

Company No. 823437K



**Standard Chartered Saadiq Berhad**

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

**Financial statements for the three months  
ended 31 March 2018**

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018**

	Note	31 March 2018 RM'000	31 December 2017 RM'000
<b>Assets</b>			
Cash and short term funds		1,671,540	1,612,916
Investment securities	13	100,374	100,524
Financing and advances - investment account placements	14	2,624,612	752,076
Financing and advances - others	14	3,020,449	4,786,713
Derivative financial assets		129,498	207,304
Other assets	16	145,652	187,727
Current tax assets		3,468	3,143
Statutory deposits with Bank Negara Malaysia	17	45,887	139,012
Property, plant and equipment		135	152
Deferred tax assets		3,148	3,121
<b>Total assets</b>		<b><u>7,744,763</u></b>	<b><u>7,792,688</u></b>
<b>Liabilities</b>			
Deposits from customers	18	2,198,543	2,506,704
Structured deposits		10,144	25,490
Investment accounts of customers	19	712,892	730,481
Deposits and placements of banks and other financial institutions	20	220,521	1,772,932
Restricted investment accounts due to designated financial institutions	21	3,437,769	1,689,377
Derivative financial liabilities		130,970	209,822
Other liabilities	22	293,979	127,775
Provision for credit commitments and contingencies	23	777	-
Subordinated sukuk		100,000	100,000
<b>Total liabilities</b>		<b><u>7,105,595</u></b>	<b><u>7,162,581</u></b>
<b>Equity</b>			
Share capital		102,750	102,750
Reserves		536,418	527,357
<b>Total equity attributable to equity holder of the Bank</b>		<b><u>639,168</u></b>	<b><u>630,107</u></b>
<b>Total liabilities and equity</b>		<b><u>7,744,763</u></b>	<b><u>7,792,688</u></b>
<b>Commitments and contingencies</b>	31	<b><u>8,932,234</u></b>	<b><u>9,749,955</u></b>

*The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017.*

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE 1ST QUARTER AND THREE MONTHS ENDED 31 MARCH 2018**

	Note	1st quarter ended		Three months ended	
		31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
Income derived from investment of depositors' funds	24	57,817	79,481	57,817	79,481
Income derived from investment of investment account funds	25	38,988	24,824	38,988	24,824
Income derived from investment of shareholder's funds	26	15,755	16,503	15,755	16,503
Allowances for credit losses/impairment provision	27	7,113	(203)	7,113	(203)
<b>Total distributable income</b>		<b>119,673</b>	120,605	<b>119,673</b>	120,605
Profit/hibah distributed to depositors	28	(44,708)	(54,004)	(44,708)	(54,004)
Profit distributed to investment account holders	29	(31,737)	(20,724)	(31,737)	(20,724)
<b>Total net income</b>		<b>43,228</b>	45,877	<b>43,228</b>	45,877
Other operating expenses	30	(22,948)	(30,280)	(22,948)	(30,280)
<b>Profit before taxation</b>		<b>20,280</b>	15,597	<b>20,280</b>	15,597
Tax expense		(5,273)	(4,054)	(5,273)	(4,054)
<b>Profit for the period</b>		<b>15,007</b>	11,543	<b>15,007</b>	11,543
<b>Other comprehensive (expense)/income, net of income tax</b>					
<b>Items that may be reclassified subsequently to profit or loss</b>					
Fair value reserve:					
Net change in fair value					
		(84)	-	(84)	-
		-	274	-	274
<b>Other comprehensive (expense)/income for the period, net of income tax</b>		<b>(84)</b>	274	<b>(84)</b>	274
<b>Total comprehensive income for the period</b>		<b>14,923</b>	11,817	<b>14,923</b>	11,817

The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017.

## STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

CONDENSED INTERIM FINANCIAL STATEMENTS  
UNAUDITED STATEMENT OF CHANGES IN EQUITY  
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	← Non-Distributable Reserves →				Distributable Reserves Retained profits	Total RM'000
	Share capital RM'000	Share premium RM'000	Regulatory reserves RM'000	Fair value reserves RM'000	RM'000	
<b>At 31 December 2017</b>	102,750	308,250	-	40	219,067	630,107
Impact of adopting MFRS 9 as at 1 January 2018						
- Adjustment related to impairment, net of income taxes	-	-	-	18	(5,880)	(5,862)
- Transfer between reserves	-	-	13,622	-	(13,622)	-
<b>Restated balance as at 1 January 2018</b>	102,750	308,250	13,622	58	199,565	624,245
Fair value reserve (debt securities):-						
Net changes in fair value	-	-	-	(84)	-	(84)
Total other comprehensive expense for the period	-	-	-	(84)	-	(84)
Profit for the period	-	-	-	-	15,007	15,007
Total comprehensive income for the period	-	-	-	(84)	15,007	14,923
<b>At 31 March 2018</b>	<b>102,750</b>	<b>308,250</b>	<b>13,622</b>	<b>(26)</b>	<b>214,572</b>	<b>639,168</b>

The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017.

## STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

CONDENSED INTERIM FINANCIAL STATEMENTS  
 UNAUDITED STATEMENT OF CHANGES IN EQUITY  
 FOR THE THREE MONTHS ENDED 31 MARCH 2018

	← Non-Distributable Reserves →			Distributable Reserves	Total	
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Retained profits RM'000		
<b>At 1 January 2017</b>	102,750	308,250	102,750	(805)	92,839	605,784
Fair value reserve (investment securities available-for-sale):- Net changes in fair value	-	-	-	274	-	274
Total other comprehensive income for the period	-	-	-	274	-	274
Profit for the period	-	-	-	-	11,543	11,543
Total comprehensive income for the period	-	-	-	274	11,543	11,817
<b>At 31 March 2017</b>	<b>102,750</b>	<b>308,250</b>	<b>102,750</b>	<b>(531)</b>	<b>104,382</b>	<b>617,601</b>

The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**UNAUDITED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2018**

