

**Standard Chartered Saadiq Berhad**  
(Incorporated in Malaysia)

**Financial statements for the financial period  
from 30 June 2008 (date of incorporation)  
to 31 December 2008**

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

**Standard Chartered Saadiq Berhad**  
(Incorporated in Malaysia)

**Directors' report for the financial period from 30 June 2008 (date of incorporation) to 31 December 2008**

The Directors hereby submit their first report and the audited financial statements of the Bank for the financial period from 30 June 2008 (date of incorporation) to 31 December 2008.

**Principal activities**

The Bank was incorporated under the Islamic Banking Act, 1983 and commenced its Islamic banking business with effect from 12 October 2008.

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 period.

**Results**

	<b>RM'000</b>
Profit before taxation	4,185
Tax expense	<u>(1,107)</u>
Profit for the period	<u><u>3,078</u></u>

**Dividends**

The Directors do not recommend the payment of any dividend in respect of the current financial period.

**Reserves and provisions**

There were no material transfers to or from reserves or provisions during the financial period other than those disclosed in the financial statements.

**Bad and doubtful financing**

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

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

**Current assets**

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

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

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**Valuation methods**

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

**Contingent and other liabilities**

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

- (a) any charge on the assets of the Bank which has arisen since the end of the financial period 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 period other than in the ordinary course of banking business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period 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 period 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 period 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 period in which this report is made.

**Business plan and strategy**

**Results**

For the period under review, the Bank registered a pre-tax profit of RM 4.2 million, achieved from gross financing assets of RM 1.4 billion and customer deposits of RM 4.4 billion. The Bank's asset quality was healthy with net non-performing financing ratio of 0.61%. Risk weighted capital ratio stood at a healthy 13.39%.

**Strategy and Economic Environment**

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

The Islamic Banking sector is expected to continue its growth momentum in view of the government's efforts to promote Malaysia as an international Islamic financial centre. The banking sector in general continues its transition towards greater liberalization with Bank Negara Malaysia ("BNM") continuing to bring in measures on a phased approach to level the playing field, tighten risk management and strengthen consumer protection.

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**Business plan and strategy (continued)**

**Strategy and Economic Environment (continued)**

With the launch of our first branch, the Bank's visibility and reach has been enhanced further, and we aim to continue being at the forefront of product innovation and be well placed as an intergrated Islamic financial services provider. At the same time, the Bank will continue to leverage on the infrastructure and resources of Standard Chartered Group in order to grow and develop our business.

**Statement of Corporate Governance**

The Bank is committed to uphold good corporate governance practices and in line with the Principles and Best practices promulgated in the Malaysian Code of Corporate Governance and the Revised Code (the "Code") as well as in conformity with the Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance for Islamic Licensed Institutions issued by BNM. The Board is pleased to set out below how the Bank has adhered to the aforesaid principles of the Code and the extent to which the Bank has complied in all material aspects with the best practices of the Code and BNM Guidelines during the financial period ended 31 December 2008.

**Board of Directors**

**Composition of the Board of Directors**

The Board of Directors (the "Board") comprises members from diverse professional backgrounds, skills and extensive international experiences and knowledge in the areas of banking and finance, general management and strategy that are vital to the successful direction of the Bank. The Board presently has seven (7) members, the majority of whom are Non-Executive Directors, of which three (3) of whom are Independent Non-Executive Directors, hence fulfilling the prescribed requirements for one-third of the membership of the Board to be Independent Board members. The Directors who served since the date of incorporation are:-

<u>Members</u>	<u>Status of Directorship</u>
Azrulnizam Abdul Aziz (First Director)	Non-Independent Executive Director
Mohd Nasiruddin Mohd Kamaruddin (First Director, resigned on 12 October 2008)	Non-Independent Non-Executive Director
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman (appointed on 12 October 2008)	Independent Non-Executive Director
Dato' Lim Say Chong (appointed on 12 October 2008)	Independent Non-Executive Director
Datuk Abu Hassan bin Kendut (appointed on 12 October 2008)	Independent Non-Executive Director
Julian Francis Wynter (appointed on 12 October 2008)	Non-Independent Non-Executive Director
Raymond John Ferguson (appointed on 12 October 2008)	Non-Independent Non-Executive Director
Muhammad Afaq Khan (appointed on 12 October 2008)	Non-Independent Non-Executive Director

**Roles and responsibilities of the Board**

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

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**Appointments to the Board**

The appointment of Directors to the Bank's Board had been approved by BNM pursuant to the Islamic Banking Act, 1983 and in compliance with the guidelines issued by BNM.

In accordance with the Bank's Articles of Association, all newly appointed Directors are subjected to re-election by shareholders at the next Annual General Meeting. The Articles further provides for one third of the remaining directors to retire from office by rotation and be subjected to re-election at the Annual General Meeting of the Bank. As guided by BNM's Guidelines, re-appointment or re-election of Directors are made with the prior approval from BNM.

**Board's conduct of its affairs and board meetings**

The Board has established specialised Board Committees during the period to assist to carry out its responsibilities more effectively and provide oversight over the Bank's operations. These committees are the Nomination Committee, the Audit Committee and the Risk Committee. The Board also established a Shariah Advisory Committee comprising of Shariah Consultants to advise the Board on Islamic banking business. These committees operate under clearly defined terms of reference approved by the Board and the Board receives reports of their proceedings and deliberations. These committees have the authority to examine certain issues and report back to the Board with their recommendations. Ultimately, the Board is responsible for making the final decisions on all matters.

The Bank has obtained a waiver from BNM from establishing a Remuneration Committee on 23 September 2008. Although the Bank is exempted from establishing a Remuneration Committee as required under the Revised Guidelines, the Board take note of all remuneration and performance appraisal policies determined by its holding company and the Group.

