



**Standard Chartered Bank Malaysia Berhad**  
(Incorporated in Malaysia)  
**and its subsidiaries**

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

Domiciled in Malaysia  
Registered office/Principal place of business  
Level 16, Menara Standard Chartered  
No. 30, Jalan Sultan Ismail  
50250 Kuala Lumpur

**Standard Chartered Bank Malaysia Berhad**  
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**Directors' report for the financial year ended 31 December 2008**

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the year ended 31 December 2008.

**Principal activities**

The principal activities of the Group and of the Bank are banking and related financial services which also include Islamic Banking business. On 12 October 2008, the Islamic Banking business, which previously formed part of the Bank's operations, were transferred to a wholly-owned subsidiary, Standard Chartered Saadiq Berhad ("Saadiq") and the effects are disclosed in Note 45. The principal activities of the subsidiaries are stated in Note 12 to the financial statements.

Except as mentioned above, there have been no significant changes in the principal activities of the Bank and its subsidiaries during the year.

**Results**

	<b>Group</b>	<b>Bank</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before taxation	962,062	957,878
Tax expense	<u>(243,684)</u>	<u>(248,768)</u>
Profit for the year	<u>718,378</u>	<u>709,110</u>

**Dividends**

Since the end of the previous financial year, the Bank paid:-

- i) a final ordinary dividend of 336 sen per share less tax at 26% totalling RM 310,800,000 (249 sen per ordinary share) in respect of the financial year ended 31 December 2007 on 17 March 2008; and
- ii) a special dividend of 76 sen per share less tax at 26% totalling RM 70,000,000 (56 sen per ordinary share) in respect of the financial year ended 31 December 2007 on 17 March 2008.

The Directors now recommend the payment of :-

- i) a final ordinary dividend of 80 sen per share less tax at 25% totalling RM 75,000,000 (60 sen per ordinary share) in respect of the current financial year on the issued and fully paid-up ordinary shares of the Bank.

**Reserves and provisions**

There were no material transfers to or from reserves and provisions during the year.

**Bad and doubtful debts and financing**

Before the financial statements of the Group and 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 debts and financing and the making of provisions for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate provisions made for doubtful debts and financing.

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

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**Current assets**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Group and of the Bank, have been written down to an amount which they might be expected to realise.

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 Group and of the Bank misleading.

**Valuation methods**

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the Group's and 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 Group and 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 Group and 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 Group and 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 Group and of the Bank to meet their 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 Group and 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 Group and 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 Group and of the Bank for the current financial year in which this report is made.

**Significant events**

On 11 July 2008, the Minister of Finance had granted an Islamic Banking licence to Standard Chartered Saadiq Berhad ("Saadiq") and a Vesting Order was obtained from the High Court of Malaya for the transfer and vesting of the Islamic Banking business of the Bank to Saadiq. Consequently, the Bank conducted its Islamic Banking business through Saadiq with effect from 12 October 2008.

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**Business plan and strategy**

**2008 Results**

The Group continues to show strong growth in profitability, registering a pre-tax profit of RM 962 million, an increase of 29.2% against RM 745 million in the previous year. The Group has continued to deliver excellent (pre-tax) return on equity of 50.0%. The strong revenue growth was achieved without compromising on cost efficiencies, as cost to income ratio improved to 39.8% from 42.9% previously.

Total net income grew 20.7% to RM 1,813 million, driven mainly by a 82.8 % growth in non-interest income, while net interest income showed an RM 98 million or 10.6 % decline against 2007 despite asset growth of 5.1%. Net interest margin continued to decline, from 2.3% previously to 1.9% this year, attributable to the continued margin squeeze from intense competition and the overall decline in higher margin consumer banking loans. The strong increase in non-interest income is attributable mainly to increased activity and volatility in the foreign exchange and derivative markets.

Total operating expenses increased by 12.1% attributable to higher personnel cost arising from provision for mutual separation scheme, in line with the Group's plan to realign its cost base during the current economic climate, coupled with more investment in system enhancements.

Gross loans, advances and financing registered growth of 5.2% to reach RM 21.1 billion attributable to more lending activities in wholesale banking. Our asset quality however, continued to improve, as reflected in our net NPL ratio of 1.7% from 1.8% previously.

Customer deposits base continued to grow, recording an increase of RM 2.3 billion or 7.4% driven mainly by Current Account and Savings deposits, which grew by 12.1% and 31.2% respectively.

Risk weighted capital ratio of the Group has remained strong at 13.83% (2007: 13.65%) after incorporating market risk capital requirements.

**Strategy and Economic Environment**

The Malaysian economy has remained relatively resilient despite the current global financial crisis and economic downturn. Gross Domestic Product ("GDP") growth for 2008 is expected to register at close to 5%.

The banking sector continues its transition towards greater liberalization with Bank Negara Malaysia ("BNM") continuing to bring in measures on a phased approach to level the playing field, tighten risk management and strengthen consumer protection. In response to the current economic climate, interest rates have gradually declined. As at reporting date, BNM's Overnight Policy rate was at 3.25%, from 3.5% at the start of 2008 subsequently declining to 2.00% in February 2009. This allowed banks to lower the base lending rate to 6.50% as at reporting date from 6.75% previously, and subsequently to 5.55% in March 2009.

Standard Chartered Bank Malaysia Berhad has continued to progress during the year and has further strengthened its market position in both the Consumer and Wholesale Banking segments. For the Wholesale business, the Group's key focus was on the Derivatives market, in response to increased customer demand to hedge against fluctuations in interest and foreign currency exchange rates. On the lending side, the focus of Wholesale Banking was on Trade Financing, which was the key driver in the Bank's loans growth.

The Consumer business has been resilient this year, despite the challenges faced by the economic downturn and strong competition, and have continued to deliver good earnings quality. The key focus was on bringing new business momentum and improving asset quality while continuing infrastructure development.

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Following on from the successful launch of Saadiq, the Islamic Banking business now enjoys enhanced visibility with the launch of its own branch network, while continuing to leverage on the Group's strong infrastructure and support.

RAM Rating Services Berhad has maintained the Bank's credit rating at AAA reflecting their continued recognition of the Bank's superior asset quality, commendable profit track record, stable funding and liquidity positions and the strong financial flexibility.

Standard Chartered Bank Malaysia Berhad is committed to building a sustainable business. In 2008, the Group has continued to play an active role in championing HIV/AIDS prevention and education programmes with staff and partners alike. Our investment towards restoring sight through our "Seeing is Believing" programme gained more depth and momentum. 2008 was also the inaugural year for the Group's Financial Literacy Campaign aimed at encouraging responsible spending habits for the future generation of tomorrow.

**Plan for 2009**

The Group will continue to grow its business in Malaysia in support of a focused strategic agenda to achieve Standard Chartered PLC's ambition to be the best international bank, leading the way in Asia, Africa and the Middle East. Over the past few years, the Group has built significant momentum to lead the way in product innovation, service, performance culture, corporate governance and enhancing shareholder value.

Our overall strategic focus is on accelerating asset growth momentum, continuing customer acquisition and reshaping our cost base for future growth while continuing to invest for service delivery.

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**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 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 2008.

**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 eight (8) members, the majority of whom are Non-Executive Directors, of which three (3) of whom are Independent Non-Executive Directors, hence fulfilling the prescribed requirements for one-third of the membership of the Board to be Independent Board members by BNM. The Directors who served since the date of the last report are:-

Members

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman  
Datuk Abu Hassan bin Kendut  
Karen Fawcett  
Julian Francis Wynter  
Raymond John Ferguson  
Foo Mee Har (appointed on 25 April 2008)  
Datuk Ishak bin Imam Abas (appointed on 6 February 2009)  
Edward Martin Jake Williams (appointed on 6 February 2009)  
Christian Andreas Werner (resigned on 24 March 2008)  
Jaspal Singh Bindra (resigned on 30 September 2008)  
Goh Yiu Kiang Euleen (resigned on 31 October 2008)  
Dato' Lim Say Chong (resigned on 13 March 2009)

Status of Directorship

Independent Non-Executive Director  
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  
  
Non-Independent Non-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.

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**Appointments to the Board**

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

In accordance with the Bank's Articles of Association, all newly appointed Directors 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. 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 28 April 2006. Although the Bank is exempted from establishing a Remuneration Committee as required under the Revised Guidelines, the Board take 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 2008, 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 apprise 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
Karen Fawcett	5/6
Julian Francis Wynter	6/6
Raymond John Ferguson	5/6
Foo Mee Har (appointed on 25 April 2008)	3/4
Datuk Ishak bin Imam Abas (appointed on 6 February 2009)	-
Edward Martin Jake Williams (appointed on 6 February 2009)	-
Christian Andreas Werner (resigned on 24 March 2008)	2/2
Jaspal Singh Bindra (resigned on 30 September 2008)	3/5
Goh Yiu Kiang Euleen (resigned on 31 October 2008)	5/5
Dato' Lim Say Chong (resigned on 13 March 2009)	6/6

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**Key information and background of Directors**

The Bank is led by an experienced Board 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 2 March 2004 and as Chairman effective 23 March 2005. 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 18 July 2005. 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 (currently known as PricewaterhouseCoopers).

**(c) Karen Fawcett**

Karen Fawcett was appointed to the Board as a Non-Independent Non-Executive Director on 18 October 2005. She is currently the Group Head of Transactional Banking responsible for the global performance of Trade Finance, Cash Management, Securities Services, Commercial Banking and Internet Banking Channels for Wholesale Banking Group. Prior to joining the Standard Chartered Group, Karen was a partner at Booz Allen Hamilton, focusing on financial services. She graduated with an MBA from INSEAD, Fontainebleau, France in 1988 and MA Economics from Cambridge in 1987.

**(d) Julian Francis Wynter**

Julian Francis Wynter was appointed to the Board on 23 January 2007 as the Managing Director and Chief Executive Officer. In his role, he brings with him 30 years of extensive experience in the banking industry. He joined Standard Chartered in 1992 in a senior relationship manager role covering European Corporates until 2000, when he was appointed as CEO of Japan. In 2003, he was appointed Head of Audit, Consumer Banking - a global position overseeing 56 countries. Prior to joining Standard Chartered, he had built his banking expertise with Citibank London and Hong Kong, Merrill Lynch London and Hong Kong and Banque Bruxelles Lambert, London. His area of coverage includes investment banking, local corporates and insurance banking. A British citizen, he is a graduate of Oxford University.

**(e) Raymond John Ferguson**

Raymond John Ferguson was appointed to the Board as a Non-Independent Non-Executive Director on 18 January 2008. He is currently the Regional Chief Executive Officer of Standard Chartered Bank for South East Asia (including Australia). He is an experienced international banker with over 20 years of senior management experience, including his most recent 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.



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**Key information and background of Directors (continued)**

**(f) Foo Mee Har**

Foo Mee Har was appointed to the Board as a Non-Independent Non-Executive Director on 25 April 2008. She is currently the Global Head of Group Premium Banking of Standard Chartered Group. She is overall responsible for the strategy, product & service offerings and relationship management of Consumer Banking's most valuable customer groups across the global franchise from Asia, Middle East to Africa. Mee Har joined Standard Chartered Bank in 1994 where she held diverse roles and assignments. She was appointed the Country Head of Consumer Banking in China in 2003, spearheading significant growth of Standard Chartered's personal banking franchise throughout China. Prior to her current role, she was the President & CEO of Standard Chartered Bank (Thai) PCL based in Bangkok, with overall responsibility for the bank's business and operations in Thailand covering both Consumer and Wholesale Banking. Having lived and worked in Australia, China, Malaysia, Singapore and Thailand, she has a wide and varied experience in many of the Asian markets. Mee Har graduated with a Bachelor of Science (First Class Honors) degree from the University of New South Wales, Australia with a major in Occupational Psychology.

**(g) Datuk Ishak bin Imam Abas**

Datuk Ishak bin Imam Abas was appointed as an Independent Non-Executive Director on 6 February 2009. He held various senior positions during his 26 year career with Petronas including Deputy General Manager Commercial of Petronas Dagangan Berhad, Senior General Manager Finance of Petronas, Vice-President Finance Petronas, Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad. He retired from Petronas as the Senior Vice-President in 2006. He is a fellow member of Chartered Institute of Management Accountants ("CIMA") and a member of Malaysian Institute of Accountants. He was admitted as an associate and fellow member of CIMA in 1974 and 2002, respectively.

**(h) Edward Martin Jake Williams**

Edward Martin Jake Williams was appointed as a Non-Independent Non-Executive Director on 6 February 2009. He is currently the Deputy Group Chief Risk Officer of Standard Chartered Group. He has over 33 years of financial services experience and has worked at Standard Chartered Bank for the past nine years. At Standard Chartered Bank, he is responsible for Risk Governance for the group's operating subsidiaries, risk oversight for the group's Principal Finance Business, and the group's country risk management. Prior to joining Standard Chartered Bank, he held a variety of senior management positions at Citicorp/Citibank and Westpac Banking Corporation in various countries. He holds a Masters Degree in Business Administration from Harvard Graduate School of Business (United States), a Master of Science Degree in Aerospace Engineering from the Massachusetts Institute of Technology and a Bachelor of Science Degree in Aerospace Engineering from Princeton University, United States.

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**Committees**

**a) Nomination Committee**

**Membership and composition**

The members of Nomination Committee are:-

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman

Karen Fawcett

Julian Francis Wynter

Raymond John Ferguson (appointed on 30 September 2008)

Jaspal Singh Bindra (resigned on 30 September 2008)

Goh Yiu Kiang Euleen (resigned on 31 October 2008)

Dato' Lim Say Chong (resigned on 13 March 2009) \*

All of the Nomination Committee members are non-executive directors except for Mr. Julian Francis Wynter.

\* Pursuant to Dato' Lim Say Chong's resignation as a Nomination Committee member on 13 March 2009, the Bank has obtained a 10 days waiver from BNM from having a minimum 5 Nomination Committee members, as required under the revised Guidelines on Corporate Governance for Licensed Institutions.

**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 three (3) new director and was convinced that their appointments/re-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 2008, 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 2008, the committee met three (3) times and the attendance of the members are as follows:-

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**a) Nomination Committee (continued)**

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman	3/3
Karen Fawcett	3/3
Julian Francis Wynter	3/3
Raymond John Ferguson (appointed on 30 September 2008)	1/1
Jaspal Singh Bindra (resigned on 30 September 2008)	2/2
Goh Yiu Kiang Euleen (resigned on 31 October 2008)	2/2
Dato' Lim Say Chong (resigned on 13 March 2009)	3/3

**b) Audit Committee**

The Audit and Examination Committee was established in August 1994 and this committee was later renamed the Audit and Risk Committee in February 2005. Pursuant to the issuance of the Revised Guidelines by BNM, the Board has split the Audit and Risk Committee into the Audit Committee and the Risk Committee respectively in February 2006.

**Membership and composition**

The members of the Audit Committee are:-

Datuk Abu Hassan bin Kendut - Chairman  
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim  
Foo Mee Har (appointed on 1 January 2009)  
Goh Yiu Kiang Euleen (resigned on 31 October 2008)  
Dato' Lim Say Chong (resigned on 13 March 2009)

All of the Audit Committee members are independent non-executive directors, with the exception of Ms. Foo Mee Har who is a non-independent non-executive director.

**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;
- 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 and 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 2008, 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
Foo Mee Har (appointed on 1 January 2009)	-
Goh Yiu Kiang Euleen (resigned on 31 October 2008)	4/4
Dato' Lim Say Chong (resigned on 13 March 2009)	4/4

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**c) Risk Committee**

**Membership and composition**

The members of the Risk Committee are:-

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim  
Datuk Abu Hassan bin Kendut  
Foo Mee Har (appointed on 1 January 2009)  
Goh Yiu Kiang Euleen (resigned on 31 October 2008)  
Dato' Lim Say Chong - Chairman (resigned on 13 March 2009) \*

All of the Risk Committee members are independent non-executive directors, with the exception of Ms. Foo Mee Har who is a non-independent non-executive director.

\* Pursuant to Dato' Lim Say Chong's resignation as Risk Committee Chairman, the Bank has obtained a 10 days waiver from BNM from appointing a new committee Chairman, as required under the revised Guidelines on Corporate Governance for Licensed Institutions.

**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.

**Number of meetings held**

The Risk Committee meets on a quarterly basis and during the financial year 2008, 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	5/5
Foo Mee Har (appointed on 1 January 2009)	-
Goh Yiu Kiang Euleen (resigned on 31 October 2008)	4/4
Dato' Lim Say Chong - Chairman (resigned on 13 March 2009)	5/5

**Risk Management**

Through its risk management structure, 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 Bank, are documented in Note 37 to the financial statements.

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**Risk Management (continued)**

The basic principles of risk management 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.

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 Group'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 regularly by the Board of Directors and its committees through independent assurance provided by both Country Operational Risk Assurance and Audit and Group Internal Audit.

**Related Party Transactions**

There are no other significant related party transactions other than as reported in Note 30.

**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**

RAM Rating Services Berhad had reaffirmed the long and short-term general bank ratings of Standard Chartered Bank Malaysia Berhad to be AAA and P1, respectively, in October 2008.

**Standard Chartered Bank Malaysia Berhad**  
(Incorporated in Malaysia)  
**and its subsidiaries**

**Board of Directors and their interests in shares**

According to the register of Directors' shareholdings maintained by the Bank pursuant to Section 134 of the Companies Act, 1965, the Directors' beneficial interests in the shares of the Bank and its related corporations at year end are as follows:-

	As at 1.1.2008 / at date of appointment	Number of shares		As at 31.12.2008
		Acquired	Disposed	
<u>In Standard Chartered PLC</u>				
<u>Ordinary shares of US\$0.50 each</u>				
Karen Fawcett	28,074	26,930 (A)	-	55,004
Julian Francis Wynter	373	6,302 (B)	-	6,675
Raymond John Ferguson	21,610	117,378 (C)	(123,578)	15,410
Foo Mee Har	29,358	11,406 (D)	-	40,764
	As at 1.1.2008 / at date of appointment	Number of options		As at 31.12.2008
		Awarded/ Granted	Lapsed/ Exercised	
<u>Deferred Bonus Share Plan</u>				
Julian Francis Wynter	737	553	(737)	553
Karen Fawcett	2,489	-	-	2,489
Raymond John Ferguson	2,245	2,095	(2,245)	2,095
<u>Executive Share Option Scheme</u>				
Karen Fawcett	125,881	-	-	125,881
Raymond John Ferguson	93,239	-	(93,239)	-
Foo Mee Har	11,549	-	(1,700)	9,849
<u>International Sharesave Scheme</u>				
Karen Fawcett	2,575	-	(878)	1,697
Julian Francis Wynter	1,674	-	-	1,674
Raymond John Ferguson	542	-	-	542
<u>Restricted Share Scheme</u>				
Julian Francis Wynter	5,149	-	(5,149)	-
Karen Fawcett	4,737	-	(2,368)	2,369
Raymond John Ferguson	1,441	-	(1,441)	-
Foo Mee Har	4,222	-	(850)	3,372

**Standard Chartered Bank Malaysia Berhad**  
(Incorporated in Malaysia)  
**and its subsidiaries**

**Board of Directors and their interests in shares (continued)**

	As at 1.1.2008	Number of options		As at 31.12.2008
	/ at date of appointment	Awarded/ Granted	Lapsed/ Exercised	
<u>Options Over Performance Share Plan</u>				
Julian Francis Wynter	11,439	6,931	-	18,370
Karen Fawcett	19,705	12,322	-	32,027
Raymond John Ferguson	31,931	12,322	(10,453)	33,800
Foo Mee Har	11,420	-	-	11,420

- (A) Acquired through open market purchases and exercise of the Restricted Share Scheme and International Sharesave Scheme.
- (B) Acquired through open market purchases, exercise of the rights issue and exercise of the Deferred Bonus Share Plan and Restricted Share Scheme.
- (C) Acquired by way of the exercise of Deferred Bonus Share Plan, Executive Share Option Scheme, Restricted Share Scheme, Performance Share Plan and through open market purchases.
- (D) Acquired by way of the exercise of Executive Share Option Scheme, Restricted Share Scheme and through open market purchases.

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

**Issue of shares and debentures**

There were no changes in the issued and paid-up capital of the Bank during the financial year.

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.

**Standard Chartered Bank Malaysia Berhad**  
(Incorporated in Malaysia)  
**and its subsidiaries**

**Directors' benefits**

Since the end of the previous financial year, 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 27 to the financial statements) 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.

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 given under the Standard Chartered PLC's Deferred Bonus Share Plan, Executive Share Option Scheme, Restricted Share Scheme, International Sharesave Scheme and options over Performance Share Plan.

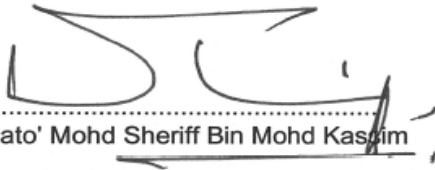
**Holding companies**

The Directors regard Standard Chartered Holdings (Asia Pacific) B.V., a company incorporated in The Netherlands, 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.

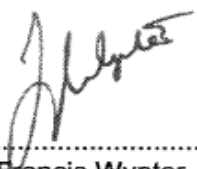
**Auditors**

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:



.....  
Tan Sri Dato' Mohd Sheriff Bin Mohd Kasim



.....  
Julian Francis Wvnter

Kuala Lumpur  
Date: 17 March 2009

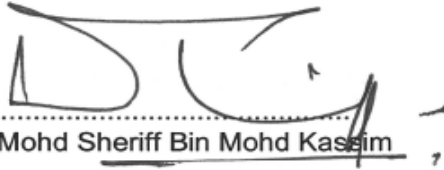


**Standard Chartered Bank Malaysia Berhad**  
(Incorporated in Malaysia)  
**and its subsidiaries**

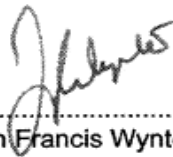
**Statement by Directors pursuant to  
Section 169(15) of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 20 to 120 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 state of affairs of the Group and of the Bank as at 31 December 2008 and of the results of their operations and cash flows for the year ended on that date.