	<b>31 March 2018 RM'000</b>	<b>31 March 2017 RM'000</b>
Profit before taxation	20,280	15,597
Adjustment for non-operating items		
Adjustment for non-cash items	(7,057)	254
Operating profit before working capital changes	13,223	15,851
Changes in working capital		
Net changes in operating assets	26,649	614,102
Net changes in operating liabilities	21,866	(315,617)
Income taxes paid	(3,114)	(963)
Net cash generated from operating activities	58,624	313,373
Net cash generated from investing activities	-	21
Net increase in cash and cash equivalents	58,624	313,394
Cash and cash equivalent at beginning of the year	1,612,916	1,392,350
Cash and cash equivalent at end of the period	<u>1,671,540</u>	<u>1,705,744</u>

*The Unaudited Condensed Interim Financial Statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017.*

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**REVIEW OF PERFORMANCE**

The Bank registered a pre-tax profit of RM 20.28 million, a 30.02% increase against the corresponding period last year as operating expenses reduced by 24.22% year on year. In addition, provision for financing improved by RM 7.32 million against the corresponding period.

Financing and advances, including financing and advances funded by investment account placements increased by 1.92% to RM 5.65 billion while there was a decrease in deposit from customers of 12.29% to RM 2.20 billion. The Bank's Common Equity Tier 1 capital ratio and Total Capital Ratio remained strong at 23.27% and 27.56%, respectively.

**PROSPECTS**

The Retail business will prioritize on driving deposits and asset growth, coupled with enriched Wealth Management propositions including *Takaful* and *Sukuk*, and leveraging on Standard Chartered Bank Malaysia Berhad's distribution network while being 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 products and solution capabilities to targeted client base.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**Notes to the financial statements for the three months ended 31 March 2018**

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

The unaudited condensed interim financial statements for the first quarter and the three months ended 31 March 2018 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134, *Interim Financial Reporting*.

The accounting policies and methods of computation in the unaudited condensed interim financial statements are consistent with those adopted in the last audited financial statements, except for the adoption of the following MFRSs, Interpretation and Amendments to MFRSs during the current financial period:

- |                                |   |
|--------------------------------|---|
| i) MFRS 9                      | <i>Financial Instruments</i>  |
| ii) MFRS 15                    | <i>Revenue from Contracts with Customers</i>  |
| iii) Clarifications to MFRS 15 | <i>Revenue from Contracts with Customers</i>  |
| iv) IC Interpretation 22       | <i>Foreign Currency Transactions and Advance</i>  |
| v) Amendments to MFRS 1        | <i>First-time Adoption of Malaysian Financial Reporting Standards<br/>(Annual Improvements to MFRS Standards 2014-2016 Cycle)</i> |
| vi) Amendments to MFRS 2       | <i>Share-based Payment – Classification and Measurement of Share-based<br/>Payment Transactions</i>                               |

The adoption of the above MFRSs, Interpretation and Amendments to MFRSs do not have any material impacts 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. As permitted by MFRS 9, the Bank did not restate comparative financial statements. The accounting policy changes and the impact of adoption of the requirements of MFRS 9 are further disclosed in Note 2 and Note 4 respectively.

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*.

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 to the Bank's financial statements and there will not be an adjustment to retained earnings in respect of adoption.

The following MFRSs, Interpretations and Amendments to MFRSs have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective:

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

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



**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

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

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

i) MFRS 17 *Insurance Contracts*

MFRSs and Amendments to MFRSs 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 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 for 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.

The unaudited interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2017.

**2. Accounting policy changes**

The below-described accounting policies have been applied since 1 January 2018 following the adoption of MFRS 9.

Summary of accounting policy changes

**i) Classification and measurement of financial assets and liabilities**

The Bank classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**i) Classification and measurement of financial assets (continued)**

*Financial assets held at amortised cost and fair value through other comprehensive income*

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and profit income (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Profit income consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual terms that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Bank manages financial assets to generate cash flows.

The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

*Equity instruments designated as held at FVOCI*

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition at FVOCI on an instrument by instrument basis. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

*Financial assets and liabilities held at fair value through profit or loss*

Financial assets which are not held at amortised cost or that are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified at fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

*Mandatorily classified at fair value through profit or loss*

Financial assets and liabilities which are mandatorily held at fair value through profit or loss include:

- financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term;
- hybrid financial assets that contain one or more embedded derivatives;
- financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- equity instruments that have not been designated as held at FVOCI; and
- financial liabilities that constitute contingent consideration in a business combination.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**i) Classification and measurement of financial assets (continued)**

*Designated at fair value through profit or loss*

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis ('accounting mismatch').

Profit rate swaps have been acquired with the intention of significantly reducing profit rate risk on certain financing and advances and debt securities with fixed profit rates. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these financing and advances and debt securities have been designated at fair value through profit or loss. Similarly, to reduce accounting mismatches, the Bank has designated certain financial liabilities at fair value through profit or loss.

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcately embedded derivative where the Bank is not able to separately value the embedded derivative component.

*Financial liabilities held at amortised cost*

Financial liabilities that are not financial guarantees or financing commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Preference shares which carry a mandatory coupon that represents a market profit rate at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as profit expense on an amortised cost basis using the effective profit method.

*Financial guarantee contracts and financing commitments*

The Bank issues financial guarantee contracts and financing commitments in return for fees. Under a financial guarantee contract, the Bank undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Financing commitments are firm commitments to provide credit under prespecified terms and conditions. Financial guarantee contracts and financing commitments issued at below market profit rates are initially recognised as liabilities at fair value and subsequently at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of MFRS 15 *Revenue from Contracts with Customers*.

*Fair value of financial assets and liabilities*

Fair value is 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 in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at that date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a Bank of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the Bank of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Bank establishes fair value by using valuation techniques.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**i) Classification and measurement of financial assets (continued)**

*Initial recognition*

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Bank commits to purchase or sell the asset). Financing and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss but is amortised or released to profit or loss as the inputs become observable, or the transaction matures or is terminated.

