |

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.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

23. Tax expense

| | 2009 RM'000 | 30.6.2008 to 31.12.2008 RM'000 |
|--|----------------|---|
| Income tax expense:- | | |
| - Current period | 5,765 | 1,572 |
| Deferred tax expense (Note 24):- | | |
| - Origination of temporary differences | (1,148) | (465) |
| Total tax expense | <u>4,617</u> | <u>1,107</u> |
| Reconciliation of effective tax expense:- | | |
| Profit before taxation | <u>17,460</u> | <u>4,185</u> |
| Income tax using Malaysian tax rates @ 25% (2008: 26%) | 4,365 | 1,089 |
| Non-deductible expenses | 252 | - |
| Effects of changes in tax rate | - | 18 |
| Total tax expense | <u>4,617</u> | <u>1,107</u> |
| Tax recognised directly in equity:- | | |
| AFS reserves | <u>(490)</u> | <u>301</u> |

The Finance Act 2007 announced the reduction of corporate tax rate to 26% with effect from year of assessment 2008 and 25% with effect from year of assessment 2009 respectively. 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:-

| | 2009 RM'000 | 2008 RM'000 |
|--|----------------|----------------|
| General allowance for bad and doubtful financing | 927 | 212 |
| Profit equalisation reserves | 686 | 253 |
| Available-for-sale reserves | (189) | 301 |
| | <u>1,424</u> | <u>766</u> |

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

24. Deferred tax (continued)

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

| | At 30 June 2008 (date of incorporation) RM'000 | Recognised in income statement RM'000 | Recognised in equity RM'000 | At 31 December 2008 RM'000 | Recognised in income statement RM'000 | Recognised in equity RM'000 | At 31 December 2009 RM'000 |
|--|---|--|-----------------------------------|-------------------------------------|--|-----------------------------------|-------------------------------------|
| General allowance for bad and doubtful financing | - | 212 | - | 212 | 715 | - | 927 |
| Profit equalisation reserves | - | 253 | - | 253 | 433 | - | 686 |
| Reserves | | | | | | | |
| - Available-for-sale | - | - | 301 | 301 | - | (490) | (189) |
| | - | 465 | 301 | 766 | 1,148 | (490) | 1,424 |
| | | Note 23 | Note 23 | | Note 23 | Note 23 | |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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:-

| | 2009 RM'000 | 2008 RM'000 |
|--|------------------------------|------------------------------|
| Profit attributable to ordinary shareholders | <u>12,843</u> | <u>3,078</u> |
| Weighted average number of ordinary shares ('000) | | |
| As at 1 January 2009/ Issued at date of incorporation | 50,000 | - * |
| Effect of ordinary shares issued during the year/ period | <u>11,712</u> | <u>22,432</u> |
| Weighted average number of ordinary shares as at 31 December | <u>61,712</u> | <u>22,432</u> |
| Basic earnings per ordinary share (sen) | <u>20.8</u> | <u>13.7</u> |

* Representing 2 units of ordinary shares

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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 2009 | | | As at 31 December 2008 | | |
|---|-------------------------------|--|--|-------------------------------|--|--|
| | 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 | 36,203 | 36,203 | 35,316 | 19,619 | 19,619 | 19,619 |
| Transaction-related contingent items | 17,841 | 8,921 | 7,504 | 4,507 | 2,254 | 1,626 |
| Short-term self liquidating trade-related contingencies | 54,103 | 10,820 | 10,889 | 6,067 | 1,213 | 710 |
| Irrevocable commitments to extend credit:- | | | | | | |
| - maturity not exceeding one year | 717,341 | - | - | 179,299 | - | - |
| - maturity exceeding one year | 52,347 | 19,635 ** | 14,471 ** | 35,936 | 17,968 | 12,644 |
| Foreign exchange related contracts:- | | | | | | |
| - less than one year | 444,625 | 11,340 | 2,489 | 71,262 | 4,278 | 856 |
| - one year to less than five years | 231,347 | 20,793 | 5,042 | 232,249 | 25,849 | 6,588 |
| Profit rate related contracts | | | | | | |
| - less than one year | - | - | - | 256,495 | 1,030 | 206 |
| - one year to less than five years | 200,000 | 6,747 | 1,349 | 200,000 | 6,554 | 1,311 |
| - five years and above | 629,778 | 61,425 | 22,615 | - | - | - |
| | <u>2,383,585</u> | <u>175,884</u> | <u>99,675</u> | <u>1,005,434</u> | <u>78,765</u> | <u>43,560</u> |