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



.....  
**Tan Sri Dato' Mohd Sheriff Bin Mohd Kassim**



.....  
**Julian Francis Wynter**

Kuala Lumpur  
Date: 17 March 2009

**Standard Chartered Bank Malaysia Berhad**  
(Incorporated in Malaysia)  
**and its subsidiaries**

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

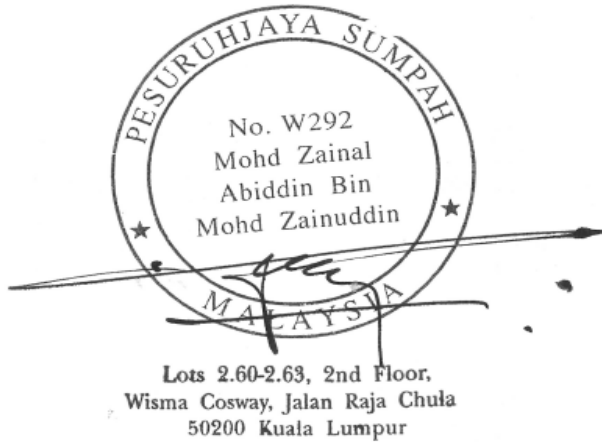
I, Wong Lai Loong, the officer primarily responsible for the financial management of Standard Chartered Bank Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 20 to 120 are, to the best of my knowledge and belief, correct and I make this solemn declaration 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 17 March 2009.



Wong Lai Loong

Before me:





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

Telephone +60 (3) 7721 3388  
Fax +60 (3) 7721 3399  
Internet [www.kpmg.com.my](http://www.kpmg.com.my)

**Independent Auditors' Report to the member of  
Standard Chartered Bank Malaysia Berhad**  
(Company No. 115793 P)  
(Incorporated in Malaysia)

**Report on the Financial Statements**

We have audited the financial statements of Standard Chartered Bank Malaysia Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 20 to 120.

*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 as modified by Bank Negara Malaysia Guidelines. This responsibility includes: designing, implementing and maintaining internal controls 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 controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

*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 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 Group and of the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended.



Company No. 115793P

### Report on Other Legal and Regulatory Requirements

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

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

### Other Matters

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

KPMG

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

Petaling Jaya  
Date: 17 March 2009

**Khaw Hock Hoe**  
Chartered Accountant  
Approval Number: 2229/04/10(J)

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**BALANCE SHEETS AT 31 DECEMBER 2008**

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Assets</b>					
Cash and short term funds	3	4,124,252	14,819,024	1,918,776	14,819,024
Deposits and placements with banks and other financial institutions	4	985,270	1,205,475	985,000	1,205,475
Securities purchased under resale agreements	43	3,495,149	96,473	3,495,149	96,473
Securities held for trading	5	3,676,856	2,206,946	3,676,856	2,206,946
Securities available-for-sale	6	6,704,281	1,357,729	6,462,209	1,357,729
Loans, advances and financing	7	20,579,280	19,551,580	19,211,240	19,551,580
Other receivables	9	3,827,602	1,862,384	3,766,578	1,862,384
Prepaid lease payments	10	1,149	1,173	1,149	1,173
Statutory deposits with Bank Negara Malaysia	11	500,000	667,233	446,000	667,233
Investments in subsidiaries	12	-	-	200,022	22
Property, plant and equipment	13	59,375	57,674	59,375	57,674
Deferred tax assets	32	102,304	89,225	95,347	89,225
<b>Total assets</b>		<b>44,055,518</b>	<b>41,914,916</b>	<b>40,317,701</b>	<b>41,914,938</b>
<b>Liabilities</b>					
Deposits from customers	14	33,010,073	30,724,716	28,586,783	30,724,716
Deposits and placements of banks and other financial institutions	15	3,292,897	4,736,148	3,245,719	4,736,148
Bills and acceptances payable		135,181	872,710	106,239	872,710
Recourse obligations on loans sold to Cagamas	43	161,898	290,733	161,898	290,733
Other payables	16	4,412,329	2,640,389	5,183,859	2,640,411
Tax payable		52,774	22,009	51,201	22,009
Subordinated debts	17	900,058	875,916	900,058	875,916
<b>Total liabilities</b>		<b>41,965,210</b>	<b>40,162,621</b>	<b>38,235,757</b>	<b>40,162,643</b>
<b>Equity</b>					
Share capital	19	125,000	125,000	125,000	125,000
Reserves	20	1,965,308	1,627,295	1,956,944	1,627,295
<b>Total equity attributable to equity holder of the Bank</b>	21	<b>2,090,308</b>	<b>1,752,295</b>	<b>2,081,944</b>	<b>1,752,295</b>
<b>Total liabilities and equity</b>		<b>44,055,518</b>	<b>41,914,916</b>	<b>40,317,701</b>	<b>41,914,938</b>
<b>Commitments and contingencies</b>	36	<b>201,688,112</b>	<b>149,290,462</b>	<b>201,382,959</b>	<b>149,290,462</b>

The notes set out on pages 25 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED  
31 DECEMBER 2008**

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Interest income	23	1,743,631	1,954,439	1,748,224	1,954,439
Interest expense	24	(910,942)	(1,023,283)	(915,533)	(1,023,283)
Net interest income		832,689	931,156	832,691	931,156
Net income from Islamic Banking operations	46	74,218	75,310	54,069	75,310
		906,907	1,006,466	886,760	1,006,466
Other operating income	25	906,090	495,688	906,090	495,688
Total net income		1,812,997	1,502,154	1,792,850	1,502,154
Other operating expenses	26	(722,007)	(643,826)	(711,833)	(643,826)
Operating profit		1,090,990	858,328	1,081,017	858,328
Allowance for bad and doubtful debts and financing	28	(128,928)	(113,619)	(123,139)	(113,619)
Profit before taxation		962,062	744,709	957,878	744,709
Tax expense	31	(243,684)	(211,525)	(248,768)	(211,525)
Profit for the year		<u>718,378</u>	<u>533,184</u>	<u>709,110</u>	<u>533,184</u>
Attributable to:-					
Equity holder of the Bank		<u>718,378</u>	<u>533,184</u>	<u>709,110</u>	<u>533,184</u>
Basic earnings per ordinary share (sen)	35	575	427	567	427

The notes set out on pages 25 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED  
31 DECEMBER 2008**

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Unrealised net gain on revaluation of securities available-for-sale		37,343	34,804	39,490	34,804
Realised gain from disposal of securities available-for-sale transferred to income statements		(23,268)	(48,912)	(24,210)	(48,912)
Unrealised loss on cash flow hedge		(27,679)	(19,254)	(27,679)	(19,254)
Realised loss/(gain) on cash flow hedge transferred to income statements		13,847	(5,521)	13,847	(5,521)
Defined benefit plan actuarial gain		322	913	322	913
Tax effect on income and expense recognised directly in equity	31	<u>(130)</u>	<u>10,787</u>	<u>(431)</u>	<u>10,787</u>
<b>Income and expense recognised directly in equity</b>	21	435	(27,183)	1,339	(27,183)
<b>Profit for the year</b>		718,378	533,184	709,110	533,184
<b>Total recognised income and expense for the year attributable to equity holder of the Bank</b>		<u><u>718,813</u></u>	<u><u>506,001</u></u>	<u><u>710,449</u></u>	<u><u>506,001</u></u>

The notes set out on pages 25 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED**  
**31 DECEMBER 2008**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Cash flows from operating activities</b>				
Profit before taxation	962,062	744,709	957,878	744,709
Adjustments for:-				
Dividend income	(2,229)	(713)	(2,229)	(713)
Depreciation	21,309	21,598	21,309	21,598
Amortisation of prepaid lease payments	24	21	24	21
Gain on disposal of property, plant and equipment	(285)	(23)	(285)	(23)
Gain on disposal of securities available-for-sale	(5,407)	(54,833)	(5,407)	(54,833)
Profit equalisation reserve	4,670	(8,045)	3,660	(8,045)
Amortisation of premium less accretion of discount on securities available-for-sale	(24,916)	(4,014)	(25,011)	(4,014)
Operating profit before working capital changes	955,228	698,700	949,939	698,700
Changes in working capital:-				
Deposits and placements with banks and other financial institutions	220,205	5,983,625	220,475	5,983,625
Securities purchased under resale agreement	(3,398,676)	(35,546)	(3,398,676)	(35,546)
Securities held for trading	(1,469,910)	(548,158)	(1,469,910)	(548,158)
Loans, advances and financing	(1,027,701)	(90,524)	340,340	(90,524)
Other receivables	(1,979,053)	(713,709)	(1,918,026)	(713,709)
Statutory deposits with Bank Negara Malaysia	167,233	(61,792)	221,233	(61,792)
Deposits from customers	2,285,357	2,988,667	(2,137,933)	2,988,667
Deposits and placements of banks and other financial institutions	(1,443,250)	567,483	(1,490,429)	567,483
Securities sold under repurchase agreements	-	(1,642,326)	-	(1,642,326)
Bills and acceptances payable	(737,529)	185,616	(766,471)	185,616
Recourse obligations on loans sold to Cagamas	(128,835)	(265,056)	(128,835)	(265,056)
Other payables	1,791,737	673,997	2,564,253	673,997
Cash (used in)/generated from operations	(4,765,194)	7,740,977	(7,014,040)	7,740,977
Income taxes paid	(226,129)	(194,316)	(226,129)	(194,316)
<b>Net cash (used in)/generated from operating activities</b>	<b>(4,991,323)</b>	<b>7,546,661</b>	<b>(7,240,169)</b>	<b>7,546,661</b>
<b>Cash flows from investing activities</b>				
Dividends received	2,229	713	2,229	713
Purchase of property, plant and equipment	(23,063)	(22,037)	(23,063)	(22,037)
Proceeds from disposal of property, plant and equipment	338	23	338	23
Purchase of securities available-for-sale	(12,494,599)	(6,889,591)	(12,209,599)	(6,889,591)
Proceeds from disposal of securities available-for-sale	7,192,446	9,190,752	7,150,816	9,190,752
Investment in a subsidiary	-	-	(200,000)	-
<b>Net cash (used in)/generated from investing activities</b>	<b>(5,322,649)</b>	<b>2,279,860</b>	<b>(5,279,279)</b>	<b>2,279,860</b>



**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED  
31 DECEMBER 2008 (CONTINUED)**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Cash flows from financing activities</b>				
Proceeds from issuance of subordinated bonds	-	500,000	-	500,000
Dividends paid (Note 22)	<u>(380,800)</u>	<u>(727,780)</u>	<u>(380,800)</u>	<u>(727,780)</u>
<b>Net cash used in financing activities</b>	<u><b>(380,800)</b></u>	<u><b>(227,780)</b></u>	<u><b>(380,800)</b></u>	<u><b>(227,780)</b></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(10,694,772)	9,598,741	(12,900,248)	9,598,741
<b>Cash and cash equivalents brought forward</b>	<u>14,819,024</u>	<u>5,220,283</u>	<u>14,819,024</u>	<u>5,220,283</u>
<b>Cash and cash equivalents carried forward</b>	<u><b>4,124,252</b></u>	<u><b>14,819,024</b></u>	<u><b>1,918,776</b></u>	<u><b>14,819,024</b></u>
<b>Cash and cash equivalents comprise:</b>				
Cash and short term funds (Note 3)	<u><b>4,124,252</b></u>	<u><b>14,819,024</b></u>	<u><b>1,918,776</b></u>	<u><b>14,819,024</b></u>

The notes set out on pages 25 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

**Notes to the financial statements**

**1. Basis of preparation of the financial statements**

**(a) Statement of compliance**

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

At the beginning of the current financial year, the Group and the Bank had adopted the new and revised FRSs and Interpretations issued by the MASB which are mandatory and applicable to the Group and the Bank for the financial year beginning on 1 January 2008. The initial application of these standards and interpretations did not have any material impact on the financial statements of the Group and the Bank.

The MASB has also issued the following FRSs (including its consequential amendments) and interpretations that have not been applied in preparing these financial statements:-

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

The Group and the Bank plan to apply the above-mentioned FRSs (except for FRS 4 and FRS 8 as explained below) and IC Interpretations for the annual period beginning on 1 January 2010.

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective FRSs. Other than the implications as discussed below, the initial application of the other standards (and its consequential amendments) and Interpretations above is not expected to have any material impact on the financial statements of the Group and the Bank.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**AND ITS SUBSIDIARIES**

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

**(a) Statement of compliance (continued)**

IC Interpretation 10, *Interim Financial Reporting and Impairment*

IC Interpretation 10 prohibits the reversal of an impairment loss recognised in an interim period during a financial year in respect of an investment in an equity instrument or a financial asset carried at cost. IC Interpretation 10 will become effective for the financial statements for the year ending 31 December 2010, and is applicable prospectively from the date the Group and the Bank first applied the measurement criteria of FRS 136 and FRS 139 respectively. The adoption of IC Interpretation 10 will not have significant impact on the Group and the Bank.

FRS 4 and FRS 8 are not applicable to the Group and the Bank. Hence, no further disclosure is warranted.

The financial statements were approved by the Board of Directors on 17 March 2009.

**(b) Functional and presentation currency**

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information presented in RM 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 Group'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 Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group'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 amount based on the discounted cash flow methodology for impaired loan (Note 2 (i))
- ii) Recognition of interest income and interest expense (Note 2(y) and Note 2(ab))
- iii) Fair value estimation of financial assets and financial liabilities (Note 39)
- iv) Estimation of defined benefit obligations (Note 2 (v)(ii))

**2. Significant accounting policies**

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

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
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**2. Significant accounting policies (continued)**

**(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) Basis of consolidation**

The consolidated financial statements as at and for the year ended 31 December 2008 comprise of the financial statements of the Bank and its subsidiaries made up to the end of the financial year.

*i) Subsidiaries*

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the ability to exercise its power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investment in subsidiaries in the Bank's balance sheet are stated at cost, less any impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

*ii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(c) Cash and short term funds**

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

For the purpose of the cash flow statements, cash and cash equivalents comprise cash and short term funds.

**(d) Deposits and placements with banks and other financial institutions**

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

**(e) 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 Group and the Bank manage 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 statements.

No security is reclassified into or out of the held for trading category while it is held. Interest from the held for trading securities (including zero coupon debt instruments), calculated using the effective interest method, is recognised in the income statements.

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**2. Significant accounting policies (continued)**

**(f) Securities held-to-maturity**

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturities that the Group and the Bank have the positive intent and ability to hold to maturity and which are not designated as held for trading or available-for-sale. These securities are measured at amortised cost using the effective interest method. A gain or loss is recognised in the income statements when the securities are derecognised. Amortisation of premium or accretion of discount for securities are also recognised in the income statements.

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 Group and the Bank from classifying similar class of securities as securities held-to-maturity for the current and following two financial years.

**(g) Securities available-for-sale**

Securities available-for-sale are securities that are not classified as held for trading or 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 a change in the fair value of securities available-for-sale are recognised directly in equity through the statements of recognised income and expense, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statements. 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 statements upon derecognition of the securities.

Interest from securities available-for-sale (including zero coupon debt instruments), calculated using the effective interest method, is recognised in the income statements.

**(h) Impairment of securities**

The carrying amount of the Group's and 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 Group and 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 interest rate. The carrying amount of the securities is reduced through the use of an allowance account. The amount of the loss is recognised in the income statements.

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 statements.

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**2. Significant accounting policies (continued)**

**(h) Impairment of securities (continued)**

*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 statements even though the securities have not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that securities previously recognised in the income statements.

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

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

**(i) Loans, advances and financing**

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

The carrying amount of the Group's and the Bank's loans, advances and financing are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated. A specific allowance is provided in the income statements whenever the carrying amount of the loans, advances and financing 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 Group and 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 loan, advance and financing or portion of a loan, advance and financing 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.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
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**2. Significant accounting policies (continued)**

**(i) Loans, advances and financing (continued)**

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

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

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

**(j) 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.

**(k) Prepaid lease payments**

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided except for leasehold land classified as investment property.

**(l) Property, plant and equipment**

*i) Recognition and measurement*

Property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses. Freehold land is stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to its location and working condition for its intended use, and the costs of dismantling and removing the assets and restoring the site on which the assets are located.

*ii) Subsequent costs*

Subsequent costs incurred in replacing part of an item of property, plant and equipment are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statements during the financial period in which they are incurred.

*iii) Depreciation*

No depreciation is charged on freehold land. Depreciation on other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the estimated useful lives of the assets concerned.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
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**2. Significant accounting policies (continued)**

**(l) Property, plant and equipment (continued)**

*iii) Depreciation (continued)*

The principal annual rates used are:-

Buildings and refurbishment	Over the estimated useful life of the building of up to 50 years or unexpired period of lease of the building, whichever is shorter.
Premises, plant and equipment	10% - 33%
Office equipment	12.5% - 33%
Furniture and fittings	12.5% - 33%
Motor vehicles	20% - 33%

Depreciation methods, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

**(m) Deposits from customers**

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

**(n) Deposits and placements of banks and other financial institutions**

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

**(o) Repurchase and resale agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheets.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank has sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities in its entirety are reflected as a liability on the balance sheets. The securities sold under repurchase agreements are treated as pledged assets and continue to be recognised as assets in the balance sheets.

**(p) Bills and acceptances payable**

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

**(q) Recourse obligations on loans sold to Cagamas**

Recourse obligations on loans sold to Cagamas represents the outstanding balance in respect of loans (excluding Islamic financing) which were sold to Cagamas Berhad with recourse to the Bank.

**(r) 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 BANK MALAYSIA BERHAD**  
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**2. Significant accounting policies (continued)**

**(s) 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.

**(t) Subordinated debts**

Subordinated debts are carried at their face value except for debts which are fair value hedged, which are then disclosed at their fair value. Interest expense on subordinated debts of the Group and the Bank are recognised in the income statements on an accrual basis.

**(u) Impairment of assets**

The carrying amount of the Group's and the Bank's assets, other than deferred tax assets and financial assets (excluding investments in subsidiaries and securities), 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 statements, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the same asset.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then 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 statements 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.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
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**2. Significant accounting policies (continued)**

**(v) 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 Group and the Bank have 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 Group and the Bank contribute to the Employee's Provident Fund ("EPF") for eligible employees on a monthly basis. Obligations for contributions to EPF are recognised as an expense in the income statements in the year to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

*ii) Defined benefit plans*

The Bank makes contributions to an approved defined benefit scheme in respect of eligible employees.

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date of the plan's investment. The calculation is performed by a qualified actuary on the basis of triennial valuations using the projected unit credit method.

Actuarial gains and losses that arise are recognised in shareholder's equity and presented in the statements of recognised income and expense ("SORIE") in the period they arise.

*iii) Share-based compensation*

The Group and the Bank participate in equity-settled and cash-settled share-based compensation plan for the employees that is offered by the 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 statements 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 Group and the Bank revise 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 statements.

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
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**2. Significant accounting policies (continued)**

**(v) Staff retirement and service benefits (continued)**

*iv) Termination benefits*

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(w) Derivative financial instruments and hedge accounting**

Derivatives are recognised at fair value with changes in fair value recognised in the income statements, unless they are part of a hedging relationship which qualifies for hedge accounting. The Group and the Bank designate certain derivatives as hedges, which are accounted for on an equivalent basis as for the underlying assets, liabilities or net positions. The Group and the Bank designate these derivatives as either:-

*i) Fair value hedge*

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

*ii) Cash flow hedge*

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

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to 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 statements.

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**2. Significant accounting policies (continued)**

**(x) Operating lease**

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

**(y) Recognition of interest income**

Interest income is recognised in the income statements using the effective interest method for financial assets measured at amortised cost. The effective interest 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, recognition of interest income is suspended and shall be accounted for on a cash basis. Interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income.

Customers' accounts are classified as "non-performing" where repayments are in arrears for more than 90 days for loans and overdrafts, and 30 days after maturity date for trade bills, bankers' acceptances and trust receipts. The policy on suspension of interest adopted by the Bank complies with that required by revised BNM/GP3.

**(z) Recognition of fees and other income**

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

Dividends from securities held for trading, available-for-sale and held-to-maturity are recognised when the right to receive the payment is established.

Service charges and processing fees are recognised when earned.

**(aa) Tax expense**

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

Current tax 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 in a transaction that is not a business combination and that 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.

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**2. Significant accounting policies (continued)**

**(aa) Tax expense (continued)**

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.

**(ab) Recognition of interest and financing expense**

Interest expense and attributable profits (on activities relating to Islamic Banking business) on deposits and borrowings of the Group and the Bank are recognised on an effective interest method. The effective interest rate is the rate that exactly discounts estimated future payments through the expected life of the financial liabilities.

**(ac) Profit equalisation reserves**

Profit equalisation reserves ("PER") is a mechanism to reduce the fluctuations in the profit rate payable to the depositors for the Islamic Banking Operations. 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 of the Islamic Banking Operations. PER is reflected under other liabilities of the Group.

**(ad) 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 statements items are translated at rates prevailing on transaction dates. Exchange gains and losses are recognised in the income statements in the period in which they arise.

**(ae) Effective interest rate**

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest 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 interest rate, the Group and the Bank estimate 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 interest rate, transaction costs and all other premiums or discounts.