*Subsequent measurement*

a) Financial assets and liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective profit rate method (see profit income and expense). Foreign exchange gains and losses are recognised in profit or loss.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

b) Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in profit or loss. Changes in expected credit losses are recognised in profit or loss and are accumulated in a separate component of equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to profit or loss.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

c) Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in profit or loss unless the instrument is part of a cash flow hedging relationship. Contractual profit income on financial assets held at fair value through profit or loss is recognised as profit income in a separate line in profit or loss.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**i) Classification and measurement of financial assets (continued)**

*Subsequent measurement (continued)*

d) Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated fair value through profit or loss is recognised in profit or loss.

*Modified financial instruments*

Financial assets and financial liabilities whose original contractual terms have been modified, including those financing and advances subject to forbearance strategies, are considered to be modified instruments. Modifications may include changes to the tenor, cash flows and or profit rates amongst other factors.

Where derecognition of financial assets is appropriate (refer to *Derecognition*), the newly recognised residual financing and advances are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets ("POCI").

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments are recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective profit rate (or credit adjusted effective profit rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in profit or loss.

Gains and losses arising from modifications for credit reasons are recorded as part of 'Impairment' (refer to *Impairment* policy). Modification gains and losses arising for non-credit reasons are recognised either as part of "Impairment" or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income.

*Reclassification*

Financial liabilities are not reclassified subsequent to initial recognition.

Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective profit rate or expected credit loss computations.

**STANDARD CHARTERED SAADIQ BERHAD**  
(Incorporated in Malaysia)

**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**i) Classification and measurement of financial assets (continued)**

*Reclassification (continued)*

a) Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from financing and advances loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

b) Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

c) Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective profit rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

*Derecognition of financial instruments*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

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**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**i) Classification and measurement of financial assets (continued)**

*Derecognition of financial instruments (continued)*

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent.

If the Bank purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income' except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to profit or loss.

**ii) Impairment of financial assets**

Expected credit losses ("ECL") are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An ECL represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive over the contractual life of the instrument.

*Measurement*

ECL are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default ("PD") with the loss given default ("LGD") with the expected exposure at the time of default ("EAD"). There may be multiple default events over the lifetime of an instrument. For less material Retail financing portfolios, the Bank has adopted simplified approaches based on historical roll rates or loss rates.

Forward looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, profit rates, house price indices and commodity prices amongst others. These assumptions are incorporated using the Bank's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall ECL amounts. These scenarios are determined using a Monte Carlo approach centered around the Bank's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Bank is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Bank's exposure to credit risk is not limited to the contractual period. For these instruments, the Bank estimates an appropriate life based on the period that the Bank is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

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**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**ii) Impairment of financial assets (continued)**

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Bank may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of ECL if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of ECL, a reimbursement asset is recognised to the extent of the ECL recorded.

Cash shortfalls are discounted using the effective profit rate on the financial instrument as calculated at initial recognition or if the instrument has a variable profit rate, the current effective profit rate determined under the contract.

*Recognition*

a) 12 months ECL (Stage 1)

ECL are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. ECL continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, ECL will revert to being determined on a 12-month basis.

b) Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk ("SICR") since initial recognition, an ECL provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in ECL. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute ECL significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.



**STANDARD CHARTERED SAADIQ BERHAD**  
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**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**ii) Impairment of financial assets (continued)**

*Recognition (continued)*

b) Significant increase in credit risk (Stage 2) (continued)

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances amongst other factors.

c) Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or profit. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired. Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions;
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the Stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective profit rate, and the gross carrying value of the instrument prior to any credit impairment.

*Modified financial instruments*

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within 'Impairment' in the income statement within a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the bank would not otherwise consider, the instrument is considered to be credit impaired.

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**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**ii) Impairment of financial assets (continued)**

*Modified financial instruments (continued)*

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although financing and advances may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of ECL, with any increase or decrease in ECL recognised within impairment.

*Write-offs of credit impaired instruments & reversal of impairment*

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related financing and advances provision. Such financing and advances are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for financing and advances impairment in the income statement. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

*Improvement in credit risk / Curing*

A period may elapse from the point at which instruments enter lifetime ECL (Stage 2 or Stage 3) and are reclassified back to 12 month ECL (Stage 1).

For financial assets that are credit-impaired (Stage 3), a transfer to Stage 2 or Stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within Stage 2, these can only be transferred to Stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to Stage 1 when the original PD based transfer criteria are no longer met. Where instruments were transferred to Stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to Stage 1. This includes instances where management actions led to instruments being classified as Stage 2, requiring that action to be resolved before financing and advances are reclassified to Stage 1.

*Significant accounting estimates and judgements*

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining ECL include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk; and
- Development of ECL models, including the choice of inputs relating to macroeconomic variables.

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**2. Accounting policy changes (continued)**

Summary of accounting policy changes (continued)

**ii) Impairment of financial assets (continued)**

*Significant accounting estimates and judgements (continued)*

The calculation of credit-impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

*Expert credit judgement*

For Corporate & Institutional, Commercial and Private Banking, borrowers are graded by credit risk management on a credit grading ("CG") scale from CG1 to CG14. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as Credit Grade (12) the credit assessment and oversight of the financing and advances will normally be performed by Group Special Assets Management ("GSAM"). Borrowers graded CG12 exhibit well defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or financing profit income. Where the impairment assessment indicates that there will be a loss of principal on the financing and advances, the borrower is graded a CG14 while borrowers of other credit impaired financing and advances are graded CG13. (Instruments graded CG13 or CG14 are regarded as Non-Performing financing and advances, i.e. Stage 3 or credit impaired exposures).

For individually significant financial assets within Stage 3, GSAM will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geopolitical climate of the customer, quality of realisable value of collateral, the Bank's legal position relative to other claimants and any renegotiation/forbearance options. The difference between the financing and advances carrying amount and the discounted expected future cash flows will result in the Stage 3 credit impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/ forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail portfolio or small business financing and advances, which comprise a large number of homogenous financing and advances that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis. Retail banking clients are considered credit impaired where they are more 90 days past due.

