
Standard Chartered Saadiq Berhad

**Pillar 3 Disclosures
31 December 2018**



Incorporated in Malaysia with registered Company No. 823437K

Registered Office and Principal Place of Businesses

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No. 30, Jalan Sultan Ismail 50250 Kuala Lumpur

Standard Chartered Saadiq Berhad

Pillar 3 disclosures

1. Overview

This document describes Standard Chartered Saadiq Berhad ("the Bank")'s risk profile, risk management practises and capital adequacy position in accordance with the disclosure requirement as outlined in the Capital Adequacy Framework for Islamic Banks ("CAFIB") - Disclosure Requirements ("Pillar 3") issued by Bank Negara Malaysia ("BNM").

Basel II

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

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

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

In Malaysia, the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) came into effect on 1 January 2008, last updated on 2 February 2018. The framework (previously known as Capital Adequacy Framework for Islamic Banks) sets out the approaches for the computation of Risk Weighted Asset (RWA) for Islamic banking institutions. The Framework should be read together with the Capital Adequacy Framework for Islamic Banks (Capital Components) and shall form the basis for the computation of the capital adequacy ratios.

Bank Negara Malaysia ("BNM") has formally approved Standard Chartered Saadiq Berhad ("SCSB") or ("the Bank") to use the AIRB for calculating and reporting credit risk regulatory capital in June 2010. As a result, since July 2010 regulatory capital submission, the Bank has been using AIRB for calculating and reporting the credit risk capital requirement. Formal approval was obtained from BNM in May 2013 for the use of The Standardised Approach ("TSA") for calculating and reporting operational risk. Effective September 2013, the Bank commenced the use of TSA for calculating and reporting operational risk capital requirement.

The following summarise the approaches adopted by the Bank:

Risk Type	Approach Adopted
1. Credit	Advanced Internal Ratings-Based Approach
2. Market	The Standardised Approach
2. Operational	The Standardised Approach

2. Capital management

The Bank's capital position is in line with Board-approved risk appetite. The Bank is well capitalised with loss absorbing capacity.

Details of the Bank's capital management approach are disclosed in Note 34(iii) of the Bank's financial statements, while details of regulatory capital structure of the Bank are disclosed in Note 18 and Note 38 to the financial statements. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

3. Risk management

The management of risk is a key component of the Bank's business. One of the main risks we incur arises from extending credit to customers through our financing and trading operations. Beyond credit risk, we are also exposed to a range of other risk types such as country, market, capital and liquidity, operational risk including Shariah non-compliance risk, reputational, compliance, conduct, information and cyber security and financial crime risks that are inherent in our strategy and product range.

Our enterprise risk management framework and governance are disclosed in page 13 and Note 34 respectively of the Bank's financial statements.

The Shariah Committee, through the authority delegated by the Board, is responsible for assuring that all Islamic Banking products and services comply with the Shariah requirements.

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4. Regulatory capital requirement

Disclosure on capital adequacy under the Standardised and Internal Ratings Based ("IRB") approach

31 December 2018 Exposure class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Risk weighted assets absorbed by	Total risk weighted assets after effects of PSIA RM'000	Minimum Capital requirement at 8% RM'000
				Profit Sharing Investment Account ("PSIA") RM'000		
(a) Credit risk						
<u>Exposures under the Standardised approach</u>						
On-balance sheet exposures:						
Corporates	24,460	24,460	24,460	(24,457)	3	-
Regulatory retail	45,556	45,556	37,668	(36,675)	993	79
Home financing	328	328	115	(52)	63	5
Other assets	71,736	71,736	69,002	-	69,002	5,520
Defaulted exposures	24	24	36	-	36	3
Total on-balance sheet exposures	142,104	142,104	131,281	(61,184)	70,097	5,607
Off-balance sheet exposures:						
Off-balance sheet exposures other than Islamic						
Over-						
The-Counter ("OTC") derivative transactions and						
Islamic credit derivatives	6,199	3,384	3,384	-	3,384	271
Total off-balance sheet exposures	6,199	3,384	3,384	-	3,384	271
Total on and off-balance sheet exposures	148,303	145,488	134,665	(61,184)	73,481	5,878
<u>Exposures under the IRB approach</u>						
On-balance sheet exposures:						
Sovereigns/central banks	1,997,754	1,997,754	316,708	(98,688)	218,020	17,442
Banks, development financial institutions ("DFIs") & multilateral development banks ("MDBs")	286,935	286,935	70,393	-	70,393	5,631
Corporates	2,142,315	2,142,333	1,693,578	(469,502)	1,224,076	97,926
Home financing	2,384,727	2,384,727	354,882	(163,321)	191,561	15,325
Other retail	681,329	681,311	320,039	(81,716)	238,323	19,066
Defaulted exposures	106,774	106,774	190,913	(69,446)	121,467	9,717
Total on-balance sheet exposures	7,599,834	7,599,834	2,946,513	(882,673)	2,063,840	165,107
Off-balance sheet exposures:						
OTC derivatives						
Off-balance sheet exposures other than Islamic						
OTC						
derivative transactions and Islamic credit						
derivatives	456,221	456,221	295,246	(61,065)	234,181	18,734
Defaulted exposures	9	9	15	(15)	-	-
Total off-balance sheet exposures	745,535	745,535	465,373	(152,724)	312,649	25,011
Total on and off-balance sheet exposures	8,345,369	8,345,369	3,411,886	(1,035,397)	2,376,489	190,118
(b) Large exposures risk requirement			-	-	-	-
(c) Market risk			-	-	-	-
(d) Operational risk (Standardised approach)			309,136	-	309,136	24,731
Total RWA and capital requirements			3,855,687	(1,096,581)	2,759,106	220,727

Common Equity Tier ("CET") 1, Tier 1 and Total capital ratios

	Before effect of PSIA	After effect of PSIA
CET 1 capital ratio	16.810%	23.491%
Tier 1 capital ratio	16.810%	23.491%
Total capital ratio	19.812%	27.685%

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4. Regulatory capital requirement (continued)

Disclosure on capital adequacy under the Standardised and IRB approach (continued)