**(af) Earnings per share**

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

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**3. Cash and short term funds**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	140,501	131,944	134,190	131,944
Money at call and deposit placements maturing within one month	3,983,751	14,687,080	1,784,586	14,687,080
	<u>4,124,252</u>	<u>14,819,024</u>	<u>1,918,776</u>	<u>14,819,024</u>

**4. Deposits and placements with banks and other financial institutions**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Licensed banks	500,000	-	700,000	-
Bank Negara Malaysia	485,270	1,205,475	285,000	1,205,475
	<u>985,270</u>	<u>1,205,475</u>	<u>985,000</u>	<u>1,205,475</u>

**5. Securities held for trading**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>At fair value</u>				
Malaysian Government treasury bills	9,213	44,889	9,213	44,889
Malaysian Government bonds/securities	2,469,909	621,551	2,469,909	621,551
Government Islamic bonds	120,294	1,156	120,294	1,156
Khazanah Islamic bonds	12,678	-	12,678	-
Bank Negara Malaysia bills	322,271	968,219	322,271	968,219
Cagamas bonds	38,800	-	38,800	-
Private debt securities	703,691	571,131	703,691	571,131
	<u>3,676,856</u>	<u>2,206,946</u>	<u>3,676,856</u>	<u>2,206,946</u>

**STANDARD CHARTERED BANK MALAYSIA BERHAD**  
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**6. Securities available-for-sale**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>At fair value</u>				
Malaysian Government bonds/ securities	2,966,216	495,792	2,966,216	495,792
Bank Negara Malaysia bills	1,398,304	423,251	1,398,304	423,251
Cagamas bonds	64,478	98,999	-	98,999
Negotiable instruments of deposit	2,095,095	84,997	2,050,100	84,997
Government Islamic bonds	25,138	70,142	-	70,142
Private debt securities	107,461	156,816	-	156,816
Equity shares	16,211	109	16,211	109
	6,672,903	1,330,106	6,430,831	1,330,106
Unquoted securities:-				
Equity shares	9,098	9,098	9,098	9,098
Private debt securities	22,280	18,525	22,280	18,525
	6,704,281	1,357,729	6,462,209	1,357,729

Included in unquoted equity shares are 51% shareholdings held in Popular Ambience Sdn. Bhd. ("PASB") and Resolution Alliance Sdn Bhd ("RASB"), amounting to RM 51 each. The shares in RASB were acquired during the year. Both companies are incorporated in Malaysia. The remaining 49% shareholdings of PASB are held by Standard Chartered Bank (Hong Kong) Limited ("SCBHK"), while that of RASB are held by SCBHK (40%) and an unrelated third party (9%). The principal activities of PASB and RASB are that of special purpose vehicles established to undertake the purchase of non-performing loans.

In accordance with paragraphs 12 and 13 of FRS 127, Consolidated and Separate Financial Statements, consolidated financial statements shall include the financial statements of all subsidiaries of the parent where control exists.

The shareholders of PASB and RASB have signed separate Master Shareholders' Agreements in which the Bank had assigned to SCBHK its rights over all the profits or losses of PASB and RASB and the entitlement to appoint Directors of PASB and RASB. Pursuant to these Master Shareholders' Agreements, the Bank therefore ceased to have control over PASB and RASB as it does not have the ability to exercise its power to govern the financial and operating policies of PASB and RASB so as to obtain benefits from its activities. On this basis, PASB and RASB are excluded from the Group's consolidation and they are classified under securities available-for-sale.

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**7. Loans, advances and financing****(i) By type**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Overdrafts	754,040	827,879	754,040	827,879
Term loans/financing				
- Housing loans/financing	10,541,370	10,605,666	10,300,314	10,605,666
- Syndicated term loan/financing	94,888	55,133	94,888	55,133
- Lease receivables	20,142	20,477	-	20,477
- Other term loans/financing	4,115,714	3,716,429	3,081,317	3,716,429
Bills receivable	2,981,597	1,426,634	2,947,728	1,426,634
Trust receipts	1,798	2,825	-	2,825
Claims on customers under acceptance credits	135,441	876,907	106,422	876,907
Staff loans/financing (of which loans to Directors - Nil for 2008 and 2007)	90,892	96,051	87,862	96,051
Loans/financing to banks and other financial institutions	87,588	77,380	87,588	77,380
Credit card receivables	1,331,373	1,454,096	1,331,373	1,454,096
Revolving credit	<u>1,386,127</u>	<u>1,184,064</u>	<u>925,873</u>	<u>1,184,064</u>
	21,540,970	20,343,541	19,717,405	20,343,541
Less: Unearned interest and income	<u>(442,672)</u>	<u>(294,122)</u>	<u>(8,877)</u>	<u>(294,122)</u>
Gross loans, advances and financing	21,098,298	20,049,419	19,708,528	20,049,419
Less: Allowance for bad and doubtful debts and financing:-				
- Specific	(203,747)	(197,418)	(202,898)	(197,418)
- General	<u>(315,271)</u>	<u>(300,421)</u>	<u>(294,390)</u>	<u>(300,421)</u>
Total net loans, advances and financing	<u>20,579,280</u>	<u>19,551,580</u>	<u>19,211,240</u>	<u>19,551,580</u>

**(ii) By type of customer**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Domestic banking institutions	87,588	77,380	87,588	77,380
Domestic non-bank financial institutions	509,289	379,847	431,189	379,847
<i>Stockbroking companies</i>	-	-	-	-
<i>Others</i>	<u>509,289</u>	<u>379,847</u>	<u>431,189</u>	<u>379,847</u>
Domestic business enterprises	5,858,238	4,982,658	5,284,095	4,982,658
<i>Small medium enterprises</i>	<u>1,767,803</u>	<u>1,611,805</u>	<u>1,685,032</u>	<u>1,611,805</u>
<i>Others</i>	<u>4,090,435</u>	<u>3,370,853</u>	<u>3,599,063</u>	<u>3,370,853</u>
Individuals	14,094,423	14,313,914	13,362,560	14,313,914
Other domestic entities	488	1,136	488	1,136
Foreign entities	<u>548,272</u>	<u>294,484</u>	<u>542,608</u>	<u>294,484</u>
	<u>21,098,298</u>	<u>20,049,419</u>	<u>19,708,528</u>	<u>20,049,419</u>



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**7. Loans, advances and financing (continued)****(iii) By interest/profit rate sensitivity**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fixed rate				
Housing loans/financing	72,375	78,659	66,356	78,659
Other fixed rate loan/financing	2,168,588	1,970,533	1,454,366	1,970,533
Variable rate				
BLR plus	13,196,538	12,942,834	12,984,171	12,942,834
Cost plus	4,759,664	3,691,471	4,302,502	3,691,471
Other variable rates	901,133	1,365,922	901,133	1,365,922
	<u>21,098,298</u>	<u>20,049,419</u>	<u>19,708,528</u>	<u>20,049,419</u>

**(iv) By sector**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Agriculture	112,933	150,748	112,912	150,748
Mining and quarrying	11,202	19,498	8,202	19,498
Manufacturing	2,263,379	1,874,006	2,213,432	1,874,006
Electricity, gas and water	87,002	3,284	87,002	3,284
Construction	239,021	167,119	232,538	167,119
Real estate	120,903	76,254	59,221	76,254
Purchase of landed property	12,256,962	12,480,472	12,094,021	12,480,472
- Residential	<u>10,566,523</u>	<u>10,695,345</u>	<u>10,452,946</u>	<u>10,695,345</u>
- Non-residential	<u>1,690,439</u>	<u>1,785,127</u>	<u>1,641,075</u>	<u>1,785,127</u>
Wholesale & retail trade and restaurants & hotels	2,030,047	1,526,502	1,730,836	1,526,502
Transport, storage and communication	159,769	173,925	73,365	173,925
Finance, insurance and business services	915,394	662,300	811,019	662,300
Consumption credit	2,784,746	2,710,557	2,210,150	2,710,557
Others	116,940	204,754	75,830	204,754
	<u>21,098,298</u>	<u>20,049,419</u>	<u>19,708,528</u>	<u>20,049,419</u>

**(v) Analysis of foreign currency exposure**

Loans, advances and financing denominated in currencies other than the functional currency comprise RM 1,021,152,000 (2007 - RM 863,177,000) of loans, advances and financing denominated in U.S. Dollar and RM 12,736,000 (2007 - RM 15,836,000) of loans, advances and financing denominated in other foreign currencies.

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**8. Non-performing loans/financing (NPL/NPF)****(i) Movements in the non-performing loans, advances and financing**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At 1 January	556,673	797,750	556,673	797,750
Classified as non-performing during the financial year	430,454	521,187	421,301	521,187
Reclassified as performing during the financial year	(247,726)	(289,357)	(247,539)	(289,357)
Amount recovered during the financial year	(33,011)	(53,183)	(32,862)	(53,183)
Amount written off	(154,065)	(153,706)	(148,837)	(153,706)
Sale of non-performing loans	-	(266,018)	-	(266,018)
Amount vested over to Standard Chartered Saadiq Berhad ("Saadiq") (Note 44)	-	-	(5,665)	-
At 31 December	<u>552,325</u>	<u>556,673</u>	<u>543,071</u>	<u>556,673</u>
Specific allowance	<u>(203,747)</u>	<u>(197,418)</u>	<u>(202,898)</u>	<u>(197,418)</u>
Net non-performing loans, advances and financing	<u>348,578</u>	<u>359,255</u>	<u>340,173</u>	<u>359,255</u>
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	<u>1.67%</u>	<u>1.81%</u>	<u>1.74%</u>	<u>1.81%</u>

**(ii) Movements in allowance for bad and doubtful debts**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>General Allowance</b>				
At 1 January	300,421	298,410	300,421	298,410
Allowance made during the financial year	14,850	2,011	14,000	2,011
Amount vested over to Saadiq	-	-	(20,031)	-
At 31 December	<u>315,271</u>	<u>300,421</u>	<u>294,390</u>	<u>300,421</u>
As a percentage of gross loans, advances and financing less specific allowance	<u>1.5%</u>	<u>1.5%</u>	<u>1.5%</u>	<u>1.5%</u>
<b>Specific Allowance</b>				
At 1 January	197,418	328,116	197,418	328,116
Allowance made during the financial year	201,730	247,834	196,688	247,834
Amount written back in respect of recoveries	(105,047)	(149,992)	(104,975)	(149,992)
Amount written off	(90,354)	(87,702)	(85,392)	(87,702)
Sale of non-performing loans	-	(140,838)	-	(140,838)
Amount vested over to Saadiq	-	-	(841)	-
At 31 December	<u>203,747</u>	<u>197,418</u>	<u>202,898</u>	<u>197,418</u>

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**8. Non-performing loans/financing (NPL/NPF) (continued)****(iii) NPL/NPF by sector**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Agriculture	-	-	-	-
Mining and quarrying	500	500	500	500
Manufacturing	59,342	72,659	59,342	72,659
Construction	4,259	4,104	4,259	4,104
Real estate	795	-	795	-
Purchase of landed property	377,311	398,472	374,440	398,472
- Residential	365,496	369,834	362,625	369,834
- Non-residential	11,815	28,638	11,815	28,638
Wholesale & retail trade and restaurants & hotels	16,294	13,971	16,294	13,971
Transport, storage and communication	40	363	40	363
Finance, insurance and business services	9,863	9,743	9,863	9,743
Consumption credit	47,611	52,335	41,228	52,335
Others	36,310	4,526	36,310	4,526
	<u>552,325</u>	<u>556,673</u>	<u>543,071</u>	<u>556,673</u>

**9. Other receivables**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Derivatives (Note 39)	3,461,287	1,216,288	3,458,686	1,216,288
Interest/Income receivables	191,205	90,098	190,156	90,098
Other receivables, deposit and prepayments	175,110	555,998	117,736	555,998
	<u>3,827,602</u>	<u>1,862,384</u>	<u>3,766,578</u>	<u>1,862,384</u>

**10. Prepaid lease payments**

Group and Bank	Unexpired period less than 50 years RM'000
<b>Cost</b>	
At 1 January 2007 / 31 December 2007 / 31 December 2008	<u>1,245</u>
<b>Amortisation</b>	
At 1 January 2007	51
Amortisation for the year	<u>21</u>
At 31 December 2007	72
Amortisation for the year	<u>24</u>
At 31 December 2008	<u>96</u>
<b>Carrying amounts</b>	
At 1 January 2007	<u>1,194</u>
At 31 December 2007	<u>1,173</u>
At 31 December 2008	<u>1,149</u>

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**11. Statutory deposits with Bank Negara Malaysia**

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance 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.

**12. Investments in subsidiaries**

	Bank	
	2008 RM'000	2007 RM'000
Unquoted shares, at cost	200,022	22

The subsidiaries of the Bank are as follows:-

Name	Principal activities	Country of incorporation	Percentage of equity held	
			2008	2007
Standard Chartered Saadiq Berhad	Islamic banking business	Malaysia	100% *	-
Cartaban (Malaya) Nominees Sdn. Bhd. #	Nominee services	Malaysia	100%	100%
Cartaban Nominees (Tempatan) Sdn. Bhd. #	Nominee services	Malaysia	100%	100%
Cartaban Nominees (Asing) Sdn. Bhd. #	Nominee services	Malaysia	100%	100%
Golden Maestro Sdn. Bhd. #	Investment holding company	Malaysia	100%	100%

# All income and expenditure of these subsidiaries have been taken up by the Bank.

The amount owing to subsidiaries are in respect of current accounts maintained by the subsidiaries with the Bank.

\* On 30 June 2008, the Bank had incorporated a wholly-owned subsidiary known as Standard Chartered Saadiq Berhad for the purpose of undertaking the Islamic Banking business pursuant to subsection 3(4) of the Islamic Banking Act, 1983. The Bank subscribed for 50,000,000 ordinary shares, representing 100% equity interest as follows:-

- On 30 June 2008, the Bank subscribed for 2 ordinary shares of RM 1.00 each at an issue price of RM 1.00 per share.
- On 10 October 2008, the Bank subscribed for the remaining 49,999,998 ordinary shares of RM 1.00 each at an issue price of RM 4.00 per share.

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**13. Property, plant and equipment****Group and Bank**

<b>Cost</b>	<b>Freehold land RM'000</b>	<b>Buildings and refurbishment RM'000</b>	<b>Premises, plant and equipment RM'000</b>	<b>Office equipment RM'000</b>	<b>Furniture and fittings RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Total RM'000</b>
At 1 January 2008	168	71,074	7,239	130,381	32,267	2,929	244,058
Additions	-	-	-	9,783	12,387	893	23,063
Disposal	-	(476)	-	-	-	(757)	(1,233)
At 31 December 2008	<u>168</u>	<u>70,598</u>	<u>7,239</u>	<u>140,164</u>	<u>44,654</u>	<u>3,065</u>	<u>265,888</u>

**Accumulated Depreciation**

At 1 January 2008	-	50,719	7,020	110,649	15,611	2,385	186,384
Charge for the year	-	4,948	182	9,776	5,712	691	21,309
Disposal	-	(423)	-	-	-	(757)	(1,180)
At 31 December 2008	<u>-</u>	<u>55,244</u>	<u>7,202</u>	<u>120,425</u>	<u>21,323</u>	<u>2,319</u>	<u>206,513</u>

**Net book value**

At 31 December 2008	<u>168</u>	<u>15,354</u>	<u>37</u>	<u>19,739</u>	<u>23,331</u>	<u>746</u>	<u>59,375</u>
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**13. Property, plant and equipment (continued)****Group and Bank**

<b>Cost</b>	<b>Freehold land RM'000</b>	<b>Buildings and refurbishment RM'000</b>	<b>Premises, plant and equipment RM'000</b>	<b>Office equipment RM'000</b>	<b>Furniture and fittings RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Total RM'000</b>
At 1 January 2007	168	70,815	7,239	120,641	20,456	2,846	222,165
Additions	-	259	-	9,817	11,811	150	22,037
Disposal	-	-	-	(77)	-	(67)	(144)
At 31 December 2007	<u>168</u>	<u>71,074</u>	<u>7,239</u>	<u>130,381</u>	<u>32,267</u>	<u>2,929</u>	<u>244,058</u>
<b>Accumulated Depreciation</b>							
At 1 January 2007	-	43,701	6,733	100,800	11,794	1,902	164,930
Charge for the year	-	7,018	287	9,926	3,817	550	21,598
Disposal	-	-	-	(77)	-	(67)	(144)
At 31 December 2007	<u>-</u>	<u>50,719</u>	<u>7,020</u>	<u>110,649</u>	<u>15,611</u>	<u>2,385</u>	<u>186,384</u>
<b>Net book value</b>							
At 31 December 2007	<u>168</u>	<u>20,355</u>	<u>219</u>	<u>19,732</u>	<u>16,656</u>	<u>544</u>	<u>57,674</u>

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Demand deposits	10,323,248	9,206,601	10,077,017	9,206,601
Savings deposits	4,648,283	3,544,097	4,592,411	3,544,097
Fixed/investment deposits	16,382,211	16,249,026	12,704,035	16,249,026
Negotiable instruments of deposits	1,656,331	1,724,992	1,213,320	1,724,992
	<u>33,010,073</u>	<u>30,724,716</u>	<u>28,586,783</u>	<u>30,724,716</u>

**(ii) By type of customers**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Government and statutory bodies	14,395	9,661	14,395	9,661
Business enterprises	13,236,641	12,240,336	9,761,746	12,240,336
Individuals	16,769,513	15,358,050	16,453,793	15,358,050
Others	2,989,524	3,116,669	2,356,849	3,116,669
	<u>33,010,073</u>	<u>30,724,716</u>	<u>28,586,783</u>	<u>30,724,716</u>

**15. Deposits and placements of banks and other financial institutions**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Licensed banks	331,276	741,911	286,625	741,911
Bank Negara Malaysia	31,103	689,028	30,779	689,028
Other financial institutions	2,930,518	3,305,209	2,928,315	3,305,209
	<u>3,292,897</u>	<u>4,736,148</u>	<u>3,245,719</u>	<u>4,736,148</u>

**16. Other payables**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Derivatives (Note 39)	2,932,097	1,093,286	2,929,776	1,093,286
Interest/profit payable	257,040	195,305	244,362	195,305
Provision for retirement benefit scheme (Note 33)	3,372	4,540	3,372	4,540
Amount owing to subsidiaries	-	-	22	22
Profit equalisation reserve	5,744	1,074	-	1,074
Other payables and accruals	1,214,076	1,346,184	2,006,327	1,346,184
	<u>4,412,329</u>	<u>2,640,389</u>	<u>5,183,859</u>	<u>2,640,411</u>

The movements in profit equalisation reserve are as follows:-

**Profit equalisation reserve**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At 1 January	1,074	9,119	1,074	9,119
Amount provided during the year	6,110	4,665	5,100	4,665
Amount written back during the year	(1,440)	(12,710)	(1,440)	(12,710)
Amount vested over to Saadiq	-	-	(4,734)	-
At 31 December	<u>5,744</u>	<u>1,074</u>	<u>-</u>	<u>1,074</u>

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**17. Subordinated debts**

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>At cost</u>		
Islamic subordinated debt (i)	380,000	380,000
<u>At fair value</u>		
Subordinated bonds (ii)	520,058	495,916
	900,058	875,916

(i) On 14 December 2004, the Bank entered into a BBA (Bai Bithaman Ajil) Transaction Sale Agreement and Musyarakah Contribution Agreement with a third party for the issuance of RM 380 million Islamic Subordinated debt ("the Debt") for the funding of its Islamic Banking ("IB") operations.

Terms and conditions of the Debt are as follows:-

- a) The Debt is unsecured and bears a profit margin of 7% per annum payable semi-annually from the date of issue.
- b) The Debt is to be repaid in full upon expiry of 7 years from the date of issue through the following:-
  - i) bullet repayment by cash; or
  - ii) issuance of 380 million Irredeemable Non Cumulative Preference shares at an issue price of RM 1.00 each.

The cash repayment represents a subordinated obligation of the Bank, subordinated to all the other liabilities and obligation of the Bank (except for those that are also subordinated by their terms). Any cash repayment shall be subject to approval from Bank Negara Malaysia.

- c) For capital adequacy requirements, the debt shall be made available for absorption of losses incurred by IB operations prior to its repayment at the end of 7 years.

(ii) On 15 November 2007, the Bank issued RM 500 million nominal value Subordinated Bonds ("the Bonds") with a fixed coupon rate of 4.28% per annum payable semi-annually in arrears in May and November of each year. The Bonds, with a 10-year tenor, due in November 2017, are under a 10 non callable 5 basis feature, whereby the Bank has the option to redeem the Bonds in whole or in part on or after the 5th anniversary date from the date of issuance of the Bonds. Should the Bank decide not to exercise its options to redeem the Bonds, the holders of the Bonds will be entitled to a revised interest rate of 3 months KLIBOR plus 0.69% from the 5th anniversary date until the final redemption of the Bonds.

**18. Redeemable preference shares**

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Authorised</b>		
Redeemable preference shares of RM 1.00 each	300,000	300,000
<b>Issued and fully paid</b>	-	-



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**18. Redeemable preference shares (continued)**

The Bank had in prior years issued and subsequently redeemed 190,000 cumulative Redeemable Preference Shares ("RPS") of RM 1.00 each. The redemption of the RPS had resulted in an amount of RM190,000 in respect of the nominal value of the RPS to be transferred to a capital redemption reserve (Note 20).

