Standard Chartered Saadiq Berhad

(Company No. 823437K)

(Incorporated in Malaysia)

Financial statements for the financial year ended 31 December 2017

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the year ended 31 December 2017.

Principal activities

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

Holding companies

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

Results

	RM'000
Profit before taxation	31,828
Tax expense	(8,350)
Profit for the year	23,478

Dividends

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

Reserves and provisions

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

Bad and doubtful financing

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

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

Current assets

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

Valuation methods

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Contingent and other liabilities

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

(a) any charge on the assets of the Bank which has arisen since the end of the financial year and which secures the liabilities of any other person, or
(b) any contingent liabilities in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

Change of circumstances

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

Items of an unusual nature

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

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

Business plan and strategy

2017 Results

The Bank registered a pre-tax profit of RM31.83 million, a RM10.98 million decrease against 2016 mainly attributable to lower income. However, other operating expenses declined by 15.86% to RM102.43 million as a result of continued cost control measures. Allowances for impairment improved significantly by RM18.33 million or 53.44%.

The Bank's total assets declined by 15.01% to RM7.79 billion with financing and advances declining by 16.09% to RM5.54 billion during the year. However, against the previous quarter end, the Bank recorded an increase in financing and advances by RM60.78 million or 1.11%. Deposits from customers, meanwhile, grew RM138.68 million or 5.80% during the year.

As at 31 December 2017, the Bank continues to be well capitalised with Common Equity Tier 1 and Risk-weighted capital ratio of 20.644% and 24.497%, respectively.

Strategy and Economic Environment

The global economy has strengthened, with growth becoming more entrenched and synchronized across regions. Global trade continues to sustain strong growth trajectory.

The Malaysian economy is expected to record GDP growth of 5.5% to 6.0% in 2017, recording the strongest growth since 2014, boosted by robust private consumption and faster rises in government spending, investment and exports and is expected to remain strong in 2018.

The Overnight Policy Rate ("OPR") has been maintained at 3.00% throughout 2017. However, Bank Negara Malaysia ("BNM") has increased the OPR in January 2018 by 25 basis points to 3.25%, being the first hike since July 2014. With the economy firmly on a steady growth path, the Monetary Policy Committee ("MPC") decided to normalize the degree of monetary accommodation. The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.

The Ringgit weakened sharply in end 2016 and early Jan 2017, but rallied by about 11% over a year in 2017 due to a weakening US dollar, rising oil prices and strong export data and robust economic momentum which helped bring the currency to a 19-month high at MYR/USD of 3.95. The economy is forecasted to continue its growth momentum in 2018.

Business plan and strategy (continued)

Plan for 2018

Each of the Bank’s three business segments has specific key priorities for 2018.

The Retail business will prioritize on driving deposits and asset growth, coupled with enriched Wealth Management propositions including *Takaful* and *Sukuk* , and leveraging on SCBMB’s distribution network and aligned with its overall digital agenda.

Driving Transaction and flow business will be the key priority for the Bank's Corporate and Commercial segments, by showcasing the Bank's Islamic product and solution capabilities to targeted client base.

The Bank seeks to be a force for good in promoting sustainable economic and social development in the communities where the Bank operate. Community engagement is a key way in which we take forward this commitment. In 2017, globally, Standard Chartered PLC Group invested USD 49.8 million in the communities. Investing in communities includes two components: employee volunteering and community programmes. The Bank also supports emergency relief and reconstruction efforts across the markets. The Bank's community programmes focus on two themes: health and education, with youth as a target demographic.

Standard Chartered Bank's initiatives are as follows:
- *Goal* , Standard Chartered Bank's global education programme for adolescent girls, combines sports with life-skills training to empower girls with the confidence, knowledge and skills they need to be integral economic leaders in their families and communities. *Goal Malaysia* was launched in August 2017 and has reached over 2,700 girls to date.
- Through Financial Education, Standard Chartered Bank aims to foster positive financial behaviour of young people and entrepreneurs. Standard Chartered Bank's Education for Entrepreneurs ("E4E") programme aims to build the financial capability of micro and small business owners that will contribute towards Standard Chartered Bank's success and sustainability. In 2017, Standard Chartered Bank reached about 90 entrepreneurs through our partnership with the Malaysian Global Innovative and Creative Centre ("MAGIC"). Standard Chartered Bank's employee volunteers also deliver “Buku Wang Saku” ("BWS"), Bank Negara Malaysia’s financial education initiative, designed specially for students as a learning tool to instill the culture and habit of smart personal money management. Since 2008, Standard Chartered Bank has reached out to over 135,000 students and youth across Malaysia.
- Standard Chartered Foundation, Standard Chartered Bank’s charity arm signed a Memorandum of Understanding for the Intraocular lens ("IOL") project with the Ministry of Health ("MOH") in October 2017. The IOL project aims to provide affordable eye care for underprivileged cataract patients. Since 2013, Standard Chartered Bank has sponsored over RM1.9million and the ongoing project has so far benefited over 4,400 underprivileged patients. In 2018, another 1,000 underprivileged cataract patients will be reached under the Bank’s Seeing is Believing community programme.
- Standard Chartered Bank also actively supports the community through Employee Volunteering. In 2017, staff in Malaysia volunteered over 1,200 days towards the community.
- Standard Chartered Bank has been the title sponsor of the Standard Chartered KL Marathon since 2009 and remains committed to raising levels of health and community participation of the nation.

Statement of Corporate Governance

The Bank is committed to high standards of corporate governance and strives to continually improve the governance processes and structures as articulated in the Principles and Best Practices promulgated in the Malaysian Code on Corporate Governance 2017 (the "Code") as well as in conformity with BNM Policy Document on Corporate Governance (the "BNM Policy Document") issued by BNM in August 2016. 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 Policy Document during the financial year ended 31 December 2017.

Board of Directors

Composition of the Board of Directors

The Board of Directors (the "Board") brings a wealth of knowledge, experience and skills in a wide range of business management, audit and accountancy, economics, finance and Islamic banking to the Board. The Board presently has five (5) members, of which two (2) are Non-Independent Executive Directors and the remaining three (3) are Independent Non-Executive Directors, hence fulfilling the prescribed requirements by BNM for the Board composition to comprise majority Independent Board members.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Board of Directors (continued)

Composition of the Board of Directors (continued)

Members	Status of Directorship
Datuk Yvonne Chia - Chairman	Independent Non-Executive Director
Datuk Ishak bin Imam Abas	Independent Non-Executive Director
Datuk Seri Michael Yam Kong Choy	Independent Non-Executive Director
Abrar Alam Anwar (appointed on 24 January 2018)	Non-Independent Executive Director
Rehan Muhammad Shaikh (appointed on 24 January 2018)	Non-Independent Executive Director
Tan Sri Dato’ Mohd Sheriff bin Mohd Kassim - Chairman (resigned on 24 February 2017)	Independent Non-Executive Director
Datuk Khairil Anuar Abdullah (resigned on 4 May 2017)	Independent Non-Executive Director
Adhha' Amir bin Dato' Abdullah - Chief Executive Officer (resigned on 25 August 2017)	Non-Independent Executive Director
Mahendra Gursahani (resigned on 1 November 2017)	Non-Independent Executive Director

The current composition and size of the Board is appropriate and commensurate with the complexity, scope and operations of the Bank. The Independent Non-Executive Directors of the Bank fulfill the criteria of independence as defined in the BNM Policy Document.

All the members of the Board fulfill the standards for 'fit and proper' criteria for appointment as Directors required under the Bank's Framework for Board's Composition and Criteria For Selection of Candidates for Directorship (the "Framework") as established in accordance with the BNM Policy Document on Fit and Proper Criteria. The Framework has also set out the tenure of an Independent Director which shall not exceed a cumulative term of nine (9) years. However, upon completion of the nine (9) years, the Independent Director may continue to serve the Board subject to the Director’s re-designation as a Non-Independent Director.

Roles and responsibilities of the Board

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

In compliance with the BNM Policy Document, there is a clear separation between the roles of Independent Non-Executive Chairman and Chief Executive Officer ("CEO") of the Bank. The distinction allows an appropriate balance of role, responsibility, authority and accountability at the Board level.

Appointments to the Board

The appointment and re-appointment of Directors to the Bank's Board had been approved by BNM pursuant to the Islamic Financial Services Act 2013 ("IFSA") and are in compliance with the guidelines issued by BNM.

In accordance with the Bank’s Articles of Association, all newly appointed Directors during the financial year are subjected to re-election by shareholders at the next Annual General Meeting. The Articles further provides for one-third of the remaining Directors to retire from office by rotation and be subjected to re-election at the Annual General Meeting of the Bank. As guided by BNM Policy Document, 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 meetings of the Bank are conducted in accordance to a structured agenda to facilitate meaningful and productive deliberations. The structured agenda for every Board meeting together with comprehensive management reports, proposal papers and supporting documents are distributed to the Directors in advance of all Board meetings to allow time for their appropriate review. The Board meeting papers are prepared and presented in a concise and comprehensive manner. All proceedings from the Board meetings are minuted and confirmed by all Directors at the following Board meeeting. The minutes would then be signed by the Chairman as a correct record to the proceeding of the meeting.

A Syariah Adviser nominated by the Chairperson of the Syariah Advisory Committee together with the Secretary of the Syariah Advisory Committee are permanent invitees to the Board Meetings to advise the Board Members on Syariah related matters. Their views are sought on matters related to Syariah.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Board of Directors (continued)

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 2017, the Board met six (6) times to deliberate on and consider a variety of significant matters that required its guidance and approval. Relevant management personnel are invited to Board meetings to report and appraise the Board on financials, operations and other developments within their respective purview. Where appropriate, decisions are taken by way of circular resolutions in between scheduled meetings.

All Directors have complied with the requirement that Directors must attend at least 75% of Board meetings held in the financial year in accordance with the BNM Policy Document. The record of the attendance at the Board Meetings is as follows:-

Members	Attendance and Number of Board Meetings
Datuk Yvonne Chia	6/6
Datuk Ishak bin Imam Abas	6/6
Datuk Seri Michael Yam Kong Choy	6/6
Abrar Alam Anwar (appointed on 24 January 2018)	-
Rehan Muhammad Shaikh (appointed on 24 January 2018)	-
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman (resigned on 24 February 2017)	1/1
Datuk Khairil Anuar Abdullah (resigned on 4 May 2017)	2/2
Adhha' Amir bin Dato' Abdullah (resigned on 25 August 2017)	4/4
Mahendra Gursahani (resigned on 1 November 2017)	5/5

Training and Development of Directors

During the financial year 2017, the members of the Board had received training on areas relevant to their duties and responsibilities as Directors by attending internally facilitated briefings and external seminars/talks. The Directors had also attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education ("FIDE") Forum as well as the key training programme for new Directors of the financial institution by FIDE. Besides, one new Director has undertaken an induction programme facilitated by the Company Secretary.

Training programmes, conferences and forums attended by the Directors for the financial year 2017 were as follows:

FIDE/ICLIF/FIDE Forum
- FIDE Forum: Focus Group Session 1 and Light lunch - Discussion in Preparation for Dialogue with BNM's Senior Management for the Conventional Banking, Islamic Banking, Investment Banking and Development Financial Institution (DFI) Businesses
- FIDE Core Programme (Module B)
- FIDE Forum: 1st Distinguished Board leadership Series: “Efficient Inefficiency: Making Boards Effective in a Changing World”
- Fintech: Opportunities for the Financial Services Industry in Malaysia
- FIDE Forum: 3rd Distinguished Board Leadership Series on Cryptocurrency and Blockchain Technology

Other External Seminars/Conferences
- Sustainability Forum for Directors/CEOs
  - "The Velocity of Global Change & Sustainability - The New Business Model"
- Asia Pacific Real Estate Market Outlook Malaysia - Opportunities in the New Normal - "Trends, Opportunities & Strategies for Competing in the New Soft Market"
- Malaysian Annual Real Estate Convention 2017 (MAREC '17)
  - Transforming Your Real Estate Business in A Change Era
- Construction Contract Management Conference 2017 (CCM)
  - Construction Dispute Avoidance: The First Line of Defence in Contractual Dispute Management & Resolution
- TFWA Asia Pacific Exhibition & Conference 2017
  - The Duty Free & Travel Retail Asia Pacific Summit
  Bank Negara Malaysia’s Compliance Conference 2017
- BiZiT – Conference

Board of Directors (continued)

Training and Development of Directors (continued)

Other External Seminars/Conferences (continued)
- Dialogue on Sustainable Development of Affordable Housing
- Industry Seminar on Recovery and Resolution Planning in Malaysia
- The Legal & Regulatory Framework – Companies Act 2016 (Act 777)
  - Directorship Made Simple
  - Corporate Financial Reporting
  - Internal Auditing
  - The Board, Business Ethnics & Governance
- ARENA Asian Real Estate Network Alliance
  Theme: Making Friends – Connecting Business
  - Invest Malaysia – Opportunities in Greater KL
- Forbes Global CEO Conference - Theme: The Next Century
- MEA Economic Seminar Series: Revisiting the New Economic Model – Lags & Prospects
- Airports Council International Asia – Pacific
  - The Global Airport Commercial Revenue Conference
- Rehda Institute CEO Series
  - Developing Malaysia as attractive international Real Estate Investment Destination
- ASEAN Capital Market Conference 2017
- Executive Development Programme with Duke Corporate Education
- Astro Malaysia Holdings Berhad - Board Certified Innovator Program
- Astro Malaysia Holdings Berhad - Media Outlook
- The New Companies Act with the theme "Raising the Bar for Directors
- ICLIF Sessions 5 & 6: The Role of DFI in Supporting Financing for Development Agenda to Promote Economic Growth
- Asia Institute of Chartered Bankers: Tsinghua University Conference
- Focus Group Session on The Proposed Revision of The Corporate Governance Guide by Malaysia Bursa Berhad
- Silverlake Annual Conference: Digital Collaboration and Transformation Conference
- Standard Chartered Global Chairman's Conference 2017
- University of Nottingham Talk - The New World of Start-Ups, Lesser Jobs and Robotics. How to Prepare Yourself: A Conversation with Undergraduates from the Nottingham School of Economics

Internal Training Programmes
- Global Research Briefing 2017
- Briefing Session to Datuk Seri Michael Yam on Saadiq's performance and operation
- Naguib Kheraj Annual Call with Subsidiary Audit Committee members
- Directors' and Management Training on New Companies Act 2016
- IFRS9 Briefing session
- Briefing on Liquidity Crisis Management Plan
- Briefing on Audit Report
- Briefing by Country Chief Risk Officer & Senior Credit Officer on:
  1. MYR-USD and Risk Management
  2. Process for Board Review of Large Credit Exposures
  3. Updated Malaysia Risk Appetite Statement and RAMI
  4. Local adoption of Group policies and procedures
- David Conner's and Gay Huey Evans's Call with the Banking Subsidiary Risk Committees and Combined Risk and Audit Committee
- H2 SCB Global Research Briefing (2 sessions)
- Operational Risk Training
- Conduct Training
- Briefing on:
  a. Update on BNM Guideline on Classification and Regulatory Treatment for Structured Products under the IFSA; and
  b. Update on Proposed Strategy Paper on BNM Value Based Intermediation: Strengthening the Roles and Impact of Islamic Finance
- Briefing and Dialogue on Shariah Process on Shariah Non-Compliant Event / Approval & Shariah Structure
- Standard Chartered Global Chairman's Conference 2017

Apart from attending the various programmes, a number of the Directors have also been invited to speak at conferences and seminars organised by professional associations and bodies.

Board of Directors (continued)

Key information and background of Directors

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

(a) Datuk Yvonne Chia

Datuk Yvonne Chia was appointed as an Independent Non-Executive Director on 4 August 2016 and was subsequently appointed as Chairman on 24 February 2017. She is a member of Nomination and Remuneration Committee of the Bank. She has over 30 years of experience in the financial services industry, having held leading positions in both global and domestic banks in Malaysia and the region. She is currently the Chairman and Independent Non-Executive Director of Standard Chartered Bank Malaysia Berhad and an Independent Non-Exeuctive Director of Astro Malaysia Holdings Berhad and Silverlake Axis Limited, a company listed on the Main Board of Singapore Stock Exchange. She is a Fellow Chartered Banker, Council Member of the Asian Institute of Chartered Bankers, a Trustee for Teach for Malaysia Foundation and an Honorary Professor of the University of Nottingham, Malaysia School of Economics. Datuk Yvonne Chia holds a Bachelor of Economics from the University of Malaya.