31 December 2017 Exposure class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Risk weighted assets absorbed by PSIA RM'000	Total risk weighted assets after effects of PSIA RM'000	Minimum Capital requirement at 8% RM'000
(a) Credit risk						
<u>Exposures under the Standardised approach</u>						
On-balance sheet exposures:						
Corporates	1,604	1,604	1,604	-	1,604	128
Regulatory retail	116,702	116,702	114,966	-	114,966	9,197
Home financing	339	339	119	-	119	10
Other assets	75,869	75,869	72,786	-	72,786	5,823
Defaulted exposures	14,082	14,082	15,848	-	15,848	1,268
Total on-balance sheet exposures	208,596	208,596	205,323	-	205,323	16,426
Off-balance sheet exposures:						
Off-balance sheet exposures other than Islamic OTC						
derivative transactions and Islamic credit derivatives	5,319	3,897	3,881	-	3,881	310
Total off-balance sheet exposures	5,319	3,897	3,881	-	3,881	310
Total on and off-balance sheet exposures	213,915	212,493	209,204	-	209,204	16,736
<u>Exposures under the IRB approach</u>						
On-balance sheet exposures:						
Sovereigns/central banks	1,849,481	1,849,481	236,088	(125,623)	110,465	8,837
Banks, development financial institutions ("DFIs") & multilateral development banks ("MDBs")	110,016	110,016	38,821	-	38,821	3,106
Corporates	2,101,607	2,101,639	1,695,979	(511,802)	1,184,177	94,734
Home financing	2,588,198	2,588,198	397,985	-	397,985	31,839
Other retail	683,816	683,784	198,184	-	198,184	15,855
Defaulted exposures	82,477	82,477	223,799	-	223,799	17,904
Total on-balance sheet exposures	7,415,595	7,415,595	2,790,856	(637,425)	2,153,431	172,275
Off-balance sheet exposures:						
OTC derivatives						
Off-balance sheet exposures other than Islamic OTC	389,444	389,444	167,098	(128,832)	38,266	3,061
derivative transactions and Islamic credit derivatives	704,263	704,263	454,366	(138,518)	315,848	25,268
Defaulted exposures	9	9	14	-	14	1
Total off-balance sheet exposures	1,093,716	1,093,716	621,478	(267,350)	354,128	28,330
Total on and off-balance sheet exposures	8,509,311	8,509,311	3,412,334	(904,775)	2,507,559	200,605
(b) Large exposures risk requirement						
(c) Market risk						
(d) Operational risk (Standardised approach)						
			320,217	-	320,217	25,617
Total RWA and capital requirements			3,941,755	(904,775)	3,036,980	242,958
<u>CET 1, Tier 1 and Total capital ratios</u>						
			Before effect of PSIA		After effect of PSIA	
CET 1 capital ratio			15.906%		20.644%	
Tier 1 capital ratio			15.906%		20.644%	
Total capital ratio			18.874%		24.497%	

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5. Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the bank. Credit exposures may arise from both the banking and trading books. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. The credit risk function, as a second line control function, performs independent challenge, monitoring and oversight of the credit risk management practices of the business and functions engaged in or supporting revenue generating activities which constitute the first line of defence.

Our approach to credit risk can be found in Note 34(i) of the Bank's financial statements.

The Bank uses the IRB approach to manage credit risk for the majority of its portfolios. This allows the Bank to use its own internal estimates of Probability of Default ("PD"), Loss Given Default ("LGD"), Residual Maturity, Exposure at Default ("EAD") and Credit Conversion Factor ("CCF") to determine an asset risk-weighting. The Standardised Approach ("TSA") is applied to portfolios that are classified as permanently exempted from the IRB approach, and those portfolios that are currently under transition to the IRB approach or too small an exposure for IRB model built. The development, use and governance of models under the IRB approach is covered in more detail in Section 5(i).

(i) Internal Ratings Based models

The overall governance and development process for the Bank's IRB models are consistent across all portfolios.

The table below provides the Bank's portfolio under IRB models:

Portfolio	Exposure
Sovereign and Central Bank	Central Government, Central Government departments, Central banks, Entities owned or guaranteed by Central Government
Bank, DFIs and MDBs	Bank
Takaful Companies, Shariah Compliant Securities Firms and Fund Managers	Life/ Family Takaful, Non-life/ Non-family Takaful, Broker/dealer, Funds managers
Corporates	Finance & Leasing, Large Corporate, Mid Corporate, Emerging Middle Market, Commodity Traders & Buyers, Medium Enterprise, Small Business
Home Financing	Retail Clients Home Financing
Qualifying revolving retail exposures	Not applicable
Other retail exposures	Corporate Small Medium Enterprise ("SME") (including Business & Commercial Clients) property financing, Corporate SME (including Business & Commercial Clients) financing, Personal financing, and residential properties under construction

Model governance

All IRB Models are developed by the Group Enterprise Risk Analytics ("ERA"). Both new and existing models, as well as changes to existing models, are subject to independent validation by the Group Model Validation ("GMV") and are reviewed and approved by the Group Credit Model Assessment Committee ("CMAC") and the Group Model Risk Committee (based on materiality). ERA and GMV are separate departments within the Group Risk.

The performance of existing IRB models, including actual against predicted metrics, is monitored regularly by GRM and reported to Group CMAC on a quarterly basis. In addition, existing models are subject to annual independent validation by GMV. The Group CMAC sets out internal standards for model development, validation and performance monitoring.

Group Internal Audit is responsible for carrying out independent audit reviews of IRB models development, validation, approval and monitoring.

As part of local governance, IRB model development and validation findings are subjected to local Executive Risk Committee ("ERC") and local Board Risk Committee ("BRC") review, endorsement and recommendation to the Board for adoption or approval. These decision making bodies are comprised of senior management whose role is to review model assumptions, performance, local regulatory requirements, agree on appropriate model use for local business decision making and capital reporting.

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5. Credit risk (continued)

(i) Internal Ratings Based models (continued)

Probability of Default

Standard Chartered PLC Group employs a variety of techniques to develop its PD models. PDs are estimated based on one of the three industry standard approaches, namely the good-bad approach where a sufficient number of internal defaults is available, the shadow-bond approach where there are not sufficient internal defaults but there are external ratings for a large number of obligors, or the constrained expert judgement approach where neither internal defaults nor external ratings are available.

In Corporate and Institutional Banking ("CIB") and Commercial Banking ("CB"), the largest portfolios are rated based on the shadow bond approach (Sovereigns, Banks, Large Corporates) or the good-bad approach (Mid-Corporates). Central governments and Central Banks are rated using the sovereign model. Non-bank financial institutions are rated using one of the six constrained expert judgement models depending on their line of business. Within CIB and CB, each client is assigned a credit grade. CIB and CB models are calibrated based on historical data that includes a full economic cycle.

PD models for retail clients under each asset class are developed based on the good-bad approach. The same PD modelling approach is taken across key retail client product types: Home Financing and Other Retail Exposures. The approach is based on using the country and product specific application scores for new to bank clients and behaviour scores for existing clients. All retail client PD models are built and validated using internal default data.

Loss Given Default

The CIB and CB LGD models are a parameter based model reflecting the Bank's recovery and workout process, which takes into account risk drivers such as portfolio segment, product, credit grade of the obligor and collateral attached to the exposure. The model is calibrated to downturn.

LGD for retail portfolio follow two approaches:

- i) LGDs for unsecured products are based on historical loss experience of defaults during a downturn; these are portfolio specific LGD estimates segmented by default status (including restructuring).
- ii) LGDs for secured products are parameter-based estimates mainly driven by how the default is resolved (cure, sale or charge-off). Key LGD parameters are differentiated by segments such as financing-to-value, property type, construction status (Build under construction and Completed) and default status (including restructuring). These parameters are calibrated based on the portfolio's downturn experience.