* The credit equivalent amount and the risk weighted amount are arrived at using the credit conversion factor and risk weights respectively, as per Bank Negara Malaysia guidelines.

** Excluded in the credit equivalent and risk weighted amount of the Bank are RM6.5 million and RM6.5million respectively related to undrawn financing facilities funded by Specific Investment Account (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 (SIA). 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.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

26. Commitments and contingencies (continued)**Market Risk**

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2009 (2008: nil), there were no contracts which were not hedged.

Credit Risk

Credit risk arises from the possibility that a counterparty (excluding related party) may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2009, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM 11,821,883 (2008: RM10,708,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Details of the Bank's foreign exchange related contracts and profit rate related contracts as at 31 December are as follows:-

| | 2009 | 2008 |
|------------------------------------|------------------|----------------|
| | RM'000 | RM'000 |
| Foreign exchange contracts | | |
| - forward and futures contracts | 444,625 | - |
| - cross-currency profit rate swaps | 231,347 | 303,511 |
| Profit rate contracts | | |
| - forward and future contracts | - | 56,495 |
| - swaps | 524,000 | 400,000 |
| - options purchased | 152,889 | - |
| - option written | 152,889 | - |
| | <u>1,505,750</u> | <u>760,006</u> |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

27. Risk management policies

As the Bank was recently established, the risk management framework and policies used are in respect of those used by the immediate holding company. 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 a direct or indirect loss being incurred due to an event or action arising from the failure of technology, processes, infrastructure, personnel and other risks having operational risk impact.

The Country Operational Risk Group ("CORG") has been established to ensure that an appropriate risk management framework is in place and to monitor and manage operational, social, ethical and environmental risk.

Business units within the Bank monitor their operational risks using set standards and indicators. Significant issues and exceptions are reported to the CORG. Disaster recovery procedures, business contingency planning, self-compliance audits and internal audits also form an integral part of the operational risk management process.

(b) **Credit risk**

Credit risk is the risk that a counter party will not settle its obligations in accordance with agreed terms. Credit exposures may arise from lending, trade finance, securities and derivative exposures.

Policies for managing credit risk are determined by the Group Risk Committee which also delegates credit authorities to independent Risk Officers. Specific procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals. Credit analysis includes review of facility details, credit grade determination and financial spreading/ratio analysis. Origination and approval roles are clearly segregated. Significant exposures and specific local credit underwriting standards are reviewed and approved through the Malaysia's Credit Risk and Policy Committee.

(c) **Market risk**

The Bank recognises market risk as the exposures created by potential changes in market prices and rates. Market risk exposures arise primarily from profit rate and foreign exchange related contracts. The Bank has no significant exposure to equity and commodity price risk.

Market risk is managed through the Group Risk Committee, which agrees policies and procedures and levels of risk appetite in terms of Value at Risk ("VaR"). Limits are then proposed by the business within the terms of agreed policy. These are agreed and monitored by Group Risk and an independent risk management function within the business. Policies cover both the trading and non-trading books.

In addition to market risk policies, VaR and limits, independent stress testing of portfolios, factor sensitivity measures and derivatives are also employed as additional risk management tools to manage and hedge market risk exposures. Risk models are periodically back tested against actual results to ensure pre-determined levels of accuracy are maintained.

(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.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

27. Risk management policies (continued)

(d) Liquidity risk (continued)

Liquidity risk is managed through the Group's Asset and Liability Committee ("ALCO").

Liquidity risk is monitored through the Bank Negara Malaysia 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 financing 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.