**19. Share capital**

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Authorised</b>		
Ordinary Shares of RM 1.00 each	700,000	700,000
Irredeemable Non-cumulative preference shares of RM 0.10 each	<u>38,000</u>	<u>38,000</u>
	<u><u>738,000</u></u>	<u><u>738,000</u></u>
<b>Issued and fully paid</b>		
Ordinary Shares of RM 1.00 each	<u>125,000</u>	<u>125,000</u>

**20. Reserves**

	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<i>Non-distributable :</i>				
Share premium	375,000	375,000	375,000	375,000
Statutory reserves	126,539	125,000	125,000	125,000
Capital redemption reserve (Note 18)	190	190	190	190
AFS reserves	9,465	(1,102)	10,369	(1,102)
Cash flow hedge reserves	<u>(5,803)</u>	<u>4,571</u>	<u>(5,803)</u>	<u>4,571</u>
	505,391	503,659	504,756	503,659
<i>Distributable :</i>				
Retained profits	<u>1,459,917</u>	<u>1,123,636</u>	<u>1,452,188</u>	<u>1,123,636</u>
	<u><u>1,965,308</u></u>	<u><u>1,627,295</u></u>	<u><u>1,956,944</u></u>	<u><u>1,627,295</u></u>

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

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

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

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**21. Capital and reserves****Reconciliation of movement in capital and reserves**

GROUP	Note	← Non Distributable Reserves →				→	Distributable Reserves	Total RM'000	
		Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Capital redemption reserves RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000		Retained profits RM'000
At 1 January 2007		125,000	375,000	125,000	190	9,111	22,226	1,317,547	1,974,074
Unrealised net gain on revaluation of securities available-for-sale		-	-	-	-	25,194	-	-	25,194
Realised gain from disposal of securities available-for-sale transferred to income statements		-	-	-	-	(35,407)	-	-	(35,407)
Unrealised loss on cash flow hedge		-	-	-	-	-	(13,720)	-	(13,720)
Realised gain on cash flow hedge transferred to income statements		-	-	-	-	-	(3,935)	-	(3,935)
Actuarial gain from defined benefit plan recognised during the year		-	-	-	-	-	-	685	685
Net gains/(losses) recognised directly in equity		-	-	-	-	(10,213)	(17,655)	685	(27,183)
Profit for the year		-	-	-	-	-	-	533,184	533,184
Total recognised income and expense for the year		-	-	-	-	(10,213)	(17,655)	533,869	506,001
Dividends (ordinary shares):-									
- 2006 final	22	-	-	-	-	-	-	(208,780)	(208,780)
- 2007 interim	22	-	-	-	-	-	-	(219,000)	(219,000)
- 2007 special	22	-	-	-	-	-	-	(300,000)	(300,000)
At 31 December 2007		<b>125,000</b>	<b>375,000</b>	<b>125,000</b>	<b>190</b>	<b>(1,102)</b>	<b>4,571</b>	<b>1,123,636</b>	<b>1,752,295</b>
		Note 19	Note 20	Note 20	Note 20	Note 20	Note 20	Note 20	

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**21. Capital and reserves (continued)**

## Reconciliation of movement in capital and reserves (continued)

GROUP	Note	← Non Distributable Reserves →					→	Distributable Reserves	Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Capital redemption reserves RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Retained profits RM'000	
At 1 January 2008		125,000	375,000	125,000	190	(1,102)	4,571	1,123,636	1,752,295
Unrealised net gain on revaluation of securities available-for-sale		-	-	-	-	28,006	-	-	28,006
Realised gain from disposal of securities available-for-sale transferred to income statements		-	-	-	-	(17,439)	-	-	(17,439)
Unrealised loss on cash flow hedge		-	-	-	-	-	(20,759)	-	(20,759)
Realised loss on cash flow hedge transferred to income statements		-	-	-	-	-	10,385	-	10,385
Actuarial gain from defined benefit plan recognised during the year		-	-	-	-	-	-	242	242
Net gains/(losses) recognised directly in equity		-	-	-	-	10,567	(10,374)	242	435
Profit for the year		-	-	-	-	-	-	718,378	718,378
Total recognised income and expense for the year		-	-	-	-	10,567	(10,374)	718,620	718,813
Transfer to statutory reserves		-	-	1,539	-	-	-	(1,539)	-
Dividends (ordinary shares):-									
- 2007 final	22	-	-	-	-	-	-	(310,800)	(310,800)
- 2007 special	22	-	-	-	-	-	-	(70,000)	(70,000)
At 31 December 2008		<b>125,000</b>	<b>375,000</b>	<b>126,539</b>	<b>190</b>	<b>9,465</b>	<b>(5,803)</b>	<b>1,459,917</b>	<b>2,090,308</b>
		Note 19	Note 20	Note 20	Note 20	Note 20	Note 20	Note 20	

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**21. Capital and reserves (continued)****Reconciliation of movement in capital and reserves (continued)**

BANK	Note	← Non Distributable Reserves				→	Distributable Reserves		Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Capital redemption reserves RM'000	Cash flow hedge reserves RM'000	Retained profits RM'000		
At 1 January 2007		125,000	375,000	125,000	190	9,111	22,226	1,317,547	1,974,074
Unrealised net gain on revaluation of securities available-for-sale		-	-	-	-	25,194	-	-	25,194
Realised gain from disposal of securities available-for-sale transferred to income statements		-	-	-	-	(35,407)	-	-	(35,407)
Unrealised loss on cash flow hedge		-	-	-	-	-	(13,720)	-	(13,720)
Realised gain on cash flow hedge transferred to income statements		-	-	-	-	-	(3,935)	-	(3,935)
Actuarial gain from defined benefit plan recognised during the year		-	-	-	-	-	-	685	685
Net gains/(losses) recognised directly in equity		-	-	-	-	(10,213)	(17,655)	685	(27,183)
Profit for the year		-	-	-	-	-	-	533,184	533,184
Total recognised income and expense for the year		-	-	-	-	(10,213)	(17,655)	533,869	506,001
Dividends (ordinary shares):-									
- 2006 final	22	-	-	-	-	-	-	(208,780)	(208,780)
- 2007 interim	22	-	-	-	-	-	-	(219,000)	(219,000)
- 2007 special	22	-	-	-	-	-	-	(300,000)	(300,000)
At 31 December 2007		<b>125,000</b>	<b>375,000</b>	<b>125,000</b>	<b>190</b>	<b>(1,102)</b>	<b>4,571</b>	<b>1,123,636</b>	<b>1,752,295</b>
		Note 19	Note 20	Note 20	Note 20	Note 20	Note 20	Note 20	

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**21. Capital and reserves (continued)****Reconciliation of movement in capital and reserves (continued)**

BANK	Note	← Non Distributable Reserves →					→	Distributable Reserves	Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Capital redemption reserves RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Retained profits RM'000	
At 1 January 2008		125,000	375,000	125,000	190	(1,102)	4,571	1,123,636	1,752,295
Unrealised net gain on revaluation of securities available-for-sale		-	-	-	-	29,616	-	-	29,616
Realised gain from disposal of securities available-for-sale transferred to income statements		-	-	-	-	(18,145)	-	-	(18,145)
Unrealised loss on cash flow hedge		-	-	-	-	-	(20,759)	-	(20,759)
Realised loss on cash flow hedge transferred to income statements		-	-	-	-	-	10,385	-	10,385
Actuarial gain from defined benefit plan recognised during the year		-	-	-	-	-	-	242	242
Net gains/(losses) recognised directly in equity		-	-	-	-	11,471	(10,374)	242	1,339
Profit for the year		-	-	-	-	-	-	709,110	709,110
Total recognised income and expense for the year		-	-	-	-	11,471	(10,374)	709,352	710,449
Dividends (ordinary shares):-									
- 2007 final	22	-	-	-	-	-	-	(310,800)	(310,800)
- 2007 special	22	-	-	-	-	-	-	(70,000)	(70,000)
At 31 December 2008		<b>125,000</b>	<b>375,000</b>	<b>125,000</b>	<b>190</b>	<b>10,369</b>	<b>(5,803)</b>	<b>1,452,188</b>	<b>2,081,944</b>
		Note 19	Note 20	Note 20	Note 20	Note 20	Note 20	Note 20	

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**22. Dividends**

Dividends paid in respect of the year ended 31 December are as follows:-

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Ordinary:-		
Final paid:-		
336 sen per share less tax in respect of year ended 2007 (2006 - 229 sen per share less tax)	310,800	208,780
Interim paid:-		
Nil (2007 - 240 sen per share less tax)	-	219,000
Special dividend paid:-		
76 sen per share less tax in respect of year ended 2007 (2007 - 329 sen per share less tax)	70,000	300,000
	<u>380,800</u>	<u>727,780</u>

The Directors propose a final ordinary dividend of 80 sen per share less tax at 25% totalling RM 75,000,000 (60 sen per ordinary share) in respect of the current financial year on the issued and fully paid-up ordinary shares of the Bank. This proposed dividend will be recognised in subsequent financial reports upon approval by the shareholders.

**23. Interest income**

	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loans and advances				
- Interest income other than recoveries from NPLs	1,106,681	1,281,946	1,111,274	1,281,946
- Recoveries from NPLs	63,472	56,989	63,472	56,989
Money at call and deposit placements with banks and other financial institutions	456,005	487,424	456,005	487,424
Securities held for trading	34,835	34,362	34,835	34,362
Securities available-for-sale	50,445	94,441	50,445	94,441
	<u>1,711,438</u>	<u>1,955,162</u>	<u>1,716,031</u>	<u>1,955,162</u>
Amortisation of premium less accretion of discount	59,644	36,552	59,644	36,552
Interest suspended	(27,451)	(37,275)	(27,451)	(37,275)
Total interest income	<u>1,743,631</u>	<u>1,954,439</u>	<u>1,748,224</u>	<u>1,954,439</u>

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**24. Interest expense**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits and placements of banks and other financial institutions	138,707	172,277	138,707	172,277
Deposits from customers	736,974	830,975	741,565	830,975
Loans sold to Cagamas	9,241	17,276	9,241	17,276
Subordinated debts	26,020	2,755	26,020	2,755
	<u>910,942</u>	<u>1,023,283</u>	<u>915,533</u>	<u>1,023,283</u>

**25. Other operating income**

	Group and Bank	
	2008 RM'000	2007 RM'000
Fee income:-		
Commission	138,040	141,876
Service charges and fees	14,945	30,436
Guarantee fees	23,670	15,052
	<u>176,655</u>	<u>187,364</u>
Gains from sale of securities and other financial instruments		
- Securities held for trading and other financial instruments	224,262	20,770
- Securities available-for-sale	5,394	38,104
Unrealised gains on revaluation of securities held-for-trading and other financial instruments	209,069	67,533
Gross dividends from unquoted investments	2,229	713
	<u>440,954</u>	<u>127,120</u>
Other income:-		
Foreign exchange currency gains		
- Gain from dealing in foreign currency	110,057	202,213
- Unrealised gain/(loss) from foreign exchange translation	149,241	(30,415)
Rental income	544	532
Gain on disposal of property, plant and equipment	285	23
Others	28,354	8,851
	<u>288,481</u>	<u>181,204</u>
<b>Total other operating income</b>	<u>906,090</u>	<u>495,688</u>

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**26. Other operating expenses**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Personnel costs</b>				
- Salaries, bonus, wages and allowances	246,024	218,914	245,492	218,914
- Pension fund contributions	25,589	21,624	25,589	21,624
- Other staff related cost	47,860	27,742	47,777	27,742
	<u>319,473</u>	<u>268,280</u>	<u>318,858</u>	<u>268,280</u>
<b>Establishment costs</b>				
- Depreciation of property, plant and equipment	21,309	21,598	21,309	21,598
- Amortisation of prepaid lease payments	24	21	24	21
- Rental	22,806	20,826	22,806	20,826
- Information technology and project expenses	101,643	82,423	101,621	82,423
- Others	35,123	35,458	34,913	35,458
	<u>180,905</u>	<u>160,326</u>	<u>180,673</u>	<u>160,326</u>
<b>Marketing expenses</b>				
- Advertisement and publicity	20,301	22,254	20,301	22,254
- Others	15,052	13,780	15,052	13,780
	<u>35,353</u>	<u>36,034</u>	<u>35,353</u>	<u>36,034</u>
<b>Administration and general expenses</b>				
- Communication expenses	16,173	13,693	16,165	13,693
- Group administration and business support expenses	95,368	44,057	94,948	44,057
- Outsourcing expenses	30,324	26,783	30,324	26,783
- Others	44,411	94,653	35,512	94,653
	<u>186,276</u>	<u>179,186</u>	<u>176,949</u>	<u>179,186</u>
<b>Total other operating expenses</b>	<u>722,007</u>	<u>643,826</u>	<u>711,833</u>	<u>643,826</u>

The above expenditure includes the following statutory disclosures:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors' remuneration, excluding benefits-in-kind (Note 27)	2,783	2,542	2,783	2,542
Share-based payments	5,753	4,873	5,753	4,873
Defined benefit obligations cost (Note 33)	1,488	1,772	1,488	1,772
Contributions to defined contribution plan (included in personnel costs)	24,101	19,852	24,101	19,852
Hire of equipment	727	2,173	727	2,173
Auditor's remuneration:-				
- Statutory audit	465	383	412	383
- Other services	149	81	149	81
Property, plant and equipment:-				
- Depreciation	21,309	21,598	21,309	21,598
Rental of premises	23,514	21,905	23,514	21,905
Amortisation on prepaid lease payments	24	21	24	21
Mutual separation scheme	22,682	-	22,682	-



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**27. Key management personnel compensation**

The key management personnel compensation are as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors:-				
- Fees	367	420	367	420
- Remuneration	2,416	2,122	2,416	2,122
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	805	773	805	773
Total short-term employee benefits *	<u>3,588</u>	<u>3,315</u>	<u>3,588</u>	<u>3,315</u>
- Post-employment benefits	-	-	-	-
- Other long term benefits	-	-	-	-
- Share-based payments	-	-	-	-
	<u><u>3,588</u></u>	<u><u>3,315</u></u>	<u><u>3,588</u></u>	<u><u>3,315</u></u>
Other key management personnel:-				
- Short-term employee benefits	9,141	8,557	9,141	8,557
- Post-employment benefits	-	-	-	-
- Other long term benefits	-	-	-	-
- Termination benefits	-	-	-	-
- Share-based payments	299	52	299	52
	<u><u>9,440</u></u>	<u><u>8,609</u></u>	<u><u>9,440</u></u>	<u><u>8,609</u></u>

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

\* Aggregate remuneration of all Directors during the year are as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Executive Directors and Chief Executive Officers:-				
Salary and other remuneration, including meeting allowance	1,698	1,430	1,698	1,430
Bonuses	652	629	652	629
Benefits-in-kind	805	773	805	773
	<u><u>3,155</u></u>	<u><u>2,832</u></u>	<u><u>3,155</u></u>	<u><u>2,832</u></u>
Non-executive Directors:-				
Fees	367	420	367	420
Other allowances	66	63	66	63
	<u><u>433</u></u>	<u><u>483</u></u>	<u><u>433</u></u>	<u><u>483</u></u>

Number of Directors of the Group and the Bank whose remuneration for the financial year fall in the following bands are as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Executive Directors and Chief Executive Officers:-				
RM 2,050,001 to RM 2,100,000	-	1	-	1
RM 2,300,001 to RM 2,350,000	1	-	1	-

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**27. Key management personnel compensation (continued)**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-executive Directors:-				
RM 100,001 to RM 150,000	1	1	1	1
RM 50,001 to RM 100,000	3	3	3	3
Not exceeding RM 50,000	-	1	-	1

**28. Allowance for bad and doubtful debts and financing**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Allowance for bad and doubtful debts on loans, advances and financing:-				
Specific allowance (net)	96,683	92,040	91,713	92,040
- Made in the financial year	128,426	209,352	123,384	209,352
- Discounting of collateral	73,304	77,630	73,304	77,630
- Written back	(105,047)	(194,942)	(104,975)	(194,942)
General allowance				
- Made in the financial year	14,850	2,011	14,000	2,011
Bad and doubtful debts on loans, advances and financing:-				
Written off	71,015	73,338	71,015	73,338
Recovered	(53,620)	(53,770)	(53,589)	(53,770)
	<u>128,928</u>	<u>113,619</u>	<u>123,139</u>	<u>113,619</u>

**29. Credit exposure to connected parties**

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Aggregate value of outstanding credit exposures to connected parties	2,211,181	1,637,907	2,247,188	1,708,131
As a percentage of total credit exposures	5.7%	4.8%	6.0%	5.0%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	100	266	100	266
As a percentage of total credit exposures	0.0%	0.0%	0.0%	0.0%

**30. 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 Group and the Bank if the Group and the Bank have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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**30. Significant related party transactions and balances (continued)**

The related parties of the Group and the Bank are:-

**(i) Subsidiaries of the Bank**

Details of the subsidiaries are shown in Note 12.

**(ii) Fellow subsidiaries of Standard Chartered PLC**

Entities 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 Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes all the Directors and certain members of senior management of the Group and the Bank.

**(iv) Companies under control or significant influence of key management personnel**

These are entities in which certain key management personnel hold key management position or have significant voting power via ownership of shares.

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

**(a) Transactions and balances with subsidiaries of the Bank and fellow subsidiaries of Standard Chartered PLC**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Transactions</b>				
<b>Income</b>				
Interest on placements or loans	36,040	28,370	40,632	28,370
Interest on deposits	12,931	5,326	12,931	5,326
Management fee	-	-	7,765	-
	<u>48,971</u>	<u>33,696</u>	<u>61,328</u>	<u>33,696</u>
<b>Expenditure</b>				
Interest on borrowings	66,327	83,281	66,327	83,281
Interest on deposits	2,212	3,214	2,212	3,214
Other operating expenses	179,677	152,958	177,888	152,958
	<u>248,216</u>	<u>239,453</u>	<u>246,427</u>	<u>239,453</u>
<b>Balances</b>				
<b>Amount due from subsidiaries of the Bank and fellow subsidiaries of Standard Chartered PLC</b>				
Inter-company loans	342,644	496,111	922,644	496,111
Current accounts	68,317	78,417	63,861	78,417
Derivatives	803,970	152,956	803,970	152,956
Other balances	200,641	5,661	200,641	5,661
	<u>1,415,572</u>	<u>733,145</u>	<u>1,991,116</u>	<u>733,145</u>
<b>Amount due to subsidiaries and fellow subsidiaries of Standard Chartered PLC</b>				
Inter-company loans	(1,004,254)	(1,985,342)	(1,004,254)	(1,985,342)
Current accounts	(510,842)	(212,743)	(330,350)	(212,743)
Derivatives	(1,129,716)	(236,287)	(1,129,716)	(236,287)
Amount due in respect of support charges	(247,424)	(182,087)	(247,004)	(182,087)
Other balances	(1,362,525)	(85,323)	(852,514)	(85,323)
	<u>(4,254,761)</u>	<u>(2,701,782)</u>	<u>(3,563,838)</u>	<u>(2,701,782)</u>

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**30. Significant related party transactions and balances (continued)****(b) 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 27.

**Transactions and balances other than compensation**

Transactions	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Income</b>				
Interest on loans, advances and financing				
- Directors	28	-	28	-
- Other key management personnel	72	41	70	41
- Companies under control or significant influence of key management personnel				
	1,019	14	1,019	14
	<u>1,119</u>	<u>55</u>	<u>1,117</u>	<u>55</u>
<b>Expenditure</b>				
Interest on deposits				
- Directors	620	565	620	565
- Other key management personnel	25	104	25	104
- Companies under control or significant influence of key management personnel				
	242	-	242	-
	<u>887</u>	<u>669</u>	<u>887</u>	<u>669</u>
<b>Balances</b>				
Loans, advances and financing				
- Directors	1,146	146	1,146	146
- Other key management personnel	3,376	3,131	3,014	3,131
- Companies under control or significant influence of key management personnel				
	67,911	5,437	67,911	5,437
Deposits				
- Directors	(19,092)	(33,607)	(19,085)	(33,607)
- Other key management personnel	(990)	(6,479)	(986)	(6,479)

Loans made to other key management personnel of the Group and the Bank are on similar terms and conditions generally available to other employees of the Group and the Bank.

All other related party transactions are conducted at arm's length basis and on normal commercial terms which are not more favourable than those generally available to the public.

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**31. Tax expense**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income tax expense:-				
- Current year	242,298	203,797	240,726	203,797
- Under/(over) provision in prior years	14,595	(439)	14,595	(439)
	<u>256,893</u>	<u>203,358</u>	<u>255,321</u>	<u>203,358</u>
Deferred tax expense (Note 32):-				
- Origination/reversal of temporary differences	1,386	(3,083)	1,851	(3,083)
- Over provision in prior years	(14,595)	(550)	(14,595)	(550)
- Effects of changes in tax rate	-	11,800	-	11,800
- Reversal of deferred tax arising from transfer of Islamic Banking business to Saadiq	-	-	6,191	-
	<u>(13,209)</u>	<u>8,167</u>	<u>(6,553)</u>	<u>8,167</u>
Total tax expense	<u>243,684</u>	<u>211,525</u>	<u>248,768</u>	<u>211,525</u>
Reconciliation of effective tax expense:-				
Profit before taxation	<u>962,062</u>	<u>744,709</u>	<u>957,878</u>	<u>744,709</u>
Income tax using Malaysian tax rates @ 26% (2007: 27%)	250,137	201,071	249,048	201,071
Non-deductible expenses	1,044	2,163	1,044	2,163
Non-taxable income	(7,442)	(2,520)	(7,442)	(2,520)
Transfer of Islamic Banking business to Saadiq	-	-	6,191	-
Effects of changes in tax rate	(55)	11,800	(73)	11,800
	<u>243,684</u>	<u>212,514</u>	<u>248,768</u>	<u>212,514</u>
Under/(over) provision in prior years				
- Income tax	14,595	(439)	14,595	(439)
- Deferred tax	(14,595)	(550)	(14,595)	(550)
Total tax expense	<u>243,684</u>	<u>211,525</u>	<u>248,768</u>	<u>211,525</u>
Tax recognised directly in equity:-				
AFS reserves	(3,507)	3,895	(3,808)	3,895
Cash flow hedge reserves	3,458	7,120	3,458	7,120
Actuarial gains or losses	(81)	(228)	(81)	(228)
Total tax recognised directly in equity (Note 32)	<u>(130)</u>	<u>10,787</u>	<u>(431)</u>	<u>10,787</u>

With effect from year of assessment 2007, corporate tax rate is at 27%. The Finance Act 2007 also announced the reduction of corporate tax rate to 26% with effect from year of assessment 2008 and to 25% with effect from year of assessment 2009 respectively. Consequently, deferred tax assets and liabilities are measured using these tax rates.