Exposure at Default

EAD takes into consideration the potential drawdown of a commitment as an obligor moves towards default by estimating the Credit Conversion Factor ("CCF") of undrawn commitments.

The key drivers of the Corporate and Institutional EAD model are the type of facility and the level of utilisation, with the model calibrated to downturn.

EAD for retail products differs between revolving products and term products. For revolving products, EAD is computed by estimating the CCF of the undrawn commitments. For term products, EAD is set at the outstanding balance plus any undrawn portion. All the retail client EAD models are built and validated using internal data.

Model use

IRB models cover a substantial majority of the Bank's financings and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the risk-return decisions. The bank use of internal estimates of PD, LGD and EAD in the areas of credit approval and decision; pricing; limit setting; provisioning; economic capital calculation and risk appetite. Key inputs used in the assessment of business and market variables for setting Risk Appetite includes but not limited to consideration of risk based methodologies such as IRB parameters.

Section 5.3 provides further analysis on the Bank's credit risk exposures under the IRB approach.

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5. Credit risk (continued)

(i) Internal Ratings Based Models (continued)

Corporates, Institutional and Commercial model results

IRB have been developed from a dataset that spans at least a full business cycle. This data has been used to calibrate estimates of PD to the Bank's long run experience. Actual ('point in time') default rates will typically differ from this 'through the cycle' experience as economies move above or below cyclical norms.

IRB PD estimates are computed as of 31 December 2017 and are compared with default observations through 31 December 2018. Since the historical default experience for central governments or central banks, institutions and corporates has been minimal, the predicted PD for these asset classes has been minimal while the observed PD is NIL given there were no defaults during 2018. For Corporates, the observed PD is NIL; reflecting the impact of the Bank's prudent and proactive credit management.

The calculation of realised versus predicted loss given default ("LGD") is affected by the fact that it may take a number of years for the workout process to be completed. To address this, our approach for corporates and institutions is based on a four-year rolling period of predicted and realised LGD, which for the current reporting year includes 2015 to 2018 defaults that have completed their workout process as at the end of 2018. However, there have been no defaulted cases during 2018 for corporates, institutions, central governments or central banks making it therefore not meaningful to compute the realised versus predicted outcomes for this period.

Exposure at default ("EAD") takes into consideration the potential disbursement of a commitment as an obligor defaults by estimating the Credit Conversion Factor of undrawn commitments. For assets which defaulted in 2018, the comparison of realised versus predicted EAD is summarised in the ratio of the EAD one year prior to default to the outstanding amount at time of default. No ratio is reportable for corporate, institutions and central governments or central banks given there was no default in 2018.

Corporate SME observed default is lower than the predicted PD. Predicted PD was computed as at 31 December 2017 and compared to the actual default observations over a one year period ended 31 December 2018. Portfolio size remained stable and default pool has been minimal, as such the observed default rate is lower than the predicted default rate. The observed LGD was calculated based on actual recoveries during the September 2015 to September 2018 period for existing non-defaults as of December 2014 where defaulted in next 12 months and further segmented by secured and unsecured. The low realised LGD for SME Property Financing was due to low defaults. The ratios for EAD model are larger than one, indicating that the predicted EAD is higher than the realised outstanding amount at default.

	Predicted PD %	Observed PD %	Predicted LGD %	Realised LGD %	Predicted EAD/ Realised EAD
IRB exposures					
Central governments or central banks	0.1%	N/A	N/A	N/A	N/A
Corporates	2.5%	N/A	N/A	N/A	N/A
Institutions	0.5%	N/A	N/A	N/A	N/A
SME property financing	1.5%	1.4%	28.1%	0.7%	1.0
SME financing	7.0%	5.2%	64.7%	49.1%	1.2

Retail model results

Retail models have been developed for majority of its portfolios. Predicted PD was computed as at 31 December 2017 and compared to the actual default observation over a one year period ended 31 December 2018.

The observed default rates for all asset classes are lower than predicted.

The realised LGD is calculated based on 12 months default window, recoveries over a 24 months workout period and compared to the predicted LGD. Realised LGDs are lower than the predicted values for Home Financing and Other Retail exposures.

No material difference observed between predicted EAD as compared to realised EAD.

	Predicted PD %	Observed PD %	Predicted LGD %	Realised LGD %	Predicted EAD/ Realised EAD
IRB exposures					
Home Financing	2.4%	1.2%	14.4%	6.8%	1.0
Other retail exposures	17.5%	6.7%	89.5%	67.1%	1.3

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5. Credit risk (continued)

(ii) Actual losses

The table below shows allowances of credit losses/impairment provisions for financial assets raised and write off during the financial year ended 31 December 2018 versus 31 December 2017 for IRB exposure classes. The net allowances of credit losses/impairment provisions charge is a point in time actual charge raised in accordance with accounting standards that require the Bank to either provide for or write-off debts when certain conditions are met. Expected loss ("EL") represents model derived and/or regulatory prescribed estimated of future loss on potential defaults over a one-year time horizon.

	31 December 2018	31 December 2017	31 December 2017	31 December 2016
	Actual losses *	Expected losses	Actual losses	Expected losses
	RM'000	RM'000	RM'000	RM'000
Sovereigns/Central banks	-	209	-	177
Banks, development financial institutions & MDBs	-	160	-	561
Takaful companies, Shariah compliant securities firms & fund managers	-	8	-	160
Corporate exposures (excluding specialised financing and firm-size adjustment)	(5,117)	12,489	-	13,773
Corporate exposures (with firm-size adjustment)	5,503	3,027	2,417	1,898
Specialised financing	-	441	-	-
Retail exposures				
Home financing	1,017	8,264	12,491	8,687
Other retail exposures	(2,326)	42,918	42,016	60,662
	(923)	67,516	56,924	85,918

* The amount is related to ECL charge/(release) under MFRS 9, excluding recovery during the year.

(iii) Risk grade profile

Exposures by internal credit grading

For CIB and CB IRB portfolios, an alphanumeric credit risk-grading system is used. The grading is based on Standard Chartered PLC Group's internal estimate of PD over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Numerically lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers and credit grades 13 and 14 are assigned to non-performing or defaulted customers.

The Bank's credit grades in CIB and CB are not intended to replicate external credit grades, and ratings assigned by external credit assessment institutions ("ECAI") are not used in determining internal credit grades. Nonetheless, as the factors used to grade a client may be similar, a customer rated poorly by an ECAI is typically expected to be assigned a weak internal credit grade.

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5. Credit risk (continued)

(iii) Risk grade profile (continued)

The table below demonstrates Standard Chartered's internal ratings and mapping to external ratings.