(e) Business risk

Business risk is the risk of failing to achieve business targets due to inappropriate strategies, inadequate resources and changes in the economic environment and is managed through the Bank's management processes. Regular reviews of the business performance are made with senior management. The reviews include financial performance measures, capital usage, resource utilisation and risk statistics to provide a broad understanding of the current business position.

(f) Compliance risk

Compliance risk includes the risk of non compliance with Standard Chartered Group policies, local policies and regulatory requirements in the country the Bank operates. The Compliance function is responsible for establishing and maintaining an appropriate framework for compliance policies and procedures. Compliance with such policies is the responsibility of all managers.

(g) Legal risk

Legal risk is the risk of unexpected losses, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Bank failure to protect the title to and the ability to control the rights to assets of the Bank (including intellectual property rights), changes in the law or jurisdictional risk. The Legal function manages legal risk in the Bank through legal risk policies and procedures and effective use of its external lawyers.

28. Rate of return risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table indicates the effective profit rates on classes of financial assets and financial liabilities, and the periods of repricing or maturity, whichever is earlier.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

28. Rate of return risk (continued)

As at 31 December 2009

| | Up to 1 month | > 1 - 3 months | > 3 - 12 months | Non Trading books | | | | Over 5 years | Non profit sensitive | Total | Effective Profit Rate |
|--|------------------|-------------------|--------------------|-------------------|----------------|----------------|----------------|-----------------|-------------------------|------------------|--------------------------|
| | | | | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | (%) |
| Assets | | | | | | | | | | | |
| Cash and short term funds | 2,580,300 | - | - | - | - | - | - | - | 11,817 | 2,592,117 | 2.01 |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | - | - | - | - | - | - |
| Securities available-for-sale | 34,992 | 25,072 | 110,693 | 5,032 | 5,046 | - | 5,031 | - | - | 185,866 | 2.84 |
| Financing and advances | | | | | | | | | | | |
| -Performing | 477,714 | 91,198 | 245,955 | 108,105 | 156,252 | 228,066 | 360,666 | 229,239 | 1,410 | 1,898,605 | 8.75 |
| -Non-performing | - | - | - | - | - | - | - | - | 12,665 | 12,665 | - |
| Other non-profit sensitive balances | - | - | - | - | - | - | - | - | 91,998 | 91,998 | - |
| Total assets | 3,093,006 | 116,270 | 356,648 | 113,137 | 161,298 | 228,066 | 365,697 | 229,239 | 117,890 | 4,781,251 | |
| Liabilities | | | | | | | | | | | |
| Deposits from customers | 707,557 | 207,931 | 353,437 | 82,407 | 7,188 | 18,899 | - | 82,118 | - | 1,459,537 | 2.80 |
| Deposits and placements of banks and other financial institutions | 1,495,320 | 600,000 | 500,000 | - | - | - | 7,270 | 163,924 | - | 2,766,514 | 1.86 |
| Other non-profit sensitive balances | - | - | - | - | - | - | - | - | 238,708 | 238,708 | - |
| Total liabilities | 2,202,877 | 807,931 | 853,437 | 82,407 | 7,188 | 18,899 | 7,270 | 246,042 | 238,708 | 4,464,759 | |
| Shareholder's equity | - | - | - | - | - | - | - | - | 316,492 | 316,492 | |
| Total liabilities and shareholder's equity | 2,202,877 | 807,931 | 853,437 | 82,407 | 7,188 | 18,899 | 7,270 | 246,042 | 555,200 | 4,781,251 | |
| On-balance sheet profit sensitivity gap | 890,129 | (691,661) | (496,789) | 30,730 | 154,110 | 209,167 | 358,427 | (16,803) | (437,310) | | |
| Off-balance sheet profit sensitivity gap | - | - | - | - | - | - | - | - | - | | |
| Total profit sensitivity gap | 890,129 | (691,661) | (496,789) | 30,730 | 154,110 | 209,167 | 358,427 | (16,803) | (437,310) | | |