(b) Datuk Ishak bin Imam Abas

Datuk Ishak bin Imam Abas was appointed as an Independent Non-Executive Director on 3 March 2010. He is the Chairman of Audit Committee and Nomination and Remuneration Committee as well as a member of Board Risk Committee of the Bank. He held various senior positions during his 26 year career with Petroliam Nasional Berhad ("Petronas") including Deputy General Manager, Commercial of Petronas Dagangan Berhad, Senior General Manager, Finance of Petronas, Vice-President Finance of Petronas and Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad. He retired from Petronas as the Senior Vice-President in 2006 but continued to be the Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad and retired from the aforesaid executive positions in 2007. Currently, he is a Non-Independent Non-Executive Director of KLCC Property Holdings Berhad and an Independent Non-Executive Director of Deleum Berhad. He is also a Non-Executive Chairman of Putrajaya Holdings Sdn Bhd and a Non-Executive Director of Kuala Lumpur City Park Berhad, both of which are members of the PETRONAS group. He is a fellow member of Chartered Institute of Management Accountants ("CIMA") and a member of Malaysian Institute of Accountants ("MIA").

(c) Datuk Seri Michael Yam Kong Choy

Datuk Seri Michael Yam Kong Choy was appointed as an Independent Non-Executive Director on 23 June 2011. He is the Chairman of Board Risk Committee as well as a member of Audit Committee and Nomination and Remuneration Committee of the Bank. He qualified as a professional corporate member and Fellow of the Chartered Institute of Building and also as a Fellow of the Royal Institution of Chartered Surveyors Malaysia following his graduation in building and management studies from the University of Westminster, London in 1979. He is currently the Managing Director and CEO of Impetus Alliance Advisor Sdn Bhd. He is also the Senior Independent Non-Executive Director of Malaysia Airports Holdings Berhad and Paramount Corporation Berhad and an Independent Non-Executive Director on the Boards of Standard Chartered Bank Malaysia Berhad, Sunway Berhad, Cahya Mata Sarawak Berhad and Government incorporated statutory bodies, namely Construction Industry Development Board and Malaysia Property Incorporated. He is the incumbent Chairman of InvestKL Malaysia and the immediate past President and patron of the Real Estate and Housing Developers' Association Malaysia. He also serves as a member of the Board of Trustees of Standard Chartered Foundation.

(d) Abrar Alam Anwar

Abrar Alam Anwar was appointed to the Board on 24 January 2018 as an Executive Director and he is also a member of the Audit Committee and Board Risk Committee of SCSB. Abrar is currently the Managing Director and Chief Executive Officer for Standard Chartered Bank Malaysia Berhad. Prior to his appointment in Malaysia, Abrar was the Chief Executive Officer of Standard Chartered Bank, Bangladesh, since January 2015. He joined the Bank in 2011 as Head of Corporate & Institutional Clients. Abrar has more than 26 years of experience in Corporate and Investment banking in Bangladesh, India and the UK. His achievements include setting up of the first “Syndication & Structured Finance” business in Bangladesh (for the then ANZ Grindlays Bank), along with successful closure of milestone transactions in the Energy & Power, Infrastructure, Telecommunications and Aviation industries. Prior to joining Standard Chartered Bangladesh he was the Managing Director & Head of Global Corporate & Commercial Banking, Citibank NA, Bangladesh and Head of Specialist Finance & Advisory Services, ANZ Grindlays Bank. Abrar holds a MBA degree from Bangladesh’s premier business school, the Institute of Business Administration (IBA).

Board of Directors (continued)

Key information and background of Directors (continued)

(e) Rehan Muhammad Shaikh

Rehan Muhammad Shaikh was appointed to the Board on 24 January 2018 as an Executive Director and he is currently the Chief Executive Officer of Standard Chartered Saadiq, the Global Islamic Banking business of Standard Chartered Bank, Dubai, UAE. Rehan has over 30 years of banking and management experience, re-joining from Dubai Islamic Bank, where he was Senior Vice President and Business Head. In his earlier career with Standard Chartered Bank, Pakistan from 1998 to 2006, he had held a number of roles including Head, Corporate Banking and Head, Client Relationships. Rehan is responsible to drive the growth of Standard Chartered's Islamic Banking business across its core markets, supporting the Bank's new strategy in creating a focused and more profitable bank. Standard Chartered Saadiq offers to clients a wide suite of product capabilities and award winning solutions across the corporate, commercial and retail spectrum. Since inception, the business has won over 200 internationally recognized industry awards. Rehan holds a Bachelor's degree in Business Administration from USA.

Committees

The Board has established specialised Board Committees to assist to carry out its responsibilities more effectively and provide oversight over the Bank's operations. The Board Committees of the Bank are as follows:-

a) Syariah Advisory Committee
b) Nomination and Remuneration Committee (formerly known as Nomination Committee)
c) Audit Committee
d) Board 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 Syariah Advisory Committee was set up as an Advisory Committee to the Board on Syariah matters.

a) Syariah Advisory Committee

Membership and composition

The members of the Syariah Advisory Committee ("SAC") are:-

Dr. Hikmatullah Babu Sahib - Chairperson
Dr. Wan Azhar Wan Ahmad - Deputy Chairperson
Prof. Madya Datin Dr. Nurdianawati Irwani Abdullah (contract ended on 16 May 2017)
Dr. Akhtarzaite Abdul Aziz
Ustaz Abdul Latif Ahmad Subki
Dr. Zurina Shafii (appointed on 1 November 2017)

Main Responsibilities of the Syariah Advisory Committee

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

Committees (continued)

a) Syariah Advisory Committee (continued)

Responsibilities of the Syariah Advisory Committee

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

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

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

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

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

6. To advise the Chairman of the Board on matters that require consultation from the BNM's Syariah Advisory Council and to prepare a written opinion when such matter is referred to the Council.

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

Syariah Compliance Review

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

2. The Syariah Compliance Review Unit will use the Syariah Compliance Manuals to undertake Syariah Compliance Reviews as may be required from time to time.

3. The Syariah Compliance Review Unit shall report and discuss its findings directly to the Syariah Advisory Committee.

Syariah Risk Management

Syariah non-compliance risk refers to possible failures to meet the obligation to Syariah principles as required by the Islamic Financial Services Act 2013 ("IFSA 2013"). IFSA 2013 specifies the requirement for the Bank to strictly adhere to the guidelines provided by BNM's Shariah Advisory Council, the Bank's SAC and BNM's Syariah Standards. This risk is an integral part of Operational Risk.

The Islamic Law forms the basis of Syariah principles, to which if not complied, will result in Syariah non-compliance event. Non-compliance with Syariah principles may result in Syariah non-compliance income which needs to be channelled to charity. It also exposes the Bank to legal, fiduciary and reputational risks. The Bank's Head of Syariah is identified as the Risk Owner for this risk under the Bank's Operational Risk Framework.

Syariah non-compliance risk is managed through a framework of risk management policies and procedures originating from Standard Chartered PLC Group for operational risk that drive the Bank's risk management approach. It is done through a ten-step process of (i) Benchmark and set standards, (ii) Process universe, (iii) Risk identification, (iv) Gross risk assessment, (v) Control design assessment, (vi) Control operational assessment, (vii) Residual risk assessment, (viii) Risk acceptance and treatment, (ix) Risk and control monitoring, and (x) Risk reporting. This ten step management process is performed at all levels across the Bank and is the foundation of the management approach.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Committees (continued)

a) Syariah Advisory Committee (continued)

Syariah Risk Management (continued)

The Bank uses several mechanisms to control Syariah non-compliance risk which include:

- Country Addenda for each product to ensure all risks associated with the product is identified and assessed.
- Syariah Compliance Manual is distributed to all applicable units of the Bank to serve as a guide to all relevant staff on Syariah requirements.
- Operational Risk Assessment for all new products / variations made to existing products, where Syariah failure points are identified and controls implemented.
- Scripts, templates and operational checklists are embedded with Syariah requirements to prevent operational lapses.
- Assurance process which include Key Control Self Assessment ("KCSA") and Control Sample Text ("CST") across all business, segments , operations and support to check on control effectiveness specific to Syariah controls.
- Annual Syariah audit and regular Syariah compliance review.
- Continuous training on Islamic products and Syariah requirements to all relevant staff handling Islamic banking activities and operations.

Potential Syariah non-compliance event may be identified from various sources. Any syariah-related issues identified is assessed by the Bank's Qualified Syariah Officer ("QSO") and in the event the issue is classified as a potential Syariah non-compliance event, it shall be escalated to the SAC for decision and approval of the action taken or rectification plan. Actual Syariah non-compliance event is further reported to the Board for approval as per BNM's guidelines. The SAC as well as the Board is updated on completion of the rectification plan.

All actual Syariah non-compliance events are also assessed using the Group Operational Risk Assessment Matrix ("GORAM"), where the event is assigned a risk rating of either Very High, High, Medium or Low based on the assessments of likelihood and impact. The progress on rectification actions for all actual Syariah non-compliance events is tracked in the Bank's Business Operational Risk Committee ("BORC") and higher risk authority which is Country Operational Risk Committee ("CORC") for event that is rated Medium and higher. This ensures strong governance over the management and oversight of Syariah non-compliance risk.

Syariah Non-Compliant Income

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

Any Syariah non-compliant income identified must be escalated to the SAC for their decision on the appropriate course of action.

During the financial period, there were six (2016:five) syariah non-compliant events being detected.One event has resulted in shariah non-compliant income amounting to RM5,850 (2016: RM347,009). The Bank is in the midst of channelling the RM5,850 to a charitable organization.

Additional control measures to prevent recurrence include process and control improvements, certification in Islamic Banking for staff handling Islamic Banking transactions and continuous training to enhance staff awareness.

Committees (continued)

a) Syariah Advisory Committee (continued)

Frequency and attendance of each Syariah Advisers at Syariah Advisory Committee meetings

All Syariah Advisers have complied with the requirement that Syariah Advisers must attend at least 75% of Syariah Advisory Committee meetings held in the financial year in accordance with the BNM Guidelines. The attendance of the members are as follows:-

Members	Attendance and Number of Meetings
Dr. Hikmatullah Babu Sahib - Chairperson	9/11
Dr. Wan Azhar Wan Ahmad - Deputy Chairperson	11/11
Prof. Madya Datin Dr. Nurdianawati Irwani Abdullah (contract ended on 16 May 2017)	3/4
Dr. Akhtarzaite Abdul Aziz	10/11
Ustaz Abdul Latif Ahmad Subki	11/11
Dr. Zurina Shafii (appointed on 1 November 2017)	1/1

b) Nomination and Remuneration Committee

The former Nomination Committee ("NC") was established on 27 November 2008. In accordance with Paragraph 12.1 of the BNM Policy Document whereby all financial institutions must establish a board remuneration committee, the Board has on 1 December 2016 approved the set up of the Nomination and Remuneration Committee ("NRC"). The NRC is a combined board nomination committee and board remuneration committee as allowed by the BNM Policy Document under Paragraph 12.2.

Membership and composition

The members of the NRC are:-
Datuk Ishak bin Imam Abas - Chairman
Datuk Seri Michael Yam Kong Choy
Datuk Yvonne Chia

All of the NRC members are Independent Non-Executive Directors.

Functions and responsibilities and terms of reference

The terms of reference of the NRC was approved by the Board on 1 December 2016.

The primary functions of the NRC are to assist 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;
- regularly review the overall structure, size and composition (including the skills, knowledge, experience and compliance with corporate governance best practice) of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- assess and recommend for the approval of the board, board committee members and Syariah Advisors. This includes assessing directors and Syariah Advisors for re-appointment, before an application for approval is submitted to BNM;
- determine and implement a process for the evaluation of the performance and effectiveness of the Board and of each director, the board committees, the CEO and senior management officers, based on performance criteria approved by the Board;
- determine the fit and proper criteria of the directors, Syariah Advisors and senior management prior to their appointment and on an annual basis;
- ensure that all directors and senior management receive adequate induction programme and continuous education to better enable them to fulfil their responsibilities;
- support the Board in actively overseeing the design and operation of the Bank's remuneration system; and
- approve the remuneration for each director, senior management including material risk takers on annual basis and regularly review the list of material risk takers.

Committees (continued)

b) Nomination and Remuneration Committee (continued)

In 2017, the NRC has made assessment for the appointment of two (2) directors and re-appointment of two (2) directors. The Committee was convinced that the new appointment and re-appointment of directors would assist in achieving a mix of Board members that represents a diversity of backgrounds and experiences that would best complement the current Board effectiveness.

For 2017, the Board has adopted a self-evaluation initiative 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 capitalise on the strengths that each director brings to the Board and enhance each Director's contribution.

Number of meetings held

The Nomination and Remuneration Committee ("NRC") meets at least twice a year and during the financial year 2017, the committee met eight (8) times and the attendance of the NRC members are as follows.

Members	Attendance and Number of Meetings
Datuk Ishak Imam Abas	8/8
Datuk Seri Michael Yam Kong Choy	8/8
Datuk Yvonne Chia	8/8

c) Audit Committee

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

Membership and composition

The members of the AC are:-
Datuk Ishak bin Imam Abas - Chairman
Datuk Seri Michael Yam Kong Choy
Datuk Khairil Anuar Abdullah (resigned on 4 May 2017)
Mahendra Gursahani (appointed on 4 May 2017; resigned on 1 November 2017)
Abrar Alam Anwar (appointed on 24 January 2018)

The AC members consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Executive Director.

Terms of Reference

The terms of reference of the AC was revised and approved by the Board on 22 September 2010 and its latest revision was on 21 February 2017.

The primary functions of the AC are to assist the Board to:-
- review and monitor the appropriateness and completeness of statutory accounts and published financial statements of the Company and any formal announcements relating to the Company's financial performance, including significant financial reporting judgements contained in them;
- review the internal financial controls and systems as well as monitor and assess the role and effectiveness of the Company's internal audit function and to receive reports from the Head of Audit on these matters;
- consider the appointment, re-appointment, dismissal or resignation of the external auditor and make appropriate recommendations, through the board, to shareholders to consider at the annual general meeting concerning the re-appointment of the external auditor;
- review the independence and objectivity of the external auditors and develop and implement policy on the engagement of the external auditor to supply non-audit services;
- review the annual report including the corporate governance disclosures, the interim financial reports and the annual financial statements and discuss any findings and other matters arising from the external auditors' interim and final audits;
- review reports from the Chief Compliance Officer on the arrangements established by management for ensuring adherence to internal compliance policies and procedures and compliance with specific laws and regulations, as requested by the Committee or required by laws and regulations;
- consider the appointment, performance, evaluation, transfer, resignation or removal of the Head of Audit and Chief Compliance Officer; and
- receive and review, at least annually, a report on money laundering and financial crime produced by the Company's Money Laundering Reporting Officer and any specific actions taken by senior management in relation to the report.

Committees (continued)

c) Audit Committee (continued)

Number of meetings held

The AC meets on a quarterly basis and during the financial year 2017, the committee met four (4) times and the attendance of the members are as follows:-

Members	Attendance and Number of Meetings
Datuk Ishak bin Imam Abas - Chairman	4/4
Datuk Seri Michael Yam Kong Choy	3/4
Datuk Khairil Anuar Abdullah (resigned on 4 May 2017)	2/2
Mahendra Gursahani (appointed on 4 May 2017; resigned on 1 November 2017)	2/2
Abrar Alam Anwar (appointed on 24 January 2018)	-

d) Board Risk Committee

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

Membership and composition

The members of the BRC are:-
Datuk Seri Michael Yam Kong Choy - Chairman
Datuk Ishak bin Imam Abas
Datuk Khairil Anuar Abdullah (resigned on 4 May 2017)
Mahendra Gursahani (appointed on 4 May 2017; resigned on 1 November 2017)
Abrar Alam Anwar (appointed on 24 January 2018)

The BRC members consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Executive Director.

Terms of Reference

The terms of reference of BRC was subsequently revised and approved by the Board on 13 October 2009 and its latest revision was approved on 21 February 2017.

The primary functions of the BRC are to assist the Board to:-
- review and recommend those policies which are reserved for the Board’s approval, risk management strategies, and risk tolerance for the Board’s approval;
- review and assess adequacy of risk management framework and policies, identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- ensure infrastructure, resources and systems are in place for risk management i.e. to ensure that the staff responsible for implementing risk management systems perform those duties independently of the financial institutions’ risk taking activities;
- review management’s periodic reports on risk exposures, risk portfolio composition, risk rating systems, risk appetite, stress testing and risk management activities;
- examine whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Nomination and Remuneration Committee;
- ensure that there is effective risk management process to address any unique Syariah contracts requirements; and
- appoint, evaluate performance and decide on the dismissal of Country Chief Risk Officer.

Number of meetings held

The BRC meets on a quarterly basis and during the financial year 2017, the committee met five (5) times and the attendance of the members are as follows:-

Members	Attendance and Number of Meetings
Datuk Ishak bin Imam Abas - Chairman	4/5
Datuk Seri Michael Yam Kong Choy	5/5
Datuk Khairil Anuar Abdullah (resigned on 4 May 2017)	3/3
Mahendra Gursahani (appointed on 4 May 2017; resigned on 1 November 2017)	2/2
Abrar Alam Anwar (appointed on 24 January 2018)	-

Risk Management

A risk management framework:
- establishes common principles & standards for the mangement and control of all risks, and to inform behaviour across the organisation;
- provides a shared framework and language to improve awareness of risk management processes; and
- provides clear accountability and responsibility for risk management.