Credit Grade	Standard and Poor's Mapping	
	Corporates / Non-Bank Financial	Banks
1A	AAA/AA+	AAA/AA+
1B	AA	AA
2A	AA/AA-	AA-
2B	AA-	A+
3A	A+	A
3B	A	A-/BBB+
4A	A-	BBB
4B	BBB+	BBB/BBB-
5A	BBB	BBB-
5B	BBB-/BB+	BB+
6A	BB+/BB	BB+/BB
6B	BB	BB
7A	BB/BB-	BB/BB-
7B	BB-	BB-
8A	BB-/B+	BB-/B+
8B	B+	B+
9A	B+	B
9B	B+/B	B/B-
10A	B	B-
10B	B/B-	B-
11A	B-	B-/CCC
11B	B-	CCC/C
11C	B-/CCC	CCC/C
12A	CCC/C	CCC/C
12B	CCC/C	CCC/C
12C	CCC/C	CCC/C

For Retail exposures, models generate individual PDs which are used to estimate RWA and an alphanumeric credit risk-grading system is used only for reporting purposes.

IRB models cover a substantial majority of the Bank's financing and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the Bank's risk-return decisions.

The Bank makes use of internal risk estimates of PD, LGD, EL and EAD in the areas of:

- Credit Approval and Decision – The level of authority required for the sanctioning of credit requests and the decision made is based on PD, LGD, EL and EAD of the obligor with reference to the nominal exposure;
- Pricing – In Corporates, Institutional and Commercial clients, a pre-deal pricing calculator is used which takes into consideration PD, LGD and EAD in the calculation of expected loss and risk weighted assets, is used for the proposed transactions to ensure appropriate return. Retail Clients pricing considers obligor's risk profile (as it takes into account the financing size and customer segment), pricing regulations if any, and competition in the market place;
- Limit Setting – In Retail Clients, portfolio limits are based on recession loss. In Corporates, Institutional and Commercial clients concentration limits for some portfolios, as counterparty limits are determined by PD, LGD and EAD. The limits operate on a sliding scale to ensure that the Bank does not have over concentration of low credit quality assets;
- Provisioning – Expected Credit Loss ("ECL") is computed as unbiased, point-in-time probability weighted amount which is determined by evaluating a range of reasonably possible outcomes; (multiple scenario assessment), the time value of money, and considering all relevant information as of the reporting date.
- Risk Appetite assessment – Key inputs used in the assessment of business and market variables for setting Risk Appetite includes but not limited to consideration of risk based methodologies such as IRB parameters; and
- Economic Capital – PD, LGD and EAD are key components of the model in credit risk economic capital calculation.

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5. Credit risk (continued)

(iv) Counterparty credit risk

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

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

The Bank will seek to negotiate Credit Support Annexes ("CSA") with counterparties on a case by case basis, where collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of the CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral will be specified in the legal document and will typically be cash or highly liquid securities.

A daily operational process takes place to calculate the Marked-to-Market ("MTM") on all trades captured under the CSA. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA to provide an extra buffer to the daily variation margin.

In line with market convention, the Bank negotiates CSA terms for certain counterparties where the thresholds related to each party are dependent on their internal rating model. Such clauses are typically mutual in nature. It is therefore recognised that a downgrade in the Bank's rating could result in counterparties seeking additional collateral calls to cover negative MTM portfolios where thresholds are lowered.

Credit reserves

Using risk factors such as PD and LGD, a Regulatory Expected Loss is calculated for each counterparty across the CCR portfolio, and based on this calculation, credit reserves are set aside for traded products. The reserve is a dynamic calculation based on the EAD risk profile for each counterparty, alongside PD and LGD factors.

Wrong way risk

Wrong way risk occurs when either the EAD or LGD increases as the credit quality of an obligor decreases. For example, as the MTM on a derivative contract increases in favour of the Bank, this can correspond to a higher replacement cost ("EAD"), and the counterparty may increasingly be unable to meet its obligations. Furthermore the EAD may become larger as the counterparty finds it harder to meet its payment, margin call or collateral posting requirements. The Bank employs various policies and procedures to ensure that deterioration in credit grading is alerted to management.

Exposure value calculation

Exposure values for regulatory capital purposes on over the counter traded products are calculated according to the CCR MTM method. This is calculated as a sum of the current replacement cost and the potential future credit exposure. The current replacement cost is the Ringgit equivalent amount owed by the counterparty to the Bank for various financial derivative transactions. The potential future credit exposure is an add-on based on a percentage of the notional principal of each transaction. Such percentages vary according to the underlying asset class and tenor of each trade.

Section 5.6 provides further analysis on the Bank's off-balance sheet and counterparty credit risk.

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5. Credit risk (continued)

5.1 Exposure values

The following tables detail the Bank's EAD before the effect of credit risk mitigation, broken down by the relevant exposure class against the relevant industry, maturity and geography. EAD is based on the current outstanding and accrued profit and fees, plus a proportion of the undrawn component of the facility. The amount of the undisbursed facility included is dependant on the product type, and for IRB exposure classes this amount is modeled internally.

5.1.1 Geographical analysis

The below tables provide the Bank's EAD analysed by the booking location of the exposure.

31 December 2018	Malaysia RM'000	Others RM'000	Total RM'000
IRB exposures			
Sovereigns/Central banks	1,997,754	-	1,997,754
Banks, development financial institutions & MDBs	336,724	216,403	553,127
Takaful companies, Shariah compliant securities firms & fund managers	9,509	-	9,509
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,556,350	597,565	2,153,915
Corporate exposures (with firm-size adjustment)	372,746	-	372,746
Specialised financing	67,285	13,609	80,894
Retail exposures	3,177,424	-	3,177,424
<i>Home financing</i>	2,429,110	-	2,429,110
<i>Other retail exposures</i>	748,314	-	748,314
Total IRB exposures	7,517,792	827,577	8,345,369
Standardised exposures			
Corporates	30,660	-	30,660
Regulatory retail	45,580	-	45,580
Home financing	328	-	328
Other assets	71,735	-	71,735
Total Standardised exposures	148,303	-	148,303
Total credit risk exposures	7,666,095	827,577	8,493,672

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5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.1 Geographical analysis (continued)

31 December 2017	Malaysia RM'000	Others RM'000	Total RM'000
IRB exposures			
Sovereigns/Central banks	1,849,481	-	1,849,481
Banks, development financial institutions & MDBs	220,840	236,981	457,821
Takaful companies, Shariah compliant securities firms & fund managers	10,047	-	10,047
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,518,843	606,402	2,125,245
Corporate exposures (with firm-size adjustment)	535,652	-	535,652
Specialised financing	110,602	29,900	140,502
Retail exposures	3,390,563	-	3,390,563
<i>Home financing</i>	2,633,091	-	2,633,091
<i>Other retail exposures</i>	757,472	-	757,472
Total IRB exposures	7,636,028	873,283	8,509,311
Standardised exposures			
Corporates	6,860	-	6,860
Regulatory retail	130,847	-	130,847
Home financing	339	-	339
Other assets	70,510	5,359	75,869
Total Standardised exposures	208,556	5,359	213,915
Total credit risk exposures	7,844,584	878,642	8,723,226

**Standard Chartered Saadiq Berhad
Pillar 3 disclosures**

5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.2 Sector or economic purpose analysis

The below tables provide the Bank's EAD analysed by sector or economic purpose of the exposure.