**Frequency and attendance of each director at board meetings**

The Board meets regularly and since its inception on 30 June 2008, the Board met three (3) times and the record of attendance at the Board Meetings is as follows:-

<u>Members</u>	<u>Attendance and Number of Board Meetings</u>
Tan Sri Dato' Mohd Sheriff Mohd Kassim (appointed on 12 October 2008)	1/1
Dato' Lim Say Chong (appointed on 12 October 2008)	1/1
Datuk Abu Hassan Kendut (appointed on 12 October 2008)	1/1
Muhammad Afaq Khan (appointed on 12 October 2008)	1/1
Raymond John Ferguson (appointed on 12 October 2008)	1/1
Julian Francis Wynter (appointed on 12 October 2008)	1/1
Azrulnizam Abdul Aziz (appointed on 30 June 2008)	3/3
Mohd Nasiruddin Mohd Kamaruddin (appointed on 30 June 2008 and resigned on 12 October 2008)	2/2

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**Key information and background of Directors**

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

**(a) Tan Sri Dato' Mohd Sheriff bin Mohd Kassim**

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim was appointed to the Board as an Independent Non-Executive Director and as the Chairman on 12 October 2008. He held various positions in Civil Service since 1963 and was appointed as the Secretary General to the Treasury in the Malaysian Ministry of Finance in 1991. He later took up the position of Managing Director in Khazanah Nasional Berhad in 1994 till 2003. He holds a Bachelor of Arts (Honours) in Economics from the University of Malaya, a Diploma in Economic Development from Oxford University in the UK and a Masters in Arts (Economics) from Vanderbilt University in USA.

**(b) Dato' Lim Say Chong**

Dato' Lim Say Chong was appointed to the Board as an Independent Non-Executive Director on 12 October 2008. He was the Group Managing Director of Chemical Company of Malaysia Berhad from 1989 to September 2004 and held several senior positions during his 30 years career with the ICI Group in Malaysia and abroad. He holds a Bachelor of Arts (Honours) Degree from the University of Malaya and a Master of Business Administration Degree from the University of British Columbia, Canada. He has also completed an Advanced Management Programme at the Harvard Business School, USA.

**(c) Datuk Abu Hassan bin Kendut**

Datuk Abu Hassan bin Kendut was appointed to the Board as an Independent Non-Executive Director on 12 October 2008. He is a member of the Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants. He was a past President of MICPA, and was formerly the Senior Partner of Coopers & Lybrand (currently known as PricewaterhouseCoopers).

**(d) Raymond John Ferguson**

Raymond John Ferguson was appointed to the Board as a Non-Independent Non-Executive Director on 12 October 2008. He is currently the Regional Chief Executive Officer of Standard Chartered Bank for South East Asia (including Australia). He is an experienced international banker with over 20 years of senior management experience, including his most recent tenure as the Chief Executive of Standard Chartered Bank in the Americas. He held various senior positions with the Bank and had worked in UAE, Singapore, Philippines, Taiwan and Indonesia. He is an Associate of the Institute of Bankers in Scotland and is on the Board of Directors for the Institute of International Bankers. He holds an MBA from Henley Management College and Brunel University, UK.

**(e) Julian Francis Wynter**

12 October 2008. He is currently the Managing Director and Chief Executive Officer of Standard Chartered Bank Malaysia Berhad ("SCBMB"). In his role, he brings with him 30 years of extensive experience in the banking industry. He joined Standard Chartered in 1992 in a senior relationship manager role covering European Corporates until 2000, when he was appointed as CEO of Japan. In 2003, he was appointed Head of Audit, Consumer Banking - a global position overseeing 56 countries. Prior to joining Standard Chartered, he had built his banking expertise with Citibank London and Hong Kong, Merrill Lynch London and Hong Kong and Banque Bruxelles Lambert, London. His area of coverage includes investment banking, local corporates and insurance banking. A British citizen, he is a graduate of Oxford University.

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

**(f) Muhammad Afaq Khan**

Muhammad Afaq Khan was appointed as a member of the Board on 12 October 2008 as a Non-Independent Non-Executive Director. He is currently the Global Head of Islamic Banking of Standard Chartered Bank and is responsible for the Islamic Banking initiative of Standard Chartered Group. He joined Standard Chartered in June 2003 and has been involved in the Islamic banking industry for 11 years. He was involved in a number of landmark transactions including sukuks, aircraft finance, project finance etc. He holds an MBA from the University of Western Illinois.

**(g) Azrulnizam Abdul Aziz**

Azrulnizam Abdul Aziz was appointed to the Board on 30 June 2008 and as the Chief Executive Officer of Standard Chartered Saadiq Berhad on 12 October 2008. He joined Standard Chartered Bank Malaysia Berhad in 2005 with a mandate to launch the Islamic Banking initiative for the Bank. He has over 9 years of extensive experience in Islamic banking and finance, mortgages, asset sales, banking services and products. He holds a Bachelor of Business Administration, Marketing from Wichita State University, Kansas and MBA (International) from University of Hartford, Connecticut, USA.

**Committees**

**a) Shariah Advisory Committee**

**Membership and composition**

The members of Shariah Advisory Committee are:-  
Prof. Madya Dr. Shamsiah binti Mohamad - Lead Shariah Adviser  
Dr. Hikmatullah Babu Sahib  
Dr. Nurdianawati Irwani Abdullah

**Functions and responsibilities and terms of reference**

**Main Responsibilities of the Shariah Advisory Committee**

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

**Responsibilities of the Shariah Advisers**

1. To endorse, approve and review all Islamic Banking products and services offered by the Bank. The Consultants' approval is thus required on all Product Programme documents, Product Development documents, Country Addenda, Transaction Programme and the subsequent reviews of these documents.
2. To advise and review the operations of the Islamic Banking business and to ensure that it is in compliance with the Islamic Banking principles.
3. To guide and review the Bank's Islamic Banking practice. The Consultants must therefore approve all legal contracts, agreements and documentation. Similarly, all marketing materials, sales illustrations, advertisements and brochures must carry the Consultants' approval.
4. To satisfy itself that the formulated endorsement, approval, advice and guidelines are being properly undertaken by the Bank.
5. To provide guidance and advice upon request from the Bank's legal council, auditors, consultants and etc. In addition, to provide written opinions on Shariah matters to the Bank as required from time to time.