**32. Deferred tax**

The recognised deferred tax assets/(liabilities) (before offsetting) are as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Property, plant and equipment	(148)	(1,242)	(148)	(1,242)
General allowance for bad and doubtful debts and financing	80,001	75,105	73,598	75,105
Other temporary differences	23,981	16,762	23,728	16,762
Actuarial gains or losses	(309)	(228)	(309)	(228)
Reserves				
- Available-for-sale	(3,155)	352	(3,456)	352
- Cash flow hedge	1,934	(1,524)	1,934	(1,524)
	<u>102,304</u>	<u>89,225</u>	<u>95,347</u>	<u>89,225</u>

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**32. Deferred tax (continued)**

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

	At 1 January 2007 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2007 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2008 RM'000
<b>Group</b>							
Property, plant and equipment	(1,665)	423	-	(1,242)	1,094	-	(148)
General allowance for bad and doubtful debts and financing	83,555	(8,450)	-	75,105	4,896	-	80,001
Other temporary differences	16,902	(140)	-	16,762	7,219	-	23,981
Actuarial gains or losses	-	-	(228)	(228)	-	(81)	(309)
Reserves							
- Available-for-sale	(3,543)	-	3,895	352	-	(3,507)	(3,155)
- Cash flow hedge	(8,644)	-	7,120	(1,524)	-	3,458	1,934
	<u>86,605</u>	<u>(8,167)</u>	<u>10,787</u>	<u>89,225</u>	<u>13,209</u>	<u>(130)</u>	<u>102,304</u>
		Note 31	Note 31		Note 31	Note 31	

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**32. Deferred tax (continued)**

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

	At 1 January 2007 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2007 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2008 RM'000
<b>Bank</b>							
Property, plant and equipment	(1,665)	423	-	(1,242)	1,094	-	(148)
General allowance for bad and doubtful debts and financing	83,555	(8,450)	-	75,105	(1,507)	-	73,598
Other temporary differences	16,902	(140)	-	16,762	6,966	-	23,728
Actuarial gains or losses	-	-	(228)	(228)	-	(81)	(309)
Reserves							
- Available-for-sale	(3,543)	-	3,895	352	-	(3,808)	(3,456)
- Cash flow hedge	(8,644)	-	7,120	(1,524)	-	3,458	1,934
	<u>86,605</u>	<u>(8,167)</u>	<u>10,787</u>	<u>89,225</u>	<u>6,553</u>	<u>(431)</u>	<u>95,347</u>
		Note 31	Note 31		Note 31	Note 31	

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**33. Staff retirement and service benefits****Funded scheme**

The Bank makes contributions to the SCB Retirement Benefit Scheme, a partially funded defined benefit scheme that provides pension benefits for certain employees upon retirement. Under the scheme, eligible employees are entitled to retirement benefits of one month of the average basic salary for each completed year of service upon the retirement age of 55. Average basic salary refers to the average monthly basic salary earned in the twelve months' immediately prior to leaving service.

**Unfunded scheme**

The Bank makes additional contributions directly to the Employees Provident Fund ("EPF") for certain eligible employees. These contributions will be provided for in the Bank's financial statements and remitted to the EPF after the employee has been in employment with the Bank for a period of 3 years.

**SCB Retirement Benefit Scheme**

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Amounts of net liabilities recognised in the balance sheet</b>		
Present value of defined benefit obligations		
- funded	2,675	3,060
- unfunded	2,773	3,443
	<u>5,448</u>	<u>6,503</u>
Fair value of plan assets	(2,076)	(1,963)
Recognised liability for defined benefit obligations (Note 16)	<u><u>3,372</u></u>	<u><u>4,540</u></u>
<b>Movement in present value of defined benefit obligations</b>		
Benefit obligation at 1 January	6,503	7,044
Current service cost	1,343	1,592
Interest cost	245	240
Actuarial gain recognised in equity	(398)	(652)
Benefits paid	(2,245)	(1,721)
Benefit obligation at 31 December	<u><u>5,448</u></u>	<u><u>6,503</u></u>
<b>Movement in present value of plan assets</b>		
Fair value at 1 January	1,963	1,542
Expected return on plan assets	100	60
Actuarial gain recognised in equity	(75)	261
Employer contributions	88	100
Benefits paid	-	-
Fair value at 31 December	<u><u>2,076</u></u>	<u><u>1,963</u></u>



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**33. Staff retirement and service benefits (continued)**

	Group and Bank	
	2008 RM'000	2007 RM'000
<b>Components of pension cost</b>		
Amount recognised in income statement		
Current service cost	1,343	1,592
Interest cost	245	240
Expected return on plan assets	(100)	(60)
Total pension cost recognised in income statement (Note 26)	1,488	1,772
Actual return on assets		
Actual return on plan assets	25	321
	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>Actuarial gains and losses recognised directly in equity</b>		
Cumulative amount at 1 January	913	-
Recognised during the year	322	913
Cumulative amount at 31 December	1,235	913

The principal actuarial assumptions used are (expressed as weighted averages):-

	2008 Rate per annum (%)	2007 Rate per annum (%)
Discount rate	4%	4%
Expected long-term rate of return on plan assets	5%	4%
Expected rate of future salary increases	5%	5%
EPF dividend rate	5%	4%

	Funded Scheme	
	2008 RM'000	2007 RM'000
<b>Plan assets comprise:-</b>		
Malaysian Government Securities	727	731
Short Term Money Market Instruments and Cash	1,349	1,232
Total fair value of assets	2,076	1,963

**Description of basis to determine the overall expected rate of return on assets**

The expected return on plan assets is derived as a weighted average of the expected return on each asset and the respective allocation for each asset category. Expected asset allocation going forward will comprise 40% Malaysian Government Securities and 60% cash, fixed income instruments and other liquid instruments.

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**33. Staff retirement and service benefits (continued)****Historical information**

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
Present value of the defined benefit obligation	5,448	6,503	7,044	5,125	4,760
Fair value of plan assets	(2,076)	(1,963)	(1,542)	(1,883)	(3,149)
Deficit/(surplus) in the plan	<u>3,372</u>	<u>4,540</u>	<u>5,502</u>	<u>3,242</u>	<u>1,611</u>
Experience adjustments arising on plan liabilities	(398)	(652)	-	-	-
Experience adjustments arising on plan assets	(75)	261	-	-	-

The Group expects to pay RM 1,683,000 in contributions to defined benefit plans in 2009.

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**34. Equity Compensation Benefits**

The Bank participated in the following share compensation plans for the acquisition of shares in the ultimate holding company, Standard Chartered PLC. The market value of shares are denominated in pounds sterling at the time of grant.

**i) International Sharesave Scheme**

The International Sharesave Scheme was launched in 1996 and made available to all employees of the Bank. Employees have the choice of opening a three-year or a five-year savings contract. Within a period of six months after the third or fifth anniversary, employees may purchase ordinary shares of Standard Chartered PLC. Employees may make monthly contributions up to £250 over the period of the contract prior to exercise of the options; alternatively, the employee may elect to have the savings, plus interest, repaid in cash. The price at which they may purchase shares is at discount of up to 20 percent on the share price at the date of the invitation. There are no performance conditions attached to options granted.

The options typically vest at 33% each year for the three-year savings contract, and 20% each year for the five-year savings contract.

The option granted do not confer any right to participate in any share issue of any other company.

Options are valued using a Binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:-

	<b>2008</b>	<b>2007</b>
Grant date	3 October	1 October
Share price at grant date	£11.62	£15.88
Exercise price	£11.08	£12.43
Shares granted ('000)	98	224
Vesting period (years)	3/5	3/5
Expected volatility (%)	23/31	21/24
Expected option life (years)	3.33/5.33	3.33/5.33
Risk free rate (%)	5	5
Expected dividends (yield) (%)	2.9/3.3	3/3.3
Fair value (£)	<u>4.4/4.9</u>	<u>4.40/4.84</u>

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**34. Equity Compensation Benefits (continued)****i) International Sharesave Scheme (continued)**

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to the grant date.

The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant date.

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2008</b>	Weighted average exercise price	<b>2007</b>	Weighted average exercise price
	<u>Number ('000)</u>		<u>Number ('000)</u>	
At 1 January	384	£11.26	215	£9.28
Granted during the year	98	£11.62	224	£12.43
Exercised during the year	(11)	£8.04	(44)	£7.01
Lapsed during the year	(111)	£11.51	(11)	£9.74
At 31 December	<u>360</u>	£7.75	<u>384</u>	£11.26
Exercisable at 31 December	<u>360</u>	£7.75	<u>384</u>	£11.26
	<b>2008</b>		<b>2007</b>	
	Weighted average remaining life		Weighted average remaining life	
	Weighted average exercise price	No. of shares ( '000)	Weighted average exercise price	No. of shares ( '000)
Range of exercise price	Expected years	Contractual years	Expected years	Contractual years
9.87/11.62	£7.75	360	3.33/5.33	2.9
£5.595/£12.43			£11.26	384
			3.33/5.33	2.9

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**34. Equity Compensation Benefits (continued)**

**ii) Restricted Share Scheme**

The Restricted Share Scheme is a discretionary share incentive scheme for high performing and high potential staff at any level of the organisation whom the Group wishes to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the Restricted Share Scheme is not applicable to executive directors, as it has no performance conditions attached to it. Fifty per cent of the award vests two years after the date of the grant and the remainder after three years. The awards granted under this scheme are nil cost options.

The options granted do not confer any right to participate in any share issue of any other company.

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

	← 2008 →		← 2007 →	
Grant date	16 September	11 March	17 September	12 March
Share price at grant date	£13.86	£16.26	£14.94	£14.51
Shares granted ('000)	21	7	4	35
Vesting period (years)	2/3	2/3	2/3	2/3
Expected option life (years)	7	7	7	7
Expected dividends (yield) (%)	2.9	2.8	2.9	2.8
Fair value (£)	<u>12.81</u>	<u>15.33</u>	<u>13.71</u>	<u>13.36</u>

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant date.

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**34. Equity Compensation Benefits (continued)****ii) Restricted Share Scheme (continued)**

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2008</b>	Weighted average exercise price	<b>2007</b>	Weighted average exercise price
	<u>Number ('000)</u>		<u>Number ('000)</u>	
At 1 January	122	-	127	-
Granted during the year	28	-	39	-
Additional shares for rights issue *	15	-	-	-
Exercised during the year	(34)	-	(35)	-
Lapsed during the year	(4)	-	(9)	-
At 31 December	<u>127</u>	-	<u>122</u>	-
Exercisable at 31 December	<u>127</u>	-	<u>122</u>	-

\* For grants awarded prior to the announcement of the rights issue on 24 November 2008 which have not been exercised, the number of shares granted have been increased by 14.2 per cent to ensure option holders were compensated for the dilutive impact of the rights issue.

	<b>2008</b>				<b>2007</b>			
	Weighted average exercise price	No. of shares ( <u>'000</u> )	Expected years	Contractual years	Weighted average exercise price	No. of shares ( <u>'000</u> )	Expected years	Contractual years
Range of exercise price	-	127	7	4.94	-	122	7	4.7
N/A	-	127	7	4.94	-	122	7	4.7

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**34. Equity Compensation Benefits (continued)****iii) Executive Share Option Scheme (closed)**

The Executive Share Option Scheme is an intrinsic part of the Group's executive directors' and senior managers' total remuneration. An EPS performance criterion needs to be met before the options can be exercised. Executive share options to purchase ordinary shares in Standard Chartered PLC are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can normally only be exercised if a performance condition is satisfied.

The option granted do not confer any right to participate in any share issue of any other company.

The options are valued using a binomial option-pricing model.

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2008</b>		<b>2007</b>	
	<u>Number ('000)</u>	Weighted average exercise price	<u>Number ('000)</u>	Weighted average exercise price
At 1 January	164	£8.63	232	£8.46
Exercised during the year	(4)	£8.53	(61)	£7.98
Lapsed during the year	-	-	(7)	£8.63
At 31 December	<u>160</u>	£8.20	<u>164</u>	£8.63
Exercisable at 31 December	<u>160</u>	£8.20	<u>164</u>	£8.63
	<b>2008</b>		<b>2007</b>	
	Weighted average remaining life		Weighted average remaining life	
	Weighted average exercise price	No. of shares ( '000)	Weighted average exercise price	No. of shares ( '000)
Range of exercise price	Expected years	Contractual years	Expected years	Contractual years
£6.905/£9.36	£8.20	160	5	4.03
	£8.63	164	5	4.1

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**34. Equity Compensation Benefits (continued)**

**iv) Performance Share Plan**

The Performance Share Plan is designed as an intrinsic part of total remuneration for the Group's executive directors and for a small number of the Group's most senior executives. The awards granted under this scheme are nil cost options. Certain performance criteria need to be met before the options can be exercised.

The option granted do not confer any right to participate in any share issue of any other company.

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

	<b>2008</b>	<b>2007</b>
Grant date	11 March	12 March
Share price at grant date	£16.26	£14.51
Shares granted ('000)	24	20
Vesting period (years)	3	3
Expected option life (years)	10	10
Expected dividends (yield) (%)	2.8	2.8
Fair value (EPS) (£)	7.53	6.68
Fair value (TSR) (£)	<u>17.28</u>	<u>2.89</u>

The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.



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**34. Equity Compensation Benefits (continued)****iv) Performance Share Plan (continued)**

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2008</b>	Weighted average exercise price	<b>2007</b>	Weighted average exercise price
	<u>Number ('000)</u>		<u>Number ('000)</u>	
At 1 January	75	-	58	-
Additional shares for rights issue *	13	-	-	-
Granted during the year	24	-	20	-
Lapsed during the year	-	-	(3)	-
At 31 December	<u>112</u>	-	<u>75</u>	-
Exercisable at 31 December	<u>112</u>	-	<u>75</u>	-

\* For grants awarded prior to the announcement of the rights issue on 24 November 2008 which have not been exercised, the number of shares granted have been increased by 14.2 per cent to ensure option holders were compensated for the dilutive impact of the rights issue.

	<b>2008</b>				<b>2007</b>			
	Weighted average exercise price	No. of shares ( '000)	Weighted average remaining life		Weighted average exercise price	No. of shares ( '000)	Weighted average remaining life	
Range of exercise price	price	( '000)	Expected years	Contractual years	price	( '000)	Expected years	Contractual years
N/A	-	112	-	8.13	-	75	-	7.9

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**35. Basic earnings per ordinary share**

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

	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net profit attributable to ordinary shareholder	<u>718,378</u>	<u>533,184</u>	<u>709,110</u>	<u>533,184</u>
	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Number ('000)</b>	<b>Number ('000)</b>	<b>Number ('000)</b>	<b>Number ('000)</b>
Number of ordinary shares outstanding	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>

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**36. Commitments and contingencies**

In the normal course of business, the Group and the Bank make various commitments and incur 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:-

Group	As at 31 December 2008			As at 31 December 2007		
	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	939,093	939,093	801,697	1,078,978	1,078,978	796,409
Transaction-related contingent items	2,947,907	1,473,954	1,325,170	2,306,605	1,153,303	979,748
Short-term self liquidating trade-related contingencies	111,852	22,370	21,542	582,274	116,455	115,620
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	9,376,773	-	-	8,955,725	-	-
- maturity exceeding one year	2,590,767	1,295,384	801,654	788,681	394,341	197,170
Foreign exchange related contracts:-						
- less than one year	48,090,999	1,148,429	376,314	45,171,788	1,221,035	356,248
- one year to less than five years	16,132,696	1,110,193	359,055	8,870,529	784,704	290,637
- five years and above	5,494,202	1,098,023	232,465	1,730,417	226,568	65,011
Interest rate related contracts						
- less than one year	45,503,529	173,784	34,983	29,175,876	75,565	15,873
- one year to less than five years	58,559,749	1,985,350	470,080	45,174,882	1,303,118	286,127
- five years and above	8,559,229	1,081,285	288,121	4,304,302	389,492	88,033
Miscellaneous commitments and contingencies						
	3,381,316	-	-	1,150,405	-	-
	<u>201,688,112</u>	<u>10,327,865</u>	<u>4,711,081</u>	<u>149,290,462</u>	<u>6,743,559</u>	<u>3,190,876</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.

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

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**36. Commitments and contingencies (continued)**

	As at 31 December 2008			As at 31 December 2007		
	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
<b>Bank</b>						
Direct credit substitutes	919,474	919,474	782,078	1,078,978	1,078,978	796,409
Transaction-related contingent items	2,943,400	1,471,700	1,323,544	2,306,605	1,153,303	979,748
Short-term self liquidating trade-related contingencies	105,785	21,157	20,832	582,274	116,455	115,620
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	9,197,474	-	-	8,955,725	-	-
- maturity exceeding one year	2,554,831	1,277,416	789,010	788,681	394,341	197,170
Foreign exchange related contracts:-						
- less than one year	48,090,999	1,148,488	376,327	45,171,788	1,221,035	356,248
- one year to less than five years	16,072,971	1,103,036	356,205	8,870,529	784,704	290,637
- five years and above	5,494,202	1,098,023	232,465	1,730,417	226,568	65,011
Interest rate related contracts						
- less than one year	45,503,529	173,784	34,983	29,175,876	75,565	15,873
- one year to less than five years	58,559,749	1,989,625	470,424	45,174,882	1,303,118	286,127
- five years and above	8,559,229	1,078,731	288,121	4,304,302	389,492	88,033
Miscellaneous commitments and contingencies						
	3,381,316	-	-	1,150,405	-	-
	<u>201,382,959</u>	<u>10,281,434</u>	<u>4,673,989</u>	<u>149,290,462</u>	<u>6,743,559</u>	<u>3,190,876</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.

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

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**36. 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 2008, the amount of contracts which were not hedged and, hence, exposed to market risk was RM 474 million (2007 - RM 430 million) for the Group and the Bank.

**Credit Risk**

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2008, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM 2,630 million (2007 - RM 1,075 million) and RM 2,626 million (2007 - RM 1,075 million) for the Group and the Bank respectively. 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 Group and the Bank's foreign exchange related contracts and interest rate related contracts as at 31 December are as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Foreign exchange contracts				
- forward and futures contracts	28,063,817	32,459,456	28,063,817	32,459,456
- cross-currency interest rate swaps	17,517,871	9,471,802	17,458,146	9,471,802
- options purchased	11,646,810	6,540,054	11,646,810	6,540,054
- options written	12,489,399	7,301,422	12,489,399	7,301,422
Interest rate contracts				
- forward and future contracts	19,706,247	7,401,388	19,706,247	7,401,388
- swaps	89,296,586	66,111,652	89,296,586	66,111,652
- options purchased	2,188,605	2,687,660	2,188,605	2,687,660
- options written	1,431,069	2,454,360	1,431,069	2,454,360

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**37. Risk management policies**

The guidelines and policies adopted by the Group and 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. The CORG is chaired by the Country Chief Executive Officer.

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 interest 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.

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**37. Risk management policies (continued)**

(d) **Liquidity risk (continued)**

Liquidity risk is managed through the Asset and Liability Committee ("ALCO"). This committee, chaired by the Country Chief Executive Officer, is responsible for both statutory and prudential liquidity.

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

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

(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.

**38. Interest rate risk**

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

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**38. Interest rate risk (continued)**

Group As at 31 December 2008	Non Trading books								Non interest sensitive RM'000	Trading books RM'000	Total RM'000	Effective interest rate (%)
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>												
Cash and short term funds	3,958,447	-	-	-	-	-	-	-	165,805	-	4,124,252	3.00
Deposits and placements with banks and other financial institutions	-	985,270	-	-	-	-	-	-	-	-	985,270	3.31
Securities purchased under resale agreement	3,495,149	-	-	-	-	-	-	-	-	-	3,495,149	2.95
Securities held for trading	-	-	-	-	-	-	-	-	-	3,676,856	3,676,856	3.70
Securities available-for-sale	1,314,523	1,892,804	1,245,773	129,716	1,998,782	213	74,880	243	47,347	-	6,704,281	3.23
Loans, advances and financing												
- Performing	14,847,866	1,894,467	2,241,870	187,030	198,669	138,043	342,042	364,238	16,477	-	20,230,702	6.18
- Non performing	-	-	-	-	-	-	-	-	348,578	-	348,578	
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	4,490,430	-	4,490,430	
<b>Total assets</b>	<b>23,615,985</b>	<b>4,772,541</b>	<b>3,487,643</b>	<b>316,746</b>	<b>2,197,451</b>	<b>138,256</b>	<b>416,922</b>	<b>364,481</b>	<b>5,068,637</b>	<b>3,676,856</b>	<b>44,055,518</b>	
<b>Liabilities and shareholder's equity</b>												
Deposits from customers	17,392,077	3,683,622	4,757,904	497,382	478,671	19,862	234,877	379,015	5,566,663	-	33,010,073	2.30
Deposits and placements of banks and other financial institutions	2,981,915	20,823	271,497	11,652	-	-	7,010	-	-	-	3,292,897	2.70
Bills and acceptances payable	135,181	-	-	-	-	-	-	-	-	-	135,181	3.89
Recourse obligations on loans sold to Cagamas	-	11,002	-	64,693	86,203	-	-	-	-	-	161,898	4.47
Subordinated debt	-	-	-	-	-	380,000	520,058	-	-	-	900,058	5.43
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	4,465,103	-	4,465,103	
<b>Total liabilities</b>	<b>20,509,173</b>	<b>3,715,447</b>	<b>5,029,401</b>	<b>573,727</b>	<b>564,874</b>	<b>399,862</b>	<b>761,945</b>	<b>379,015</b>	<b>10,031,766</b>	<b>-</b>	<b>41,965,210</b>	
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,090,308</b>	<b>-</b>	<b>2,090,308</b>	
<b>Total liabilities and shareholder's equity</b>	<b>20,509,173</b>	<b>3,715,447</b>	<b>5,029,401</b>	<b>573,727</b>	<b>564,874</b>	<b>399,862</b>	<b>761,945</b>	<b>379,015</b>	<b>12,122,074</b>	<b>-</b>	<b>44,055,518</b>	
On-balance sheet interest sensitivity gap	3,106,812	1,057,094	(1,541,758)	(256,981)	1,632,577	(261,606)	(345,023)	(14,534)	(7,053,437)	3,676,856		
Off-balance sheet interest sensitivity gap	(3,120,705)	89,130	(1,100,934)	3,307,698	1,272,391	(370,015)	364,100	(441,665)	-	-		
<b>Total interest sensitivity gap</b>	<b>(13,893)</b>	<b>1,146,224</b>	<b>(2,642,692)</b>	<b>3,050,717</b>	<b>2,904,968</b>	<b>(631,621)</b>	<b>19,077</b>	<b>(456,199)</b>	<b>(7,053,437)</b>	<b>3,676,856</b>		