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

28. Rate of return risk (continued)

As at 31 December 2008

| | Up to 1 month RM'000 | > 1 - 3 months RM'000 | > 3 - 12 months RM'000 | Non Trading books | | | | Over 5 years RM'000 | Non profit sensitive RM'000 | Total RM'000 | Effective Profit Rate (%) |
|--|----------------------------|-----------------------------|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------------------|-----------------------------------|------------------|---------------------------------|
| | | | | 1 - 2 years RM'000 | 2 - 3 years RM'000 | 3 - 4 years RM'000 | 4 - 5 years RM'000 | | | | |
| Assets | | | | | | | | | | | |
| Cash and short term funds | 2,579,136 | - | - | - | - | - | - | - | 6,340 | 2,585,476 | 3.26 |
| Deposits and placements with banks and other financial institutions | - | 200,270 | - | - | - | - | - | - | - | 200,270 | 3.29 |
| Securities available-for-sale | 14,997 | 48,004 | 25,117 | 114,633 | 4,941 | - | 34,380 | - | - | 242,072 | 4.47 |
| Financing and advances | | | | | | | | | | | |
| -Performing | 31,188 | 61,353 | 429,879 | 89,468 | 134,378 | 87,123 | 290,568 | 219,202 | 16,476 | 1,359,635 | 10.10 |
| -Non-performing | - | - | - | - | - | - | - | - | 8,406 | 8,406 | |
| Other non-profit sensitive balances | - | - | - | - | - | - | - | - | 962,953 | 962,953 | |
| Total assets | 2,625,321 | 309,627 | 454,996 | 204,101 | 139,319 | 87,123 | 324,948 | 219,202 | 994,175 | 5,358,812 | |
| Liabilities | | | | | | | | | | | |
| Deposits from customers | 2,263,776 | 1,400,086 | 316,365 | 51 | 345,393 | 6,930 | 11,987 | 78,702 | - | 4,423,290 | 2.49 |
| Deposits and placements of banks and other financial institutions | 28,517 | - | 580,000 | 11,652 | - | - | 7,010 | - | - | 627,179 | 3.33 |
| Bills and acceptances payable | 28,942 | - | - | - | - | - | - | - | - | 28,942 | 3.88 |
| Other non-profit sensitive balances | - | - | - | - | - | - | - | - | 77,224 | 77,224 | |
| Total liabilities | 2,321,235 | 1,400,086 | 896,365 | 11,703 | 345,393 | 6,930 | 18,997 | 78,702 | 77,224 | 5,156,635 | |
| Shareholder's equity | - | - | - | - | - | - | - | - | 202,177 | 202,177 | |
| Total liabilities and shareholder's equity | 2,321,235 | 1,400,086 | 896,365 | 11,703 | 345,393 | 6,930 | 18,997 | 78,702 | 279,401 | 5,358,812 | |
| On-balance sheet profit sensitivity gap | 304,086 | (1,090,459) | (441,369) | 192,398 | (206,074) | 80,193 | 305,951 | 140,500 | 714,774 | | |
| Off-balance sheet profit sensitivity gap | - | - | - | - | - | - | - | - | - | | |
| Total profit sensitivity gap | 304,086 | (1,090,459) | (441,369) | 192,398 | (206,074) | 80,193 | 305,951 | 140,500 | 714,774 | | |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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 | |
|--|----------------|----------------|----------------|----------------|
| | 2009 RM'000 | 2008 RM'000 | 2009 RM'000 | 2008 RM'000 |
| Financial assets | | | | |
| Cash and short term funds | 2,592,117 | 2,585,476 | 2,592,117 | 2,585,476 |
| Deposits and placements with banks and other financial institutions | - | 200,270 | - | 200,270 |
| Securities available-for-sale | 185,866 | 242,072 | 185,866 | 242,072 |
| Financing and advances * | 1,935,011 | 1,388,922 | 1,945,473 | 1,381,547 |
| Financial liabilities | | | | |
| Deposits from customers | 1,459,537 | 4,423,290 | 1,477,514 | 4,450,209 |
| Deposits and placements of banks and other financial institutions | 2,766,514 | 627,179 | 2,742,248 | 627,470 |
| Bills and acceptances payable | - | 28,942 | - | 28,942 |

Note:

Other receivables and other payables are considered short term in nature. The fair values are estimated to approximate their carrying values.