Retail products are also considered credit impaired if the borrower files for bankruptcy or other forbearance program, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Bank that are considered credit impaired, the account may be also be credit impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

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### 3. Revised policy document on Financial Reporting on Islamic Banking Institutions

Bank Negara Malaysia ("BNM") had on 2 February 2018, issued a Revised Policy Document on Financial Reporting for Islamic Banking Institutions ("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 Financial Reporting for Islamic Banking Institutions dated 5 February 2016 and Classification and Impairment Provisions for Loans/Financing dated 6 April 2015.

The key changes in the Revised Policy Document are:

- i) Extend the applicability of the requirements in this policy document to a financial holding company under the Islamic Financial Services Act 2013;
- ii) To maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures;
- iii) Additional disclosure on intercompany charges and investment accounts; and
- iv) The classification of a credit facility as credit-impaired.

### 4. Impacts on MFRS 9 adoption

The MFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to the statement of financial position on the date of initial application, i.e. 1 January 2018, with no restatement of comparative periods. The impacts of MFRS 9 adoption were recognised through adjustments to reserves and retained earnings on 1 January 2018.

#### Classification and measurement of financial instruments at the date of initial application of MFRS 9

The following table presents the classification and carrying amounts of the Bank's financial assets and financial liabilities, as previously established in accordance with MFRS 139 as at 31 December 2017, as well as the new classification and new carrying amounts established in accordance with MFRS 9 as at 1 January 2018, where applicable.

<b>Financial assets/ liabilities</b>	<b>Classification under MFRS 139</b>	<b>Classification under MFRS 9</b>	<b>As at 31 December 2017 RM'000</b>	<b>As at 1 January 2018 RM'000</b>
<i>Financial assets</i>				
<b>Cash and short term funds</b>	Financing and receivables	<b>At amortised cost</b>	1,612,916	<b>1,612,916</b>
<b>Investment securities</b>				
- Debt securities	Available-for-sale	<b>At fair value through other comprehensive income</b>	100,524	<b>100,524</b>
<b>Financing and advances</b>				
- investment account placements	Financing and receivables	<b>At amortised cost</b>	752,076	<b>752,076</b>
<b>Financing and advances</b>				
- others	Financing and receivables	<b>At amortised cost</b>	4,786,713	<b>4,780,003</b>
<b>Derivative financial assets</b>	At fair value through profit or loss	<b>At fair value through profit or loss</b>	207,304	<b>207,304</b>
<b>Other assets</b>	Financing and receivables	<b>At amortised cost</b>	187,727	<b>187,727</b>
<b>Statutory deposits with Bank Negara Malaysia</b>	Financing and receivables	<b>At amortised cost</b>	139,012	<b>139,012</b>

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## 4. Impacts on MFRS 9 adoption (continued)

Classification and measurement of financial instruments at the date of initial application of MFRS 9 (continued)

<b>Financial assets/ liabilities</b>	Classification under MFRS 139	<b>Classification under MFRS 9</b>	As at 31 December 2017 RM'000	<b>As at 1 January 2018 RM'000</b>
<i>Financial liabilities</i>				
<b>Deposits from customers</b>				
- Demand deposits	At amortised cost	<b>At amortised cost</b>	820,363	<b>820,363</b>
- Saving deposits	At amortised cost	<b>At amortised cost</b>	73,791	<b>73,791</b>
- Term deposits	At amortised cost	<b>At amortised cost</b>	1,612,550	<b>1,612,550</b>
<b>Structured deposits</b>	Designated at fair value through profit or loss	<b>Designated at fair value through profit or loss</b>	25,490	<b>25,490</b>
<b>Investment accounts of customers</b>	At amortised cost	<b>At amortised cost</b>	730,481	<b>730,481</b>
<b>Deposits and placements of banks and other financial institutions</b>	At amortised cost	<b>At amortised cost</b>	1,772,932	<b>1,772,932</b>
<b>Restricted investment accounts due to designated financial institutions</b>	At amortised cost	<b>At amortised cost</b>	1,689,377	<b>1,689,377</b>
<b>Derivative financial liabilities</b>	At fair value through profit or loss	<b>At fair value through profit or loss</b>	209,822	<b>209,822</b>
<b>Other liabilities</b>	At amortised cost	<b>At amortised cost</b>	127,775	<b>127,775</b>
<b>Subordinated sukuk</b>	At amortised cost	<b>At amortised cost</b>	100,000	<b>100,000</b>

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**4. Impacts on MFRS 9 adoption (continued)**Reconciliation of new carrying values under MFRS 9 as at 1 January 2018

The following table reconciles:

- the financial assets and liability carrying values established in accordance with MFRS 139 as at 31 December 2017 with the carrying values established in accordance with MFRS 9 as at 1 January 2018 as well as the impact of MFRS 9 adoption on income tax assets and liabilities;
- the closing impairment allowance for financial assets in accordance with MFRS 139 and provisions for loan commitments and financial guarantee contracts in accordance with MFRS 137, *Provisions for Contingent Liabilities and Contingent Assets* as at 31 December 2017; and
- the opening ECL allowance determined in accordance with MFRS 9 as at 1 January 2018.