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**a) Shariah Advisory Committee (continued)**

**Responsibilities of the Shariah Advisers (continued)**

6. To advise the Chairman on matters that require consultation from the Bank Negara Malaysia's Shariah Advisory Council and to prepare a written opinion when such matter is referred to the Council.
7. The approval by the Consultants will be deemed to have been obtained if majority have given their approval in writing. Similarly, any opinions endorsed by majority will be deemed as consensus amongst all 3 consultants.
8. To review the terms of reference of this committee from time to time and propose to the Board of Standard Chartered Saadiq Berhad any change that it considers appropriate.

**Shariah Compliance Review**

1. Suitable Shariah Compliance Manuals will be prepared and reviewed by the Committee from time to time covering gradually all products and services introduced by the Bank to the market. The Shariah Compliance Manuals for the time being shall cover all decisions made by Bank Negara Malaysia's National Shariah Advisory Council as well as SCBMB's Shariah Advisory Committee.
2. The Risk team will be using the Shariah Compliance Manuals to undertake Shariah Compliance Reviews as may be required from time to time.
3. The Risk team shall report and discuss its findings directly with the committee.

**Number of meetings held**

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Prof. Madya Dr. Shamsiah binti Mohamad - Lead Shariah Adviser	2/2
Dr. Hikmatullah Babu Sahib	2/2
Dr. Nurdianawati Irwani Abdullah	2/2

**b) Nomination Committee**

**Membership and composition**

The members of Nomination Committee are:-  
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman  
Dato' Lim Say Chong  
Raymond John Ferguson  
Julian Francis Wynter  
Muhammad Afaq Khan  
Azrulnizam Abdul Aziz

All of the Nomination Committee members, with the exception of En. Azrulnizam Abdul Aziz, are non-executive directors.



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**b) Nomination Committee (continued)**

**Functions and responsibilities and terms of reference**

The Nomination Committee is empowered by the Board to bring to the Board recommendations as to the minimum requirements (including skills, experience, qualifications and competencies) for the appointees to the Board and for the Chief Executive Officer ("CEO"). In addition, the Nomination Committee will regularly review the overall structure, size and the composition and make recommendations to the Board with regard to any adjustments that are deemed necessary. This includes identifying and nominating for the approval of the board, candidates to fill Board vacancies as and when they arise, subject to such application for approval to BNM as may be required from time to time. The Nomination Committee is also tasked to determine and implement a process for the evaluation of the performance and effectiveness of the Board and of the Board Committees.

**Number of meetings held**

As the Nomination Committee was established on 27 November 2008, no meeting was held in 2008

**c) Audit Committee**

**Membership and composition**

The members of Audit Committee are:-  
Datuk Abu Hassan bin Kendut - Chairman  
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim  
Dato' Lim Say Chong  
Julian Francis Wynter

All of the Audit Committee members are independent non-executive directors, with the exception of Mr Julian Francis Wynter.

**Terms of Reference**

The primary functions of the Audit Committee are to assist the Board to:-

- examine the manner in which management ensures and monitors the accuracy, quality and objectivity of the Bank's financial reporting to external bodies, including shareholders and regulators in accordance with the Law and appropriate accounting standards; and
- examine the manner in which management ensures and monitors the effectiveness and appropriateness of the management accounting practices and other internal control systems.

**Number of meetings held**

The Audit Committee was established on 27 November 2008 and no meeting was held in 2008. The first meeting was held on 4 February 2009.

**d) Risk Committee**

**Membership and composition**

The members of the Risk Committee are:-  
Dato' Lim Say Chong - Chairman  
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim  
Datuk Abu Hassan bin Kendut  
Julian Francis Wynter

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**d) Risk Committee (continued)**

**Terms of reference**

The primary functions of the Risk Committee are to assist the Board to:-

- review and recommend risk management strategies, policies and risk tolerance for the Board's approval;
- review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively; and
- ensure infrastructure, resources and systems are in place for risk management, i.e. to ensure that the staff responsible for implementing risk management system perform those duties independently of the financial institutions' risk taking activities.

**Number of meetings held**

The Risk Committee was established on 27 November 2008 and no meeting was held in 2008.

**Risk Management**

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

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

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

**Internal Audit and Control activities**

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. This is supported by the risk management framework described above, which is underpinned by policy statements, written procedures and control manuals.

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**Internal Audit and Control activities (continued)**

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

The effectiveness of the Bank's internal control system is reviewed by the Board of Directors, its committees and Group Internal Audit.

The internal audit function is organised on a Group basis, which previously used to cover the Islamic banking operations of the immediate holding company as well. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal controls structures of the Group and highlights significant findings in respect of any non-compliance. The work of Group Internal Audit is focused on areas of greatest risk as determined by a risk assessment approach. Group Internal Audit reports regularly to the Audit Committee. The annual audit plan is reviewed and approved by the Audit Committee. All medium and high risk issues are tracked and reported to Audit Committee and immediate corrective action is required.

**Related Party Transactions**

There are no other significant related party transactions other than as reported in Note 22

**Management Report**

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

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

**Ratings Statement**

The Bank was not rated by any external rating agencies during the financial period.