Risk management is the set of end-to-end activities through which the Bank make risk-taking decisions and control and optimise their risk-return profile of the Bank. It is a bank-wide activity and starts right at the front-line. The management of risk lies at the heart of the Bank’s business. Effective risk management is a central part of the financial and operational management of the Bank and fundamental to its ability to generate profits consistently and maximize the interests of shareholders and other stakeholders.

The Risk Management Principles are designed to be consistent with Standard Chartered Group's "Here for Good" brand promise. They reflect stakeholder priorities and directly inform our approach to the management of risk and our risk culture:

Balancing risk and return:
- The Bank manages risks to build a sustainable franchise, in the interests of all stakeholder
- The Bank only takes risk within risk tolerances and risk appetite, and where consistent with approved strategy
- The Bank manages its risk profile so as to maintain a low probability of an unexpected loss event that would materially undermine the confidence of investors

Conduct of business:
- The Bank demonstrates "Here for good" through its conduct, and is mindful of the reputational consequences of inappropriate conduct
- The Bank seeks to achieve good outcomes for clients, investors, and the markets in which it operates, while abiding by the spirit and letter of the laws and regulation
- The Bank treats its staff fairly and with respect

Responsibility and accountability:
- The Bank takes individual responsibility to ensure risk-taking is disciplined and focused, particularly within its area of authority
- The Bank makes sure risk taking is transparent, controlled and reported in line with the risk management framework, within risk appetite and risk tolerance boundaries, and only where there is appropriate infrastructure and resource

Anticipation:
- The Bank seeks to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks

Competitive advantage:
- The Bank seeks to achieve competitive advantage through efficient and effective risk management and control

Risk Governance

Risk governance refers to those parts of the Bank’s overall governance mechanisms that relate to risk management and control. Risk governance is exercised through the decision making authority vested in individual managers and committees.

Ultimate responsibility for the effective management of risk rests with the Board.

The Board Risk Committee is responsible for providing assurance to the Board that the overall framework for complying with the Risk Management Principles and Risk Tolerance Statement is operating effectively.

Executive responsibility for risk management is delegated by the Executive Committee ("EXCO").

Asset and Liability Committee ("ALCO"), through its authority delegated by EXCO, is responsible for the management of capital ratios and the establishment of, and compliance with, policies relating to balance sheet management, including management of the Group’s liquidity, capital adequacy and structural foreign exchange and interest rate exposure.

Risk Management (continued)

Risk Governance (continued)

The Executive Risk Committee ("ERC") with its authority delegated by EXCO is responsible for the management and control of all risks (including Syariah non-compliance risk), except those for which EXCO and ALCO have direct responsibilities.

ERC ensures the effective management of risk throughout the subsidiary and other Group's non-banking entities incorporated and domiciled in Malaysia in support of business strategy. The ERC must ensure that risks within the country entities are managed effectively within the constraints set by the Group Risk Committee. In addition, ERC has risk management oversight over entities and branches of Standard Chartered Bank, UK incorporated and domiciled in Malaysia.

Flow of Authority

Authority flows from the ERC and ALCO to their sub-committees and may be cascaded further from there. Reporting of material risk exposures, risk issues and assurance with policies and standards is communicated from the relevant risk type committees up to the ERC, in accordance with their degree of materiality to the Bank. Line managers are also required to ensure that all risk exposures, risk issues and evidence of assurance with policy are classified in terms of the applicable risk control area, risk type and organisational levels.

Three Lines of Defence

- The first line of defence is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities.
- The second line of defence comprises the Risk Control Owners, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the residual risks within their scope of their responsibilities remain within appetite. The second line is independent of the origination, trading and sales functions to ensure that the necessary balance and perspective is brought to risk/return decisions.
- The third line of defence comprises the assurance provided by the Group Internal Audit ("GIA") which has no responsibilities for any of the activities it examines. GIA provides independent assurance of the effectiveness of the management's control of its own business activities (first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

Risk Function

The role of the risk function led by the Country Chief Risk Officer is:
- To maintain the Risk Management Framework, ensuring it remains appropriate to the Bank's activities, is effectively communicated and implemented across the Bank and for administering related governance and reporting processes.
- To uphold the overall integrity of the Bank's risk/return decisions, and in particular for ensuring that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with the Risk Management Principles, Risk Tolerance and Risk Appetite boundaries and other Bank standards.
- To exercise direct risk control ownership for credit, country cross-border and operational risk types (including Syariah non-compliance risk).

Risk Tolerance

Risk tolerance boundary for the Bank is aligned to Standard Chartered Bank Malaysia Berhad Group ("SCBMB Group"). The boundary determines the maximum level of risk the SCBMB Group is ordinarily willing to take in pursuit of its strategy, in accordance with its Risk Principles. The local Risk Tolerance Statement has been approved by the local Board in December 2015.

Stress Testing

Stress testing and scenario analysis are used to assess the capability of the SCBMB Group to continue operating effectively under extreme but plausible trading conditions. Stress testing activities are performed as necessary, to evaluate the impact on the portfolio or on certain client segments, as a result of developments in the market. Stress testing results are tabled with ERC for approval.

Control activities

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise 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 ("RMF") described earlier, which is underpinned by policy statements, written procedures and control manuals.

Control activities (continued)

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

Internal Audit

Group Internal Audit ("GIA") is an independent function whose primary role is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Group. GIA does this by risk assessing the organisation and its activities (including outsourced activities and all legal entities). This assessment, together with audits required (or expected) by regulators, allows GIA to formulate and execute an annual plan of audit and review activity (the “Plan”) to form an opinion on the control environment and management’s control approach. GIA does not have to cover all scope areas every year. The Plan is reviewed on a periodic basis to assess the impact of changing risks, with any significant changes to the Plan discussed and reviewed with senior management and approved by the Audit Committee.

The scope of GIA activities encompasses, but is not limited to, objective examinations of evidence for providing independent assessments on the adequacy and effectiveness of risk management, control and governance processes for the Group. GIA also performs reviews at the specific request of regulators, senior management or the Audit Committee. GIA assesses if key risks have been identified, governed in line with the established risk management processes (including risk appetite) and reported by senior management and/or the Risk function to Committees and Executive Management. GIA considers business strategy, policies and procedures as well as the Group’s key priorities as part of this evaluation. It also considers whether the outcomes achieved and the way business is conducted is in line with the objectives, risk appetite and valued behaviours of the organisation. In line with the Group’s valued behaviours (“Do the right thing”, “Never settle” and “Better together”), GIA is beginning to include culture considerations and indicators in its work, and specifically how the observed culture of an area impacts the risk and control environment.

There is no aspect of the organisation which GIA is restricted from looking at as it delivers on its mandate. GIA’s scope includes information presented to the Board for strategic decision making, including a review of significant business process changes, key corporate events, new products and services, acquisitions and divestments.

Related Party Transactions

There were no other significant related party transactions other than as reported in Note 29.

Management Report

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Ratings Statement

RAM Rating Services Berhad had re-affirmed the long and short-term general bank ratings of Standard Chartered Saadiq Berhad to be AAA and P1, respectively, in November 2017.

Compliance with Bank Negara Malaysia's expectation on Financial Reporting

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that BNM's expectations on financial reporting have been complied with, including those as set out in the Guidelines in Financial Reporting for Islamic Banking Institutions and Guidelines on Classification and Impairment Provisions for Financing.

Board of Directors and their interests in shares

None of the Directors holding office at 31 December 2017 had any interest in the shares and options over shares of the Bank and of 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.

Directors' benefits

Since the end of the previous financial period, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in Note 25 to the financial statements or the fixed salary of a full time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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.

Indemnity and insurance costs

Standard Chartered Bank Malaysia Berhad, being the immediate holding company of the Bank, has granted indemnity to the Directors and officers of Standard Chartered Bank Malaysia Berhad and its subsidiaries (“SCBMB Group”). As at 31 December 2017, the total amount of indemnity given to the Directors and officers of the SCBMB Group is RM20,516,500.

Zakat Obligation

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Auditors

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

The auditors' remuneration is disclosed in note 24 of the financial statements.

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

....
Datuk Yvonne Chia
Director

....
Abrar Alam Anwar
Director

Kuala Lumpur
Date: 24 April 2018

Company No. 823437K

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Statement by Directors pursuant to
Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 25 to 102 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and of its financial performance and cash flows for the year then ended.

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

....
Datuk Yvonne Chia
Director

....
Abrar Alam Anwar
Director

Kuala Lumpur
Date: 24 April 2018

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

Statutory Declaration pursuant to
Section 251(1)(b) of the Companies Act, 2016

I, Mabel Lau Kit Cheng, the officer primarily responsible for the financial management of Standard Chartered Saadiq Berhad, do solemnly and sincerely declare that the financial statements set out on pages 25 to 102 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Mabel Lau Kit Cheng, I/C No: 770411-10-5300 in Kuala Lumpur on 24 April 2018.

....
Mabel Lau Kit Cheng

Before me:

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

Report on the Financial Statements

We have audited the financial statements of Standard Chartered Saadiq Berhad, which comprise the statement of financial position as at 31 December 2017 of the Bank, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 25 to 102.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Bank in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants* ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the Directors are responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Foong Mun Kong
Approval Number: 02613/12/18 J
Chartered Accountant

Petaling Jaya
Date: 24 April 2018

بسم الله الرحمن الرحيم

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

SYARIAH ADVISORY COMMITTEE'S REPORT

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Standard Chartered Saadiq Berhad during the year ended 31 December 2017. We have also conducted our review to form an opinion as to whether the Standard Chartered Saadiq Berhad has complied with the Syariah principles and with the Syariah rulings issued by the Syariah Advisory Council of Bank Negara Malaysia, as well as Syariah decisions made by us.

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

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

We have reviewed the policies and procedures adopted by Standard Chartered Saadiq Berhad and we have obtained all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Standard Chartered Saadiq Berhad operations have not violated the Syariah principles.

In our opinion:

1. the contracts, transactions and dealings entered into by Standard Chartered Saadiq Berhad during the year ended 31 December 2017 that we have reviewed are in compliance with the Syariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Syariah principles;
3. all earnings that have been realised from sources or by means prohibited by the Syariah principles have been considered for disposal to charitable causes.
4. Standard Chartered Saadiq Berhad during the year ended 31 December 2017 is not required to pay *zakat* because its shareholder is non-Muslim.

We, the members of the Syariah Advisory Committee of Standard Chartered Saadiq Berhad, do hereby confirm that the operations of Standard Chartered Saadiq Berhad for the year ended 31 December 2017 have been conducted in conformity with the Syariah principles.

On behalf of the Syariah Advisory Committee

Chairman of the Syariah Advisory Committee
Dr. Hikmatullah Babu Sahib

Deputy Chairman of Syariah Advisory Committee
Dr. Wan Azhar Wan Ahmad

Kuala Lumpur
Date: 24 April 2018

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Cash and short term funds	3	1,612,916	1,392,350
Investment securities available-for-sale	4	100,524	99,576
Financing and advances	5	5,538,789	6,600,489
Derivative financial assets	34	207,304	294,900
Other assets	7	187,727	627,453
Current tax assets		3,143	4,707
Statutory deposits with Bank Negara Malaysia	8	139,012	143,150
Property, plant and equipment	9	152	151
Deferred tax assets	27	3,121	5,803
Total assets		**7,792,688**	**9,168,579**
Liabilities			
Deposits from customers	10	2,528,560	2,389,883
Investment accounts of customers	11	730,481	668,677
Deposits and placements of banks and other financial institutions	12	1,776,566	2,590,008
Investment accounts due to designated financial institutions	13	1,689,377	1,937,198
Derivative financial liabilities	34	209,822	308,333
Other liabilities	14	127,775	568,696
Subordinated sukuk	15	100,000	100,000
Total liabilities		**7,162,581**	**8,562,795**
Equity			
Share capital	16	102,750	102,750
Reserves	17	527,357	503,034
Total equity attributable to owner of the Bank		**630,107**	**605,784**
Total liabilities and equity		**7,792,688**	**9,168,579**
Commitments and contingencies	31	**9,749,955**	**8,365,793**

The notes set out on pages 30 to 102 form an integral part of, and should be read in conjuction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds	18	273,932	305,993
Income derived from investment of investment account funds	19	91,568	98,312
Income derived from investment of shareholder's funds	20	35,581	75,182
Allowances for impairment on financing and advances	21	(15,970)	(34,301)
Total distributable income		385,111	445,186
Profit/hibah distributed to depositors	22	(174,883)	(203,514)
Profit/hibah distributed to investment account holders	23	(75,972)	(77,128)
Total net income		134,256	164,544
Other operating expenses	24	(102,428)	(121,732)
Profit before taxation		31,828	42,812
Tax expense	26	(8,350)	(10,710)
Profit for the year		23,478	32,102
Other comprehensive income/(expense), net of income tax			
Items that may be reclassified subsequently to profit or loss			
Fair value reserve (investment securities available-for-sale):			
Net change in fair value		845	(2,668)
Other comprehensive income/(expense) for the year, net of income tax		845	(2,668)
Total comprehensive income for the year		24,323	29,434
Basic/diluted earnings per ordinary share (sen)	30	22.8	31.2

The notes set out on pages 30 to 102 form an integral part of, and should be read in conjuction with, these financial statements.

Company No. 823437K

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	←	*Non-Distributable Reserves*		→	*Distributable Reserves*	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**AFS reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2017	102,750	308,250	102,750	(805)	92,839	605,784
Fair value reserve (investment securities available-for-sale):- Net changes in fair value	-	-	-	845	-	845
Total other comprehensive expense for the year	-	-	-	845	-	845
Profit for the year	-	-	-	-	23,478	23,478
Total comprehensive income for the year	-	-	-	845	23,478	24,323
Transfer between reserves	-	-	(102,750)	-	102,750	-
Total transaction with owner of the Bank	-	-	(102,750)	-	102,750	-
At 31 December 2017	**102,750**	**308,250**	**-**	**40**	**219,067**	**630,107**
	Note 16	**Note 17**	**Note 17**	**Note 17**	**Note 17**	

The notes set out on pages 30 to 102 form an integral part of, and should be read in conjuction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	←	*Non-Distributable Reserves*		→	*Distributable Reserves*	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**AFS reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2016	102,750	308,250	102,750	1,863	60,737	576,350
Fair value reserve (investment securities available-for-sale):- Net changes in fair value	-	-	-	(2,668)	-	(2,668)
Total other comprehensive income for the year	-	-	-	(2,668)	-	(2,668)
Profit for the year	-	-	-	-	32,102	32,102
Total comprehensive income for the year	-	-	-	(2,668)	32,102	29,434
At 31 December 2016	**102,750**	**308,250**	**102,750**	**(805)**	**92,839**	**605,784**
	Note 16	**Note 17**	**Note 17**	**Note 17**	**Note 17**	

The notes set out on pages 30 to 102 form an integral part of, and should be read in conjuction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before taxation	31,828	42,812
Adjustments for:-		
Depreciation	64	292
Allowances for impairment on financing and advances	15,970	34,301
Amortisation of premium less accretion of discount on investment securities available-for-sale	164	(652)
Operating profit before working capital changes	48,026	76,753
Changes in working capital:-		
Financing and advances	1,045,730	95,228
Derivative financial instruments	(10,915)	10,697
Other assets	439,726	1,344,666
Statutory deposits with Bank Negara Malaysia	4,138	117,936
Deposits from customers	138,677	(367,175)
Investment accounts of customers	61,804	(62,478)
Deposits and placements of banks and other financial institutions	(813,442)	(1,164,826)
Investment accounts due to designated financial institutions	(247,821)	(528,601)
Other liabilities	(440,921)	(35,316)
Cash generated from / (used in) operations	225,002	(513,116)
Income taxes paid	(4,371)	(2,689)
Net cash generated from / (used in) operating activities	**220,631**	**(515,805)**
Cash flows from investing activities		
Purchase of investment securities available-for-sale	-	(100,000)
Purchase of property, plant and equipment	(65)	(45)
Proceeds from disposal of investment securities available-for-sale	-	603,980
Net cash (used in) / generated from investing activities	**(65)**	**503,935**
Net increase / (decrease) in cash and cash equivalents	220,566	(11,870)
Cash and cash equivalents at beginning of year	1,392,350	1,404,220
Cash and cash equivalents at end of year	**1,612,916**	**1,392,350**
Cash and cash equivalents comprise:		
Cash and short term funds (Note 3)	**1,612,916**	**1,392,350**

The notes set out on pages 30 to 102 form an integral part of, and should be read in conjuction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Notes to the financial statements

Corporate Information

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

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

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

The immediate and ultimate holding company of the Bank during the financial year were Standard Chartered Bank Malaysia Berhad ("SCBMB"), a company incorporated in Malaysia and Standard Chartered PLC, a company incorporated in Great Britain.

The financial statements were approved by the Board of Directors on 24 April 2018.

1. Basis of preparation of the financial statements

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs"), the requirements of the Companies Act, 2016 in Malaysia, and Syariah requirements.