<b>Statement of Financial Position</b>	<b>MFRS 139 carrying values 31 December 2017 RM'000</b>	<b>Reclassifica- tion and Remeasure- ment RM'000</b>	<b>MFRS 9 adjustment Impairment RM'000</b>	<b>Tax impacts RM'000</b>	<b>Reconciliation of new carrying values 1 January 2018 under MFRS 9 RM'000</b>
<b>Assets</b>					
Cash and short term funds	1,612,916	-	-	-	1,612,916
Investment securities	100,524	-	-	-	100,524
Financing and advances - investment account placements	752,076	-	-	-	752,076
Financing and advances - others	4,786,713	-	(6,710)	-	4,780,003
Derivative financial assets	207,304	-	-	-	207,304
Other assets	187,727	-	-	-	187,727
Current tax assets	3,143	-	-	1,857	5,000
Statutory deposits with Bank Negara Malaysia	139,012	-	-	-	139,012
Property, plant and equipment	152	-	-	-	152
Deferred tax assets	3,121	-	-	-	3,121
<b>Total assets</b>	<b>7,792,688</b>	<b>-</b>	<b>(6,710)</b>	<b>1,857</b>	<b>7,787,835</b>
<b>Liabilities</b>					
Deposits from customers	2,506,704	-	-	-	2,506,704
Structured deposits	25,490	-	-	-	25,490
Investment accounts of customers	730,481	-	-	-	730,481
Deposits and placements of banks and other financial institutions	1,772,932	-	-	-	1,772,932
Restricted investment accounts to designated financial institutions	1,689,377	-	-	-	1,689,377
Derivative financial liabilities	209,822	-	-	-	209,822
Other liabilities	127,775	-	-	-	127,775
Subordinated sukuk	100,000	-	-	-	100,000
Provision for credit commitments and contingencies	-	-	1,009	-	1,009
<b>Total liabilities</b>	<b>7,162,581</b>	<b>-</b>	<b>1,009</b>	<b>-</b>	<b>7,163,590</b>

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**4. Impacts on MFRS 9 adoption (continued)**

Reconciliation of new carrying values under MFRS 9 as at 1 January 2018 (continued)

<b>Statement of Financial Position</b>	<b>MFRS 139 carrying values 31 December 2017 RM'000</b>	<b>Reclassifica- tion and Remeasure- ment RM'000</b>	<b>MFRS 9 adjustment Impairment RM'000</b>	<b>Tax impacts RM'000</b>	<b>Reconciliation of new carrying values 1 January 2018 under MFRS 9 RM'000</b>
<i>Equity</i>					
Share capital	102,750	-	-	-	102,750
Reserves	527,357	-	(7,719)	1,857	521,495
<b>Total equity attributable to equity holder of the Bank</b>	<b>630,107</b>	<b>-</b>	<b>(7,719)</b>	<b>1,857</b>	<b>624,245</b>
<b>Total liabilities and equity</b>	<b>7,792,688</b>	<b>-</b>	<b>(6,710)</b>	<b>1,857</b>	<b>7,787,835</b>

**5. Auditor's report on preceding annual financial statements**

The auditor's report on the financial statements for the financial year ended 31 December 2017 was not qualified.

**6. Seasonal or cyclical factors**

The business operations of the Bank have not been affected by any material seasonal or cyclical factors.

**7. Unusual items due to their nature, size or incidence**

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Bank in the first quarter and three months ended 31 March 2018 .

**8. Changes in accounting estimates**

There were no material changes in estimates of amounts reported that have a material effect on the unaudited condensed interim financial statements in the first quarter and three months ended 31 March 2018 .

**9. Issuances, cancellations, repurchases, resale and repayments of securities portfolio**

There were no issuance and repayment of debt and equity securities, share-buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares in the first quarter and three months ended 31 March 2018 .

**10. Proposed Dividend**

No dividend has been proposed for the first quarter and the three months ended 31 March 2018 .

**11. Subsequent events**

There were no material events subsequent to the statement of financial position date that require disclosure or adjustments to the unaudited condensed interim financial statements.

**12. Changes in the composition of the Bank**

There were no changes in the composition of the Bank during the three months ended 31 March 2018 .

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**13. Investment securities**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Investment securities measured at FVOCI - debt instruments	100,374	-
Investment securities available-for-sale	-	100,524
	<u>100,374</u>	<u>100,524</u>

**i) By type**

	<b>31 March 2018 RM'000</b>
<b>Investment securities measured at FVOCI - debt instruments</b>	
Government Islamic bonds	<u>100,374</u>
	<u>100,374</u>
	<b>31 December 2017 RM'000</b>
<b>Investment securities available-for-sale</b>	
Government Islamic bonds	<u>100,524</u>
	<u>100,524</u>



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**14. Financing and advances****(i) By type and by contract****As at 31 March 2018**

	Bai <sup>^</sup>	Ijarah	Ijarah Thumma Al- Bai	Murabahah	Tawarruq	Musarakah Mutanaqisah	Others	Total financing and advances
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing								
- House financing	414,388	-	-	-	-	2,388,681	-	2,803,069
- Hire purchase receivables	-	-	49,769	-	-	-	-	49,769
- Lease receivables	-	78,324	-	-	-	-	-	78,324
- Other term financing	27,098	-	-	-	1,327,191	769,493	123,924	2,247,706
Bills receivable	196,360	-	-	101,465	71,490	-	-	369,315
Trust receipts	-	-	-	330,592	-	-	-	330,592
Staff financing	367	-	-	-	12,118	-	239	12,724
Revolving credit	-	-	-	-	325,808	-	-	325,808
	<u>638,213</u>	<u>78,324</u>	<u>49,769</u>	<u>432,057</u>	<u>1,736,607</u>	<u>3,158,174</u>	<u>124,163</u>	<u>6,217,307</u>
Less: Unearned income								(482,361)
Gross financing and advances								<u>5,734,946</u>
Less: Allowances for credit losses financing and advances:-								
- 12-month ECL (Stage 1)								(7,581)
- Lifetime ECL not credit-impaired (Stage 2)								(24,773)
- Lifetime ECL credit-impaired (Stage 3)								(57,531)
Total net financing and advances								<u>5,645,061</u>
Less: Financing and advances funded by investment account placements								(2,624,612)
Total net financing and advances - others								<u><u>3,020,449</u></u>

<sup>^</sup> Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn.