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

According to the Register of Directors' Shareholdings, the interest of directors in office at the end of the financial period in the shares of the Bank and its related corporations are as follows:-

	At date of incorporation/ appointment	Number of shares Acquired	Disposed	As at 31.12.2008
<u>In Standard Chartered PLC</u>				
<u>Ordinary shares of US\$0.50 each</u>				
Raymond John Ferguson	25,410	-	(10,000)	15,410
Julian Francis Wynter	5,021	1,654 (A)	-	6,675
	At date of incorporation/ appointment	Number of options Awarded/ Granted	Lapsed/ Exercised	As at 31.12.2008
<u>Deferred Bonus Share Plan</u>				
Raymond John Ferguson	2,095	-	-	2,095
Julian Francis Wynter	737	553	(737)	553
	At date of incorporation/ appointment	Number of options Awarded/ Granted	Lapsed/ Exercised	As at 31.12.2008
<u>International Sharesave Scheme</u>				
Raymond John Ferguson	542	-	-	542
Julian Francis Wynter	1,674	-	-	1,674
	At date of incorporation/ appointment	Number of options Awarded/ Granted	Lapsed/ Exercised	As at 31.12.2008
<u>Restricted Share Scheme</u>				
Azrulnizam Abdul Aziz	2,867	-	-	2,867
Julian Francis Wynter	5,149	-	(5,149)	-
	At date of incorporation/ appointment	Number of options Awarded/ Granted	Lapsed/ Exercised	As at 31.12.2008
<u>Options Over Performance Share Plan</u>				
Raymond John Ferguson	33,800	-	-	33,800
Julian Francis Wynter	11,439	6,931	-	18,370
Muhammad Afaq Khan	10,188	-	-	10,188

(A) Acquired through open market purchases, exercise of the rights issue and exercise of the Deferred Bonus Share Plan and Restricted Share Scheme.

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

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### Issue of shares and debentures

The Bank was incorporated on 30 June 2008 with an authorised share capital of RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each.

On the date of incorporation, the following ordinary shares of RM1.00 each were issued at par for cash.

<u>Date of Issue</u>	<u>Number of Ordinary Shares of RM1.00 each</u>	<u>Purpose of issue</u>
30 June 2008 (Date of incorporation)	2	Subscriber's shares

During the financial period, the Bank issued 49,999,998 new ordinary shares of RM1 each at an issue price of RM4 per share for working capital purposes.

There were no debentures issued during the financial period.

### Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Bank during the financial period.

### Directors' benefits

Neither at the end of the financial period, nor at any time during the period, did there subsist any arrangements to which the Bank is a party whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except for shares and options given under the Standard Chartered Deferred Bonus Share Plan, Restricted Share Scheme, International Sharesave Scheme and Options Over Performance Share Plan.

Since the incorporation date, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 19 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

### Holding companies

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

### Shariah Advisory Committee

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

### Zakat Obligation

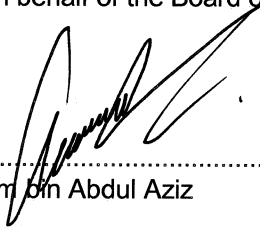
The Bank does not pay zakat on behalf of the shareholders or depositors.

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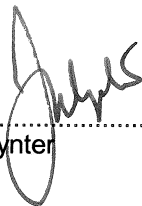
**Auditors**

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

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



.....  
Azrulnizam bin Abdul Aziz



.....  
Julian Francis Wynter

Kuala Lumpur  
Date: 17 March 2009

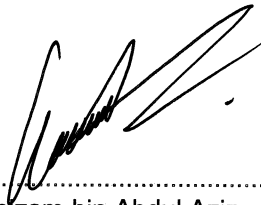
**Standard Chartered Saadiq Berhad**  
(Incorporated in Malaysia)

**Standard Chartered Saadiq Berhad**  
(Company No. 823437 K)  
(Incorporated in Malaysia)

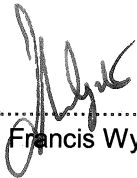
**Statement by Directors pursuant to  
Section 169(15) of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 19 to 54 are drawn up in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2008 and of the results of its financial performance and cash flows for the period ended on that date.

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



.....  
Azrulnizam bin Abdul Aziz



.....  
Julian Francis Wynter

Kuala Lumpur  
Date: 17 March 2009

Company No. 823437K


**Standard Chartered Saadiq Berhad**  
(Incorporated in Malaysia)

**Standard Chartered Saadiq Berhad**  
(Company No. 823437 K)  
(Incorporated in Malaysia)

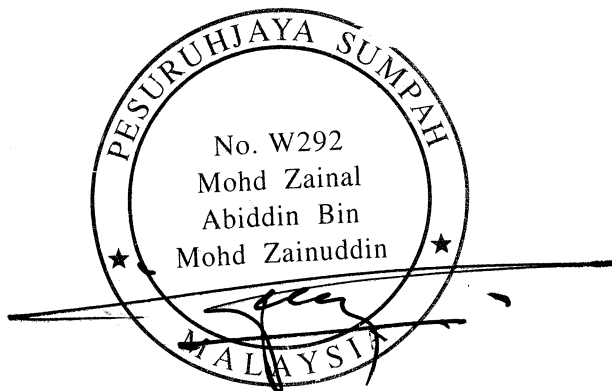
**Statutory Declaration pursuant to  
Section 169(16) of the Companies Act, 1965**

I, Wong Lai Loong, the officer primarily responsible for the financial management of Standard Chartered Saadiq Berhad, do solemnly and sincerely declare that the financial statements set out on pages 19 to 54 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on 17 March 2009.

  
.....  
Wong Lai Loong

Before me:



Lots 2.60-2.63, 2nd Floor,  
Wisma Cosway, Jalan Raja Chula  
50200 Kuala Lumpur





**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
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**Independent Auditors' Report to the member of Standard Chartered Saadiq Berhad**  
**Standard Chartered Saadiq Berhad**

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

**Report on the Financial Statements**

We have audited the financial statements of Standard Chartered Saadiq Berhad, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 19 to 54.

*Directors' Responsibility for the Financial Statements*

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia Guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 in Malaysia and Financial Reporting Standards issued by the MASB as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 December 2008 and of its financial performance and cash flows for the period then ended.