The accounting policies adopted by the Bank are consistent with those adopted in the most recent annual financial statements for the year ended 31 December 2016, except for the adoption of the following Amendments to MFRSs during the current financial year end:

i)	Amendments to MFRS 12	*Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
ii)	Amendments to MFRS 107	*Statement of Cash Flows – Disclosure Initiative*
iii)	Amendments to MFRS 112	*Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of the above Amendments to MFRSs do not have any material impact on the financial statements of the Bank.

Accounting standards not yet effective

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Bank:

MFRSs and amendments effective for annual periods beginning on or after 1 January 2018

i)	MFRS 9	*Financial Instruments*
ii)	MFRS 15	*Revenue from Contracts with Customers*
iii)	Clarifications to MFRS 15	*Revenue from Contracts with Customers*
iv)	IC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
v)	Amendments to MFRS 1	*First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
vi)	Amendments to MFRS 2	*Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
vii)	Amendments to MFRS 4	*Insurance Contracts - Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
viii)	Amendments to MFRS 128	*Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
ix)	Amendments to MFRS 140	*Investment Property – Transfers of Investment Property*

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

(a) Statement of compliance (continued)

Accounting standards not yet effective (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

i)	MFRS 16	*Leases*
ii)	IC Interpretation 23	*Uncertainty over Income Tax Treatments*
iii)	Amendments to MFRS 3	*Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
iv)	Amendments to MFRS 9	*Financial Instruments – Prepayment Features with Negative Compensation*
v)	Amendments to MFRS 11	*Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
vi)	Amendments to MFRS 112	*Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
vii)	Amendments to MFRS 119	*Employee Benefits - Plan Amendment, Curtailment or Settlement*
viii)	Amendments to MFRS 123	*Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
ix)	Amendments to MFRS 128	*Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

i)	MFRS 17	*Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

i)	Amendments to MFRS 10 and MFRS 128	*Consolidated Financial Statements and Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Bank plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 4, Amendments to MFRS 128 and Amendments to MFRS 140 which are not applicable to the Bank.

- from the annual period beginning on 1 January 2019 for the accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3, Amendments to MFRS 11 and Amendments to MFRS 128 which are not applicable to the Bank.

- The Bank does not plan to apply MFRS 17, Insurance Contracts that is effective for annual periods beginning on 1 January 2021, as it is not applicable to the Bank.

The initial application of the abovementioned accounting standards and amendments are not expected to have any material impact to the financial statements of the Bank except as mentioned below:

MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. The impact of adoption of the requirements of MFRS 9 is further disclosed in Note 39.

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfer of Assets from Customers* and IC Interpretation 131 *Revenue - Barter Transactions Involving Advertising Services.*

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

(a) Statement of compliance (continued)

Accounting standards not yet effective (continued)

MFRS 15, *Revenue from Contracts with Customers (continued)*

The standard provides a more detailed principles-based approach for income recognition than the current standard MFRS 118 *Revenue* , with revenue being recognised as or when promised services are transferred to customers. The standard applies to 'Fees and commission income' but does not apply to financial instruments or lease contracts. Hence, the adoption of MFRS 15 will not have a material impact on the Bank's financial statements.

MFRS 16 *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases* , IC Interpretation 4, *Determining whether an Arrangement contains a Lease* , IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* .

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

In determining the carrying amounts of some assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the statement of financial position date. The estimates and assumptions used 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.

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

(d) Use of estimates and judgements (continued)

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

i) Estimation of recoverable amounts based on the discounted cash flow methodology for impaired financing (Note 2(a)(viii)(B))
ii) Estimation of expected life for recognition of financing income, financing expense and effective profit method (Note 2(h)(i) and Note 2(j) and Note2(l))
iii) Fair value estimation of financial assets and financial liabilities (Note 34)

(e) Companies Act 2016

The preparation of the financial statements of the Bank are prepared in accordance with the requirements of the Companies Act 2016 ("New Act") which replaced the Companies Act, 1965, effective 31 January 2017. The key changes introduced which affected the financial statements of the Bank are:

i) The removal of the authorised share capital;
ii) The ordinary shares of the Bank will cease to have par or nominal value;
iii) The Bank's share premium will become part of the share capital; and
iv) The removal of the requirement to maintain a capital redemption reserve.

The New Act has provided a transitional period of 24 months from 31 January 2017 to utilise the share premium account for certain purposes before it is merged with capital. The Bank plans to transfer its share premium account to capital not earlier than 31 January 2019.

The adoption of the New Act is not expected to have any financial impact on the Bank for the current financial year as any accounting implications will only be applied prospectively, if applicable, and will mainly be on disclosures to the financial statements.

(f) Revised Policy Document on Capital Funds

BNM had on 3 May 2017, issued a Revised Policy Document on Capital Funds for Islamic Banks ("Revised Policy Document") which is applicable to all licensed Islamic banks. The issuance of this Revised Policy Document superseded previous guidelines issued by BNM previously, namely Capital Funds for Islamic Banks dated 1 July 2013.

The key changes in the Revised Policy Document are:

i) The removal of the requirement on maintenance of a reserve fund; and
ii) The revised component of capital funds shall exclude share premium and reserve fund.

As the New Act has provided a transitional period of 24 months from 31 January 2017 to utilise the share premium account before it is merged with capital, the Bank is currently exploring the alternatives prior to the expiry period.

Hence, the adoption of the Revised Policy Document will not have any financial impact on the Bank except for the transfer of statutory reserve to retained earnings.

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 the Bank, unless otherwise stated.

(a) Financial instruments

i) *Initial recognition and measurement*

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

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

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

i) *Initial recognition and measurement*

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

ii) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments as follows:-

<u>Financial assets</u>

A) Financial assets at fair value through profit or loss

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

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

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

B) Investment securities held-to-maturity

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

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

C) Financing and receivables

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

Financial assets are categorised as financing and receivables under various Syariah contract types (Note 5(i)). These contracts are initially recognised at fair value, which is the cash consideration to originate or puchase the financing including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. The amortised cost of the financial asset is the amount at which the financial asset is measured at initial recognition, less principal payment, plus or less the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment. These contracts are stated net of unearned income and any amount written off and/or impaired.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

D) Available-for-sale financial assets

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

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

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

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

<u>Financial liabilities</u>

The financial liabilities of the Bank include Deposits from customers, Investment accounts of customers, Deposits and placements of banks and other financial institutions, Investment accounts due to designated financial institutions, Financial derivatives, Other liabilities and Subordinated Sukuk.

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

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

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

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

iii) Financial guarantee contracts

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

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

iii) Financial guarantee contracts (continued)

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

iv) Regular way purchase or sale of financial assets

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

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

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

v) Derivative financial instruments and hedge accounting

Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Further details of these techniques are set out in Note 34. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either: (1) hedges of the value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

v) Derivative financial instruments and hedge accounting (continued)

Fair value hedge

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

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

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

Cash flow hedge

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

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

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

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

vi) Derecognition

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

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

vii) Offsetting

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

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

viii) Impairment of financial assets

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

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

A) *Securities*

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

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

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

viii) Impairment of financial assets (continued)

A) *Securities (continued)*

- *Securities carried at amortised cost (continued)*
  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 profit or loss.

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

  Impairment losses recognised in profit or loss for an investment in an equity investment classified as available-for-sale, is not reversed through profit or loss.

  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 profit or loss, that portion of impairment loss is reversed, to the extent that the assets carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of reversal is recognised in profit or loss.

B) *Financing and advances*

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in group of financial assets with similar credit characteristics and collectively assess them for impairment.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

viii) Impairment of financial assets (continued)

B) *Financing and advances (continued)*

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

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

(b) Property, plant and equipment

i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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 Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to statement of comprehensive income during the financial period in which they are incurred.

iii) Depreciation

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.

The estimated useful lives for the current and comparative periods are as follows:-

Premises, plant and equipment	3 to 10 years
Office equipment	3 to 8 years
Furniture and fittings	3 to 8 years

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

2. Significant accounting policies (continued)

(c) Provisions

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

(d) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise of cash and short-term funds and deposits and placements with financial institutions, with remaining maturity of less than one month and subject to insignificant risk of change in value.

(e) Impairment of other assets

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

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. Impairment losses are recognised in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus of the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus of the same asset.

Impairment losses recognised in respect of cash-generating units are allocated 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.

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

(f) Staff retirement and service benefits

i) Short-term employee benefits

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

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

2. Significant accounting policies (continued)

(f) Staff retirement and service benefits (continued)

i) Short-term employee benefits (continued)

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

ii) Share-based compensation

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

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

(g) Operating leases

Leases where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating lease and the leased assets are not recognised on the statement of financial position.

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

(h) Income recognition

i) Financing income

Financing income is recognised in profit or loss using the effective profit method for financial assets measured at amortised cost. The effective profit rate is the rate that exactly discounts estimated future receipts through the expected life of the financial assets. The calculation of the effective profit rate includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an intergal part of the effective profit rate.

Tawarruq
Tawarruq income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijarah
Ijarah income is recognised on effective profit rate basis over the lease term.

Musharakah Mutanaqisah
Income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.

Where an account is classified as impaired, impairment provisions is made on principal outstanding and profit/fee accrued prior to an account being impaired. Upon impairment, subsequent contractual profit due will not be recognised as income.

2. Significant accounting policies (continued)

(h) Income recognition (continued)

ii) Hibah

Dividend income from securities portfolio and placements which includes coupons earned, accrued discount and amortisation of premium of these securities is recognised on an accrual basis applying the effective profit method in accordance to the principles of Syariah and Guidelines on Financial Reporting for Islamic Banking Institutions.

iii) Other operating income

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

Service charges and processing fees are recognised when earned.

iv) Income derived from Syariah non-compliant activities

The Bank is required to identify any income derived from Syariah non-compliant transaction or events that is not in compliance to Syariah principles and to set aside such amount in a separate account and channel to approved charitable bodies.

(i) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous financial 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 temporary differences arising from the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax liability is recognised for all taxable temporary differences.

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

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

(j) Recognition of financing expense

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

2. Significant accounting policies (continued)

(k) Foreign currency transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at historical costs are translated using the spot exchange rates as at the date of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the statement of comprehensive income.

(l) Effective profit rate

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

(m) Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(n) Fair value measurements

The fair value of an asset or liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. Significant accounting policies (continued)

(n) Fair value measurements (continued)

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:-

Level 1: quoted prices (unadjusted) in active markets for identifical assets or liabilities that the Bank can assess at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Bank recognises transfers between levels of the fair value hierarchiy as of the date of the event or change in circumstances that caused the transfers.

3. Cash and short term funds

	2017 RM'000	2016 RM'000
Cash and balances with banks and other financial financial institutions	5,359	4,839
Money at call and deposit placements maturing within one month	1,607,557	1,387,511
	1,612,916	1,392,350

4. Investment securities available-for-sale

	2017 RM'000	2016 RM'000
At fair value		
Government Islamic bonds	100,524	99,576
	100,524	99,576

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

5. Financing and advances

(i) By type and by contract

As at 31 December 2017	Bai'^	Ijarah	Ijarah Thumma Al-Bai	Murabahah	Tawarruq	Musyarakah Mutanaqisah	Others	Total financing and advances
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At amortised cost								
Term financing								
- House financing	430,318	-	-	-	-	2,421,796	6	2,852,120
- Hire purchase receivables	-	-	59,027	-	-	-	-	59,027
- Lease receivables	-	93,696	-	-	-	-	-	93,696
- Other term financing	29,075	-	-	-	1,373,589	783,857	141,194	2,327,715
Bills receivable	199,004	-	-	108,240	64,465	-	-	371,709
Trust receipts	-	-	-	166,455	-	-	-	166,455
Staff financing	374	-	-	-	12,718	-	255	13,347
Revolving credit	-	-	-	-	246,197	-	-	246,197
	658,771	93,696	59,027	274,695	1,696,969	3,205,653	141,455	6,130,266
Less: Unearned income								(495,225)
Gross financing and advances								5,635,041
Less: Impairment provisions on financing and advances:-								
- Individual impairment provisions								(31,799)
- Collective impairment provisions								(64,453)
Total net financing and advances								5,538,789

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

5. Financing and advances (continued)

(i) By type and by contract (continued)

As at 31 December 2016	Bai'^	Ijarah	Ijarah Thumma Al-Bai	Murabahah	Tawarruq	Musyarakah Mutanaqisah	Others	Total financing and advances
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At amortised cost								
Term financing								
- House financing	488,088	-	-	-	-	2,580,078	-	3,068,166
- Hire purchase receivables	-	-	101,619	-	-	-	-	101,619
- Lease receivables	-	256,026	-	-	-	-	-	256,026
- Other term financing	185,758	-	-	-	989,561	856,075	99,207	2,130,601
Bills receivable	224,856	-	-	30,208	379,362	-	-	634,426
Trust receipts	-	-	-	295,550	-	-	-	295,550
Staff financing	801	-	-	-	3,760	-	-	4,561
Revolving credit	-	-	-	-	725,355	-	-	725,355
	899,503	256,026	101,619	325,758	2,098,038	3,436,153	99,207	7,216,304
Less: Unearned income								(508,989)
Gross financing and advances								6,707,315
Less: Impairment provisions on financing and advances:-								
- Individual impairment provisions								(26,162)
- Collective impairment provisions								(80,664)
Total net financing and advances								6,600,489

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn.

5. Financing and advances (continued)

(ii) By type of customer

	2017 RM'000	2016 RM'000
Domestic non-bank financial institutions	361	298,625
Domestic business enterprises	2,029,715	2,957,681
Small medium enterprises	*814,769*	*1,001,368*
Others	*1,214,946*	*1,956,313*
Individuals	2,591,355	2,842,028
Foreign entities	1,013,610	608,981
	5,635,041	6,707,315

(iii) By profit rate sensitivity

	2017 RM'000	2016 RM'000
Fixed rate		
- House financing	1,130	1,363
- Hire purchase receivables	59,027	101,619
- Other financing	611,741	1,091,654
Variable rate		
- House financing	2,850,990	3,066,795
- Revolving credit	246,197	725,355
- Other financing	1,865,956	1,720,529
	5,635,041	6,707,315

(iv) By sector

	2017 RM'000	2016 RM'000
Agriculture	92,152	130,240
Mining and quarrying	230,506	239,849
Manufacturing	292,406	685,188
Electricity, gas and water	944	1,694
Construction	199,061	168,784
Real estate	340,522	339,622
Wholesale & retail trade and restaurants & hotels	388,017	815,775
Transport, storage and communication	50,754	73,754
Finance, takaful and business services	329,212	665,412
Household	3,045,597	3,344,557
Others	665,870	242,440
	5,635,041	6,707,315

5. Financing and advances (continued)

(v) By purpose

	2017 RM'000	2016 RM'000
Purchase of landed property		
- *Residential*	2,631,328	2,821,086
- *Non-residential*	809,190	875,003
Fixed assets excluding land and building	54,784	95,725
Personal use	201,362	308,380
Working capital	1,938,377	2,607,121
	5,635,041	6,707,315

(vi) By maturity structure

	2017 RM'000	2016 RM'000
Maturing within one year	868,224	1,708,542
One year to three years	443,301	466,481
Three years to five years	846,774	589,916
Over five years	3,476,742	3,942,376
	5,635,041	6,707,315

(vii) By geographical distribution

	2017 RM'000	2016 RM'000
Within Malaysia	5,130,557	6,600,863
Outside Malaysia	504,484	106,452
	5,635,041	6,707,315

(viii) Analysis of foreign currency exposure

	2017 RM'000	2016 RM'000
USD	640,391	1,051,860
Other foreign currencies	-	9,976
	640,391	1,061,836

6. Impaired financing and advances

(i) Movements in impaired financing and advances

	2017 RM'000	2016 RM'000
At 1 January	56,883	36,817
Classified as impaired during the financial year	91,174	120,084
Reclassified as performing during the financial year	(71,322)	(54,623)
Amount recovered during the financial year	(3,949)	(3,408)
Amount written off during the financial year	(29,605)	(41,987)
At 31 December	43,181	56,883
Individual impairment provisions	(31,799)	(26,162)
Net impaired financing and advances	11,382	30,721

	2017 RM'000	2016 RM'000
Collective impairment provisions		
At 1 January	80,664	93,350
Impairment made during the financial year	10,206	20,459
Amount written back	(26,417)	(33,145)
At 31 December	64,453	80,664
As a percentage of gross financing and advances less individual impairment provisions*	1.15%	1.21%

* The collective impairment provisions, as a percentage of gross financing and advances less individual impairment provisions will be 1.33% (2016: 1.44%) after excluding the exposures funded by Profit Sharing Investment Account ("PSIA") placements from SCBMB, where Provisions for Financing Assets Funded by PSIA are held at the fund provider, SCBMB.