* The general allowance of the Bank of RM23,741,000 (2008: RM20,881,000) 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 balance sheet date.

(ii) Securities available-for-sale

The estimated fair value is based on quoted or observable market prices at the balance sheet 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 balance sheet date.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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 of financings with remaining maturity of less than one year and variable rate profit financings are estimated to approximate their carrying values. For fixed rate financings 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 balance sheet date offered for similar financings to new customers with similar credit profiles, where applicable. In respect of non-performing financings, the fair values are deemed to approximate the carrying values, net of profit-in-suspense and specific allowance for bad and doubtful debts and financing.

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 balance sheet date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The fair values of deposits are deemed to approximate their carrying values as at balance sheet 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 instrument of deposits, the estimated fair values are based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instrument of deposits are estimated using discounted cash flow techniques.

(ii) Bills and acceptances payable

The carrying amounts are a reasonable estimate of their fair values because of their short term nature.

c) Derivative financial instruments**Derivatives held for trading**

| | 31 December 2009 | | | 31 December 2008 | | |
|---|--------------------------------------|-------------------------------|-------------------------------|--------------------------------------|-------------------------------|-------------------------------|
| | 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 | 444,625 | 4,670 | 4,670 | - | - | - |
| - Currency swaps | 231,347 | 4,599 | 4,599 | 303,511 | 9,409 | 9,409 |
| Profit rate derivative contracts:- | | | | | | |
| - Swaps | 524,000 | 11,699 | 11,466 | 400,000 | 1,107 | 828 |
| - Forward rate agreements and options | 305,778 | 3,513 | 3,513 | 56,495 | 192 | 192 |
| Total derivatives held for trading | 1,505,750 | 24,481 | 24,248 | 760,006 | 10,708 | 10,429 |
| | | Note 8 | Note 12 | | Note 8 | Note 12 |

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

30. Capital adequacy

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

| | 2009 RM'000 | 2008 RM'000 |
|--|------------------------------|------------------------------|
| Tier 1 Capital | | |
| Paid-up ordinary share capital | 75,000 | 50,000 |
| Share premium | 225,000 | 150,000 |
| Other reserves | 15,921 | 3,078 |
| Less: Deferred tax asset | (1,613) | (465) |
| Total Tier 1 Capital | <u>314,308</u> | <u>202,613</u> |
| Tier 2 Capital | | |
| General allowance for bad and doubtful financing | <u>23,741</u> | <u>20,881</u> |
| Total Tier 2 Capital | <u>23,741</u> | <u>20,881</u> |
| Total Capital Base | <u>338,049</u> | <u>223,494</u> |

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

| | 2009 | | 2008 | |
|-----------------------------|--|--|--|--|
| | Principal amount RM'000 | Risk weight amount RM'000 | Principal amount RM'000 | Risk weight amount RM'000 |
| 0% | 2,617,634 | - | 2,934,183 | - |
| 10% | - | - | - | - |
| 20% | 213,792 | 42,758 | 989,712 | 197,942 |
| 50% | 194,794 | 97,397 | 112,553 | 56,277 |
| 100% | 1,550,289 | 1,550,289 | 1,415,488 | 1,415,488 |
| | <u>4,576,509</u> | <u>1,690,444</u> | <u>5,451,936</u> | <u>1,669,707</u> |
| | | 2009 | | 2008 |
| | | RM'000 | | RM'000 |
| Total risk-weighted assets | | | | |
| - credit risk (as above) | | 1,690,444 | | 1,669,707 |
| - market risk | | - | | - |
| | | <u>1,690,444</u> | | <u>1,669,707</u> |
| | | 2009 | | 2008 |
| Capital Ratios | | | | |
| Core capital ratio | | 18.59% | | 12.13% |
| Risk-weighted capital ratio | | 20.00% | | 13.39% |