Company No. 823437 K

### Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act kept by the Bank have been properly kept in accordance with the provisions of the Act.

### Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose.

We do not assume responsibility to any other person for the content of this report.

KPMG  
Firm Number: AF 0758  
Chartered Accountants

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

Petaling Jaya  
Date: 17 March 2009

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

**SHARIAH ADVISORY COMMITTEE'S REPORT**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

We, Professor Madya Dr Shamsiah binti Mohamad and Dr Hikmatullah Babu Sahib being two of the members of the Shariah Advisory Committee of Standard Chartered Saadiq Berhad, do hereby confirm on behalf of the members of the Shariah Advisory Committee, that in our opinion, the operations of the Bank for the period ended 31 December 2008 have been conducted in conformity with the Shariah principles.

On behalf of the Shariah Advisory Committee



**Professor Madya Dr Shamsiah binti Mohamad**  
Lead Shariah Adviser



**Dr Hikmatullah Babu Sahib**  
Shariah Adviser

Kuala Lumpur  
Date: 17 March 2009

**STANDARD CHARTERED SAADIQ BERHAD**

(Incorporated in Malaysia)

**BALANCE SHEET AT 31 DECEMBER 2008**

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

The notes set out on pages 23 to 54 are an integral part of these financial statements.

**STANDARD CHARTERED SAADIQ BERHAD**

(Incorporated in Malaysia)

**INCOME STATEMENT FOR THE FINANCIAL PERIOD FROM  
30 JUNE 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

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

The notes set out on pages 23 to 54 are an integral part of these financial statements.

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

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

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

**Note 13**

The notes set out on pages 23 to 54 are an integral part of these financial statements.

**STANDARD CHARTERED SAADIQ BERHAD**

(Incorporated in Malaysia)

**CASH FLOW STATEMENTS FOR THE FINANCIAL PERIOD FROM 30 JUNE 2008  
(DATE OF INCORPORATION) TO 31 DECEMBER 2008**

	<b>30.6.2008 to 31.12.2008 RM'000</b>
<b>Cash flows from operating activities</b>	
Profit before taxation	4,185
Adjustments for:-	
Profit equalisation reserves	1,010
Amortisation of premium less accretion of discount on securities available-for-sale	96
<b>Operating profit before working capital changes</b>	<u>5,291</u>
Changes in working capital:-	
Deposits and placements with banks and other financial institutions	(200,270)
Financing and advances	(1,368,041)
Other receivables	(908,187)
Statutory deposits with Bank Negara Malaysia	(54,000)
Deposits from customers	4,423,290
Deposits and placements of banks and other financial institutions	627,179
Bills and acceptances payable	28,942
Other payables	74,642
Cash generated from operations	<u>2,628,846</u>
Income taxes paid	-
<b>Net cash generated from operating activities</b>	<u><b>2,628,846</b></u>
<b>Cash flows from investing activities</b>	
Purchase of securities available-for-sale	(285,000)
Proceeds from disposal of securities available-for-sale	41,630
<b>Net cash used in investing activities</b>	<u><b>(243,370)</b></u>
<b>Cash flows from financing activity</b>	
Proceeds from issuance of shares	<u>200,000</u>
<b>Net cash generated from financing activity</b>	<u><b>200,000</b></u>
<b>Net increase in cash and cash equivalents</b>	2,585,476
<b>Cash and cash equivalents at beginning of period</b>	-
<b>Cash and cash equivalents at end of period</b>	<u><u><b>2,585,476</b></u></u>
<b>Cash and cash equivalents comprise:</b>	
Cash and short term funds (Note 3)	<u><u><b>2,585,476</b></u></u>

The notes set out on pages 23 to 54 are an integral part of these financial statements.

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

**Notes to the financial statements**

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

**(a) Statement of Compliance**

The financial statements of the Bank have been prepared in accordance with the Companies Act, 1965 in Malaysia, Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia Guidelines and accounting principles generally accepted in Malaysia and Shariah requirements.

At the beginning of the current financial period, the Bank had adopted the new and revised FRSs and Interpretations issued by the MASB which are mandatory and applicable to the Bank.

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

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

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

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

IC Interpretation 10, *Interim Financial Reporting and Impairment*

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

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

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



## STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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

#### (b) Functional and presentation currency

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

#### (c) Use of estimates and judgements

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

In determining the carrying amounts of some assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- i) Estimation of recoverable amounts based on the discounted cash flow methodology for impaired financing (Note 2(h))
- ii) Recognition of financing income and financing expense (Note 2(r)(i) and Note 2(t))
- iii) Fair value estimation of financial assets and financial liabilities (Note 29)

### 2. Significant accounting policies

The accounting policies set out below have been applied consistently in these financial statements.

#### (a) Basis of measurement

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

#### (b) Cash and short term funds

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

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

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

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

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

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

**(d) Securities held for trading**

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

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

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

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

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

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

Securities available-for-sale are securities that are not classified as held for trading or held-to-maturity, and are measured at fair value. Securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

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

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

**(g) Impairment of securities**

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

*i) Securities carried at amortised cost*

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

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

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

**(g) Impairment of securities (continued)**

*i) Securities 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 the income statement.

*ii) Securities carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of securities and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment loss shall not be reversed.

*iii) Securities available-for-sale*

The cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement even though the securities have not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal payment and amortisation) and current fair value, less any impairment loss on that securities previously recognised in the income statement.

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

If, in subsequent periods, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement.

**(h) Financing and advances**

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

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

A general allowance is maintained by the Bank against risks which are not specifically identified. The percentage is in compliance with the minimum requirement of 1.5% set by Bank Negara Malaysia.