	2017 RM'000	2016 RM'000
Individual impairment provisions		
At 1 January	26,162	28,622
Impairment made during the financial year	56,924	74,205
Amount written back	(11,597)	(13,948)
Amount written off	(39,690)	(62,717)
At 31 December	31,799	26,162

6. Impaired financing and advances (continued)

(ii) Impaired financing and advances by sector

	2017 RM'000	2016 RM'000
Manufacturing	1,202	839
Wholesale & retail trade and restaurants & hotels	9,457	6,272
Construction	1,587	455
Transport, storage and communication	2,072	3,537
Finance, takaful and business services	834	1,086
Real estate	389	-
Household	27,339	41,212
Others	301	3,482
	43,181	56,883

(iii) Impaired financing and advances by purpose

	2017 RM'000	2016 RM'000
Purchase of landed property	18,859	30,427
- *Residential*	12,222	25,262
- *Non-residential*	6,637	5,165
Fixed assets excluding land and building	2,443	2,743
Personal use	12,635	15,550
Working capital	9,244	8,163
	43,181	56,883

(iv) Impaired financing and advances by geographical distribution

	2017 RM'000	2016 RM'000
Within Malaysia	43,181	56,883

7. Other assets

	2017 RM'000	2016 RM'000
Income receivable	2,206	1,544
Other receivables, deposits and prepayments	185,521	625,909
	187,727	627,453

8. Statutory deposits with Bank Negara Malaysia

The non-profit bearing statutory deposits maintained with Bank Negara Malaysia are in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009 to satisfy the Statutory Reserve Requirement ("SRR"); the amounts of which are determined at set percentages of total eligible liabilities.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

9. Property, plant and equipment

Cost	Premises, plant and equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Total RM'000
At 1 January 2017	249	518	-	767
Additions	65	-	-	65
Fully depreciated assets written off	(225)	(354)	-	(579)
At 31 December 2017	89	164	-	253
Accumulated depreciation				
At 1 January 2017	230	386	-	616
Charge for the year	10	54	-	64
Fully depreciated assets written off	(225)	(354)	-	(579)
At 31 December 2017	15	86	-	101
Net book value				
At 31 December 2017	74	78	-	152

Cost	Premises, plant and equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Total RM'000
At 1 January 2016	5,376	3,093	3,747	12,216
Additions	45	-	-	45
Reclassification	(4)	132	(128)	-
Fully depreciated assets written off	(5,168)	(2,707)	(3,619)	(11,494)
At 31 December 2016	249	518	-	767
Accumulated depreciation				
At 1 January 2016	5,342	2,857	3,619	11,818
Charge for the year	56	236	-	292
Fully depreciated assets written off	(5,168)	(2,707)	(3,619)	(11,494)
At 31 December 2016	230	386	-	616
Net book value				
At 31 December 2016	19	132	-	151

10. Deposits from customers

(i) By type of deposit

	2017 RM'000	2016 RM'000
Demand deposits		
- Wadiah	820,363	758,035
Savings deposits		
- Wadiah	73,791	86,787
Term deposits	1,634,406	1,545,061
- Tawarruq	1,473,381	1,388,369
- Mudharabah	13,305	21,084
Negotiable instruments of deposits		
- Bai-Inah	125,864	118,009
Structured deposits		
- Tawarruq	21,856	17,599
	2,528,560	2,389,883

(ii) By type of customers

	2017 RM'000	2016 RM'000
Government and statutory bodies	939,693	667,230
Business enterprises	776,518	616,513
Individuals	438,329	644,093
Others	374,020	462,047
	2,528,560	2,389,883

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

	2017 RM'000	2016 RM'000
Due within six months	1,526,655	1,271,162
Six months to one year	75,610	155,890
One year to three years	32,141	-
Three years to five years	-	118,009
	1,634,406	1,545,061

11. Investment accounts of customers

Investment accounts of customers are profit sharing investment accounts based on the principle of Mudharabah. These are an unrestricted investment accounts which the Investment Account Holder ("IAH") appoints the Bank to manage based on the Bank's expertise as a fund manager.

The placements from the Investment accounts of customers will be invested into commodity murabahah contracts with the Bank's designated counterparty where certain commodities are bought and sold at an agreed profit.

Profit on the Investment accounts of customers is dependent on the pre-agreed profit sharing ratio and the performance of the underlying assets; and distributed to the IAH at the end of the investment period. The profit sharing investment account allows withdrawals and additional placements at any time and profit will be calculated based on the daily average balance at the end of the investment period.

The commodity murabahah placements are not recognised in the statement of financial position of the Bank due to the nature of the arrangement with the counterparty, where the funds will subsequently be placed with the Bank to fund certain Syariah compliant assets.

	2017 RM'000	2016 RM'000
Unrestricted investment accounts		
Without maturity		
Mudharabah	730,481	668,677
Movement in the Unrestricted Investment Account		
As at 1 January	668,677	731,155
Conversion to deposits from customers	-	(90,122)
New placements during the year	1,034,154	1,289,739
Redemption during the year	(996,796)	(1,285,026)
Income from investment	33,653	30,566
Profit distributed to the Bank	(9,207)	(7,635)
As at 31 December	730,481	668,677
Investment asset:		
Commodity Murabahah Placement-i	730,481	668,677
Total investment asset	730,481	668,677

The average profit sharing ratio and average rate of return are as follows:

	2017 (%)	2016 (%)
Unrestricted investment accounts		
Average profit sharing ratio	72.64	75.02
Average rate of return on investment	4.62	4.66

12. Deposits and placements of banks and other financial institutions

	2017 RM'000	2016 RM'000
Non-Mudharabah		
Licensed banks	1,617,866	2,528,988
Other financial institutions	158,700	61,020
	1,776,566	2,590,008

13. Investment accounts due to designated financial institutions

	2017 RM'000	2016 RM'000
Restricted investment accounts		
Mudharabah	1,689,377	1,937,198
By type of counterparties		
Licensed bank	1,689,377	1,937,198
Movement in the Restricted Investment Account		
As at 1 January	1,937,198	2,465,799
New placements during the year	547,496	292,173
Redemption during the year	(846,843)	(874,971)
Income from investment	57,915	67,746
Profit distributed to the Bank	(6,389)	(13,549)
As at 31 December	1,689,377	1,937,198
Investment assets:		
Financing and advances	752,076	1,082,284
Deposits and placements with banks and other financial institutions	937,301	854,914
Total investment asset	1,689,377	1,937,198

The average profit sharing ratio and average rate of return are as follows:

	2017 (%)	2016 (%)
Restricted investment accounts		
Average profit sharing ratio	80.00	80.00
Average rate of return	3.73	3.11

14. Other liabilities

	2017 RM'000	2016 RM'000
Income payable	16,356	22,587
Other payables and accruals	111,419	546,109
	127,775	568,696

15. Subordinated sukuk

	2017 RM'000	2016 RM'000
Subordinated sukuk	100,000	100,000

On 29 March 2013, the Bank issued RM 100 million nominal value Subordinated Sukuk ("the Sukuk") at profit rate of 4.85% per annum, payable every six months period from the issue date. The rate is applicable throughout the tenure of the Sukuk. The Sukuk, with a 10-year tenor, is due in March 2023, and is callable after 5 years at the Bank's option, subject to consent of Bank Negara Malaysia and satisfaction of redemption conditions. The Sukuk qualifies as Tier 2 capital of the Bank and shall not be transferable nor tradeable.

The Sukuk is subject to the following redemption conditions:-

(a) the Sukuk is replaced with capital of the same or better quality, and the replacement of the same capital is effected at conditions which are sustainable for the income capacity of the Issuer; or

(b) the Bank demonstrates that its capital position is well above BNM's capital adequacy requirements and capital buffer requirements after the redemption.

The Sukuk has a loss absorption feature which requires the Sukuk to be cancelled upon the occurrence of a non-viability event as determined by the regulators.

16. Share capital

	2017		2016	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Ordinary share of RM1 each				
Authorised *				
At 1 January/31 December	-	-	1,000,000	1,000,000
Issued and fully paid				
At 1 January/31 December	102,750	102,750	102,750	102,750

* The concept of authorised share capital abolished under the Companies Act 2016 which came into operation on 31 January 2017.

17. Reserves

	2017 RM'000	2016 RM'000
Non-distributable:		
Share premium	308,250	308,250
Statutory reserves	-	102,750
AFS reserves	40	(805)
	308,290	410,195
Distributable:		
Retained profits	219,067	92,839
	527,357	503,034

During the financial year, the Bank transferred a total of RM102,750,000 from the statutory reserves to retained profits pursuant to BNM's Revised Policy Document which was effective from 3 May 2017.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

18. Income derived from investment of depositors' funds

	2017 RM'000	2016 RM'000
Income derived from investment of:-		
(i) Term deposits	221,939	207,612
(ii) Other deposits	51,993	98,381
	273,932	305,993

(i) Income derived from investment of term deposits

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	199,795	188,173
Investment securities available-for-sale	2,724	2,005
Money at call and deposits with financial institutions	16,010	9,813
	218,529	199,991
Amortisation of premium less accretion of discount	(9,069)	(5,822)
Total finance income and hibah	209,460	194,169
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss	16,525	19,964
Fees and commission expense:-		
- Arising from financial instruments not fair valued through profit or loss	(4,046)	(6,521)
	12,479	13,443
	221,939	207,612

(ii) Income derived from investment of other deposits

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	46,806	89,170
Investment securities available-for-sale	638	950
Money at call and deposits with financial institutions	3,751	4,650
	51,195	94,770
Amortisation of premium less accretion of discount	(2,125)	(2,759)
Total finance income and hibah	49,070	92,011
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss through profit or loss	3,871	9,460
Fees and commission expense:-		
- Arising from financial instruments not fair valued through profit or loss	(948)	(3,090)
	2,923	6,370
	51,993	98,381

19. Income derived from investment of investment account funds

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	64,218	64,345
Investment securities available-for-sale	-	2,597
Money at call and deposits with financial institutions	27,350	31,370
	91,568	98,312

20. Income derived from investment of shareholder's funds

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	32,031	68,143
Investment securities available-for-sale	437	726
Money at call and deposits with financial institutions	2,567	3,553
	35,035	72,422
Amortisation of premium less accretion of discount	(1,454)	(2,108)
Total finance income and hibah	33,581	70,314
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss	2,649	7,230
Fees and commission expense:-		
- Arising from financial instruments not fair valued through profit or loss	(649)	(2,362)
	2,000	4,868
	35,581	75,182

21. Allowances for impairment on financing and advances

	2017 RM'000	2016 RM'000
Provisions for financing:-		
Individual impairment provisions	45,327	60,257
- Made in the financial year	56,924	74,205
- Written back	(11,597)	(13,948)
Collective impairment provisions	(16,211)	(12,686)
- Made in the financial year	10,206	20,459
- Written back	(26,417)	(33,145)
Bad and doubtful debts on financing and advances:-		
Recovered	(13,146)	(13,270)
	15,970	34,301

22. Profit/hibah distributed to depositors

	2017 RM'000	2016 RM'000
Deposits from customers		
- Mudharabah fund	816	2,245
- Non-Mudharabah fund	63,774	56,561
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah fund	110,293	144,708
	174,883	203,514

23. Profit/hibah distributed to investment account holders

	2017 RM'000	2016 RM'000
Investment accounts of customers	24,446	22,931
Investment accounts due to designated financial institutions	51,526	54,197
	75,972	77,128

24. Other operating expenses

	2017 RM'000	2016 RM'000
Personnel costs		
- Salaries, bonuses, wages and allowances	10,282	9,436
- Pension fund contributions	1,244	1,144
- Other staff related costs	1,759	1,778
	13,285	12,358
Establishment costs		
- Depreciation of property, plant and equipment	64	292
- Rental	990	1,602
- Information technology and project expenses	1,069	24
- Utilities and maintenance	4,433	4,270
	6,556	6,188
Marketing expenses		
- Advertisement and publicity	24	49
- Others	166	134
	190	183
Administration and general expenses		
- Communication expenses	123	162
- Group administration fees and business support expenses	4,633	15,892
- Management fee	74,630	81,859
- Others	3,011	5,090
	82,397	103,003
Total other operating expenses	102,428	121,732

The above expenditure includes the following items:-

	2017 RM'000	2016 RM'000
Directors' remuneration, excluding benefits-in-kind (Note 25)	1,372	1,520
Auditor's remuneration:-		
- Statutory audit fees	107	107
- Audit related fees	231	193

25. Remuneration of Directors, Syariah Advisory Committee members,Senior Management and Other Material Risk Takers

(i) Directors' and Syariah Advisory Committee members' remuneration

	2017 RM'000	2016 RM'000
Directors		
- Fees	80	98
- Remuneration	1,292	1,422
- Other short-term employee benefits (including estimated monetary value of benefit-in-kind)	-	7
Total short-term employee benefits*	1,372	1,527
Syariah Advisory Committee members	293	341
	1,665	1,868

All Directors' fees and other short term employee benefits are paid by its immediate holding company, SCBMB, which in turn recharges the Bank in the form of management fees.

With the exception of the Chief Executive Officer ("CEO") of the Bank, all other key management personnel of the Bank are similar with the key management personnel of SCBMB. Hence, the key management personnel compensation of the Bank are disclosed in the financial statements of SCBMB.

* Included in the total short term employee benefits are the Executive Director's ("ED") / CEO's remuneration and benefit-in-kind amounting to RM 1,217,000 (2016: RM 1,386,400) and RM Nil (2016: RM 7,200) respectively.

(ii) Senior Management and Other Material Risk Takers' remuneration

Pursuant to the Corporate Governance Disclosure on Remuneration, the following disclosures are made:

a) Information relating to the design and structure of the remuneration system
b) Description of the ways in which current and future risks are taken into account in the remuneration system
c) Description of the ways in which the financial institution seeks to link performance during a performance measurement period with levels of remuneration
d) Description of the ways in which the financial institution seeks to adjust remuneration to take account of longer-term performance
e) Description of the different forms of variable remuneration that the financial institution utilises and the rationale for using these different forms

The Bank adopts the remuneration policy and systems of Standard Chartered PLC. Please refer to the Directors' Remuneration Report in the Annual Report of Standard Chartered PLC for details of the governance structure, remuneration strategy, and how risks are taken into account in the remuneration processes.

The aggregate quantitative disclosure of the Bank's senior management and other material risk takers remuneration is disclosed below.

Senior management is defined as the appointed Executive Committee (“EXCO”) members for the Bank.

Other Material Risk Takers (“MRTs”) include:

- The Key Responsible Persons (“KRPs”) for SCSB;
- Employees whose professional activities have or could have a material impact on the Bank’s risk profile following the qualitative (role-based) and quantitative (remuneration level based) criteria defined by the Bank (“Bank MRTs”); and
- Employees whose total remuneration (fixed and variable remuneration) for 2017 are greater than or equal to RM1.5 million (“Highly Remunerated Employees”).

25. Remuneration of Directors, Syariah Advisory Committee members,Senior Management and Other Material Risk Takers (continued)

(ii) Senior Management and Other Material Risk Takers' remuneration (continued)

Total value of remuneration awards

	Senior Management RM'000	Other Material Risk Takers RM'000
2017		
Fixed remuneration	1,087	860
Variable remuneration		
Upfront cash	454	157
Deferred cash	7	-
Deferred shares	7	-
Total	1,555	1,017
Number of staff as at 31 December	1	2
2016		
Fixed remuneration	1,044	1,230
Variable remuneration		
Upfront cash	387	206
Total	1,431	1,436
Number of staff as at 31 December	1	3

Deferred remuneration

	Senior Management	
	2017 RM'000	2016 RM'000
At 1 January	28	60
Change in composition during the year	(28)	-
Awarded during the year	-	1
Paid out during the year	-	(33)
At 31 December	-	28
Vested during the year	-	33

Total amount of outstanding deferred remuneration

	Senior Management	
	2017 RM'000	2016 RM'000
At 31 December		
- Vested	-	-
- Non-vested	-	28
	-	28
- Cash	-	-
- Shares	-	28
	-	28

There was no deferred remuneration awarded to other material risk takers during the financial year ended 31 December 2017 and 31 December 2016.