31 December 2018	Agricultural, hunting, forestry and fishing RM'000	Mining quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale & retail trade and restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance/ takaful and services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	1,997,754	-	-	-	1,997,754
Banks, development financial institutions & MDBs	-	-	-	-	-	-	-	553,127	-	-	-	553,127
Takaful companies, Shariah compliant securities firms & fund managers	-	-	-	-	-	-	-	9,509	-	-	-	9,509
Corporate exposures (excluding specialised financing and firm- size adjustment)	187,455	-	596,382	-	102,429	392,515	537,641	143,279	132,781	-	61,433	2,153,915
Corporate exposures (with firm- size adjustment)	2,129	5,572	26,838	-	16,339	59,379	34,019	60,915	89,736	-	77,819	372,746
Specialised financing	-	-	-	-	-	67,285	-	-	-	-	13,609	80,894
Retail exposures	751	567	42,721	934	46,316	91,062	19,834	59,576	106,602	2,673,729	135,332	3,177,424
Home financing	-	-	-	-	-	-	-	-	-	2,429,110	-	2,429,110
Other retail exposures	751	567	42,721	934	46,316	91,062	19,834	59,576	106,602	244,619	135,332	748,314
Total IRB exposures	190,335	6,139	665,941	934	165,084	610,241	591,494	2,824,160	329,119	2,673,729	288,193	8,345,369
Standardised exposures												
Corporates	-	-	-	-	6,200	-	-	-	5,764	-	18,696	30,660
Regulatory retail	-	-	-	-	-	-	-	-	-	45,580	-	45,580
Home financing	-	-	-	-	-	-	-	-	-	328	-	328
Other assets	-	-	-	-	-	-	-	-	-	-	71,735	71,735
Total Standardised exposures	-	-	-	-	6,200	-	-	-	5,764	45,908	90,431	148,303
Total credit risk exposures	190,335	6,139	665,941	934	171,284	610,241	591,494	2,824,160	334,883	2,719,637	378,624	8,493,672

**Standard Chartered Saadiq Berhad
Pillar 3 disclosures**

5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.2 Sector or economic purpose analysis (continued)

31 December 2017	Agricultural, hunting, forestry and fishing RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale & retail trade and restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance/ takaful and services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	1,849,481	-	-	-	1,849,481
Banks, development financial institutions & MDBs	-	-	-	-	-	-	-	457,821	-	-	-	457,821
Takaful companies, Shariah compliant securities firms & fund managers	-	-	-	-	-	-	-	10,047	-	-	-	10,047
Corporate exposures (excluding specialised financing and firm- size adjustment)	118,580	252,150	364,134	-	73,609	325,446	592,741	135,647	231,433	-	31,505	2,125,245
Corporate exposures (with firm- size adjustment)	932	7,531	8,848	-	152,308	20,159	28,502	56,010	-	-	261,362	535,652
Qualifying Corporate Purchased Receivables	-	-	-	-	-	-	-	-	-	-	-	-
Specialised financing	-	-	-	-	-	110,602	-	-	-	-	29,900	140,502
Retail exposures	922	446	21,655	593	29,933	50,851	17,203	25,591	-	2,685,972	557,397	3,390,563
Home financing	-	-	-	-	-	-	-	-	-	2,633,091	-	2,633,091
Other retail exposures	922	446	21,655	593	29,933	50,851	17,203	25,591	-	52,881	557,397	757,472
Total IRB exposures	120,434	260,127	394,637	593	255,850	507,058	638,446	2,534,597	231,433	2,685,972	880,164	8,509,311
Standardised exposures												
Corporates	-	-	-	-	5,460	-	-	-	-	-	1,400	6,860
Regulatory retail	-	-	-	-	-	-	-	-	-	130,847	-	130,847
Home financing	-	-	-	-	-	-	-	-	-	339	-	339
Other assets	-	-	-	-	-	-	-	-	-	-	75,869	75,869
Total Standardised exposures	-	-	-	-	5,460	-	-	-	-	131,186	77,269	213,915
Total credit risk exposures	120,434	260,127	394,637	593	261,310	507,058	638,446	2,534,597	231,433	2,817,158	957,433	8,723,226

Standard Chartered Saadiq Berhad
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5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.3 Residual contractual maturity analysis

The following tables show the Bank's residual maturity of EAD by each principal category of exposure class.

31 December 2018	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	1,896,141	101,613	-	1,997,754
Banks, development financial institutions & MDBs	424,524	128,603	-	553,127
Takaful companies, securities firms & Shariah compliant fund managers	9,378	131	-	9,509
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,262,918	819,871	71,126	2,153,915
Corporate exposures (with firm-size adjustment)	54,945	66,038	251,763	372,746
Specialised financing	66,895	13,999	-	80,894
Retail exposures	37,282	222,227	2,917,915	3,177,424
Home financing	13,235	17,225	2,398,650	2,429,110
Other retail exposures	24,047	205,002	519,265	748,314
Total IRB exposures	3,752,083	1,352,482	3,240,804	8,345,369
Standardised exposures				
Corporates	4,638	1,565	24,457	30,660
Regulatory retail	-	250	45,330	45,580
Home financing	-	-	328	328
Other assets	71,735	-	-	71,735
Total Standardised exposures	76,373	1,815	70,115	148,303
Total credit risk exposures	3,828,456	1,354,297	3,310,919	8,493,672

Note: The above table shows that exposures with residual contractual maturity more than 5 years, of which 87% are collateralized.

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5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.3 Residual contractual maturity analysis (continued)

31 December 2017	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	1,747,698	101,783	-	1,849,481
Banks, development financial institutions & MDBs	147,321	310,500	-	457,821
Takaful companies, securities firms & Shariah compliant fund managers	9,915	132	-	10,047
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,089,677	981,772	53,796	2,125,245
Corporate exposures (with firm-size adjustment)	205,511	78,261	251,880	535,652
Specialised financing	110,212	30,290	-	140,502
Retail exposures	52,450	168,268	3,169,845	3,390,563
Home financing	29,862	15,592	2,587,637	2,633,091
Other retail exposures	22,588	152,676	582,208	757,472
Total IRB exposures	3,362,784	1,671,006	3,475,521	8,509,311
Standardised exposures				
Corporates	1,831	3,660	1,369	6,860
Regulatory retail	10,832	109,121	10,894	130,847
Home financing	-	-	339	339
Other assets	75,869	-	-	75,869
Total Standardised exposures	88,532	112,781	12,602	213,915
Total credit risk exposures	3,451,316	1,783,787	3,488,123	8,723,226

Note: The above table shows that exposures with residual contractual maturity more than 5 years, of which 74% are collateralized.