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

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

**STANDARD CHARTERED SAADIQ BERHAD**

(Incorporated in Malaysia)

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

**(h) Financing and advances (continued)**

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

**(i) Other receivables**

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

**(j) Deposits from customers**

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

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

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

**(l) Bills and acceptances payable**

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

**(m) Other payables**

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

**(n) Provisions**

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

**(o) Impairment of assets**

The carrying amount of the Bank's assets, other than deferred tax asset and financial assets (excluding securities), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the same asset.

## STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

### 2. Significant accounting policies (continued)

#### (o) Impairment of assets (continued)

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of the asset's fair value less costs to sell and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

#### (p) Staff retirement and service benefits

##### (i) Short term employee benefits

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

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

The Bank contributes to the Employee's Provident Fund ("EPF") for eligible employees on a monthly basis. Obligations for contributions to EPF are recognised as an expense in the income statement 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 the employees that is offered by the ultimate holding company, Standard Chartered PLC. The fair value of the services received in exchange for the grant of the options is recognised as an expense in the income statement over the vesting periods of the grant.

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

**STANDARD CHARTERED SAADIQ BERHAD**

(Incorporated in Malaysia)

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

**(q) Derivative financial instruments**

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

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

**(r) Income recognition**

*(i) Financing income*

Financing income is recognised in the income statement using the effective profit method for financial assets measured at amortised cost. The effective profit rate is the rate that exactly discounts estimated future receipts through the expected life of the financial assets.

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

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

*(ii) Hibah*

Dividend income from securities portfolio and placements which includes coupons earned, accrued discount and amortisation of premium of these securities is recognised on an accrual basis applying the effective yield method in accordance to the principles of Shariah and BNM/GP8-*i*.

*(iii) Other operating income*

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

Service charges and processing fees are recognised when earned.

**(s) Tax expense**

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

**STANDARD CHARTERED SAADIQ BERHAD**

(Incorporated in Malaysia)

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

**(s) Tax expense (continued)**

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

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

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

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

**(t) Recognition of financing expense**

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

**(u) Profit equalisation reserves**

Profit equalisation reserves ("PER") is a mechanism to reduce the fluctuations in the profit rate payable to the depositors. It is provided based on the framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from or written back to the total gross income. PER is reflected under 'other payables' of the Bank.

**(v) Currency translations**

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

**(w) Effective profit rate**

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

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**2. Significant accounting policies (continued)****(x) Earnings per share**

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

**3. Cash and short term funds**

	<b>2008</b> <b>RM'000</b>
Cash and balances with banks and other financial institutions	6,311
Money at call and deposit placements maturing within one month	<u>2,579,165</u>
	<u><u>2,585,476</u></u>

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

	<b>2008</b> <b>RM'000</b>
Bank Negara Malaysia	<u>200,270</u>

**5. Securities available-for-sale**

	<b>2008</b> <b>RM'000</b>
<u>At fair value</u>	
Cagamas bonds	64,478
Islamic negotiable instruments of deposit	44,995
Government Islamic bonds	25,138
Islamic private debt securities	<u>107,461</u>
	<u><u>242,072</u></u>



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

	<b>2008</b> <b>RM'000</b>
Term financing	
- House financing	241,056
- Lease receivables	20,142
- Other term financing	1,034,397
Bills receivable	33,869
Trust receipts	1,798
Claims on customers under acceptance credits	29,019
Staff financing (of which advances to Directors - Nil)	3,030
Revolving credit	460,254
	1,823,565
Less: Unearned income	(433,795)
Gross financing and advances	1,389,770
Less: Allowance for bad and doubtful financing:-	
Specific	(848)
General	(20,881)
Total net financing and advances	1,368,041

**(ii) By contract**

	<b>2008</b> <b>RM'000</b>
Bai Bithaman Ajil ( <i>deferred payment sale</i> )	218,402
Ijarah Thumma Al-Bai ( <i>finance lease</i> )	18,606
Murabahah ( <i>cost plus</i> )	63,190
Others	1,089,572
	1,389,770

**(iii) By type of customer**

	<b>2008</b> <b>RM'000</b>
Domestic non-bank financial institutions	78,100
<i>Stockbroking companies</i>	-
<i>Others</i>	78,100
Domestic business enterprises	574,143
<i>Small medium enterprises</i>	82,771
<i>Others</i>	491,372
Individuals	731,863
Foreign entities	5,664
	1,389,770

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

	<b>2008</b>
	<b>RM'000</b>
Fixed rate	
- House financing	6,019
- Other financing	714,221
Variable rate	
- House financing	212,368
- Revolving credit	457,162
	<u>1,389,770</u>

**(v) By sector**

	<b>2008</b>
	<b>RM'000</b>
Agriculture	21
Mining and quarrying	3,000
Manufacturing	49,947
Construction	6,483
Real estate	61,682
Purchase of landed property	162,942
- Residential	113,578
- Non-residential	49,364
Wholesale & retail trade and restaurants & hotels	299,211
Transport, storage and communication	86,404
Finance, insurance and business services	104,375
Consumption credit	574,595
Others	41,110
The credit exposures of the Bank to connected parties, as defined by Bank Negara Ma	<u>1,389,770</u>

Financing and advances are all denominated in Ringgit Malaysia.

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

	<b>2008</b> <b>RM'000</b>
Amount vested over from immediate holding company	5,665
Classified as non-performing during the financial period	9,153
Reclassified as performing during the financial period	(187)
Amount recovered during the financial period	(149)
Amount written off	<u>(5,228)</u>
At 31 December	9,254
Specific allowance	<u>(848)</u>
Net non-performing financing and advances	<u><u>8,406</u></u>
 Ratio of net non-performing financing and advances to net financing and advances	 <u>0.61%</u>

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

	<b>2008</b> <b>RM'000</b>
<b>General Allowance</b>	
Amount vested over from immediate holding company	20,031
Allowance made during the financial period	<u>850</u>
At 31 December	<u><u>20,881</u></u>
 As a percentage of gross financing and advances less specific allowance	 <u>1.5%</u>
<b>Specific Allowance</b>	
Amount vested over from immediate holding company	841
Allowance made during the financial period	5,042
Amount written back in respect of recoveries	(72)
Amount written off	<u>(4,963)</u>
At 31 December	<u><u>848</u></u>

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

	<b>2008</b>
	<b>RM'000</b>
Purchase of landed property ( <i>Residential</i> )	2,871
Consumption credit	6,383
	<u>9,254</u>

**8. Other receivables**

	<b>2008</b>
	<b>RM'000</b>
Derivatives (Note 29)	10,708
Income receivable	3,277
Other receivables, deposit and prepayments	894,202
	<u>908,187</u>

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

The statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined as set percentages of total eligible liabilities.