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## 14. Financing and advances (continued)

## (i) By type and by contract (continued)

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
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
Less: Financing and advances funded by investment account placements								(752,076)
Total net financing and advances - others								<u>4,786,713</u>

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

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**14. Financing and advances (continued)****(ii) By type of customer**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Domestic non-bank financial institutions	80,346	361
Domestic business enterprises	2,129,393	2,029,715
<i>Small medium enterprises</i>	809,249	814,769
<i>Others</i>	1,320,144	1,214,946
Individuals	2,529,833	2,591,355
Foreign entities	995,374	1,013,610
	5,734,946	5,635,041

**(iii) By profit rate sensitivity**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Fixed rate		
- House financing	1,028	1,130
- Hire purchase receivables	49,769	59,027
- Other financing	789,541	611,741
Variable rate		
- House financing	2,802,041	2,850,990
- Revolving credit	325,808	246,197
- Other financing	1,766,759	1,865,956
	5,734,946	5,635,041

**(iv) By sector**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Agriculture	88,765	92,152
Mining and quarrying	232,111	230,506
Manufacturing	428,763	292,406
Electricity, gas and water	901	944
Construction	181,533	199,061
Real estate	319,629	340,522
Wholesale & retail trade and restaurants & hotels	366,221	388,017
Transportation, storage and communication	44,908	50,754
Finance, insurance and business services	440,474	329,212
Household	2,976,463	3,045,597
Others	655,178	665,870
	5,734,946	5,635,041

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**14. Financing and advances (continued)****(v) By purpose**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Purchase of landed property		
- Residential	2,589,797	2,631,328
- Non-residential	793,839	809,190
Fixed assets excluding land and building	45,776	54,784
Personal Use	179,663	201,362
Working Capital	2,125,871	1,938,377
	<u>5,734,946</u>	<u>5,635,041</u>

**(vi) By maturity structure**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Maturing within one year	1,065,723	868,224
One year to three years	410,966	443,301
Three years to five years	756,557	846,774
Over five years	3,501,700	3,476,742
	<u>5,734,946</u>	<u>5,635,041</u>

**(viii) By geographical distribution**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Within Malaysia	5,230,462	5,130,557
Outside Malaysia	504,484	504,484
	<u>5,734,946</u>	<u>5,635,041</u>

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

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
USD	769,352	640,391

**15. Impaired financing and advances****(i) Movements in impaired financing and advances**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
At 1 January	43,181	56,883
Classified as impaired during the financial period/year	28,465	91,174
Reclassified as performing during the financial period/year	(20,604)	(71,322)
Amount recovered during the financial period/year	(594)	(3,949)
Amount written off during the financial period/year	(6,216)	(29,605)
At end of reporting period/year	44,232	43,181
ECL (Stage 3)/Individual impairment provision	(38,264)	(31,799)
Net impaired financing and advances	<u>5,968</u>	<u>11,382</u>

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## 15. Impaired financing and advances

## (ii) Movements in allowances for credit losses/impairment provisions for financing and advances

	← 2018 →				← 2017 →		
	12-month ECL (Stage 1) RM'000	Lifetime ECL not credit- impaired (Stage 2) RM'000	Lifetime ECL credit- impaired (Stage 3) RM'000	Total RM'000	Individual impairment provisions RM'000	Collective impairment provisions RM'000	Total RM'000
Balance at 1 January	12,936	32,797	57,228	102,961 <sup>^</sup>	26,162	80,664	106,826
Transfer to 12-month ECL	2,902	(2,779)	(123)	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(10,724)	10,871	(147)	-	-	-	-
Transfer to lifetime ECL credit-impaired	(3,707)	(4,581)	8,288	-	-	-	-
Net remeasurement of loss allowance *	6,184	(11,535)	1,428	(3,923)	56,924	10,206	67,130
Write-offs	-	-	(9,143)	(9,143)	(39,690)	-	(39,690)
Written back in respect of recoveries	-	-	-	-	(11,597)	(26,417)	(38,014)
Foreign exchange and other movements	(10)	-	-	(10)	-	-	-
At end of reporting period/year	<u>7,581</u>	<u>24,773</u>	<u>57,531</u>	<u>89,885</u>	<u>31,799</u>	<u>64,453</u>	<u>96,252</u>

Per the Revised Policy Document, the Bank is required to maintain, in aggregate, loss allowances for non-credit-impaired exposures and regulatory reserves of no less than 1.00% of total credit exposures, net of loss allowance for credit-impaired exposures. As of 31 March 2018, the loss allowance for non-credit-impaired exposures and regulatory reserves, as a percentage of credit exposures less loss allowance for credit-impaired exposures is above 1.00% after excluding the exposures funded by Profit Sharing Investment Account ("PSIA") placements from Standard Chartered Bank Malaysia Berhad ("SCBMB"), where loss allowance for financing assets funded by PSIA are held at the fund provider, SCBMB.

\* Included in net remeasurement allowance is a transfer to SCBMB under PSIA arrangement amounting to RM4.6 million.

<sup>^</sup> Balance as of 1 January 2018 have been applied retrospectively with MFRS 9 day 1 impact.

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**15. Impaired financing and advances****(iii) Impaired financing and advances by sector**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Manufacturing	1,184	1,202
Construction	1,025	1,587
Real estate		389
Wholesale & retail trade and restaurants & hotels	6,077	9,457
Transportation, storage and communication	2,074	2,072
Finance, insurance and business services	3,368	834
Household	30,217	27,339
Others	287	301
	<u>44,232</u>	<u>43,181</u>

**(iv) Impaired financing and advances by purpose**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Purchase of landed property	23,998	18,859
- Residential	19,598	12,222
- Non-residential	4,400	6,637
Fixed assets excluding land and building	2,315	2,443
Personal use	10,364	12,635
Working capital	7,555	9,244
	<u>44,232</u>	<u>43,181</u>

**(v) Impaired financing and advances by geographical distribution**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Within Malaysia	<u>44,232</u>	<u>43,181</u>

**16. Other assets**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Income receivable	663	2,206
Other receivables, deposits and prepayments	144,989	185,521
	<u>145,652</u>	<u>187,727</u>

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

The non-interest 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.