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5. Credit risk (continued)

5.2 Credit risk mitigation

The Bank's approach to credit risk mitigation are disclosed in Note 34(i)(b) of the Bank's financial statements.

The following tables disclose the total exposure before the effect of Credit Risk Mitigation ("CRM") and the exposures covered by guarantees/credit derivatives, eligible financial collateral and other eligible collateral, shown by exposure class.

	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
31 December 2018				
On-balance sheet exposures				
Sovereigns/Central banks	1,997,754	-	-	-
Banks, development financial institutions & MDBs	286,935	-	-	-
Corporates	2,112,781	3,420	83,264	314,762
Regulatory retail	726,885	18	660	311,525
Home financing	2,385,055	-	-	2,379,013
Other assets	71,736	-	-	-
Specialised financing	53,994	-	-	-
Defaulted exposures	106,798	-	-	24,811
Total on-balance sheet exposures	7,741,938	3,438	83,924	3,030,111
Off-balance sheet exposures				
OTC derivatives	289,305	-	39,012	3,029
Off balance sheet exposures other than Islamic OTC derivatives or Islamic credit derivatives	462,420	12,590	26,175	14,924
Defaulted exposures	9	-	-	-
Total off-balance sheet exposures	751,734	12,590	65,187	17,953
Total on and off-balance sheet exposures	8,493,672	16,028	149,111	3,048,064

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5. Credit risk (continued)

5.2 Credit risk mitigation (continued)

31 December 2017	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/Central banks	1,849,481	-	-	-
Public Sector Entities				
Banks, development financial institutions & MDBs	110,016	-	-	-
Corporates	2,025,631	891	104,166	94,287
Regulatory retail	800,518	32	1,638	3,423
Home financing	2,588,537	-	-	2,580,119
Higher Risk Assets				
Other assets	75,869	-	-	-
Specialised financing	77,580	-	-	-
Equity Exposures	-	-	-	-
Securisation Exposures	-	-	-	-
Defaulted exposures	96,559	-	-	11,541
Total on-balance sheet exposures	7,624,191	923	105,804	2,689,370
Off-balance sheet exposures				
OTC derivatives	389,444	-	43,421	23,781
Off balance sheet exposures other than Islamic OTC derivatives or Islamic credit derivatives	709,582	4,281	21,259	28,963
Defaulted exposures	9	-	-	-
Total off-balance sheet exposures	1,099,035	4,281	64,680	52,744
Total on and off-balance sheet exposures	8,723,226	5,204	170,484	2,742,114

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5. Credit risk (continued)

5.3 Exposures under IRB approach

5.3.1 Exposures under the IRB approach by risk grade or PD band for non-retail exposures

The below tables analyse the Bank's PD range or internal risk grading for non-retail exposures.

31 December 2018	0-0.04% RM'000	0.04-0.17% RM'000	0.17-0.59% RM'000	0.59-3.05% RM'000	3.05-12.00% RM'000	12.00-100% RM'000	Default or 100% RM'000
Non-retail exposures (EAD)							
<u>On-balance sheet exposures</u>							
Sovereign	-	1,997,754	-	-	-	-	-
Banks	-	285,244	1,691	-	-	-	-
Corporate	-	556,561	491,766	717,277	347,856	28,855	8,694
Total on-balance sheet exposures	-	2,839,559	493,457	717,277	347,856	28,855	8,694
<u>Undrawn commitments</u>							
Corporate	-	130	153,966	108,522	19,218	1,219	-
Total undrawn commitments	-	130	153,966	108,522	19,218	1,219	-
<u>Derivatives</u>							
Banks	-	51,346	-	214,846	-	-	-
Corporate	-	21,616	124	1,372	-	1	-
Total derivatives	-	72,962	124	216,218	-	1	-
<u>Contingent</u>							
Banks	-	-	-	-	-	-	-
Corporate	-	-	47,543	92,598	13,572	6,174	-
Total contingent	-	-	47,543	92,598	13,572	6,174	-
Exposure weighted average LGD (%)							
Sovereign	-	46.00%	-	-	-	-	-
Banks	-	46.17%	71.90%	45.81%	-	-	-
Corporate	-	51.44%	39.43%	46.06%	48.93%	40.61%	77.64%
Exposure weighted average risk weight (%)							
Sovereign	-	15.85%	-	-	-	-	-
Banks	-	24.71%	54.11%	70.27%	-	-	-
Corporate	-	32.21%	41.86%	88.74%	165.51%	189.31%	907.78%

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5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.1 Exposures under the IRB approach by risk grade or PD band for non-retail exposures (continued)

31 December 2017	0-0.04% RM'000	0.04-0.17% RM'000	0.17-0.59% RM'000	0.59-3.05% RM'000	3.05-12.00% RM'000	12.00-100% RM'000	Default or 100% RM'000
Non-retail exposures (EAD)							
<u>On-balance sheet exposures</u>							
Sovereign	-	1,849,481	-	-	-	-	-
Banks	-	104,091	5,925	-	-	-	-
Corporate	-	519,953	678,700	603,102	269,248	30,604	1,340
Total on-balance sheet exposures	-	2,473,525	684,625	603,102	269,248	30,604	1,340
<u>Undrawn commitments</u>							
Corporate	-	130	153,670	140,335	34,029	3,256	-
Total undrawn commitments	-	130	153,670	140,335	34,029	3,256	-
<u>Derivatives</u>							
Banks	-	112,381	44,346	191,078	-	-	-
Corporate	-	37,941	375	3,294	-	29	-
Total derivatives	-	150,322	44,721	194,372	-	29	-
<u>Contingent</u>							
Bank	-	-	-	-	-	-	-
Corporate	-	80,239	92,814	153,615	8,188	584	-
Total contingent	-	80,239	92,814	153,615	8,188	584	-
Exposure weighted average LGD (%)							
Sovereign	-	46.20%	-	-	-	-	-
Banks	-	41.09%	41.93%	41.20%	-	-	-
Corporate	-	48.99%	48.12%	46.47%	41.75%	54.41%	28.40%
Exposure weighted average risk weight (%)							
Sovereign	-	12.77%	-	-	-	-	-
Banks	-	31.42%	6.80%	67.39%	-	-	-
Corporate	-	34.57%	53.54%	100.40%	140.01%	262.93%	179.83%

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5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.2 Exposures under the IRB approach by risk grade or PD band for retail exposures

The below tables analyse the Bank's PD range for retail exposures.