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

	<b>2008</b> <b>RM'000</b>
<b>Non-Mudharabah</b>	
Demand deposits	246,231
Savings deposits	55,872
Negotiable instruments of deposits	443,011
	<u>745,114</u>
<b>Mudharabah</b>	
General investment deposits	3,678,176
	<u><u>4,423,290</u></u>

**(ii) By type of customers**

	<b>2008</b> <b>RM'000</b>
Business enterprises	3,474,895
Individuals	315,720
Others	632,675
	<u>4,423,290</u>

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

	<b>2008</b> <b>RM'000</b>
<b>Non-Mudharabah</b>	
Licensed banks	424,650
Bank Negara Malaysia	324
Other financial institutions	2,205
	<u>427,179</u>
<b>Mudharabah</b>	
Licensed banks	200,000
	<u><u>627,179</u></u>

**12. Other payables**

	<b>2008</b> <b>RM'000</b>
Derivatives (Note 29)	10,429
Income payable	14,906
Profit equalisation reserve	5,744
Other payables and accruals	44,573
	<u><u>75,652</u></u>

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**12. Other payables (continued)**

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

**13. Share capital**

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

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

**14. Reserves**

	<b>2008 RM'000</b>
<i>Non-distributable:</i>	
Share premium	150,000
Statutory reserves	1,539
AFS reserves	<u>(901)</u>
	150,638
<i>Distributable:</i>	
Retained profits	<u>1,539</u>
	<u>152,177</u>

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

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

**30.6.2008  
to  
31.12.2008  
RM'000**

Income derived from investment of:-

(i) General investment deposits	21,253
(ii) Other deposits	4,304
	25,557
	25,557

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

**30.6.2008  
to  
31.12.2008  
RM'000**

**Finance income and hibah**

Financing and advances	6,403
Securities available-for-sale	668
Money at call and deposits with financial institutions	17,086
	24,157
Amortisation of premium less accretion of discount	(4,287)
Total finance income and hibah	19,870

**Other operating income**

Fees and commission	1,383
	21,253
	21,253

**(ii) Income derived from investment of other deposits****Finance income and hibah**

Financing and advances	1,297
Securities available-for-sale	135
Money at call and deposits with financial institutions	3,461
	4,893
Amortisation of premium less accretion of discount	(869)
Total financing, income and hibah	4,024

**Other operating income**

Fees and commission	280
	4,304
	4,304

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**16. Income attributable to depositors**

	<b>30.6.2008</b>
	<b>to</b>
	<b>31.12.2008</b>
	<b>RM'000</b>
Deposit from customers	
- Mudharabah fund	21,666
- Non-Mudharabah fund	935
Deposits and placements of banks and other financial institutions	
- Mudharabah fund	1,644
- Non-Mudharabah fund	3,124
	<u>27,369</u>

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

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



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**18. Other operating expenses**

	<b>30.6.2008 to 31.12.2008 RM'000</b>
<b>Personnel costs</b>	
- Salaries, bonus, wages and allowances	532
- Other staff related cost	82
	<u>614</u>
<b>Establishment costs</b>	
- Information technology and project expenses	22
- Others	210
	<u>232</u>
<b>Marketing expenses</b>	
- Advertisement and publicity	1
- Others	1
	<u>2</u>
<b>Administration and general expenses</b>	
- Communication expenses	8
- Group administration fees and business support expenses	420
- Management fee	7,765
- Others	1,133
	<u>9,326</u>
<b>Total other operating expenses</b>	<u><u>10,174</u></u>

The above expenditure includes the following statutory disclosures:-

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

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

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

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

	<b>30.6.2008 to 31.12.2008 RM'000</b>
Executive Director and Chief Executive Officer:-	
Salary and other remuneration, including meeting allowance	-
Bonuses	-
Benefits-in-kind	-
	<u>-</u>
	<u>-</u>
Non-executive Directors:-	
Fees	-
Other allowances	-
	<u>-</u>
	<u>-</u>

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**19. CEO, Directors' and Shariah Advisory Committee members' remuneration (continued)**

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

	<b>30.6.2008 to 31.12.2008 RM'000</b>
Executive Director and Chief Executive Officer:-	
RM 2,500,001 to RM 2,550,000	-
RM 1,400,001 to RM 1,450,000	-
Non-executive Directors:-	
RM 100,001 to RM 150,000	-
RM 50,001 to RM 100,000	-
Not exceeding RM 50,000	-

All other key management personnel of the Bank is part of the key management personnel of the immediate holding company, SCBMB. Hence, the key management personnel compensation of the Bank are disclosed in the financial statements of the immediate holding company.

**20. Allowance for bad and doubtful financing**

	<b>30.6.2008 to 31.12.2008 RM'000</b>
Allowance for bad and doubtful financing on financing and advances:-	
Specific allowance (net)	4,970
- Made in the financial period	5,042
- Written back	(72)
General allowance	
- Made in the financial period	850
Bad and doubtful debts on financing and advances:-	
Recovered	(31)
	<u>5,789</u>

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**21. Credit exposure to connected parties**

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

	<b>30.6.2008</b>
	<b>to</b>
	<b>31.12.2008</b>
	<b>RM'000</b>
Aggregate value of outstanding credit exposures to connected parties	19,023
As a percentage of total credit exposures	1.1%

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

**22. Significant related party transactions and balances**

**Identity of related parties**

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

The related parties of the Bank are:-

- (i) 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.
- (ii) 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.
- (iii) 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, while Note (b) discloses those relating to (ii) and (iii).