26. Tax expense

	2017 RM'000	2016 RM'000
Income tax expense:-		
- Current period	8,689	14,261
- Over provision in prior years	(2,754)	(296)
	5,935	13,965
Deferred tax expense (Note 27):-		
- Origination and reversal of temporary differences	298	(3,240)
- Under/(Over) provision in prior years	2,117	(15)
	2,415	(3,255)
Total tax expense	8,350	10,710
Reconciliation of tax expense:-		
Profit before taxation	31,828	42,812
Income tax using Malaysian tax rate @ 24%	7,639	10,275
Non-deductible expenses	1,348	746
(Over)/Under provision in prior years		
- Income tax	(2,754)	(296)
- Deferred tax	2,117	(15)
Total tax expense	8,350	10,710
Tax recognised directly in equity:-		
AFS reserves	267	(843)

27. Deferred tax

The recognised net deferred tax asset/(liability) after offsetting are as follows:-

	2017 RM'000	2016 RM'000
Property, plant and equipment	144	252
Other temporary differences	2,990	5,297
AFS reserves	(13)	254
	3,121	5,803

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

27. Deferred tax (continued)

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

	At 1 January 2016	Recognised in statement of comprehensive income	Recognised in equity	At 31 December 2016	Recognised in statement of comprehensive income	Recognised in equity	At 31 December 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	323	(71)	-	252	(108)	-	144
Other temporary differences	1,971	3,326	-	5,297	(2,307)	-	2,990
AFS reserves	(589)	-	843	254	-	(267)	(13)
	1,705	3,255	843	5,803	(2,415)	(267)	3,121
		Note 26	Note 26		Note 26	Note 26	

28. Credit exposure to connected parties

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

	2017 RM'000	2016 RM'000
Aggregate value of outstanding credit exposures to connected parties	288,589	363,807
As a percentage of total credit exposures	4.3%	4.5%

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

29. Significant related party transactions and balances

Identity of related parties

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

The related parties of the Bank are:-

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

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

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

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

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

29. Significant related party transactions and balances (continued)

(a) Transactions and balances with immediate holding company

	2017 RM'000	2016 RM'000
Transactions		
Expenditure		
Profit paid on inter-company financing	108,047	165,263
Management fee paid	74,629	81,859
	182,676	247,122

	2017 RM'000	2016 RM'000
Balances		
Amount due from immediate holding company		
Derivative financial instruments	29,183	4,191
Other balances	223,333	619,064
	252,516	623,255
Amount due to immediate holding company		
Inter-company financing	(3,407,242)	(4,466,186)
Derivative financial instruments	(182,939)	(339,249)
Other balances	(78,040)	(379,940)
	(3,668,221)	(5,185,375)

(b) Transactions and balances with fellow subsidiaries of Standard Chartered PLC (excluding immediate holding company)

	2017 RM'000	2016 RM'000
Transactions		
Income derived from depositors' funds		
Profit received on inter-company financing	-	21
Expenditure		
Other operating expenses	10,774	16,239

	2017 RM'000	2016 RM'000
Balances		
Amount due from fellow subsidiaries of Standard Chartered PLC		
Other balances	2,885	398
Amount due to fellow subsidiaries of Standard Chartered PLC		
Amount due in respect of support charges	(3,776)	(15,762)
Other balances	(9,652)	(6,770)
	(13,428)	(22,532)

29. Significant related party transactions and balances (continued)

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

Key management personnel compensation

Key management personnel compensation is disclosed in Note 25.

Transactions and balances other than compensation

	2017 RM'000	2016 RM'000
Transactions		
Income from depositors' funds		
Profit on financing and advances		
- Other key management personnel	-	58
Income attributable to depositors		
- Directors	5	19
- Other key management personnel	18	24
	23	101

	2017 RM'000	2016 RM'000
Balances		
Financing and advances		
- Other key management personnel	-	1,250
Deposits		
- Directors	(302)	(1,326)
- Other key management personnel	(661)	(710)

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

30. Earnings per ordinary share

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

	2017 RM'000	2016 RM'000
Net profit attributable to ordinary shareholder	23,478	32,102
Weighted average number of ordinary shares as at 31 December	102,750	102,750
Basic/diluted earnings per ordinary share (sen)	22.8	31.2

31. Commitments and contingencies

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

The commitments and contingencies are as follows:-

	As at 31 December 2017			As at 31 December 2016		
	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	13,591	12,237 **	3,964 **	2,817	1,463 **	536 **
Transaction-related contingent items	256,891	194,941 **	42,885 **	212,675	157,604 **	22,114 **
Short-term self liquidating trade-related contingencies	70,373	23,776 **	8,245 **	41,190	37,581 **	8,987 **
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	4,130,051	254,684 **	251,840 **	3,255,162	339,491 **	163,784 **
- maturity exceeding one year	419,623	16,180 **	12,809 **	404,986	93,936 **	80,683 **
Foreign exchange related contracts:-						
- less than one year	1,291,601	48,668	12,599	610,656	12,109	5,844
- one year to less than five years	2,080,252	103,458 **	18,726 **	2,335,014	193,823 **	80,677 **
Profit rate related contracts:-						
- one year to less than five years	1,487,573	46,152	6,941	1,503,293	72,086	12,718
	9,749,955	700,096	358,009	8,365,793	908,093	375,343

** Excluded from the credit equivalent and risk weighted amount of the Bank are RM398.9 million (2016: RM411.0 million) and RM267.4 million (2016: RM272.2 million) respectively related to exposures funded by Profit Sharing Investment Account ("PSIA") placements from SCBMB as provided by BNM's guidelines on the Booking of General and Specific Provisions for Financing Asset Funded by PSIA. The credit risk of the facilities funded by the PSIA is allowed to be transferred to SCBMB as the fund provider.

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

32. Risk management policies

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

(a) Operational risk

Operational risk is the potential for loss from inadequate or failed internal processes, people, and systems or from the impact of external events, including legal risks.

Syariah non-compliance risk is an integral part of operational risk.

BNM has formally approved the Bank's use of the The Standardised Approach ("TSA") for calculating and reporting operational risk capital requirement in May 2013. As a result, the Bank has been using TSA for calculating and reporting the operational risk capital requirement from September 2013 onwards.

Objective

Operational risk exposures arise as a result of business activities. It is the Bank’s objective to minimise such exposures, subject to cost tradeoffs. This objective is met through a framework of policies and procedures originating from Standard Chartered PLC Group that drive the Bank's risk management approach through a ten-step process of benchmark & set standards, process universe, risk identification, gross risk assessment, control design assessment, control operational assessment, residual risk assessment, risk acceptance & treatment, risk & control monitoring and risk reporting.

Governance Structure

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

Roles and Responsibilities

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

Risk Management Approach

Standard Chartered PLC Group’s operational risk management procedures and processes are integral components of the broader Risk Management Framework and is approved and adopted by the Board for local adoption. The management of operational risk via the ten-step process as mentioned above forms an integral part of the overall Risk Management end-to-end process of benchmark & set standards, process universe, risk identification, gross risk assessment, control design assessment, control operational assessment, residual risk assessment, risk acceptance & treatment, risk & control monitoring and risk reporting. This ten-step inter-dependent risk management process is performed at all levels across the Standard Chartered PLC Group and country level, and is the foundation of the risk management approach. Once identified, risks are assessed against standard criteria to determine their significance and the degree of risk mitigation effort required to reduce the exposure to acceptable levels. The Bank's operational risk management approach serves to continually improve the Bank's ability to anticipate all material risks and to increase our ability to demonstrate, with a high degree of confidence, that those material risks are well controlled. Risk mitigation plans are overseen by the appropriate local and Standard Chartered PLC Group's Governance Committee.

32. Risk management policies (continued)

(a) Operational risk (continued)

Assurance

The Group Internal Audit ("GIA") provides independent assurance of the effectiveness of management's control of its own business activities and of the processes maintained by the Risk Control Functions. As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

(b) Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the bank in accordance with agreed terms. Credit exposures may arise from both the banking and trading book. Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the risk function. All credit exposure limits are approved within a defined credit approval authority framework.

Executive Risk Committee

The Executive Risk Committee, through its authority delegated by EXCO, is the primary senior management committee to ensure the effective management of credit risk throughout the Bank in line with risk appetite and in support of the Bank's strategy. The Executive Risk Committee regularly meets to monitor all material credit risk exposures, key internal developments and external trends, and ensure that appropriate action is taken. It is chaired by the Country Chief Risk Officer.

Credit policies

The Bank adopts credit policies and standards issued by Standard Chartered PLC Group. Standard Chartered PLC Group-wide credit policies and standards are considered and approved by its Standard Chartered PLC Group's Risk Committee ("GRC"), which also oversees the delegation of credit approval and financing impairment provisioning authorities. These policies set key control standards on credit origination and credit risk assessment, concentration risk and large exposures, credit risk mitigation, credit monitoring, collection and recovery management. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Policies and procedures specific to each client or product segment are established by authorised bodies. These are consistent with the Group-wide credit policies, but are more detailed and adapted to reflect the different risk characteristics across client and product segments. Policies are regularly reviewed and monitored to ensure these remain effective and consistent with the risk environment and risk appetite.

Risk reporting and measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk-taking and portfolio management decisions.

Various risk measurement systems are available to risk officers to enable them to assess and manage the credit portfolio. These include systems to calculate Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), Risk-Weighted Assets ("RWA") and capital requirements on a transaction, counterparty and portfolio basis. The Bank has implemented a single risk reporting system to aggregate risk data. This is used to generate regulatory returns and management information to assist Business and Risk users with risk monitoring and management.

A number of internal risk management reports are produced on a regular basis, providing information on individual counterparty, group of connected counterparty, portfolio exposure, credit grade migration, the status of accounts or portfolios showing signs of weakness or financial deterioration, models performance and updates on credit markets. Internal Ratings Based ("IRB") portfolio metrics are widely used in these reports. Regular portfolio risk reports are made available at senior management committee meetings including ERC and BRC.

32. Risk management policies (continued)

(b) Credit risk (continued)

Risk reporting and measurement (continued)

IRB risk measurement models are approved by the Standard Chartered PLC Group Credit Risk Committee ("CRC"), on the recommendation of the Standard Chartered PLC Group's Credit Model Assessment Committee ("Credit MAC"). The Credit MAC supports the Standard Chartered PLC Group Credit Risk Committee in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the Credit MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Models undergo annual periodic review. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

As part of local governance, IRB model development and validation findings are subjected to local ERC and BRC review, endorsement and recommendation to the Board for approval.

Credit approval

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

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

All credit proposals are subject to a robust credit risk assessment. It includes a comprehensive evaluation of the client’s credit quality, including willingness, ability and capacity to pay. The primary financing consideration is usually based on the client’s credit quality and the payment capacity from operating cash flows for counterparties; and personal income or wealth for individual clients. The risk assessment gives due consideration to the client’s liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the credit risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of payment in the event of a significant deterioration in a client’s credit quality leading to default. Financing activities that are considered as higher risk or non-standard are subjected to stricter minimum requirements and require escalation to a senior credit officer or authorised bodies.

Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentrations, where appropriate, by country, industry, product, tenor, collateral type, collateralisation level and credit risk profile.

Credit concentrations are monitored by the ERC.

32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are presented to ERC, containing information on key economic trends, portfolio delinquency and financing impairment performance, as well as IRB portfolio metrics including credit grade migration. Credit risk committees meet regularly to assess the impact of external events and trends on the credit risk portfolios and to define and implement response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

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

For retail and small business client exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and is considered in financing decisions. Accounts which are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by a specialised recovery team.

(i) Internal Ratings Based approach to credit risk

The Bank uses the IRB approach to manage credit risk for its portfolios. This allows the Bank to use its own internal estimates of Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and Credit Conversion Factor (“CCF”) to determine an asset risk weighting.

PD is the likelihood that an obligor will default on an obligation within 12 months. EAD is the expected amount of exposure to a particular obligor at the point of default. CCF is an internally modeled parameter based on historical experience to determine the amount that is expected to be further disbursed from the undisbursed portion of a facility. LGD is the percentage of EAD that the Bank expects to lose in the event of obligor default. EAD/CCF and LGD are measured based on expectation in economic downturn periods.

All assets under the IRB approach have sophisticated PD, LGD and EAD/CCF models developed to support the credit decision making process. Risk Weighted Assets ("RWA") under the IRB approach is determined by BNM specified formulae dependent on the Bank's estimates of residual maturity, PD, LGD and EAD. The development, use and governance of models under the IRB approach.

BNM's Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) allows banks to elect to permanently exclude certain exposures from the IRB approach and use TSA. These are known as permanent exemptions, and are required to be no greater than 15 percent of the Bank’s credit risk-weighted assets.

32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring (continued)

(ii) Standardised approach to credit risk

TSA is applied to portfolios that are classified as permanently exempt from the IRB approach, and those portfolios that are currently under transition to the IRB approach or too small an exposure for IRB model to be built.

TSA to credit risk measures credit risk pursuant to fixed risk weights and is the least sophisticated of the capital calculation methodologies. The risk weight applied under TSA is given by BNM and is based on the asset class to which the exposure is assigned. External Credit Assessment Institutions ("ECAI") rating is used to assign risk weight if available, otherwise exposures are treated as unrated.

(iii) Credit risk mitigation

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

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

Where guarantees or credit derivatives are used as Credit Risk Mitigation the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty. The main types of guarantors include bank guarantees, takaful companies, parent companies, shareholders and the Credit Guarantee Corporation. Credit derivatives, due to their potential impact on income volatility are used in a controlled manner with reference to their expected volatility.

Collateral is valued in accordance with the risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financing are maintained at fair value.

(iv) Problem credit management

<u>Retail Banking</u>

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

32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring (continued)

(iv) Problem credit management (continued)

Retail Banking (continued)

Provisioning within Retail Banking reflects the fact that the product portfolios consist of a large number of comparatively small exposures. A collective impairment provision ("CIP") is raised on a portfolio basis, however loss recognition / provisioning is done at account level for problem credit within each product. CIP is set using expected loss rates, based on past experience supplemented by an assessment of specific factors affecting the relevant portfolio. These include an assessment of the impact of economic conditions, regulatory changes and portfolio characteristics such as delinquency trends and early alert trends. The CIP methodology provides for accounts for which an individual impairment provision ("IIP") has not been raised.

For unsecured products, the entire outstanding amount is generally written off at 150 days past due. IIP for secured financing are raised at 150 days past due.

The provisions are based on the estimated present values of future cash flows, in particular those resulting from the realisation of security. Following such realisations any remaining amount will be written off. The days past due used to trigger write offs and IIP are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by realising security where appropriate) is low. For all products, there are certain situations where the individual impairment provisioning or write off process is accelerated, such as in cases involving bankruptcy, fraud and death. Write off is accelerated for all restructured accounts to 90 days past due (unsecured) and and contractual provision is at 120 days past due (secured restructured), respectively.

Corporate, Institutional and Commercial Banking

Financing are classified as impaired where analysis and review indicates that full payment of either profit or principal is questionable, or as soon as payment of profit or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, GSAM, which is separate from the main businesses. Where any amount is considered irrecoverable, an IIP is raised. This provision is the difference between the financing carrying amount and the present value of estimated future cash flows.

The individual circumstances of each customer are taken into account when GSAM estimates future cash flow. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, the Bank attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews. Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

As with Retail Banking, a CIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any financing portfolio. In Corporate, Institutional and Commercial Banking, this is set with reference to historic loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The CIP methodology provides for accounts for which an IIP has not been raised.

32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring (continued)

(v) Counterparty credit risk in the trading book

Counterparty credit risk ("CCR") is the risk that the Bank's counterparty in a foreign exchange, profit rate, commodity, equity or credit derivative contract defaults prior to maturity date of the contract and that the Bank at the time has a claim on the counterparty. CCR arises 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 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 process.

Note 33 provides further analysis on the Bank's exposure to credit risk.

(c) Market risk

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

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

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

The Bank has adopted TSA for market risk.

Market Risk Governance

The Board approves the Bank's market risk appetite taking into account the market volatility, the range of traded products and asset classes, business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2017.

The Board is responsible for setting Value at Risk ("VaR") limits at a business level. The Board is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. Limits by desk are proposed by the businesses within the terms of agreed policy.

Market & Traded Credit Risk ("MTCR") monitors exposures against these limits.

32. Risk management policies (continued)

(c) Market risk (continued)

Market Risk Governance (continued)

All permanent limits are approved by the Board prior to implementation. Exceptions are escalated to the Board or the Board's delegated committees. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, profit rate sensitivity which influence profit rate is measured in terms of exposure to a one basis point increase in yields.

Value at Risk

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

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The Bank applies two VaR methodologies:-

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and from the fourth quarter of 2012 has been extended to also cover the majority of specific (credit spread) risk VaR.

- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is now applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

In both methods a historical observation period of one year is chosen and applied.

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

Back testing

To assess their predictive power, VaR models are back tested against actual results.

Stress testing

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations.

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

32. Risk management policies (continued)

(c) Market risk (continued)

Stress testing (continued)

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The standard regular market risk stress test assumes that a loss-making position will be closed down as quickly as possible in response to an adverse stress event.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The ERC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The ERC considers stress testing results as part of its supervision of risk appetite.

Regular stress test scenarios are applied to interest rates which influence profit rates, credit spreads and exchange rates. This covers all major asset classes in the Financial Market banking and trading books.

Ad-hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Valuation framework

It is the Bank's policy that all the positions held within the Trading Book are marked-to-market ("MTM") on a consistent and daily basis. The valuations of all financial assets and liabilities in the financial statements is consistent with the requirement of MFRSs.

Valuation of financial assets and liabilities held at fair value is subject to an independent review by Valuation Control within the Finance function. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs or to a valuation model, an assessment is made by Valuation Control against external market data and consensus services. Valuation Control also ensures adherence to the valuation adjustment policies to incorporate bid/ask spreads, model risk and other reserves, and, where appropriate, to mark all positions in accordance with prevailing accounting and regulatory guidelines.