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**38. Interest rate risk (continued)**

Group As at 31 December 2007	Non Trading books									Trading books RM'000	Total RM'000	Effective interest rate (%)
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000			
<b>Assets</b>												
Cash and short term funds	14,670,997	-	-	-	-	-	-	-	148,027	-	14,819,024	3.83
Deposits and placements with banks and other financial institutions	-	1,205,475	-	-	-	-	-	-	-	-	1,205,475	3.60
Securities purchased under resale agreement	96,473	-	-	-	-	-	-	-	-	-	96,473	2.90
Securities held for trading	-	-	-	-	-	-	-	-	-	2,206,946	2,206,946	3.99
Securities available-for-sale	269,688	147,660	189,320	88,237	225,743	50,175	259,624	99,550	27,732	-	1,357,729	3.47
Loans, advances and financing												
- Performing	14,337,822	1,926,298	1,723,064	164,836	214,275	132,634	103,550	589,846	-	-	19,192,325	6.80
- Non performing	-	-	-	-	-	-	-	-	359,255	-	359,255	
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,677,689	-	2,677,689	
<b>Total assets</b>	<b>29,374,980</b>	<b>3,279,433</b>	<b>1,912,384</b>	<b>253,073</b>	<b>440,018</b>	<b>182,809</b>	<b>363,174</b>	<b>689,396</b>	<b>3,212,703</b>	<b>2,206,946</b>	<b>41,914,916</b>	
<b>Liabilities and shareholder's equity</b>												
Deposits from customers	14,718,030	3,871,178	5,238,732	442,500	600,115	76,602	22,914	65,000	5,689,645	-	30,724,716	2.46
Deposits and placements of banks and other financial institutions	3,944,947	745,254	37,596	1,584	-	-	6,767	-	-	-	4,736,148	4.09
Obligations on securities sold under repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	
Bills and acceptances payable	872,710	-	-	-	-	-	-	-	-	-	872,710	3.81
Recourse obligations on loans sold to Cagamas	7,291	31,041	87,324	19,817	66,006	79,254	-	-	-	-	290,733	4.15
Subordinated debt	-	-	-	-	-	-	875,916	-	-	-	875,916	5.46
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,662,398	-	2,662,398	
<b>Total liabilities</b>	<b>19,542,978</b>	<b>4,647,473</b>	<b>5,363,652</b>	<b>463,901</b>	<b>666,121</b>	<b>155,856</b>	<b>905,597</b>	<b>65,000</b>	<b>8,352,043</b>	<b>-</b>	<b>40,162,621</b>	
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,752,295</b>	<b>-</b>	<b>1,752,295</b>	
<b>Total liabilities and shareholder's equity</b>	<b>19,542,978</b>	<b>4,647,473</b>	<b>5,363,652</b>	<b>463,901</b>	<b>666,121</b>	<b>155,856</b>	<b>905,597</b>	<b>65,000</b>	<b>10,104,338</b>	<b>-</b>	<b>41,914,916</b>	
On-balance sheet interest sensitivity gap	9,832,002	(1,368,040)	(3,451,268)	(210,828)	(226,103)	26,953	(542,423)	624,396	(6,891,635)	2,206,946		
Off-balance sheet interest sensitivity gap	(5,835,526)	1,183,638	3,162,102	1,288,673	259,864	304,944	(275,216)	(88,480)	-	-		
<b>Total interest sensitivity gap</b>	<b>3,996,476</b>	<b>(184,402)</b>	<b>(289,166)</b>	<b>1,077,845</b>	<b>33,761</b>	<b>331,897</b>	<b>(817,639)</b>	<b>535,916</b>	<b>(6,891,635)</b>	<b>2,206,946</b>		

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**38. Interest rate risk (continued)**

Bank As at 31 December 2008	Non Trading books								Non interest sensitive RM'000	Trading books RM'000	Total RM'000	Effective interest rate (%)
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>												
Cash and short term funds	1,759,311	-	-	-	-	-	-	-	159,465	-	1,918,776	2.70
Deposits and placements with banks and other financial institutions	-	785,000	200,000	-	-	-	-	-	-	-	985,000	3.40
Securities purchased under resale agreement	3,495,149	-	-	-	-	-	-	-	-	-	3,495,149	2.95
Securities held for trading	-	-	-	-	-	-	-	-	-	3,676,856	3,676,856	3.70
Securities available-for-sale	1,299,526	1,844,800	1,220,656	15,083	1,993,841	213	40,500	243	47,347	-	6,462,209	3.19
Loans, advances and financing												
- Performing	14,816,679	1,833,114	1,811,991	97,562	64,291	50,920	51,474	145,036	-	-	18,871,067	5.90
- Non performing	-	-	-	-	-	-	-	-	340,173	-	340,173	
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	4,568,471	-	4,568,471	
<b>Total assets</b>	<b>21,370,665</b>	<b>4,462,914</b>	<b>3,232,647</b>	<b>112,645</b>	<b>2,058,132</b>	<b>51,133</b>	<b>91,974</b>	<b>145,279</b>	<b>5,115,456</b>	<b>3,676,856</b>	<b>40,317,701</b>	
<b>Liabilities and shareholder's equity</b>												
Deposits from customers	15,128,301	2,283,536	4,441,539	497,331	133,278	12,932	222,890	300,313	5,566,663	-	28,586,783	2.39
Deposits and placements of banks and other financial institutions	2,953,399	20,823	271,497	-	-	-	-	-	-	-	3,245,719	2.72
Bills and acceptances payable	106,239	-	-	-	-	-	-	-	-	-	106,239	3.89
Recourse obligations on loans sold to Cagamas	-	11,002	-	64,693	86,203	-	-	-	-	-	161,898	4.47
Subordinated debt	-	-	-	-	-	380,000	520,058	-	-	-	900,058	5.43
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	5,235,060	-	5,235,060	
<b>Total liabilities</b>	<b>18,187,939</b>	<b>2,315,361</b>	<b>4,713,036</b>	<b>562,024</b>	<b>219,481</b>	<b>392,932</b>	<b>742,948</b>	<b>300,313</b>	<b>10,801,723</b>	-	<b>38,235,757</b>	
<b>Shareholder's equity</b>									<b>2,081,944</b>		<b>2,081,944</b>	
<b>Total liabilities and shareholder's equity</b>	<b>18,187,939</b>	<b>2,315,361</b>	<b>4,713,036</b>	<b>562,024</b>	<b>219,481</b>	<b>392,932</b>	<b>742,948</b>	<b>300,313</b>	<b>12,883,667</b>	-	<b>40,317,701</b>	
On-balance sheet interest sensitivity gap	3,182,726	2,147,553	(1,480,389)	(449,379)	1,838,651	(341,799)	(650,974)	(155,034)	(7,768,211)	3,676,856		
Off-balance sheet interest sensitivity gap	(3,120,705)	89,130	(1,100,934)	3,307,698	1,272,391	(370,015)	364,100	(441,665)	-	-		
<b>Total interest sensitivity gap</b>	<b>62,021</b>	<b>2,236,683</b>	<b>(2,581,323)</b>	<b>2,858,319</b>	<b>3,111,042</b>	<b>(711,814)</b>	<b>(286,874)</b>	<b>(596,699)</b>	<b>(7,768,211)</b>	<b>3,676,856</b>		

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**38. Interest rate risk (continued)**

Bank As at 31 December 2007	Non Trading books								Non interest sensitive RM'000	Trading books RM'000	Total RM'000	Effective interest rate (%)
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>												
Cash and short term funds	14,670,997	-	-	-	-	-	-	-	148,027	-	14,819,024	3.83
Deposits and placements with banks and other financial institutions	-	1,205,475	-	-	-	-	-	-	-	-	1,205,475	3.60
Securities purchased under resale agreement	96,473	-	-	-	-	-	-	-	-	-	96,473	2.90
Securities held for trading	-	-	-	-	-	-	-	-	-	2,206,946	2,206,946	3.99
Securities available-for-sale	269,688	147,660	189,320	88,237	225,743	50,175	259,624	99,550	27,732	-	1,357,729	3.47
Loans, advances and financing												
- Performing	14,337,822	1,926,298	1,723,064	164,836	214,275	132,634	103,550	589,846	-	-	19,192,325	6.80
- Non performing	-	-	-	-	-	-	-	-	359,255	-	359,255	
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,677,711	-	2,677,711	
<b>Total assets</b>	<b>29,374,980</b>	<b>3,279,433</b>	<b>1,912,384</b>	<b>253,073</b>	<b>440,018</b>	<b>182,809</b>	<b>363,174</b>	<b>689,396</b>	<b>3,212,725</b>	<b>2,206,946</b>	<b>41,914,938</b>	
<b>Liabilities and shareholder's equity</b>												
Deposits from customers	14,718,030	3,871,178	5,238,732	442,500	600,115	76,602	22,914	65,000	5,689,645	-	30,724,716	2.46
Deposits and placements of banks and other financial institutions	3,944,947	745,254	37,596	1,584	-	-	6,767	-	-	-	4,736,148	4.09
Obligations on securities sold under repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	
Bills and acceptances payable	872,710	-	-	-	-	-	-	-	-	-	872,710	3.81
Recourse obligations on loans sold to Cagamas	7,291	31,041	87,324	19,817	66,006	79,254	-	-	-	-	290,733	4.15
Subordinated debt	-	-	-	-	-	-	875,916	-	-	-	875,916	5.46
Other non-interest sensitive balances	-	-	-	-	-	-	-	-	2,662,420	-	2,662,420	
<b>Total liabilities</b>	<b>19,542,978</b>	<b>4,647,473</b>	<b>5,363,652</b>	<b>463,901</b>	<b>666,121</b>	<b>155,856</b>	<b>905,597</b>	<b>65,000</b>	<b>8,352,065</b>	<b>-</b>	<b>40,162,643</b>	
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,752,295</b>	<b>-</b>	<b>1,752,295</b>	
<b>Total liabilities and shareholder's equity</b>	<b>19,542,978</b>	<b>4,647,473</b>	<b>5,363,652</b>	<b>463,901</b>	<b>666,121</b>	<b>155,856</b>	<b>905,597</b>	<b>65,000</b>	<b>10,104,360</b>	<b>-</b>	<b>41,914,938</b>	
On-balance sheet interest sensitivity gap	9,832,002	(1,368,040)	(3,451,268)	(210,828)	(226,103)	26,953	(542,423)	624,396	(6,891,635)	2,206,946		
Off-balance sheet interest sensitivity gap	(5,835,526)	1,183,638	3,162,102	1,288,673	259,864	304,944	(275,216)	(88,480)	-	-		
<b>Total interest sensitivity gap</b>	<b>3,996,476</b>	<b>(184,402)</b>	<b>(289,166)</b>	<b>1,077,845</b>	<b>33,761</b>	<b>331,897</b>	<b>(817,639)</b>	<b>535,916</b>	<b>(6,891,635)</b>	<b>2,206,946</b>		

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**39. 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:-

	Group			
	Carrying value		Fair value	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Financial assets</b>				
Cash and short term funds	4,124,252	14,819,024	4,124,252	14,819,024
Deposits and placements with banks and other financial institutions	985,270	1,205,475	985,270	1,205,475
Securities purchased under resale agreement	3,495,149	96,473	3,495,149	96,473
Securities held-for-trading	3,676,856	2,206,946	3,676,856	2,206,946
Securities available-for-sale	6,704,281	1,357,729	6,704,281	1,357,729
Loans, advances and financing *	20,894,551	19,852,001	20,587,062	19,550,154
<b>Financial liabilities</b>				
Deposits from customers	33,010,073	30,724,716	33,102,027	30,734,423
Deposits and placements of banks and other financial institutions	3,292,897	4,736,148	3,293,636	4,736,158
Bills and acceptances payable	135,181	872,710	135,181	872,710
Recourse obligations on loans sold to Cagamas	161,898	290,733	162,885	292,182
Subordinated debts	900,058	875,916	896,646	868,538

**Note:**

Other receivables, other payables and tax payable are considered short term in nature. The fair values are estimated to be approximately their carrying values.

\* The general allowance of the Group of RM 315,271,000 (2007: RM 300,421,000) is not included in the carrying amount.

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**39. Fair values of financial assets and liabilities (continued)**

	Bank			
	Carrying value		Fair value	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Financial assets</b>				
Cash and short term funds	1,918,776	14,819,024	1,918,776	14,819,024
Deposits and placements with banks and other financial institutions	985,000	1,205,475	985,000	1,205,475
Securities purchased under resale agreement	3,495,149	96,473	3,495,149	96,473
Securities held-for-trading	3,676,856	2,206,946	3,676,856	2,206,946
Securities available-for-sale	6,462,209	1,357,729	6,462,209	1,357,729
Loans, advances and financing *	19,505,630	19,852,001	19,205,515	19,550,154
<b>Financial liabilities</b>				
Deposits from customers	28,586,783	30,724,716	28,651,818	30,734,423
Deposits and placements of banks and other financial institutions	3,245,719	4,736,148	3,246,168	4,736,158
Bills and acceptances payable	106,239	872,710	106,239	872,710
Recourse obligations on loans sold to Cagamas	161,898	290,733	162,885	292,182
Subordinated debts	900,058	875,916	896,646	868,538

**Note:**

Other receivables, other payables and tax payable are considered short term in nature. The fair values are estimated to be approximately their carrying values.

\* The general allowance of the Bank of RM 294,390,000 (2007: RM 300,421,000) is not included in the carrying amount.

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**39. Fair values of financial assets and liabilities (continued)**

**Methods and Assumptions**

**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 held for trading and 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.

- (iii) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate and Islamic loans 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 loans to new borrowers with similar credit profiles, where applicable. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of interest-in-suspense/profit-in-suspense and specific allowance for bad and doubtful debts and financing.

- (iv) Securities purchased under resale agreement

The carrying value is a reasonable estimate of their fair value because of their short term nature.

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**39. Fair values of financial assets and liabilities (continued)**

**Methods and Assumptions (continued)**

**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 deposit 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 Islamic 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) Recourse obligations on loans sold to Cagamas

The fair value of recourse obligations on loans sold to Cagamas is determined based on discounted cash flows of future instalments payments at prevailing Cagamas rates as at balance sheet date.

(iii) Subordinated debts

The fair value of subordinated debts is estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

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**39. Fair values of financial assets and liabilities (continued)****Derivative financial instruments****Group****(i) Derivatives held for trading**

	31 December 2008			31 December 2007		
	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	28,063,817	598,171	483,298	32,459,456	332,592	314,898
- Currency swaps and options	41,654,080	1,170,008	522,399	23,313,278	517,436	437,226
Interest rate derivative contracts:-						
- Swaps	86,068,659	1,225,704	1,670,958	62,323,444	267,587	288,431
- Forward rate agreements and options	3,647,921	39,233	6,370	5,197,795	24,578	14,701
- Exchange traded futures	19,678,000	-	-	7,345,613	-	-
Equity derivative contracts:-						
- Equity swaps and forwards	68,060	1,006	1,006	-	-	-
Commodity derivative contracts:-						
- Forward rate agreements	2,231,096	227,111	227,111	185,166	21,535	21,535
<b>Total derivatives held for trading</b>	<b>181,411,633</b>	<b>3,261,233</b>	<b>2,911,142</b>	<b>130,824,752</b>	<b>1,163,728</b>	<b>1,076,791</b>

**(ii) Derivatives held-for-hedging**

	31 December 2008			31 December 2007		
	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
Derivatives designated as fair value hedges:-						
- Swaps	2,622,927	193,639	20,955	2,018,208	51,476	3,422
Derivatives designated as cash flow hedges:-						
- Swaps	605,000	6,415	-	1,770,000	1,084	13,073
<b>Total derivatives held-for-hedging</b>	<b>3,227,927</b>	<b>200,054</b>	<b>20,955</b>	<b>3,788,208</b>	<b>52,560</b>	<b>16,495</b>
	<b>184,639,560</b>	<b>3,461,287</b>	<b>2,932,097</b>	<b>134,612,960</b>	<b>1,216,288</b>	<b>1,093,286</b>
		Note 9	Note 16		Note 9	Note 16



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**39. Fair values of financial assets and liabilities (continued)****Derivative financial instruments (continued)****Bank****(i) Derivatives held for trading**

	31 December 2008			31 December 2007		
	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	28,063,817	598,170	483,298	32,459,456	332,592	314,898
- Currency swaps and options	41,594,355	1,167,687	520,078	23,313,278	517,436	437,226
Interest rate derivative contracts:-						
- Swaps	86,068,659	1,225,425	1,670,958	62,323,444	267,587	288,431
- Forward rate agreements and options	3,647,921	39,233	6,370	5,197,795	24,578	14,701
- Exchange traded futures	19,678,000	-	-	7,345,613	-	-
Equity derivative contracts:-						
- Equity swaps and forwards	68,060	1,006	1,006	-	-	-
Commodity derivative contracts:-						
- Forward rate agreements	2,231,096	227,111	227,111	185,166	21,535	21,535
<b>Total derivatives held for trading</b>	<b>181,351,908</b>	<b>3,258,632</b>	<b>2,908,821</b>	<b>130,824,752</b>	<b>1,163,728</b>	<b>1,076,791</b>

**(ii) Derivatives held-for-hedging**

	31 December 2008			31 December 2007		
	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
Derivatives designated as fair value hedges:-						
- Swaps	2,622,927	193,639	20,955	2,018,208	51,476	3,422
Derivatives designated as cash flow hedges:-						
- Swaps	605,000	6,415	-	1,770,000	1,084	13,073
<b>Total derivatives held-for-hedging</b>	<b>3,227,927</b>	<b>200,054</b>	<b>20,955</b>	<b>3,788,208</b>	<b>52,560</b>	<b>16,495</b>
	<b>184,579,835</b>	<b>3,458,686</b>	<b>2,929,776</b>	<b>134,612,960</b>	<b>1,216,288</b>	<b>1,093,286</b>
		Note 9	Note 16		Note 9	Note 16

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**39. Fair values of financial assets and liabilities (continued)****Derivative financial instruments (continued)****Methods and assumptions**

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

**40. Lease commitments**

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

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

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	20,829	20,205
Between one and five years	44,887	38,345
More than five years	22,971	35,792
	<u>88,687</u>	<u>94,342</u>

The leases typically run for an initial period of 2 years to 10 years, with an option to renew the leases. None of the leases include contingent rent.

Certain leased properties have been sub-leased by the Group and the Bank. The subleases expire between 2009 to 2018. Sublease payments of RM 799,000 (2007: RM 1,064,000) are expected to be received over the sublease tenure.

**41. Capital commitments**

	<b>Group and Bank</b>	
	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Capital expenditure:-		
- authorised and contracted for	827	5,126
- authorised but not contracted for	225	721
	<u>1,052</u>	<u>5,847</u>

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**42. Capital adequacy**

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Tier 1 Capital</b>				
Paid-up ordinary share capital	125,000	125,000	125,000	125,000
Share premium	375,000	375,000	375,000	375,000
Other reserves	1,586,646	1,248,827	1,577,378	1,248,827
Less: Deferred tax assets	(103,834)	(105,220)	(97,178)	(105,220)
Total Tier 1 Capital	<u>1,982,812</u>	<u>1,643,607</u>	<u>1,980,200</u>	<u>1,643,607</u>
<b>Tier 2 Capital</b>				
Islamic subordinated debt	380,000	380,000	380,000	380,000
Subordinated bonds	500,000	500,000	500,000	500,000
General allowance for bad and doubtful debts and financing	315,271	300,421	294,390	300,421
Total Tier 2 Capital	<u>1,195,271</u>	<u>1,180,421</u>	<u>1,174,390</u>	<u>1,180,421</u>
Total capital	3,178,083	2,824,028	3,154,590	2,824,028
Less : Investment in subsidiaries	-	-	(200,022)	(22)
Total Capital Base	<u>3,178,083</u>	<u>2,824,028</u>	<u>2,954,568</u>	<u>2,824,006</u>

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

	Group			
	2008		2007	
	Principal amount RM'000	Risk weight amount RM'000	Principal amount RM'000	Risk weight amount RM'000
0%	13,228,567	-	15,318,050	-
10%	-	-	-	-
20%	8,957,912	1,791,582	7,052,759	1,410,552
50%	12,652,897	6,326,449	11,407,134	5,703,567
100%	12,952,557	12,952,557	11,905,849	11,905,849
	<u>47,791,933</u>	<u>21,070,588</u>	<u>45,683,792</u>	<u>19,019,968</u>
		<b>2008 RM'000</b>		<b>2007 RM'000</b>
Total risk-weighted assets		21,070,588		19,019,968
- credit risk (as above)		1,905,438		1,663,443
- market risk		<u>22,976,026</u>		<u>20,683,411</u>

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**42. Capital adequacy (continued)**

	Bank			
	2008		2007	
	Principal amount RM'000	Risk weight amount RM'000	Principal amount RM'000	Risk weight amount RM'000
0%	10,294,384	-	15,318,050	-
10%	-	-	-	-
20%	9,217,374	1,843,475	7,052,759	1,410,552
50%	12,540,344	6,270,172	11,407,134	5,703,567
100%	11,737,069	11,737,069	11,905,849	11,905,849
	<u>43,789,171</u>	<u>19,850,716</u>	<u>45,683,792</u>	<u>19,019,968</u>
		<b>2008</b>		<b>2007</b>
		<b>RM'000</b>		<b>RM'000</b>
Total risk-weighted assets				
- credit risk (as above)		19,850,716		19,019,968
- market risk		<u>1,905,438</u>		<u>1,663,443</u>
		<u>21,756,154</u>		<u>20,683,411</u>
Capital Ratios	<b>Group</b>		<b>Bank</b>	
<u>Before proposed dividend:-</u>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Core capital ratio	8.63%	7.95%	9.10%	7.95%
Risk-weighted capital ratio	13.83%	13.65%	13.58%	13.65%
<u>After proposed dividend:-</u>				
Core capital ratio	8.30%	6.11%	8.76%	6.11%
Risk-weighted capital ratio	13.51%	11.81%	13.24%	11.81%

**43. Repurchase and reverse repurchase agreements and collateral**

The Group and the Bank entered into collateralised repurchase and reverse repurchase agreements and securities borrowings and lending transactions. It also receives securities as collateral for commercial lending.