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**18. Deposits from customers****(i) By type of deposits**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Demand deposits		
- Wadiah	712,411	820,363
Saving deposits		
- Wadiah	63,601	73,791
Term deposits	1,422,531	1,612,550
- Tawarruq	1,281,320	1,473,381
- Mudharabah	13,248	13,305
Negotiable instruments of deposits		
- Bai-Inah	127,963	125,864
	<u>2,198,543</u>	<u>2,506,704</u>

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

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Due within six months	1,052,471	1,524,410
Six months to one year	368,039	75,610
One year to three years	2,021	12,530
	<u>1,422,531</u>	<u>1,612,550</u>

**(ii) By type of customers**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Government and statutory bodies	780,381	939,693
Business enterprises	629,825	754,662
Individuals	455,215	438,329
Others	333,122	374,020
	<u>2,198,543</u>	<u>2,506,704</u>

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**19. Investment accounts of customers**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
<b>Unrestricted investment accounts</b>		
Without maturity Mudharabah	<u>712,892</u>	<u>730,481</u>

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

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
<b>Non-Mudharabah</b>		
Licensed banks	135,687	1,617,866
Other financial institutions	84,834	155,066
	<u>220,521</u>	<u>1,772,932</u>

**21. Restricted investment accounts due to designated financial institutions**

<b>Restricted investment accounts</b>		
Mudharabah	<u>3,437,769</u>	<u>1,689,377</u>
<b>By type of counterparties</b>		
Licensed banks	<u>3,437,769</u>	<u>1,689,377</u>

Mudharabah deposit placement of licensed bank is a placement under the PSIA concept by the Bank's immediate holding company .

**22. Other liabilities**

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Income payable	16,961	16,356
Other payables and accruals	277,018	111,419
	<u>293,979</u>	<u>127,775</u>

**23. Provision for credit commitments and contingencies**

	<b>31 March 2018 ECL RM'000</b>	<b>31 December 2017 Impairment provisions RM'000</b>
<b>Loan commitments and financial guarantee contracts</b>		
Balance as at 1 January (Note 4)	1,009	-
Net remeasurement of loss allowance	(232)	-
At end of reporting period/year	<u>777</u>	<u>-</u>



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**24. Income derived from investment of depositors' funds**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
Income derived from investment of:-				
(i) Term deposits	38,198	58,518	38,198	58,518
(ii) Other deposits	19,619	20,963	19,619	20,963
	<u>57,817</u>	<u>79,481</u>	<u>57,817</u>	<u>79,481</u>

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

	1st Quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
<b>Finance income and hibah</b>				
Financing and advances	32,881	47,090	32,881	47,090
Investment securities	485	570	485	570
Money at call and deposits with financial institutions	4,538	7,604	4,538	7,604
	37,904	55,264	37,904	55,264
Amortisation of premium less accretion of discount	(1,734)	(1,844)	(1,734)	(1,844)
Total finance income and hibah	<u>36,170</u>	<u>53,420</u>	<u>36,170</u>	<u>53,420</u>
<b>Other operating income</b>				
Fees and commission income:-				
- Arising from financial instruments not at fair valued through profit or loss	2,888	5,955	2,888	5,955
Fees and commission expense:-				
- Arising from financial instruments not at fair valued through profit or loss	(860)	(857)	(860)	(857)
	2,028	5,098	2,028	5,098
	<u>38,198</u>	<u>58,518</u>	<u>38,198</u>	<u>58,518</u>

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**24. Income derived from investment of depositors' funds (continued)****(ii) Income derived from investment of other deposits**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
<b>Finance income and hibah</b>				
Financing and advances	16,888	16,869	16,888	16,869
Investment securities	249	204	249	204
Money at call and deposits with financial institutions	2,331	2,724	2,331	2,724
	19,468	19,797	19,468	19,797
Amortisation of premium less accretion of discount	(890)	(660)	(890)	(660)
Total finance income and hibah	18,578	19,137	18,578	19,137
<b>Other operating income</b>				
Fees and commission income:-				
- Arising from financial instruments not at fair valued through profit or loss	1,483	2,133	1,483	2,133
Fees and commission expense:-				
- Arising from financial instruments not at fair valued through profit or loss	(442)	(307)	(442)	(307)
	1,041	1,826	1,041	1,826
	19,619	20,963	19,619	20,963

**25. Income derived from investment of investment account funds**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
<b>Finance income and hibah</b>				
Financing and advances	32,284	17,662	32,284	17,662
Money at call and deposits with financial institutions	6,704	7,162	6,704	7,162
	38,988	24,824	38,988	24,824

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**26. Income derived from investment of shareholder's funds**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
<b>Finance income and hibah</b>				
Financing and advances	13,562	13,280	13,562	13,280
Investment securities	200	161	200	161
Money at call and deposits with financial institutions	1,872	2,145	1,872	2,145
	15,634	15,586	15,634	15,586
Amortisation of premium less accretion of discount	(715)	(520)	(715)	(520)
Total finance income and hibah	14,919	15,066	14,919	15,066
<b>Other operating income</b>				
Fees and commission income:-				
- Arising from financial instruments not at fair valued through profit or loss	1,191	1,679	1,191	1,679
Fees and commission expense:-				
- Arising from financial instruments not at fair valued through profit or loss	(355)	(242)	(355)	(242)
	836	1,437	836	1,437
	15,755	16,503	15,755	16,503

**27. Allowances for credit losses/impairment provision**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
Provisions for financing:-				
- Individual impairment provisions	-	16,280	-	16,280
- Made in the financial period	-	20,373	-	20,373
- Written back in respect of recoveries	-	(4,093)	-	(4,093)
- Collective impairment provisions	-	(12,714)	-	(12,714)
- Made in the financial period	-	1,022	-	1,022
- Written back	-	(13,736)	-	(13,736)
Net allowances for credit losses	(4,155)	-	(4,155)	-
- Financing and advances	(3,923)	-	(3,923)	-
- Credit commitments and contingencies	(232)	-	(232)	-
Bad and doubtful debts on financing and advances:-				
- Recovered	(2,958)	(3,363)	(2,958)	(3,363)
	(7,113)	203	(7,113)	203

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**28. Profit/hibah distributed to depositors**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
Deposits from customers				
- Mudharabah fund	379	234	379	234
- Non-Mudharabah fund	2,609	13,932	2,609	13,932
Deposits and placements of banks and other financial institutions				
- Non-Mudharabah fund	41,720	39,838	41,720	39,838
	<u>44,708</u>	<u>54,004</u>	<u>44,708</u>	<u>54,004</u>