All models used for valuations are independently validated by Quantitative Model Risk. The validation ensures that the model is fit for purpose and meets relevant regulatory requirements. They are validated prior to being used in production and are subsequently re-assessed on an annual basis, which may lead to re-validations. Model approval is provided by the Valuation Model Assessment Committee, which also ensures the effectiveness of operational controls for valuation models.

Market risk VaR coverage

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

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

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

32. Risk management policies (continued)

(c) Market risk (continued)

Market risk VaR coverage (continued)

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

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

	2017			Actual
	Average	High	Low	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Non-trading	262	400	160	173

	2016			Actual
	Average	High	Low	31 December 2016
	RM'000	RM'000	RM'000	RM'000
Non-trading	331	458	217	417

Note 33 provides further analysis on the Bank's exposure to market risk.

(d) Liquidity risk

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

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

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

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

Note 33 provides further analysis on the Bank's exposure to liquidity risk.

(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 PLC Group policies, local policies, syariah requirements and regulatory requirements in the country where 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 and Compliance function manages legal risk in the Bank through legal risk policies and procedures and effective use of its external lawyers.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

33. Financial instruments

Categories of financial instruments

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

2017	Carrying amount RM'000	F&R / OL RM'000	FVTPL / DUIR RM'000	AFS RM'000
Financial assets				
Cash and short term funds	1,612,916	1,612,916	-	-
Investment securities available-for-sale	100,524	-	-	100,524
Financing and advances	5,538,789	5,538,789	-	-
Derivative financial assets	207,304	-	207,304	-
Other balances	326,739	326,739	-	-
Total financial assets	7,786,272	7,478,444	207,304	100,524
Financial liabilities				
Deposits from customers	2,528,560	2,506,704	21,856	-
Investment accounts of customers	730,481	730,481	-	-
Deposits and placements of banks and other financial institutions	1,776,566	1,772,932	3,634	-
Investment accounts due to				-
designated financial institutions	1,689,377	1,689,377	-	-
Derivative financial liabilities	209,822	-	209,822	-
Subordinated sukuk	100,000	100,000	-	-
Other balances	127,775	127,775	-	-
Total financial liabilities	7,162,581	6,927,269	235,312	-

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

33. Financial instruments (continued)

2016	Carrying amount RM'000	F&R / OL RM'000	FVTPL / DUIR RM'000	AFS RM'000
Financial assets				
Cash and short term funds	1,392,350	1,392,350	-	-
Investment securities available-for-sale	99,576	-	-	99,576
Financing and advances	6,600,489	6,600,489	-	-
Derivative financial assets	294,900	-	294,900	-
Other balances	770,603	770,603	-	-
Total financial assets	9,157,918	8,763,442	294,900	99,576
Financial liabilities				
Deposits from customers	2,389,883	2,372,284	17,599	-
Investment accounts of customers	668,677	668,677	-	-
Deposits and placements of banks and other financial institutions	2,590,008	2,586,378	3,630	-
Investment accounts due to designated financial institutions	1,937,198	1,937,198	-	-
Derivative financial liabilities	308,333	-	308,333	-
Subordinated sukuk	100,000	100,000	-	-
Other balances	568,696	568,696	-	-
Total financial liabilities	8,562,795	8,233,233	329,562	-

Net gains and losses arising from financial instruments

	2017 RM'000	2016 RM'000
Investment securities available-for-sale	(8,004)	(7,079)
- recognised in other comprehensive income	845	(2,668)
- income from depositors' funds and others	(8,849)	(4,411)
Financing and receivables	409,930	411,273
Financial liabilities measured at amortised cost	(250,855)	(208,017)
	151,071	196,177

33. Financial instruments (continued)

Credit risk

(i) Maximum exposure to credit risk

The following tables present the Bank's maximum exposure to credit risk of their on-balance sheet and off-balance sheet financial instruments at 31 December 2017 and 31 December 2016, and credit exposures covered by collaterals and other credit enhancements. For on-balance sheet and other financial instruments, the maximum exposure to credit risk is the carrying amount reported on the statement of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	2017		2016	
	Maximum exposures to credit risk RM'000	Credit exposures covered by collaterals and other credit enhancements RM'000	Maximum exposures to credit risk RM'000	Credit exposures covered by collaterals and other credit enhancements RM'000
On-balance sheet assets				
Money at call and deposits placements maturing within one month	1,607,557	-	1,387,511	-
Investment securities available-for-sale	100,524	-	99,576	-
Financing and advances	5,538,789	2,796,098	6,600,489	3,142,096
Derivative financial assets	207,304	-	294,900	-
Income receivable	2,206	-	1,544	-
Statutory deposits with Bank Negara Malaysia	139,012	-	143,150	-
	7,595,392	2,796,098	8,527,170	3,142,096
Off-balance sheet items				
Contingent commitments	340,855	25,540	256,682	21,894
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	4,549,674	96,166	3,660,148	97,912
	4,890,529	121,706	3,916,830	119,806

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

33. Financial instruments (continued)

Credit risk (continued)

(ii) Offsetting financial assets and financial liabilities

The tables below set out carrying amounts of recognised financial assets and financial liabilities that are subject to International Swaps and Derivatives Association ("ISDA") or similar master netting arrangements but do not meet the criteria for offsetting in the statement of financial position. This is because the parties to the ISDA agreement provides the right of set-off of recognised amounts that is only enforceable in event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. However, as Malaysia is currently not a clear netting jurisdiction, the Bank may not be able to enforce set-off in the event of default. In addition, the Bank and its counterparties also do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

	Carrying amounts of recognised financial instruments in the statement of financial position RM'000	Related financial instruments that are not offset in the statement of financial position RM'000	Net amount RM'000
2017			
Derivative financial assets	207,304	(27,088)	180,216
Derivative financial liabilities	(209,822)	27,088	(182,734)
2016			
Derivative financial assets	294,900	(5,481)	289,419
Derivative financial liabilities	(308,333)	5,481	(302,852)

33. Financial instruments (continued)

Credit risk (continued)

(iii) Summary analysis of financing and advances

	2017 RM'000	2016 RM'000
Individually impaired financing and advances *	11,382	30,721
Past due but not impaired financing and advances	425,242	421,697
Neither past due nor impaired financing and advances	5,166,618	6,228,735
Total financing and advances	5,603,242	6,681,153
Collective impairment provisions	(64,453)	(80,664)
	5,538,789	6,600,489

* Included in the balance is RM 15,400,000 (2016: RM 21,976,000) in respect of financing and advances where no individual impairment provisions were made as the recoverable amounts are in excess of the carrying amounts for secured financing. For unsecured financing, collective impairment provisions were made for financing for which an individual impairment provision has not been raised.

Credit quality

Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on internal grading system is as follows:

	2017 RM'000	2016 RM'000
Neither past due nor individually impaired		
- Grades 1-5	2,271,661	1,700,196
- Grades 6-7	1,791,394	2,217,385
- Grades 8-9	741,752	1,844,119
- Grades 10-12	361,811	467,035
	5,166,618	6,228,735

Financing and advances past due but not individually impaired

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

	2017 RM'000	2016 RM'000
Up to 30 days past due	352,894	359,238
Between 31 - 60 days past due	48,080	48,786
Between 61 - 90 days past due	24,268	13,673
	425,242	421,697

33. Financial instruments (continued)

Credit risk (continued)

(iii) Summary analysis of financing and advances (continued)

Credit quality (continued)

Financing and advances past due but not individually impaired (continued)

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

2017	**Within Malaysia RM'000**	**Outside Malaysia RM'000**	**Total RM'000**
Gross impaired financing and advances	43,181	-	43,181
Individual impairment provisions	31,799	-	31,799
Collective impairment provisions	64,453	-	64,453

2016	**Within Malaysia RM'000**	**Outside Malaysia RM'000**	**Total RM'000**
Gross impaired financing and advances	56,883	-	56,883
Individual impairment provisions	26,162	-	26,162
Collective impairment provisions	80,664	-	80,664

(iv) Summary analysis on securities portfolio

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

	2017 RM'000	**2016 RM'000**
Government securities	100,524	99,576

33. Financial instruments (continued)

Liquidity risk

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

As at 31 December 2017	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Financial assets					
Cash and short term funds	1,617,011	-	-	-	1,617,011
Investment securities available-for-sale	-	-	111,350	-	111,350
Financing and advances					
- Performing	619,957	242,019	1,366,196	4,411,085	6,639,257
- Impaired	-	-	-	11,382	11,382
Derivative financial assets	16,473	7,178	183,653	-	207,304
Other balances	326,739	-	-	-	326,739
	2,580,180	**249,197**	**1,661,199**	**4,422,467**	**8,913,043**
Financial liabilities					
Deposits from customers	1,809,908	699,985	33,936	-	2,543,829
Investment accounts of customers	733,292	-	-	-	733,292
Deposits and placements of banks and other financial institutions	794,892	994,190	3,959	-	1,793,041
Investment accounts due to designated financial institutions	1,246,530	455,969	-	-	1,702,499
Derivative financial liabilities	17,659	7,151	185,012	-	209,822
Subordinated sukuk	-	-	-	129,100	129,100
Other balances	127,063	712	-	-	127,775
	4,729,344	**2,158,007**	**222,907**	**129,100**	**7,239,358**
Net liquidity gap	**(2,149,164)**	**(1,908,810)**	**1,438,292**	**4,293,367**	**1,673,685**
Gross financing commitments	**90,726**	**550,729**	**3,304,015**	**945,059**	**4,890,529**

33. Financial instruments (continued)

Liquidity risk (continued)

As at 31 December 2016	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Financial assets					
Cash and short term funds	1,395,831	-	-	-	1,395,831
Investment securities available-for-sale	-	-	115,229	-	115,229
Financing and advances					
- Performing	1,086,170	852,276	990,025	5,871,684	8,800,155
- Impaired	-	-	-	30,721	30,721
Derivative financial assets	4,381	442	288,698	1,379	294,900
Other balances	770,603	-	-	-	770,603
	3,256,985	**852,718**	**1,393,952**	**5,903,784**	**11,407,439**
Financial liabilities					
Deposits from customers	1,753,336	505,261	141,458	-	2,400,055
Investment accounts of customers	670,503	-	-	-	670,503
Deposits and placements of banks and other financial institutions	432,661	2,179,799	4,039	-	2,616,499
Investment accounts due to designated financial institutions	1,613,296	335,636	-	-	1,948,932
Derivative financial liabilities	4,541	346	301,900	1,546	308,333
Subordinated sukuk	-	-	-	129,100	129,100
Other balances	566,985	1,711	-	-	568,696
	5,041,322	**3,022,753**	**447,397**	**130,646**	**8,642,118**
Net liquidity gap	**(1,784,337)**	**(2,170,035)**	**946,555**	**5,773,138**	**2,765,321**
Gross financing commitments	**37,581**	**2,346,168**	**495,092**	**1,037,990**	**3,916,831**

33. Financial instruments (continued)

Market risk

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

Profit rate risk

As at 31 December 2017	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000
Financial assets						
Cash and short term funds	1,606,000	-	-	-	6,916	1,612,916
Investment securities available-for-sale	-	-	100,524	-	-	100,524
Financing and advances						
- Performing	4,080,756	111,254	1,321,126	14,271	-	5,527,407
- Impaired	-	-	-	-	11,382	11,382
Derivative financial assets	16,473	7,178	183,653	-	-	207,304
Other balances	-	-	-	-	326,739	326,739
	5,703,229	**118,432**	**1,605,303**	**14,271**	**345,037**	**7,786,272**
Financial liabilities						
Deposits from customers	1,815,467	697,765	15,328	-	-	2,528,560
Investment accounts of customers	730,481	-	-	-	-	730,481
Deposits and placements of banks and other financial institutions	790,176	982,756	3,634	-	-	1,776,566
Investment accounts due to designated financial institutions	1,239,455	449,922	-	-	-	1,689,377
Derivative financial liabilities	17,660	7,150	185,012	-	-	209,822
Other balances	-	-	-	-	127,775	127,775
Subordinated sukuk	-	-	-	100,000	-	100,000
	4,593,239	**2,137,593**	**203,974**	**100,000**	**127,775**	**7,162,581**
On-balance sheet profit sensitivity gap	1,109,990	(2,019,161)	1,401,329	(85,729)	217,262	
Total profit sensitivity gap	**1,109,990**	**(2,019,161)**	**1,401,329**	**(85,729)**	**217,262**	

33. Financial instruments (continued)

Market risk (continued)

Profit rate risk (continued)

As at 31 December 2016	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000
Financial assets						
Cash and short term funds	1,386,000	-	-	-	6,350	1,392,350
Investment securities						
available-for-sale	-	-	99,576	-	-	99,576
Financing and advances						
- Performing	4,873,848	671,388	1,024,532	-	-	6,569,768
- Impaired	-	-	-	-	30,721	30,721
Derivative financial assets	5,690	512	288,698	-	-	294,900
Other balances	-	-	-	-	770,603	770,603
	6,265,538	**671,900**	**1,412,806**	**-**	**807,674**	**9,157,918**
Financial liabilities						
Deposits from customers	1,750,235	501,879	137,769	-	-	2,389,883
Investment accounts of customers	668,677	-	-	-	-	668,677
Deposits and placements of banks and other financial institutions	430,401	2,155,993	3,614	-	-	2,590,008
Investment accounts due to designated financial institutions	1,605,388	331,810	-	-	-	1,937,198
Derivative financial liabilities	6,088	346	301,899	-	-	308,333
Other balances	-	-	-	-	568,696	568,696
Subordinated sukuk	-	-	-	100,000	-	100,000
	4,460,789	**2,990,028**	**443,282**	**100,000**	**568,696**	**8,562,795**
On-balance sheet profit sensitivity gap	1,804,749	(2,318,128)	969,524	(100,000)	238,978	
Total profit sensitivity gap	**1,804,749**	**(2,318,128)**	**969,524**	**(100,000)**	**238,978**	

33. Financial instruments (continued)

Market risk (continued)

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

	Impact on Positions as at Reporting Period			
Type of Currency	**(200 basis points) Parallel Shift Increase/(Decline)**		**(200 basis points) Parallel Shift Increase/(Decline)**	
	in profit before taxation 2017 RM'000	**in equity 2017 RM'000**	**in profit before taxation 2016 RM'000**	**in equity 2016 RM'000**
MYR	5,532	4,204	14,735	11,198
USD	(2,603)	(1,978)	(4,694)	(3,568)
EUR	-	-	1	1

33. Financial instruments (continued)

Market risk (continued)

Foreign currency risk

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

As at 31 December 2017	MYR RM'000	USD RM'000	GBP RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and short term funds	1,612,916	-	-	-	-	1,612,916
Investment securities available-for-sale	100,524	-	-	-	-	100,524
Financing and advances	4,898,398	640,391	-	-	-	5,538,789
Other balances	183,017	141,282	-	3	2,437	326,739
Derivative financial assets	45,071	145,242	15,475	1,506	10	207,304
	6,839,926	**926,915**	**15,475**	**1,509**	**2,447**	**7,786,272**
Financial liabilities						
Deposits from customers	2,409,658	117,076	205	98	1,523	2,528,560
Investment accounts of customers	730,481	-	-	-	-	730,481
Deposits and placements of banks and other financial institutions	1,270,217	506,349	-	-	-	1,776,566
Investment accounts due to designated financial institutions	1,689,377	-	-	-	-	1,689,377
Other balances	98,550	(56,011) *	(210) *	89,010	(3,564) *	127,775
Derivative financial liabilities	42,157	151,972	15,475	-	218	209,822
Subordinated sukuk	100,000	-	-	-	-	100,000
	6,340,440	**719,386**	**15,470**	**89,108**	**(1,823)**	**7,162,581**
Total foreign currency sensitivity gap	**499,486**	**207,529**	**5**	**(87,599)**	**4,270**	**623,691**

* Included in 'other balances' is a receivable to the immediate holding company, which will be settled net together with balances in other currencies.

33. Financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

As at 31 December 2016	MYR RM'000	USD RM'000	GBP RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and short term funds	1,392,350	-	-	-	-	1,392,350
Investment securities available-for-sale	99,576	-	-	-	-	99,576
Financing and advances	5,538,653	1,051,860	-	-	9,976	6,600,489
Other balances	177,706	134,697	-	36,405	421,795	770,603
Derivative financial assets	262,943	5,708	26,249	-	-	294,900
	7,471,228	**1,192,265**	**26,249**	**36,405**	**431,771**	**9,157,918**
Financial liabilities						
Deposits from customers	2,232,833	154,722	-	259	2,069	2,389,883
Investment accounts of customers	668,677	-	-	-	-	668,677
Deposits and placements of banks and other financial institutions	2,311,020	269,030	-	-	9,958	2,590,008
Investment accounts due to designated financial institutions	1,422,551	514,647	-	-	-	1,937,198
Other balances	365,458	121,068	-	61,226	20,944	568,696
Derivative financial liabilities	65,217	214,361	26,249	2,496	10	308,333
Subordinated sukuk	100,000	-	-	-	-	100,000
	7,165,756	**1,273,828**	**26,249**	**63,981**	**32,981**	**8,562,795**
Total foreign currency sensitivity gap	**305,472**	**(81,563)**	**-**	**(27,576)**	**398,790**	**595,123**

34. Fair values of financial assets and liabilities

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

	Carrying value		Fair Value	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets				
Cash and short term funds	1,612,916	1,392,350	1,612,916	1,392,350
Investment securities available-for-sale	100,524	99,576	100,524	99,576
Financing and advances *	5,603,242	6,681,153	5,576,708	6,696,156
Derivative financial assets	207,304	294,900	207,304	294,900
Financial liabilities				
Deposits from customers	2,528,560	2,389,883	2,528,547	2,395,223
Investment accounts of customers	730,481	668,677	730,481	668,677
Deposits and placements of banks and other financial institutions	1,776,566	2,590,008	1,776,566	2,590,008
Investment accounts due to designated financial institutions	1,689,377	1,937,198	1,689,377	1,937,198
Derivative financial liabilities	209,822	308,333	209,822	308,333
Subordinated sukuk	100,000	100,000	100,000	100,000

Other assets and other liabilities are considered short term in nature. Therefore, the carrying amounts approximate their fair values respectively.