	Group and Bank	
	2008 RM'000	2007 RM'000
<b>Balance Sheet - Liabilities</b>		
Recourse obligations on loans sold to Cagamas	161,898	290,733
Collateral on loans sold	<u>186,348</u>	<u>340,058</u>

Under reverse repurchase arrangements, the Group and the Bank obtain securities on terms which permit it to re-pledge or re-sell the securities to others. Amounts on such terms are:-

	Group and Bank	
	2008 RM'000	2007 RM'000
<b>Balance Sheet - Asset</b>		
Securities and collateral which can be re-pledged or sold (at fair value)	<u>3,495,149</u>	<u>96,473</u>

The major terms and condition for loans sold to Cagamas are that the loans must:-

- be for financing or refinancing the purchase, construction or renovation of residential properties
- be fully disbursed
- not be more than 3 months in arrears at the time of the sale
- have a remaining life which expires on or after the review date

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**44. Significant events during the financial year**

On 11 July 2008, the Minister of Finance had granted an Islamic Banking licence to Standard Chartered Saadiq Berhad ("Saadiq") and a Vesting Order had also been obtained from the High Court of Malaya for the transfer and vesting of the Islamic Banking business of the Bank to Saadiq. The Bank has conducted its Islamic Banking business through Saadiq with effect from 12 October 2008.

**45. Establishment of an Islamic Banking subsidiary - Standard Chartered Saadiq Berhad ("Saadiq")**

The Islamic Banking business which was previously undertaken by the Bank via an Islamic Banking window has been vested to Saadiq as detailed in Note 44 and was effected via transfer of the assets and liabilities under the Islamic Banking window to Saadiq.

The net assets transferred amounting to RM 757,794,000 were settled via subscription of Saadiq's 50 million ordinary shares of RM 1 each issued at RM 4 per share amounting to RM 200 million and cash consideration of RM 557,794,000.

The effective date of transfer and vesting of the Islamic Banking business is on 12 October 2008. The assets and liabilities vested to Saadiq are as follows:-

	<b>At 12 October 2008</b> <b>RM'000</b>
<b>Assets</b>	
Cash and short-term funds	1,642,306
Available-for-sale securities	243,371
Financing, advances and other financing	1,120,709
Other assets	5,608
	3,011,994
 <b>Liabilities</b>	
Deposits from customers	2,128,874
Bills and acceptances payable	98,114
Other liabilities	27,212
	2,254,200
<b>Net assets transferred from Islamic Banking business to Saadiq</b>	<b>757,794</b>

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**46. The operations of Islamic Banking****Balance Sheets at 31 December 2008**

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Assets</b>					
Cash and short term funds	(a)	2,585,476	2,466,662	-	2,466,662
Deposits and placements with banks and other financial institutions	(b)	200,270	900,475	-	900,475
Securities available-for-sale	(c)	242,072	484,917	-	484,917
Financing and advances	(d)	1,368,041	823,806	-	823,806
Other receivables	(f)	908,187	39,318	-	39,318
Statutory deposits with Bank Negara Malaysia	11	54,000	233	-	233
Deferred tax asset	(l)	766	3,635	-	3,635
<b>Total assets</b>		<b>5,358,812</b>	<b>4,719,046</b>	<b>-</b>	<b>4,719,046</b>
<b>Liabilities</b>					
Deposits from customers	(g)	4,423,290	3,408,096	-	3,408,096
Deposits and placements of banks and other financial institutions	(h)	627,179	657,142	-	657,142
Bills and acceptances payable		28,942	-	-	-
Other payables	(i)	75,652	22,464	-	22,464
Subordinated debt	(j)	-	380,000	-	380,000
Tax payable		1,572	10,228	-	10,228
<b>Total liabilities</b>		<b>5,156,635</b>	<b>4,477,930</b>	<b>-</b>	<b>4,477,930</b>
<b>Equity / Islamic Banking capital funds</b>					
Share capital	(k)	50,000	-	-	-
Islamic Banking funds		-	183,000	-	183,000
Reserves		152,177	58,116	-	58,116
<b>Total equity / Islamic Banking capital funds</b>		<b>202,177</b>	<b>241,116</b>	<b>-</b>	<b>241,116</b>
<b>Total liabilities and equity / Islamic Banking capital funds</b>		<b>5,358,812</b>	<b>4,719,046</b>	<b>-</b>	<b>4,719,046</b>
<b>Commitments and contingencies</b>					
	(u)	<b>1,005,434</b>	<b>585,585</b>	<b>-</b>	<b>585,585</b>

The notes set out on pages 99 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

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**46. The operations of Islamic Banking (continued)****Income Statements for the financial year ended 31 December 2008**

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income derived from investment of depositors' funds and others	(n)	136,057	207,730	110,500	207,730
Transfer to profit equalisation reserves	(m)	(4,670)	8,045	(3,660)	8,045
Total distributable income		131,387	215,775	106,840	215,775
Income attributable to depositors	(o)	(123,325)	(124,117)	(95,955)	(124,117)
Income attributable to the Bank		8,062	91,658	10,885	91,658
Income derived from investment of Islamic banking capital funds and shareholder's funds	(p)	88,445	10,252	65,473	10,252
Less: Income attributable to investors of subordinated debt		(22,289)	(26,600)	(22,289)	(26,600)
Total net income		74,218	75,310	54,069	75,310
Other operating expenses	(q)	(31,969)	(17,464)	(21,796)	(17,464)
		42,249	57,846	32,273	57,846
Allowance for bad and doubtful debts and financing	(r)	(26,322)	(14,791)	(20,533)	(14,791)
Profit before taxation		15,927	43,055	11,740	43,055
Tax expense	(s)	(10,468)	(12,085)	(9,360)	(12,085)
Profit for the year		5,459	30,970	2,380	30,970

## Note:-

Islamic Banking business of Standard Chartered Bank Malaysia Berhad was vested over to Standard Chartered Saadiq Berhad ("Saadiq") on 12 October 2008, which is also the date Saadiq commenced its operations. Accordingly, the income statements for the Group and the Bank above is with respect to Islamic Banking business for 12 months ended 31 December 2008 and 9 1/2 months up to 11 October 2008 respectively. Please refer to Notes 44 and 45.

The notes set out on pages 99 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

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**46. The operations of Islamic Banking (continued)****Statements of changes in equity for the year ended 31 December 2008**

Group	<i>Non-distributable Reserves</i>				<i>Distributable Reserves</i>		Total RM'000
	Funds allocated from Head Office RM'000	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Available- for-sale reserves RM'000	Retained profits RM'000	
<b>At 1 January 2007</b>	183,000	-	-	-	6,691	27,837	217,528
Unrealised net gain on revaluation of securities available-for-sale	-	-	-	-	3,749	-	3,749
Realised gain from the disposal of securities available-for-sale transferred to income statement	-	-	-	-	(11,131)	-	(11,131)
Net loss recognised directly in equity	-	-	-	-	(7,382)	-	(7,382)
Profit for the year	-	-	-	-	-	30,970	30,970
Total recognised income and expense for the year	-	-	-	-	(7,382)	30,970	23,588
<b>At 31 December 2007/ At 1 January 2008</b>	183,000	-	-	-	(691)	58,807	241,116
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	-	(2,699)	-	(2,699)
Realised loss from the disposal of securities available-for-sale transferred to income statement	-	-	-	-	718	-	718
Net loss recognised directly in equity	-	-	-	-	(1,981)	-	(1,981)
Profit for the year	-	-	-	-	-	5,459	5,459
Total recognised income and expense for the year	-	-	-	-	(1,981)	5,459	3,478
Transfer to Head Office	(183,000)	-	-	-	1,770	(61,187)	(242,417)
Issue of shares	-	50,000	150,000	-	-	-	200,000
Transfer to statutory reserves	-	-	-	1,539	-	(1,539)	-
<b>At 31 December 2008</b>	-	50,000	150,000	1,539	(902)	1,540	202,177

Note 46(k)

The notes set out on pages 99 to 120 form an integral part of, and should be read in conjunction with, these financial statements.



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**46. The operations of Islamic Banking (continued)****Statements of changes in equity for the year ended 31 December 2008 (continued)**

<b>Bank</b>	<i>Non-distributable Reserves</i>		<i>Distributable Reserves</i>	<b>Total RM'000</b>
	<b>Funds allocated from Head Office RM'000</b>	<b>Available- for-sale reserves RM'000</b>	<b>Retained profits RM'000</b>	
<b>At 1 January 2007</b>	183,000	6,691	27,837	217,528
Unrealised net gain on revaluation of securities available-for-sale	-	3,749	-	3,749
Realised gain from the disposal of securities available-for-sale transferred to income statement	-	(11,131)	-	(11,131)
Net loss recognised directly in equity	-	(7,382)	-	(7,382)
Profit for the year	-	-	30,970	30,970
Total recognised income and expense for the year	-	(7,382)	30,970	23,588
<b>At 31 December 2007 /At 1 January 2008</b>	183,000	(691)	58,807	241,116
Unrealised net loss on revaluation of securities available-for-sale	-	(1,089)	-	(1,089)
Realised loss from the disposal of securities available-for-sale transferred to income statement	-	10	-	10
Net loss recognised directly in equity	-	(1,079)	-	(1,079)
Profit for the year	-	-	2,380	2,380
Total recognised income and expense for the year	-	(1,079)	2,380	1,301
Transfer to Head Office	(183,000)	1,770	(61,187)	(242,417)
<b>At 31 December 2008</b>	-	-	-	-

The notes set out on pages 99 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

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**46. The operations of Islamic Banking (continued)****Cash flow statements for the year ended 31 December 2008**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Cash flows from operating activities</b>				
Profit before taxation	15,927	43,055	11,740	43,055
Adjustment for:-				
Amortisation of premium less accretion of discount	690	5,396	595	5,396
Gain on disposal of securities available-for-sale	(13)	(16,729)	(13)	(16,729)
Profit equalisation reserves	4,670	(8,045)	3,660	(8,045)
Operating profit before working capital changes	21,274	23,677	15,982	23,677
Changes in working capital				
Financing and advances	(544,235)	(188,943)	823,806	(188,943)
Deposits and placements with banks and other financial institutions	700,205	(750,475)	900,475	(750,475)
Other receivables	(868,869)	(22,347)	39,318	(22,347)
Statutory deposits with Bank Negara Malaysia	(53,767)	18,208	233	18,208
Deposits from customers	1,015,194	2,227,390	(3,408,096)	2,227,390
Bills and acceptances payable	28,942	-	-	-
Deposits and placements of banks and other financial institutions	(29,963)	428,479	(657,142)	428,479
Other payables	48,881	(1,711)	(25,760)	(1,711)
Cash generated from operating activities	317,662	1,734,278	(2,311,184)	1,734,278
Income taxes paid	(16,183)	(7,676)	(16,183)	(7,676)
<b>Net cash generated from/(used in) operating activities</b>	<b>301,479</b>	<b>1,726,602</b>	<b>(2,327,367)</b>	<b>1,726,602</b>
<b>Cash flows from investing activities</b>				
Purchase of securities available-for-sale	(2,235,445)	(489,104)	(1,950,445)	(489,104)
Proceeds from disposal of securities available-for-sale	2,475,197	849,045	2,433,567	849,045
Fund transferred to Head Office	(242,417)	-	(242,417)	-
<b>Net cash (used in)/generated from investing activities</b>	<b>(2,665)</b>	<b>359,941</b>	<b>240,705</b>	<b>359,941</b>

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**46. The operations of Islamic Banking (continued)****Cash flow statements for the year ended 31 December 2008 (continued)**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Cash flows from financing activities</b>				
Proceeds from issuance of shares	200,000	-	-	-
Transferred of subordinated bonds to Head Office	(380,000)	-	(380,000)	-
<b>Net cash generated from financing activities</b>	<u>(180,000)</u>	<u>-</u>	<u>(380,000)</u>	<u>-</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	118,814	2,086,543	(2,466,662)	2,086,543
<b>Cash and cash equivalents at beginning of the year</b>	<u>2,466,662</u>	<u>380,119</u>	<u>2,466,662</u>	<u>380,119</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>2,585,476</u>	<u>2,466,662</u>	<u>-</u>	<u>2,466,662</u>
<b>Cash and cash equivalents comprise</b>				
Cash and short term funds (Note 46 (a))	<u>2,585,476</u>	<u>2,466,662</u>	<u>-</u>	<u>2,466,662</u>

The notes set out on pages 99 to 120 form an integral part of, and should be read in conjunction with, these financial statements.

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**46. The operations of Islamic Banking (continued)****(a) Cash and short term funds**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	6,311	3,338	-	3,338
Money at call and deposit placements maturing within one month	2,579,165	2,463,324	-	2,463,324
	<u>2,585,476</u>	<u>2,466,662</u>	<u>-</u>	<u>2,466,662</u>

**(b) Deposits and placements with banks and other financial institutions**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Bank Negara Malaysia	200,270	900,475	-	900,475

**(c) Securities available-for-sale**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>At fair value</u>				
Malaysian Government treasury bills	-	123,963	-	123,963
Government Islamic bonds	25,138	70,142	-	70,142
Cagamas bonds	64,478	98,999	-	98,999
Islamic negotiable instrument of deposits	44,995	34,997	-	34,997
Islamic private debt securities	107,461	156,816	-	156,816
	<u>242,072</u>	<u>484,917</u>	<u>-</u>	<u>484,917</u>

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**46. The operations of Islamic Banking (continued)****(d) Financing and advances****(i) By type**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Term financing				
- House financing	241,056	173,353	-	173,353
- Lease receivables	20,142	20,477	-	20,477
- Other term financing	1,034,397	618,682	-	618,682
Bills receivable	33,869	-	-	-
Claims on customers under acceptance credits	29,019	-	-	-
Trust receipt	1,798	2,825	-	2,825
Staff financing (of which advances to Directors - Nil)	3,030	3,252	-	3,252
Revolving credit	460,254	302,425	-	302,425
Unearned income	(433,795)	(284,058)	-	(284,058)
Gross financing and advances	1,389,770	836,956	-	836,956
Less: Allowance for bad and doubtful financing:-				
- General	(20,881)	(12,545)	-	(12,545)
- Specific	(848)	(605)	-	(605)
Total net financing and advances	1,368,041	823,806	-	823,806

**(ii) By contract**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Bai'Bithaman Ajil ( <i>deferred payment sale</i> )	218,402	181,565	-	181,565
Ijarah Thumma Al-Bai ( <i>finance lease</i> )	18,606	18,908	-	18,908
Murabahah ( <i>cost-plus</i> )	63,190	2,778	-	2,778
Others	1,089,572	633,705	-	633,705
	1,389,770	836,956	-	836,956

**(iii) By type of customer**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Domestic non-bank financial institutions	78,100	90,766	-	90,766
- <i>Stock broking enterprise</i>	-	-	-	-
- <i>Others</i>	78,100	90,766	-	90,766
Domestic business enterprise	574,143	340,326	-	340,326
- <i>Small / medium enterprise</i>	82,771	70,123	-	270,203
- <i>Others</i>	491,372	270,203	-	70,123
Individuals	731,863	404,393	-	404,393
Foreign entities	5,664	1,471	-	1,471
	1,389,770	836,956	-	836,956

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**46. The operations of Islamic Banking (continued)****(d) Financing and advances (continued)****(iv) By profit rate sensitivity**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fixed rate				
- House financing	6,019	5,354	-	5,354
- Revolving credit	-	33,242	-	33,242
- Other financing	714,221	356,112	-	356,112
Variable rate				
- House financing	212,368	76,941	-	76,941
- Revolving credit	457,162	267,316	-	267,316
- Other financing	-	97,991	-	97,991
	<u>1,389,770</u>	<u>836,956</u>	<u>-</u>	<u>836,956</u>

**(v) By sector**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Agriculture	21	309	-	309
Mining and quarrying	3,000	14,807	-	14,807
Manufacturing	49,947	32,650	-	32,650
Real estate	61,682	62,793	-	62,793
Construction	6,483	1,316	-	1,316
Purchase of landed property	162,942	139,936	-	139,936
- Residential	<u>113,578</u>	<u>83,573</u>	<u>-</u>	<u>83,573</u>
- Non-residential	<u>49,364</u>	<u>56,363</u>	<u>-</u>	<u>56,363</u>
Wholesale and retail trade and restaurants and hotels	299,211	85,038	-	85,038
Transport, storage and communication	86,404	65,432	-	65,432
Finance, insurance and business services	104,375	115,877	-	115,877
Consumption credit	574,595	279,554	-	279,554
Others	41,110	39,244	-	39,244
	<u>1,389,770</u>	<u>836,956</u>	<u>-</u>	<u>836,956</u>

Financing and advances are all denominated in Ringgit Malaysia.

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**46. The operations of Islamic Banking (continued)****(e) Non-performing financing (NPF)****(i) Movements in the non-performing financing and advances**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At 1 January	5,264	5,552	5,264	5,552
Classified as non-performing during the year	23,834	13,803	14,681	13,803
Reclassified as performing during the financial year	(897)	-	(710)	-
Amount recovered during the year	(187)	(511)	(38)	(511)
Amount written off	(18,760)	(13,580)	(13,532)	(13,580)
Amount vested over to Saadiq	-	-	(5,665)	-
At 31 December	9,254	5,264	-	5,264
Specific allowance	(848)	(605)	-	(605)
Net non-performing financing and advances	<u>8,406</u>	<u>4,659</u>	<u>-</u>	<u>4,659</u>
Ratio of net non-performing financing and advances to net financing and advances	<u>0.6%</u>	<u>0.6%</u>	<u>0.0%</u>	<u>0.6%</u>

**(ii) Movements in allowance for bad and doubtful financing**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>General Allowance</b>				
At 1 January	12,545	9,674	12,545	9,674
Allowance made during the year	8,336	2,871	7,486	2,871
Amount vested over to Saadiq	-	-	(20,031)	-
At 31 December	<u>20,881</u>	<u>12,545</u>	<u>-</u>	<u>12,545</u>
As a percentage of gross financing and advances less specific allowance	<u>1.5%</u>	<u>1.5%</u>	<u>0.0%</u>	<u>1.5%</u>
<b>Specific Allowance</b>				
At 1 January	605	1,548	605	1,548
Allowance made during the year	18,396	12,607	13,354	12,607
Allowance written back in respect of recoveries	(379)	(687)	(307)	(687)
Amount written off	(17,774)	(12,863)	(12,811)	(12,863)
Amount vested over to Saadiq	-	-	(841)	-
At 31 December	<u>848</u>	<u>605</u>	<u>-</u>	<u>605</u>

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**46. The operations of Islamic Banking (continued)****(e) Non-performing financing (NPF) (continued)****(iii) NPF by sector**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Purchase of landed property	2,871	1,886	-	1,886
- Residential	2,871	1,886	-	1,886
- Non-residential	-	-	-	-
Consumption credit	6,383	3,378	-	3,378
	<u>9,254</u>	<u>5,264</u>	<u>-</u>	<u>5,264</u>

**(f) Other receivables**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Derivatives	10,708	3,033	-	3,033
Income receivable	3,277	-	-	-
Other receivables, deposits and prepayments	894,202	36,285	-	36,285
	<u>908,187</u>	<u>39,318</u>	<u>-</u>	<u>39,318</u>

**(g) Deposits from customers****(i) By type of deposit**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
<b>Non-Mudharabah fund</b>				
Demand deposits	246,231	135,907	-	135,907
Savings deposits	55,872	28,601	-	28,601
Negotiable instruments of deposits	443,011	326,796	-	326,796
<b>Mudharabah fund</b>				
General investment deposits	3,678,176	2,916,792	-	2,916,792
	<u>4,423,290</u>	<u>3,408,096</u>	<u>-</u>	<u>3,408,096</u>

**(ii) By type of customer**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Business enterprises	3,474,895	2,952,174	-	2,952,174
Individuals	315,720	120,553	-	120,553
Others	632,675	335,369	-	335,369
	<u>4,423,290</u>	<u>3,408,096</u>	<u>-</u>	<u>3,408,096</u>



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**46. The operations of Islamic Banking (continued)****(h) Deposits and placements of banks and other financial institutions**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Non-Mudharabah fund</b>				
Licensed banks	424,650	657,142	-	657,142
Bank Negara Malaysia	324	-	-	-
Other financial institutions	2,205	-	-	-
<b>Mudharabah fund</b>				
Licensed banks	200,000	-	-	-
	<u>627,179</u>	<u>657,142</u>	<u>-</u>	<u>657,142</u>

**(i) Other payables**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Derivatives	10,429	977	-	977
Income/Dividend payable	14,906	10,763	-	10,763
Profit equalisation reserves (Note 46(m))	5,744	1,074	-	1,074
Other payables and accruals	44,573	9,650	-	9,650
	<u>75,652</u>	<u>22,464</u>	<u>-</u>	<u>22,464</u>

**(j) Subordinated debt**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Subordinated debt (Note 17)	-	380,000	-	380,000

**(k) Share capital**

	Number of shares '000	Group 2008 RM'000
	Ordinary shares of RM1 each	
Authorised		
At date of incorporation/ 31 December 2008	<u>100,000</u>	<u>100,000</u>
Issued and fully paid		
At date of incorporation	-	-
Issued for cash	<u>50,000</u>	<u>50,000</u>
At 31 December 2008	<u>50,000</u>	<u>50,000</u>

\* At date of incorporation, 2 subscriber's shares were issued for cash consideration of RM 1 each.