31 December 2018	0-0.11% RM'000	0.11-0.30% RM'000	0.30-0.43% RM'000	0.43-3.05% RM'000	3.05-9.20% RM'000	9.20-100% RM'000	Default or 100% RM'000
Retail exposures (EAD)							
<u>On-balance sheet exposures</u>							
Home financing	2,219	610,438	313,992	1,254,709	120,287	83,082	31,584
Other retail	64,545	184,739	10,923	254,828	111,232	55,062	66,496
Total on-balance sheet exposures	66,764	795,177	324,915	1,509,537	231,519	138,144	98,080
<u>Undrawn commitments</u>							
Home financing	-	-	16	12,774	-	-	9
Other retail	-	-	-	204	285	-	-
Total undrawn commitments	-	-	16	12,978	285	-	9
Exposure weighted average LGD (%)							
Home financing	13.39%	12.48%	12.33%	12.31%	12.44%	12.90%	18.68%
Other retail	24.42%	20.35%	18.69%	45.28%	45.12%	48.97%	45.28%
Exposure weighted average risk weight (%)							
Home financing	3.34%	5.16%	8.11%	15.12%	43.49%	67.89%	105.66%
Other retail	3.68%	8.92%	11.46%	62.43%	73.10%	108.09%	118.25%

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5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.2 Exposures under the IRB approach by risk grade or PD band for retail exposures (continued)

31 December 2017	0-0.11% RM'000	0.11-0.30% RM'000	0.30-0.43% RM'000	0.43-3.05% RM'000	3.05-9.20% RM'000	9.20-100% RM'000	Default or 100% RM'000
Retail exposures (EAD)							
<u>On-balance sheet exposures</u>							
Home financing	2,257	660,912	325,010	1,346,050	161,274	92,695	13,987
Other retail	97,416	131,359	97,852	238,145	76,353	42,691	67,150
Total on-balance sheet exposures	99,673	792,271	422,862	1,584,195	237,627	135,386	81,137
<u>Undrawn commitments</u>							
Home financing	-	369	-	29,875	-	653	9
Other retail	-	-	-	6,238	268	-	-
Total undrawn commitments	-	369	-	36,113	268	653	9
Exposure weighted average LGD (%)							
Home financing	13.41%	12.45%	12.27%	12.29%	12.41%	13.03%	16.74%
Other retail	16.62%	18.15%	19.52%	34.17%	32.88%	43.67%	74.92%
Exposure weighted average risk weight (%)							
Home financing	3.34%	5.18%	8.06%	15.35%	43.83%	66.94%	103.57%
Other retail	3.34%	9.61%	11.71%	39.89%	50.55%	86.59%	308.13%

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5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.3 Exposures under the IRB approach by expected loss range for retail exposures

The below tables analyse the Bank's expected loss range for retail exposures.

31 December 2018	Up to 0.10% RM'000	>0.10 to 0.20% RM'000	>0.20 to 0.50% RM'000	>0.50 to 1.00% RM'000	>1.00 to 30.00% RM'000	>30 to <100% RM'000	100% RM'000
Retail exposures (EAD)							
<u>On-balance sheet exposures</u>							
Home financing	1,577,429	497,208	141,284	70,755	129,635	-	-
Other retail	331,156	29,996	16,955	99,804	197,627	72,239	48
Total on-balance sheet exposures	1,908,585	527,204	158,239	170,559	327,262	72,239	48
<u>Undrawn commitments</u>							
Home financing	3,307	2,698	6,785	-	9	-	-
Other retail	142	-	-	-	347	-	-
Total undrawn commitments	3,449	2,698	6,785	-	356	-	-
Exposure weighted average risk weight (%)							
Home financing	8.20%	17.58%	29.48%	44.48%	75.74%	-	-
Other retail	6.84%	31.60%	53.27%	63.92%	110.68%	103.34%	556.98%

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5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.3 Exposures under the IRB approach by expected loss range for retail exposures (continued)

31 December 2017	Up to 0.10% RM'000	>0.10 to 0.20% RM'000	>0.20 to 0.50% RM'000	>0.50 to 1.00% RM'000	>1.00 to 30.00% RM'000	>30 to <100% RM'000	100% RM'000
Retail exposures (EAD)							
<u>On-balance sheet exposures</u>							
Home financing	1,691,713	483,032	203,138	91,216	133,086	-	-
Other retail	365,612	95,750	10,927	112,596	103,516	62,565	-
Total on-balance sheet exposures	2,057,325	578,782	214,065	203,812	236,602	62,565	-
<u>Undrawn commitments</u>							
Home financing	7,502	3,474	19,268	-	662	-	-
Other retail	159	-	6,079	-	268	-	-
Total undrawn commitments	7,661	3,474	25,347	-	930	-	-
Exposure weighted average risk weight (%)							
Home financing	8.16%	17.40%	28.83%	44.08%	68.53%	-	-
Other retail	17.05%	15.37%	36.76%	42.73%	106.66%	264.16%	-

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5. Credit Risk (continued)

5.4 Exposures under the Standardised approach

Risk weights under the Standardised approach

The following tables set out analysis of risk weights under the Standardised approach for the Bank.

	← Exposures After Netting and Credit Risk Mitigation →				Total exposures after netting and credit risk mitigation	Total risk weighted assets
31 December 2018	Corporates*	Regulatory retail	Home financing	Other assets	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Risk weights						
0%	-	-	-	2,734	2,734	-
35%	-	-	328	-	328	115
75%	-	31,552	-	-	31,552	23,664
100%	27,844	14,004	-	69,002	110,850	110,850
150%	-	24	-	-	24	36
Total exposures	27,844	45,580	328	71,736	145,488	134,665
Risk-weighted assets by exposures	27,844	37,704	115	69,002	134,665	
Average risk weight	100.0%	82.7%	35.1%	96.2%	92.6%	
Deduction from capital base	-	-	-	-	-	

* All corporate standardised exposures are unrated.

	← Exposures After Netting and Credit Risk Mitigation →				Total exposures after netting and credit risk mitigation	Total risk weighted assets
31 December 2017	Corporates*	Regulatory retail	Home financing	Other assets	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Risk weights						
0%	-	-	-	3,083	3,083	-
35%	-	-	339	-	339	119
50%	-	493	-	-	493	247
75%	-	7,007	-	-	7,007	5,254
100%	5,437	119,322	-	72,786	197,545	197,545
150%	-	4,026	-	-	4,026	6,039
Total exposures	5,437	130,848	339	75,869	212,493	209,204
Risk-weighted assets by exposures	5,437	130,862	119	72,786	209,204	
Average risk weight	100.0%	100.0%	35.1%	95.9%	98.5%	
Deduction from capital base	-	-	-	-	-	

* All corporate standardised exposures are unrated.