**29. Profit/hibah distributed to investment account holders**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
Investment accounts of customers	6,137	5,596	6,137	5,596
Investment accounts due to designated financial institutions	25,600	15,128	25,600	15,128
	<u>31,737</u>	<u>20,724</u>	<u>31,737</u>	<u>20,724</u>

**30. Other operating expenses**

	1st quarter ended		Three months ended	
	31 March 2018 RM'000	31 March 2017 RM'000	31 March 2018 RM'000	31 March 2017 RM'000
<b>Personnel costs</b>				
- Salaries, bonus, wages and allowances	1,845	3,021	1,845	3,021
- Other staff related cost	937	660	937	660
	<u>2,782</u>	<u>3,681</u>	<u>2,782</u>	<u>3,681</u>
<b>Establishment costs</b>				
- Depreciation of property, plant and equipment	17	11	17	11
- Rental	275	291	275	291
- Information technology expenses	102	855	102	855
- Utilities and maintenance	835	357	835	357
	<u>1,229</u>	<u>1,514</u>	<u>1,229</u>	<u>1,514</u>
<b>Marketing expenses</b>				
- Advertisement and publicity	-	-	-	-
- Others	71	16	71	16
	<u>71</u>	<u>16</u>	<u>71</u>	<u>16</u>
<b>Administration and general expenses</b>				
- Communication expenses	53	23	53	23
- Group administration fees and business support expenses	1,631	3,612	1,631	3,612
- Management fee	16,250	20,553	16,250	20,553
- Others	932	881	932	881
	<u>18,866</u>	<u>25,069</u>	<u>18,866</u>	<u>25,069</u>
<b>Total other operating expenses</b>	<u>22,948</u>	<u>30,280</u>	<u>22,948</u>	<u>30,280</u>

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**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 March 2018			As at 31 December 2017		
	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	13,512	12,158 **	5,612 **	13,591	12,237 **	3,964 **
Transaction-related contingent items	237,783	171,116 **	41,366 **	256,891	194,941 **	42,885 **
Short-term self liquidating trade-related contingencies	33,274	32,835 **	7,975 **	70,373	23,776 **	8,245 **
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	3,693,742	180,388 **	222,587 **	4,130,051	254,684 **	251,840 **
- maturity exceeding one year	359,046	12,535 **	17,601 **	419,623	16,180 **	12,809 **
Foreign exchange related contracts:-						
- less than one year	1,119,848	39,397	13,333	1,291,601	48,668 **	12,599 **
- one year to less than five years	2,027,636	79,695 **	16,284 **	2,080,252	103,458 **	18,726 **
Profit rate related contracts:-						
- one year to less than five years	1,447,393	38,075	6,157	1,487,573	46,152	6,941
	<u>8,932,234</u>	<u>566,199</u>	<u>330,915</u>	<u>9,749,955</u>	<u>700,096</u>	<u>358,009</u>

Included in direct credit substitutes and transaction-related contingent items are the deals or contracts entered under *Kafalah* concept amounting to RM251.3 million (2017: RM270.5 million)

\*\* Excluded in the credit equivalent and risk weighted amount of the Bank are RM336.1 million (2017: RM398.9 million) and RM209.9 million (2017: RM267.4 million) respectively relating to exposures funded by PSIA placements from SCBMB as provided by BNM's guidelines on the Booking of General and Specific Provisions for Financing Asset Funded by Specific Investment Account ("SIA"). The related credit risk and exposure of facilities funded by the SIA are 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.

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**32. Fair values of financial assets and liabilities****Methods and assumptions****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 determined 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 bonds and financing and advances. Over-the-counter (OTC) derivatives.	-
Type of financial liabilities	-	OTC derivatives. Structured deposits.	-

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<b>31 March 2018</b>				
<b>Assets</b>				
Investment securities measured at FVOCI				
- Government Islamic bonds	-	100,374	-	100,374
Derivative financial instruments	-	129,498	-	129,498
	-	229,872	-	229,872
<b>Liabilities</b>				
Structured deposits	-	10,144	-	10,144
Derivative financial instruments	-	130,970	-	130,970
	-	141,114	-	141,114
<b>31 December 2017</b>				
<b>Assets</b>				
Investment securities available-for-sale				
- Government Islamic bonds	-	100,524	-	100,524
Derivative financial instruments	-	207,304	-	207,304
	-	307,828	-	307,828
<b>Liabilities</b>				
Structured deposits	-	25,490	-	25,490
Derivative financial instruments	-	209,822	-	209,822
	-	235,312	-	235,312

There were no transfers between Level 1 and Level 2 during the period ended 31 March 2018.

**STANDARD CHARTERED SAADIQ BERHAD**  
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**33. Capital adequacy**

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

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
<b>Tier 1 Capital</b>		
Paid-up ordinary share capital	102,750	102,750
Share premium	308,250	308,250
Other reserves	214,572	219,067
Less: Deferred tax assets	(3,140)	(3,128)
Unrealised gains and losses on investment securities	(26)	18
CET 1 and Eligible Tier 1 capital	<u>622,406</u>	<u>626,957</u>
<b>Tier 2 Capital</b>		
Islamic subordinated sukuk	100,000	100,000
Impairment provisions under standardised approach	890	2,615
Surplus of total eligible provisions over total expected loss under AIRB approach	<u>13,745</u>	<u>14,400</u>
Eligible Tier 2 capital	<u>114,635</u>	<u>117,015</u>
Total capital base	<u><u>737,041</u></u>	<u><u>743,972</u></u>

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

	<b>31 March 2018 RM'000</b>	<b>31 December 2017 RM'000</b>
Total risk-weighted assets:-		
Credit risk	2,361,777	2,716,763
Operational risk	<u>312,557</u>	<u>320,217</u>
	<u><u>2,674,334</u></u>	<u><u>3,036,980</u></u>
CET 1 capital ratio	23.273%	20.644%
Tier 1 capital ratio	23.273%	20.644%
Risk-weighted capital ratio	27.560%	24.497%