* The collective impairment provision of the Bank of RM64,453,000 (31 December 2016: RM80,664,000) is not included in the carrying amount.

Methods and Assumptions

a) Financial Assets

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

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

(ii) Investment securities available-for-sale

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

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

Methods and assumptions (continued)

(a) Financial assets (continued)

(iii) Financing and advances

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

(iv) Derivative financial instruments

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

(b) Financial liabilities

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

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

(ii) Investment accounts of customers and designated financial institutions

The fair value of investment accounts and designated financial institutions is equivalent to placement value as they are regarded as short term financial instruments which are defined as those with remaining maturities of less than one year, and the carrying fair value is considered to be a reasonable estimate of its fair values.

(iii) Derivative financial instruments

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

(iv) Subordinated sukuk

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

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

Methods and assumptions (continued)

(c) Fair value hierarchy

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value detemined using	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Type of financial assets	Actively traded government and agency securities	Corporate and other government sukuk and financings	Private debt equity investments
		Over-the-counter ("OTC") derivatives	Corporate sukuk with illiquid markets
		Cash and short term funds Other assets	Financing and advances
Type of financial liabilities	-	OTC derivatives	-
		Deposits from customers	
		Investment accounts of customers	
		Deposits and placements of banks and other financial institutions	
		Investment accounts due to designated financial institutions	
		Other liabilities	
		Subordinated sukuk	

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

Methods and assumptions (continued)

c) Fair value hierarchy (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total	Carrying
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	fair value RM'000	amount RM'000
2017										
Assets										
Cash and short term funds	-	-	-	-	-	1,612,916	-	1,612,916	1,612,916	1,612,916
Financing and advances	-	-	-	-	-	-	5,576,708	5,576,708	5,576,708	5,603,242
Investment securities available-for-sale										
Government Islamic bonds	-	100,524	-	100,524	-	-	-	-	100,524	100,524
Derivative financial instruments	-	207,304	-	207,304	-	-	-	-	207,304	207,304
Other assets	-	-	-	-	-	187,727	-	187,727	187,727	187,727
At 31 December 2017	-	307,828	-	307,828	-	1,800,643	5,576,708	7,377,351	7,685,179	7,711,713
Liabilities										
Deposits from customers	-	21,856	-	21,856	-	2,506,691	-	2,506,691	2,528,547	2,528,560
Investment accounts of customers	-	-	-	-	-	730,481	-	730,481	730,481	730,481
Deposits and placements of banks and other financial institutions	-	3,634	-	3,634	-	1,772,932	-	1,772,932	1,776,566	1,776,566
Investment accounts due to designated financial institutions	-	-	-	-	-	1,689,377	-	1,689,377	1,689,377	1,689,377
Derivative financial instruments	-	209,822	-	209,822	-	-	-	-	209,822	209,822
Other liabilities	-	-	-	-	-	127,775	-	127,775	127,775	127,775
Subordinated sukuk	-	-	-	-	-	100,000	-	100,000	100,000	100,000
At 31 December 2017	-	235,312	-	235,312	-	6,927,256	-	6,927,256	7,162,568	7,162,581

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

Methods and assumptions (continued)

c) Fair value hierarchy (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2016										
Assets										
Cash and short term funds	-	-	-	-	-	1,392,350	-	1,392,350	1,392,350	1,392,350
Financing and advances	-	-	-	-	-	-	6,696,156	6,696,156	6,696,156	6,681,153
Investment securities available-for-sale										
Government Islamic bonds	-	99,576	-	99,576	-	-	-	-	99,576	99,576
Derivative financial instruments	-	294,900	-	294,900	-	-	-	-	294,900	294,900
Other assets	-	-	-	-	-	627,453	-	627,453	627,453	627,453
At 31 December 2016	-	394,476	-	394,476	-	2,019,803	6,696,156	8,715,959	9,110,435	9,095,432
Liabilities										
Deposits from customers	-	17,599	-	17,599	-	2,377,624	-	2,377,624	2,395,223	2,389,883
Investment accounts of customers	-	-	-	-	-	668,677	-	668,677	668,677	668,677
Deposits and placements of banks and other financial institutions	-	3,630	-	3,630	-	2,586,378	-	2,586,378	2,590,008	2,590,008
Investment accounts due to designated financial institutions	-	-	-	-	-	1,937,198	-	1,937,198	1,937,198	1,937,198
Derivative financial instruments	-	308,333	-	308,333	-	-	-	-	308,333	308,333
Other liabilities	-	-	-	-	-	568,696	-	568,696	568,696	568,696
Subordinated sukuk	-	-	-	-	-	100,000	-	100,000	100,000	100,000
At 31 December 2016	-	329,562	-	329,562	-	8,238,573	-	8,238,573	8,568,135	8,562,795

There were no transfers between Level 1 and Level 2 in 2016 and 2017.

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

Methods and assumptions (continued)

d) Derivative financial instruments

	31 December 2017			31 December 2016		
	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	1,291,601	23,651	24,810	745,830	7,290	7,270
- Currency swaps	2,080,252	167,103	167,103	2,199,840	260,457	271,887
Profit rate derivative contracts:-						
- Swaps	1,487,573	16,550	17,909	1,503,293	27,153	29,176
Total derivatives	**4,859,426**	**207,304**	**209,822**	**4,448,963**	**294,900**	**308,333**

Derivative financial instruments by sector

	31 December 2017			31 December 2016		
	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
Mining and quarrying	22,396	-	-	-	-	-
Manufacturing	-	-	-	24,788	-	-
Finance, takaful and business services	4,011,183	188,038	209,502	3,600,768	266,499	303,719
Commerce	78,959	218	4	61,275	-	2,887
Others	746,888	19,048	316	762,132	28,401	1,727
	4,859,426	**207,304**	**209,822**	**4,448,963**	**294,900**	**308,333**

35. Lease commitments

The Bank has 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 is as follows:-

	2017 RM'000	2016 RM'000
Less than one year	935	863
Between one and five years	1,094	776
	2,029	1,639

The leases typically run for an initial period of 1 year to 4 years, with an option to renew the leases. None of the leases include contingent rent.

36. Capital management

(i) Capital management approach

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

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

The capital plan takes the following into account:-
- current regulatory capital requirements and assessment of future standards;
- demand for capital due to business growth, forecasts, financing impairment outlook and market shocks or stresses; and
- available supply of capital and capital raising options.

The Bank formulates a capital plan with the help of internal models and other quantitative techniques. The Bank uses models to assess the capital demand for material risks and supports this with its internal capital adequacy assessment. Other internal models help to estimate potential future losses arising from credit, market and other risks and using regulatory formulae, the amount of capital required to support them. In addition, the models enable the Bank to gain an enhanced understanding of its risk profile, for example by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are an integral part of capital planning, and are used to ensure the Bank's Internal Capital Adequacy Assessment Process ('ICAAP") considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated through appropriate management actions.

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

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

36. Capital management (continued)

(i) Capital management approach (continued)

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

The Bank's ICAAP closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Bank's current and projected demand for capital under expected and stressed conditions. The Bank's ICAAP, including methodologies in use for stress testing and economic capital calculations are aligned with those established at the Standard Chartered PLC Group ("SCB Group") level and has been designed to be applied consistently across the Bank to meet the Pillar 2 requirements of BNM.

Details of regulatory capital structure of the Bank are disclosed in Note 37. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

(ii) Basel II

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

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of regulatory capital banks must hold against the risks they assume;
- Pillar 2 sets out the key principles for supervisory review of a bank's risk management framework and its capital adequacy. It sets out specific oversight responsibilities for the Board 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, 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.

BNM formally approved Standard Chartered Saadiq Berhad ("SCSB" or "the Bank") to use AIRB approach 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 approach for calculating and reporting the credit risk capital requirement. Formal approval was also obtained from BNM in May 2013 for the use of TSA for calculating and reporting operational risk. Effective September 2013, the Bank commenced the use of TSA approach for calculating and reporting opreational risk capital requirement.

37. Capital adequacy

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

	2017 RM'000	2016 RM'000
Tier 1 Capital		
Paid-up ordinary share capital	102,750	102,750
Share premium	308,250	308,250
Other reserves	219,067	195,589
Less: Deferred tax asset	(3,128)	(5,663)
Unrealised (gains)/losses on 'available-for-sale' financial instruments	18	(805)
Common Equity Tier ("CET") 1 and Eligible Tier 1 capital	626,957	600,121
Tier 2 Capital		
Islamic subordinated sukuk	100,000	100,000
Collective impairment provisions	2,615	4,169
Surplus of total Eligible Provisions over total Expected Loss under AIRB approach	14,400	7,187
Eligible Tier 2 capital	117,015	111,356
Total Capital Base	743,972	711,477

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

	2017 RM'000	2016 RM'000
Total risk-weighted assets		
- credit risk	2,716,763	3,446,093
- operational risk	320,217	350,763
	3,036,980	3,796,856

	2017	2016
CET 1 capital ratio	20.644%	15.806%
Tier 1 capital ratio	20.644%	15.806%
Risk-weighted capital ratio	24.497%	18.739%

38. Sources and uses of charity funds

Earnings that were realised from sources or by means prohibited by Syariah have been considered for disposal to charitable causes.

	2017 RM'000	2016 RM'000
Sources of charity funds		
Balance as at 1 January	-	112
Syariah non-compliant income	6	7
Total sources of charity funds during the year	6	119
Uses of charity funds		
Contribution to non-profit organisation	-	(119)
Total uses of charity funds during the year	-	(119)
Undistributed charity funds as at 31 December	6	-

39. Impact of adoption of MFRS 9

On 1 January 2018, the Bank adopted Malaysian Financial Reporting Standard 9 Financial Instruments ("MFRS 9").

MFRS 9 replaces a number of elements of MFRS 139 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial instruments; the recognition and measurement of credit impairment provisions; and providing for a simplified approach to hedge accounting. The Bank has elected to continue hedge accounting in line with the MFRS 139 requirements and has not therefore applied the MFRS 9 hedging requirements. Comparative information will not been restated, as it is not permitted to do so if it cannot be done without the use of hindsight.

The changes in measurements arising on the initial adoption of MFRS 9 will be incorporated through an adjustment to the opening reserves position as at 1 January 2018. This adjustment is estimated at RM8 million before tax, the majority of which relates to the adoption of the expected credit loss provisioning requirements.

Detailed transition disclosures setting out the impact of initial adoption of MFRS 9 will be provided in the Bank's 2018 financial statements in addition to the disclosure requirements set out in MFRS 7.

a) Classification and measurement of financial assets

MFRS 139

There are four asset classifications: fair value through profit or loss ("FVTPL"), incorporating trading and instruments designated at FVTPL; financing and advances; held to maturity; and available-for-sale ("AFS"). The classification of assets into these categories was determined based on a mix of management intent and product characteristics. Only the AFS category has no restrictions on classification.

In respect of hybrid financial assets, the embedded derivative component must be separated and measured at fair value, unless closely related to the host contract. If this is not possible, the entire instrument can be designated at FVTPL.

Other instruments may be designated at FVTPL if they are managed on a fair value basis or where the designation would eliminate or significantly reduce an accounting mismatch.

MFRS 9

There are three measurement classifications under MFRS 9: amortised cost, FVTPL and, for financial assets, fair value through other comprehensive income ("FVOCI"). The existing MFRS 139 financial asset categories are removed.

39. Impact of adoption of MFRS 9 (continued)

a) Classification and measurement of financial assets (continued)

Financial assets are classified into these measurement classifications on the basis of the business model within which they are held, and their contractual cash flow characteristics. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows (‘hold to collect’), and where those contractual cash flows are solely payments of principal and profit income ("SPPI"). Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other basic lending risks and costs and a profit margin.

Financial asset debt instruments where the business model objectives are achieved either by collecting the contractual cash flows or by selling the assets (‘hold to collect and sell’) are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends are recognised in the income statement.

Instruments may be designated at FVTPL only if there is an accounting mismatch.

All other financial assets will be held at FVTPL.

<u>Transition impact:</u>

The Bank has assessed the business models that it operates across the Bank. In its assessment, the Bank considered the objectives of the business model, how performance is measured and how staff is remunerated amongst other factors.

Where the objective of a business is to manage financial assets on a fair value basis, the instruments within that business model are measured at FVTPL.

The majority of the Bank’s financing and advances to customers are held within a “hold to collect” business model. Investment debt securities held with Asset and Liability Management are held within a ‘hold to collect and sell’ portfolio.

Where the assets are held within a ‘hold to collect’ or ‘hold to collect and sell’ business model, a further assessment has been undertaken to determine whether the cash flows of the assets are deemed to be solely payments of principal and profit income ("SPPI").

Where the instruments have SPPI cash flows, the instruments were measured at amortised cost (for hold to collect business models) or FVOCI (for hold to collect and sell business models).

Instruments that do not have SPPI cash flows are measured at FVTPL regardless of the business model in which they are held. Other than hybrid financial assets, this primarily arises from prepayment clauses in certain financing and advances contracts. Non-trading equity investments are measured at FVTPL except for a small portfolio of strategic equity investments which are irrevocably designated at FVOCI.

Assets designated at FVTPL under MFRS 139 that are not as a result of an accounting mismatch have been de-designated and recognised as FVTPL either because they are managed on fair value basis or are hybrid financial assets. The Bank has also elected to designate certain financing and advances to customers at FVTPL on 1 January 2018 to mitigate an accounting mismatch.

There has been no change to the classification and measurement of financial liabilities.

39. Impact of adoption of MFRS 9 (continued)

b) Impairment of Financial Assets not held at FVTPL

MFRS 139

For debt instruments held at amortised cost or available-for-sale, specific loss allowances are only recognised where there is objective evidence of an incurred loss. For instruments held at amortised cost, where losses are known to have been incurred but have not been separately identified, a portfolio impairment provision is recognised.

A portfolio impairment provision is not, however, recognised for available-for-sale instruments. Impairment loss allowances are also not recognised for financing commitments and financial guarantees.

Where there is objective evidence of impairment for available-for-sale debt instruments, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

Equity shares classified as available-for-sale are considered impaired when there is a significant or prolonged decline in their value compared to initial recognition. On impairment, the entire unrealised loss held in reserves is transferred to the profit or loss and recognised as impairment.

MFRS 9

Expected credit losses ("ECL") are recognised for all financial debt instruments, financing commitments and financial guarantees that are classified as hold to collect / hold to collect and sell and have cash flows that are solely payments of principal and profit income.

An ECL allowance is recognised at the time of initial recognition for all financial assets that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called “stage 1 assets” with allowances equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk or the asset becomes credit impaired.

If a financial asset (or portfolio of financial assets) experiences a significant increase in credit risk since initial recognition, however, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset (so-called “stage 2 assets” with provisions equivalent to lifetime expected credit losses). A significant increase in credit risk is assessed in the context of an increase in the risk of a default occurring over the life of the financial instrument when compared to that expected at the time of initial recognition. It is not assessed in the context of an increase in the expected credit loss.

Similar to the current MFRS 139 requirements for individual impairment provisions, lifetime expected credit losses are recognised for financing and advances that are in default or are otherwise credit-impaired (so-called “stage 3 assets”).

The definition of default is considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or profit income or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through ‘Impairment’.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Where credit losses are non-linear in nature, multiple forward looking scenarios are incorporated into the range of reasonably possible outcomes. The period considered when measuring expected credit loss is the contractual term of the financial asset. However, certain revolving portfolios, including credit cards, are measured over the period that the Bank is exposed to credit risk rather than the contractual term.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for expected credit losses. For debt instruments held at FVOCI, the balance sheet amount reflects the instrument’s fair value, with the expected credit loss held as a separate reserve within other comprehensive income. Expected credit loss allowances on off-balance sheet instruments are held as liability provisions to the extent they can be separately identified.

Impact:

The initial adoption of the ECL approach is estimated to impact retained earnings by approximately RM8 million.