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5. Credit risk (continued)

5.5 Problem credit management and provisioning (continued)

5.5.1 Impairment provisions analysed by customers' business or industry (continued)

31 December 2017	Collective impairment provisions as at 31 December 2017 RM'000	Individual impairment provisions held as at 1 January 2017 RM'000	Net individual impairment charge during the financial year RM'000	Amounts written off or other movements during the financial year RM'000	Individual impairment provisions held as at 31 December 2017 RM'000
Home financing	9,699	4,649	12,491	(7,954)	9,186
Others	31,853	20,328	42,016	(42,377)	19,967
Retail Clients	41,552	24,977	54,507	(50,331)	29,153
Agriculture	3,073	-	-	-	-
Mining and quarrying	2,128	-	-	-	-
Manufacturing	3,434	1,185	-	(956)	229
Construction	1,727	-	-	-	-
Real estate	1,257	-	-	-	-
Wholesale & retail trade and restaurants & hotels	6,006	-	-	-	-
Transportation, storage and communication	2,344	-	2,417	-	2,417
Finance, insurance/takaful and business services	2,788	-	-	-	-
Others	144	-	-	-	-
Corporates, Institutional and Commercial Clients	22,901	1,185	2,417	(956)	2,646
Total Impairment Provisions	64,453	26,162	56,924	(51,287)	31,799

A reconciliation of changes to impairment provision as at 31 December 2018 and 31 December 2017 are disclosed in Note 35(v) of the Bank's financial statements.

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5. Credit risk (continued)

5.5 Problem credit management and provisioning

The Bank's credit management policies and impairment measurement are disclosed in Note 34(i)(h) of the Bank's financial statements.

The Bank's impaired financing and advances and allowance for expected credit loss by significant geographic area are disclosed in Note 35(iii) of the Bank's financial statements.

5.5.1 Impairment provisions analysed by customers' business or industry

The following tables show the Bank's allowance for credit losses by each principal category of customers' business or industry.

31 December 2018	Allowances for credit losses held as at 1 January 2018 * RM'000	Net allowance credit losses charge during the financial year RM'000	Amounts written off or other movements during the financial year RM'000	Allowances for credit losses provisions held as at 31 December 2018 RM'000
Home financing	14,454	880	(1,167)	14,167
Others	74,446	(2,196)	(26,896)	45,354
Retail Clients	88,900	(1,316)	(28,063)	59,521
Agriculture	12	216	-	228
Mining and quarrying	1	60	-	61
Manufacturing	10,960	(5,503)	-	5,457
Construction	284	4,887	-	5,171
Real estate	-	136	-	136
Wholesale & retail trade and restaurants & hotels	519	71	39	629
Transportation, storage and communication	2,869	6	-	2,875
Finance, insurance/takaful and business services	430	502	-	932
Others	13	18	(6)	25
Corporates, Institutional and Commercial Clients	15,088	393	33	15,514
Total Impairment Provisions	103,988	(923)	(28,030)	75,035

* Balance as of 1 January 2018 have been applied retrospectively with MFRS 9 day 1 impact.

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5. Credit risk (continued)

5.5 Problem credit management and provisioning (continued)

A financing is considered to be past due when the counterparty has failed to make a principal or profit payment when contractually due. Past due does not necessarily mean that a financing is impaired.

The following table analyses the Bank's financing and advances past due but not impaired, analysed by customers' business or industry.

	31 December 2018 RM'000	31 December 2017 RM'000
Home financing	276,717	388,826
Others	59,787	35,984
Retail Clients	336,504	424,810
Transport, storage and communication	499	432
Corporates, Institutional and Commercial Clients	499	432

The following table analyses the Bank's financing and advances past due but not impaired, analysed by significant geographical areas.

	31 December 2018 RM'000	31 December 2017 RM'000
Malaysia	337,003	425,242

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5. Credit risk (continued)

5.6 Off-balance sheet and counterparty credit risk

The following table analyses the Bank's off-balance sheet and counterparty credit risk.

	Principal amount RM'000	Positive fair value of contracts RM'000	Negative fair value of contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
31 December 2018					
Direct credit substitutes	24,122	-	-	24,122	10,057
Transaction related contingent items	119,615	-	-	119,615	18,101
Short term self liquidating trade related contingencies	22,492	-	-	22,492	8,363
Foreign exchange related contracts					
<i>One year or less</i>	1,847,247	115,737	120,500	147,092	109,720
<i>Over one year to five years</i>	1,188,073	61,002	61,002	120,406	54,853
Profit rate related contracts					
<i>Over one year to five years</i>	1,389,619	7,911	7,911	21,807	5,539
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	523,718	-	-	42,976	62,710
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	14,398	-	-	12,846	2,663
Any commitments that are unconditionally at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	3,951,854	-	-	240,378	196,751
	<u>9,081,138</u>	<u>184,650</u>	<u>189,413</u>	<u>751,734</u>	<u>468,757</u>

	Principal amount RM'000	Positive fair value of contracts RM'000	Negative fair value of contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
31 December 2017					
Direct credit substitutes	13,591	-	-	13,591	4,855
Transaction related contingent items	256,891	-	-	256,891	53,986
Short term self liquidating trade related contingencies	70,373	-	-	70,373	16,232
Foreign exchange related contracts					
<i>One year or less</i>	1,291,601	23,651	24,810	48,668	12,599
<i>Over one year to five years</i>	2,080,252	167,103	167,103	294,624	147,558
Profit rate related contracts					
<i>Over one year to five years</i>	1,487,573	16,550	17,909	46,152	6,941
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	419,623	-	-	43,398	62,810
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	36,211	-	-	35,319	8,375
Any commitments that are unconditionally at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	4,093,840	-	-	290,019	312,003
	<u>9,749,955</u>	<u>207,304</u>	<u>209,822</u>	<u>1,099,035</u>	<u>625,359</u>

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6. Market risk

The Bank recognises market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices.

As the Bank does not maintain a trading book, the Bank does not expose to traded market risk.

The Bank's market risk arises in the non-trading book from the holding of high quality liquid debt securities.

Our market risk management governance, measurement, valuation framework and exposure are disclosed in Note 34(ii) and 35 of the Bank's financial statements.

7. Operational risk

The Bank defines Operational Risk as the potential for loss resulting from inadequate or failed internal processes, and systems, human error, or from the impact of external events, including legal risks and Shariah non-compliance risk.

Our operational risk governance, approach and measurement methodology are disclosed in Note 34(iv) of the Bank's financial statements.

8. Shariah Governance Disclosure

Our Shariah governance are disclosed in the page 7 of the Bank's financial statements.

During the financial period, there was only one (2017: six) Shariah non-compliant event. There was Shariah non-compliant income amounting to RM4,794 (2017: RM5,850) from an event classified as a Shariah non-compliant event in 2017 and approved as Shariah non-compliant income by the Bank's SC in 2018. The Bank has channelled an amount of RM10,644 (2017: nil) to charity.

**Standard Chartered Saadiq Berhad
Pillar 3 disclosures**

Chief Executive Officer Attestation

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Standard Chartered Saadiq Berhad's Pillar 3 Disclosures report for the financial year ended 31 December 2018 are consistent with the manner in which the Bank assesses and manages its risk, and are not misleading in any particular way.

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Mohd Suhaimi Abdul Hamid
Chief Executive Officer

Date: 2 April 2019