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**46. The operations of Islamic Banking (continued)****(I) Deferred tax asset**

	<b>Group</b>		<b>Bank</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
The recognised deferred tax assets are as follows:-				
General allowance for bad and doubtful financing	212	3,136	-	3,136
Profit equalisation reserves	253	269	-	269
Available-for-sale reserves	301	230	-	230
	<u>766</u>	<u>3,635</u>	<u>-</u>	<u>3,635</u>

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**46. The operations of Islamic Banking (continued)****(I) Deferred tax asset (continued)**

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

	At 1 January 2007 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2007 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2008 RM'000
<b>Group</b>							
General allowance for bad and doubtful financing	2,709	427	-	3,136	(2,924)	-	212
Profit equalisation reserves	2,553	(2,284)	-	269	(16)	-	253
Available-for-sale reserves	(2,602)	-	2,832	230	-	71	301
	<u>2,660</u>	<u>(1,857)</u>	<u>2,832</u>	<u>3,635</u>	<u>(2,940)</u>	<u>71</u>	<u>766</u>
		Note 46 (s)			Note 46 (s)		
<b>Bank</b>							
General allowance for bad and doubtful financing	2,709	427	-	3,136	(3,136)	-	-
Profit equalisation reserves	2,553	(2,284)	-	269	(269)	-	-
Available-for-sale reserves	(2,602)	-	2,832	230	-	(230)	-
	<u>2,660</u>	<u>(1,857)</u>	<u>2,832</u>	<u>3,635</u>	<u>(3,405)</u>	<u>(230)</u>	<u>-</u>
		Note 46 (s)			Note 46 (s)		

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**46. The operations of Islamic Banking (continued)****(m) Profit equalisation reserves**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At 1 January	1,074	9,119	1,074	9,119
Amount provided during the year	6,110	4,665	5,100	4,665
Amount written back during the year	(1,440)	(12,710)	(1,440)	(12,710)
Amount vested over to Saadiq	-	-	(4,734)	-
At 31 December (Note 46(i))	<u>5,744</u>	<u>1,074</u>	<u>-</u>	<u>1,074</u>

**(n) Income derived from investment of depositors' funds and others**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income derived from investment of:-				
(i) General investment deposits	99,707	178,648	78,454	178,648
(ii) Other deposits	36,350	29,082	32,046	29,082
	<u>136,057</u>	<u>207,730</u>	<u>110,500</u>	<u>207,730</u>

**(i) Income derived from investment of general investment deposits**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Finance income and hibah</b>				
Financing and advances	45,234	57,354	38,831	57,354
Securities available-for-sale	4,493	16,866	3,825	16,866
Money at call and deposits with financial institutions	56,695	98,018	39,609	98,018
	106,422	172,238	82,265	172,238
Amortisation of premium less accretion of discount	(12,520)	(13,814)	(8,233)	(13,814)
Total financing, income and hibah	<u>93,902</u>	<u>158,424</u>	<u>74,032</u>	<u>158,424</u>
<b>Other operating income</b>				
Fees and commission	5,796	5,482	4,413	5,482
Gain from sale of securities and other financial instruments				
- Islamic financial instruments	-	1,044	-	1,044
- Securities available-for-sale	9	14,387	9	14,387
Unrealised loss on revaluation of Islamic financial instruments	-	(689)	-	(689)
	<u>99,707</u>	<u>178,648</u>	<u>78,454</u>	<u>178,648</u>

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**46. The operations of Islamic Banking (continued)****(n) Income derived from investment of depositors' funds and others (continued)****(ii) Income derived from investment of other deposits**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Finance income and hibah</b>				
Financing and advances	17,158	9,337	15,861	9,337
Securities available-for-sale	1,697	2,746	1,562	2,746
Money at call and deposits with financial institutions	19,640	15,956	16,179	15,956
	38,495	28,039	33,602	28,039
Amortisation of premium less accretion of discount	(4,232)	(2,249)	(3,363)	(2,249)
Total financing, income and hibah	34,263	25,790	30,239	25,790
<b>Other operating income</b>				
Fees and commission	2,083	892	1,803	892
Gain from sale of securities and other financial instruments				
- Islamic financial instruments	-	170	-	170
- Securities available-for-sale	4	2,342	4	2,342
Unrealised loss on revaluation of Islamic financial instruments	-	(112)	-	(112)
	36,350	29,082	32,046	29,082

**(o) Income attributable to depositors**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits from customers				
- Non-Mudharabah fund	4,134	2,031	3,199	2,031
- Mudharabah fund	101,589	51,536	79,922	51,536
Deposits and placements of banks and other financial institutions				
- Non-Mudharabah fund	15,937	70,527	12,813	70,527
- Mudharabah fund	1,644	-	-	-
Others	21	23	21	23
	123,325	124,117	95,955	124,117

**(p) Income derived from investment of Islamic banking capital funds and shareholder's funds**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Finance income and hibah</b>				
Financing and advances	33,641	-	13,693	-
Securities available-for-sale	8,012	10,252	6,460	10,252
Money at call and deposits with financial institutions	46,792	-	45,320	-
	88,445	10,252	65,473	10,252

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**46. The operations of Islamic Banking (continued)****(q) Other operating expenses**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Personnel costs</b>				
- Salaries, bonus, wages and allowances	1,917	1,531	1,385	1,531
- Pension fund contributions	120	149	120	149
- Training cost	49	120	49	120
- Other staff related cost	155	65	73	65
	<u>2,241</u>	<u>1,865</u>	<u>1,627</u>	<u>1,865</u>
<b>Establishment costs</b>				
- Furniture, fittings and office equipments	269	48	269	48
- Rental	107	486	107	486
- Project related expenses	22	-	-	-
- Other	211	4	1	4
	<u>609</u>	<u>538</u>	<u>377</u>	<u>538</u>
<b>Marketing expenses</b>				
- Advertisement and publicity	566	396	565	396
- Conference and workshops	1	2	1	2
- Others	31	99	30	99
	<u>598</u>	<u>497</u>	<u>596</u>	<u>497</u>
<b>Administration and general expenses</b>				
- Communication expenses	16	19	8	19
- Group administration fees and business support expenses	420	-	-	-
- Management fee	7,765	-	-	-
- Outsourcing expenses	135	58	135	58
- Others	20,185	14,487	19,053	14,487
	<u>28,521</u>	<u>14,564</u>	<u>19,196</u>	<u>14,564</u>
	<u>31,969</u>	<u>17,464</u>	<u>21,796</u>	<u>17,464</u>

The above expenditure includes the following statutory disclosures:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Auditor's remuneration				
- Statutory audit	50	-	-	-

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**46. The operations of Islamic Banking (continued)****(r) Allowance for bad and doubtful debts and financing**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Allowance for bad and doubtful debts and financing:-				
Specific allowance	18,017	11,920	13,047	11,920
- Made during the financial year	18,396	12,607	13,354	12,607
- Written back	(379)	(687)	(307)	(687)
General Allowance				
- Made in the financial year	8,336	2,871	7,486	2,871
Bad debts on financing and advances				
- Recovered	(31)	-	-	-
	<u>26,322</u>	<u>14,791</u>	<u>20,533</u>	<u>14,791</u>

**(s) Tax expense**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income tax expense				
- Current year	7,528	10,228	5,955	10,228
Deferred tax expense (Note 46(l))				
- Origination/reversal of temporary differences	2,940	1,397	3,405	1,397
- Effect of changes in tax rate	-	460	-	460
	<u>2,940</u>	<u>1,857</u>	<u>3,405</u>	<u>1,857</u>
Total tax expense	<u>10,468</u>	<u>12,085</u>	<u>9,360</u>	<u>12,085</u>
Reconciliation of effective tax expense:-				
Profit before taxation	<u>15,927</u>	<u>43,055</u>	<u>11,740</u>	<u>43,055</u>
Income tax using Malaysian tax rates @ 26% (2007: 27%)	4,143	11,625	3,053	11,625
Non-deductible expenses	5	-	5	-
Effect of changes in tax rate	129	460	111	460
Transfer of Islamic Banking business to Saadiq	6,191	-	6,191	-
Total tax expense	<u>10,468</u>	<u>12,085</u>	<u>9,360</u>	<u>12,085</u>

**(t) Shariah Advisory Committee members' remuneration**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Shariah Advisory Committee members	<u>72</u>	<u>57</u>	<u>72</u>	<u>57</u>

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**46. The operations of Islamic Banking (continued)****(u) 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:-

	<b>Group</b>					
	<b>31 December 2008</b>			<b>31 December 2007</b>		
	<b>Principal Amount RM'000</b>	<b>Credit Equivalent Amount * RM'000</b>	<b>Risk Weighted Amount * RM'000</b>	<b>Principal Amount RM'000</b>	<b>Credit Equivalent Amount * RM'000</b>	<b>Risk Weighted Amount * RM'000</b>
Direct credit substitutes	19,619	19,619	19,619	-	-	-
Transaction-related contingent items	4,507	2,254	1,626	-	-	-
Short-term self liquidating trade-related contingencies	6,067	1,213	710	-	-	-
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	179,299	-	-	169,705	-	-
- maturity exceeding one year	35,936	17,968	12,644	37,966	18,983	18,983
Foreign exchange related contracts :-						
- less than one year	71,262	4,278	856	-	-	-
- one year to less than 5 years	232,249	25,849	6,588	115,739	9,094	1,819
Profit rate related contracts :-						
- less than one year	256,495	1,030	206	46,237	472	94
- one year to less than 5 years	200,000	6,554	1,311	109,538	2,754	551
Miscellaneous commitments and contingencies						
- Promissory Notes	-	-	-	106,400	-	-
	<u>1,005,434</u>	<u>78,765</u>	<u>43,560</u>	<u>585,585</u>	<u>31,303</u>	<u>21,447</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.

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



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**46. The operations of Islamic Banking (continued)****(u) Commitments and contingencies (continued)**

	Bank					
	31 December 2008			31 December 2007		
	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
Irrevocable commitments to extend credit						
- maturity not exceeding one year	-	-	-	169,705	-	-
- maturity exceeding one year	-	-	-	37,966	18,983	18,983
Foreign exchange related contracts :-						
- one year to less than 5 years	-	-	-	115,739	9,094	1,819
Profit rate related contracts :-						
- less than one year	-	-	-	46,237	472	94
- one year to less than 5 years	-	-	-	109,538	2,754	551
Miscellaneous commitments and contingencies						
- Promissory Notes	-	-	-	106,400	-	-
	-	-	-	585,585	31,303	21,447

\* 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.

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

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**46. The operations of Islamic Banking (continued)****(v) Capital adequacy**

The capital adequacy ratios of the Islamic Banking operations are analysed as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Tier 1 Capital</b>				
Share capital / Islamic banking fund	50,000	183,000	-	183,000
Share premium	150,000	-	-	-
Other reserves	3,079	58,807	-	58,807
Less: Deferred tax assets	(465)	(3,405)	-	(3,405)
Total Tier 1 Capital	<u>202,614</u>	<u>238,402</u>	<u>-</u>	<u>238,402</u>
<b>Tier 2 Capital</b>				
Islamic subordinated debt	-	225,857	-	225,857
General allowance for bad and doubtful financing	20,881	12,545	-	12,545
Total Tier 2 Capital	<u>20,881</u>	<u>238,402</u>	<u>-</u>	<u>238,402</u>
Total capital base	<u>223,495</u>	<u>476,804</u>	<u>-</u>	<u>476,804</u>
Capital ratios				
Core capital ratio	12.13%	23.20%	-	23.20%
Risk-weighted capital ratio	13.39%	46.39%	-	46.39%

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

	Group			
	2008		2007	
	Principal amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Risk weighted amount RM'000
0%	2,934,183	-	3,561,474	-
10%	-	-	-	-
20%	989,712	197,942	146,350	29,270
50%	112,553	56,277	87,197	43,599
100%	1,415,488	1,415,488	954,941	954,941
	<u>5,451,936</u>	<u>1,669,707</u>	<u>4,749,962</u>	<u>1,027,810</u>
<b>Bank</b>				
	2008		2007	
	Principal amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Risk weighted amount RM'000
	-	-	3,561,474	-
0%	-	-	3,561,474	-
10%	-	-	-	-
20%	-	-	146,350	29,270
50%	-	-	87,197	43,599
100%	-	-	954,941	954,941
	<u>-</u>	<u>-</u>	<u>4,749,962</u>	<u>1,027,810</u>

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**46. The operations of Islamic Banking (continued)****(w) Profit rate risk on Islamic Banking portfolio**

The Islamic Banking's portfolio 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 at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

**2008  
Group**

	Non Trading books									Total RM'000	Effective Profit Rate (%)
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	Over 5 years RM'000	Non profit sensitive RM'000		
<b>Assets</b>											
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	
<b>Total assets</b>	<b>2,625,321</b>	<b>309,627</b>	<b>454,996</b>	<b>204,101</b>	<b>139,319</b>	<b>87,123</b>	<b>324,948</b>	<b>219,202</b>	<b>994,175</b>	<b>5,358,812</b>	
<b>Liabilities</b>											
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	
<b>Total liabilities</b>	<b>2,321,235</b>	<b>1,400,086</b>	<b>896,365</b>	<b>11,703</b>	<b>345,393</b>	<b>6,930</b>	<b>18,997</b>	<b>78,702</b>	<b>77,224</b>	<b>5,156,635</b>	
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>202,177</b>	<b>202,177</b>	
<b>Total liabilities and shareholder's equity</b>	<b>2,321,235</b>	<b>1,400,086</b>	<b>896,365</b>	<b>11,703</b>	<b>345,393</b>	<b>6,930</b>	<b>18,997</b>	<b>78,702</b>	<b>279,401</b>	<b>5,358,812</b>	
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	-	-	-	-	-	-	-	-	-		
<b>Total profit sensitivity gap</b>	<b>304,086</b>	<b>(1,090,459)</b>	<b>(441,369)</b>	<b>192,398</b>	<b>(206,074)</b>	<b>80,193</b>	<b>305,951</b>	<b>140,500</b>	<b>714,774</b>		

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**46. The operations of Islamic Banking (continued)****(w) Profit rate risk on Islamic Banking portfolio (continued)**

2007

Group

	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					
<b>Assets</b>												
Cash and short term funds	2,463,324	-	-	-	-	-	-	-	3,338	2,466,662	3.59	
Deposits and placements with banks and other financial institutions	-	900,475	-	-	-	-	-	-	-	900,475	3.61	
Securities available-for-sale	20,003	48,057	189,225	88,237	114,918	-	24,477	-	-	484,917	4.06	
Financing and advances												
-Performing	179,199	113,955	14,030	43,403	104,568	121,102	99,611	143,279	-	819,147	8.79	
-Non performing	-	-	-	-	-	-	-	-	4,659	4,659		
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	43,186	43,186		
<b>Total assets</b>	<b>2,662,526</b>	<b>1,062,487</b>	<b>203,255</b>	<b>131,640</b>	<b>219,486</b>	<b>121,102</b>	<b>124,088</b>	<b>143,279</b>	<b>51,183</b>	<b>4,719,046</b>		
<b>Liabilities</b>												
Deposits from customers	496,072	2,255,750	329,430	49	294,374	25,731	6,690	-	-	3,408,096	2.74	
Deposits and placements of banks and other financial institutions	648,791	-	-	1,584	-	-	6,767	-	-	657,142	3.44	
Subordinated debt	-	-	-	-	-	-	380,000	-	-	380,000	7.00	
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	32,692	32,692		
<b>Total liabilities</b>	<b>1,144,863</b>	<b>2,255,750</b>	<b>329,430</b>	<b>1,633</b>	<b>294,374</b>	<b>25,731</b>	<b>393,457</b>	<b>-</b>	<b>32,692</b>	<b>4,477,930</b>		
<b>Islamic Banking capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>241,116</b>	<b>241,116</b>		
<b>Total liabilities and Islamic Banking capital funds</b>	<b>1,144,863</b>	<b>2,255,750</b>	<b>329,430</b>	<b>1,633</b>	<b>294,374</b>	<b>25,731</b>	<b>393,457</b>	<b>-</b>	<b>273,808</b>	<b>4,719,046</b>		
On-balance sheet profit sensitivity gap	1,517,663	(1,193,263)	(126,175)	130,007	(74,888)	95,371	(269,369)	143,279	(222,625)			
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-			
<b>Total profit sensitivity gap</b>	<b>1,517,663</b>	<b>(1,193,263)</b>	<b>(126,175)</b>	<b>130,007</b>	<b>(74,888)</b>	<b>95,371</b>	<b>(269,369)</b>	<b>143,279</b>	<b>(222,625)</b>			

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**46. The operations of Islamic Banking (continued)****(w) Profit rate risk on Islamic Banking portfolio (continued)**

2008

Bank

	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					
<b>Assets</b>												
Cash and short term funds	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Securities available-for-sale	-	-	-	-	-	-	-	-	-	-	-	-
Financing and advances												
-Performing	-	-	-	-	-	-	-	-	-	-	-	-
-Non performing	-	-	-	-	-	-	-	-	-	-	-	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>												
Deposits from customers	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Islamic Banking capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and Islamic Banking capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
On-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**46. The operations of Islamic Banking (continued)****(w) Profit rate risk on Islamic Banking portfolio (continued)**

2007

Bank

	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					
<b>Assets</b>												
Cash and short term funds	2,463,324	-	-	-	-	-	-	-	3,338	2,466,662	3.59	
Deposits and placements with banks and other financial institutions	-	900,475	-	-	-	-	-	-	-	900,475	3.61	
Securities available-for-sale	20,003	48,057	189,225	88,237	114,918	-	24,477	-	-	484,917	4.06	
Financing and advances												
-Performing	179,199	113,955	14,030	43,403	104,568	121,102	99,611	143,279	-	819,147	8.79	
-Non performing	-	-	-	-	-	-	-	-	4,659	4,659		
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	43,186	43,186		
<b>Total assets</b>	<b>2,662,526</b>	<b>1,062,487</b>	<b>203,255</b>	<b>131,640</b>	<b>219,486</b>	<b>121,102</b>	<b>124,088</b>	<b>143,279</b>	<b>51,183</b>	<b>4,719,046</b>		
<b>Liabilities</b>												
Deposits from customers	496,072	2,255,750	329,430	49	294,374	25,731	6,690	-	-	3,408,096	2.74	
Deposits and placements of banks and other financial institutions	648,791	-	-	1,584	-	-	6,767	-	-	657,142	3.44	
Subordinated debt	-	-	-	-	-	-	380,000	-	-	380,000	7.00	
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	32,692	32,692		
<b>Total liabilities</b>	<b>1,144,863</b>	<b>2,255,750</b>	<b>329,430</b>	<b>1,633</b>	<b>294,374</b>	<b>25,731</b>	<b>393,457</b>	<b>-</b>	<b>32,692</b>	<b>4,477,930</b>		
<b>Islamic Banking capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>241,116</b>	<b>241,116</b>		
<b>Total liabilities and Islamic Banking capital funds</b>	<b>1,144,863</b>	<b>2,255,750</b>	<b>329,430</b>	<b>1,633</b>	<b>294,374</b>	<b>25,731</b>	<b>393,457</b>	<b>-</b>	<b>273,808</b>	<b>4,719,046</b>		
On-balance sheet profit sensitivity gap	1,517,663	(1,193,263)	(126,175)	130,007	(74,888)	95,371	(269,369)	143,279	(222,625)			
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-			
<b>Total profit sensitivity gap</b>	<b>1,517,663</b>	<b>(1,193,263)</b>	<b>(126,175)</b>	<b>130,007</b>	<b>(74,888)</b>	<b>95,371</b>	<b>(269,369)</b>	<b>143,279</b>	<b>(222,625)</b>			

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**46. The operations of Islamic Banking (continued)****(x) 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:-

	<b>Group Carrying Value</b>		<b>Group Fair Value</b>	
	<b>2008 RM'000</b>	<b>2007 RM'000</b>	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>Financial assets</b>				
Cash and short term funds	2,585,476	2,466,662	2,585,476	2,466,662
Deposits and placements with banks and other financial institutions	200,270	900,475	200,270	900,475
Securities available-for-sale	242,072	484,917	242,072	484,917
Financing and advances*	1,388,922	836,351	1,381,547	828,788
<b>Financial liabilities</b>				
Deposits from customers	4,423,290	3,408,096	4,450,209	3,407,469
Deposits and placements of banks and other financial institutions	627,179	657,142	627,470	655,352
Subordinated debt	-	380,000	-	372,622
Bills and acceptances payable	28,942	-	28,942	-

Note:-

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

\* The general allowance of the Islamic Banking operations of RM 20,881,000 (2007: RM 12,545,000) is not included in the carrying amount.

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**46. The operations of Islamic Banking (continued)****(x) Fair values of financial assets and liabilities (continued)**

	Bank Carrying Value		Bank Fair Value	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Financial assets</b>				
Cash and short term funds	-	2,466,662	-	2,466,662
Deposits and placements with banks and other financial institutions	-	900,475	-	900,475
Securities available-for-sale	-	484,917	-	484,917
Financing and advances*	-	836,351	-	828,788
<b>Financial liabilities</b>				
Deposits from customers	-	3,408,096	-	3,407,469
Deposits and placements of banks and other financial institutions	-	657,142	-	655,352
Subordinated debt	-	380,000	-	372,622

Note:-

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

\* The general allowance of the Islamic Banking operations of RM nil (2007: RM 12,545,000) is not included in the carrying amount.

**Methods and assumptions**

The methods and assumptions in deriving the fair value of the financial assets and financial liabilities of the Islamic Banking operations are similar to the methods and assumptions adopted in deriving the fair value of the financial assets and financial liabilities of the Bank as disclosed in Note 39.



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**46. The operations of Islamic Banking (continued)**

**(y) Shariah Advisory Committee**

The Shariah Advisory Committee was formed in October 2000. The Committee was given the mandate by the Board of Directors of the Bank to oversee the Bank's Islamic Banking business and ensure that the Group and the Bank complies with the strict requirements of Shariah Law. The Committee is made up of officers from the Islamic Banking operations 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.

**(z) Zakat Obligations**

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