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

	<b>30.6.2008 to 31.12.2008 RM'000</b>
<b>Transactions</b>	
<b>Expenditure</b>	
I Profit paid on inter-company financing	4,592
I Management fee	7,765
	<u>12,357</u>
<b>Balances</b>	
<b>Amount due from fellow subsidiaries of Standard Chartered PLC</b>	
Current accounts	<u>4,456</u>
<b>Amount due to fellow subsidiaries of Standard Chartered PLC</b>	
Inter-company financing	(580,000)
Current accounts	(180,492)
Amount due in respect of support charges	(420)
Other balances	(510,011)
	<u>(1,270,923)</u>

**(b) Transactions and balances with key management personnel and companies under control or significant influence of key management personnel*****Key management personnel compensation***

Key management personnel compensation is disclosed in Note 19.

***Transactions and balances other than compensation***

	<b>30.6.2008 to 31.12.2008 RM'000</b>
<b>Transactions</b>	
Income from depositors' funds	
Profit on financing and advances	
- Directors	<u>2</u>
<b>Balances</b>	
Financing and advances	
- Directors	362
Deposits	
- Directors	<u>(11)</u>

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

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

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**23. Tax expense**

	<b>30.6.2008 to 31.12.2008 RM'000</b>
Income tax expense:-	
- Current period	1,572
Deferred tax expense (Note 24):-	
- Origination of temporary differences	(465)
Total tax expense	<u>1,107</u>
Reconciliation of effective tax expense:-	
Profit before taxation	<u>4,185</u>
Income tax using Malaysian tax rates @ 26%	1,089
Effects of changes in tax rate	18
Total tax expense	<u>1,107</u>
Tax recognised directly in equity:-	
AFS reserves	<u>301</u>

**24. Deferred tax**

The recognised deferred tax assets before offsetting are as follows:-

	<b>2008 RM'000</b>
General allowance for bad and doubtful financing	212
Profit equalisation reserves	253
Available-for-sale reserves	301
	<u>766</u>

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

	<b>At 30 June 2008 (date of incorporation)</b>	<b>Recognised in income statement (Note 23)</b>	<b>Recognised in equity</b>	<b>At 31 December 2008</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
General allowance for bad and doubtful financing	-	212	-	212
Profit equalisation reserves	-	253	-	253
Reserves				
- Available-for-sale	-	-	301	301
	<u>-</u>	<u>465</u>	<u>301</u>	<u>766</u>

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**25. Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share at 31 December 2008 is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:-

	<b>2008</b>
Profit attributable to ordinary shareholders (RM'000)	<u>3,078</u>
Weighted average number of ordinary shares	
Issued ordinary shares at date of incorporation	2
Effect of ordinary shares issued on 10 October 2008	22,432,432
Weighted average number of ordinary shares as at 31 December	<u>22,432,434</u>
Basic earnings per ordinary share (sen)	13.7

**26. Commitments and contingencies**

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

The commitments and contingencies are as follows:-

	<b>As at 31 December 2008</b>		
	<b>Principal amount RM'000</b>	<b>Credit equivalent amount * RM'000</b>	<b>Risk weighted amount * RM'000</b>
Direct credit substitutes	19,619	19,619	19,619
Transaction-related contingent items	4,507	2,254	1,626
Short-term self liquidating trade-related contingencies	6,067	1,213	710
Irrevocable commitments to extend credit:-			
- maturity not exceeding one year	179,299	-	-
- maturity exceeding one year	35,936	17,968	12,644
Foreign exchange related contracts:-			
- less than one year	71,262	4,278	856
- one year to less than five years	232,249	25,849	6,588
Profit rate related contracts			
- less than one year	256,495	1,030	206
- one year to less than five years	200,000	6,554	1,311
	<u>1,005,434</u>	<u>78,765</u>	<u>43,560</u>

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

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

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

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

**Credit Risk**

Credit risk arises from the possibility that a counter party may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2008, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM 10,708,000. This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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

	<b>2008</b>
	<b>RM'000</b>
Foreign exchange contracts	
- cross-currency profit rate swaps	303,511
Profit rate contracts	
- forward and future contracts	56,495
- swaps	400,000
	<u>760,006</u>



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### 27. Risk management policies

As the Bank was recently established, the risk management framework and policies used are in respect of those used by the immediate holding company. The guidelines and policies adopted by the Bank to manage the risks that arise in the conduct of the business activities are as follows:-

(a) **Operational risk**

Operational risk is the risk of a direct or indirect loss being incurred due to an event or action arising from the failure of technology, processes, infrastructure, personnel and other risks having operational risk impact.

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

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

(b) **Credit risk**

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

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

(c) **Market risk**

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

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

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

(d) **Liquidity risk**

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

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

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

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

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

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

**(e) Business risk**

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

**(f) Compliance risk**

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

**(g) Legal risk**

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

**28. Rate of return risk**

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

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**28. Rate of return risk (continued)**

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

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**29. Fair values of financial assets and liabilities**

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

	<b>Carrying value 31.12.2008 RM'000</b>	<b>Fair value 31.12.2008 RM'000</b>
<b>Financial assets</b>		
Cash and short term funds	2,585,476	2,585,476
Deposits and placements with banks and other financial institutions	200,270	200,270
Securities available-for-sale	242,072	242,072
Financing and advances *	1,388,922	1,381,547
<b>Financial liabilities</b>		
Deposits from customers	4,423,290	4,450,209
Deposits and placements of banks and institutions	627,179	627,470
Bills and acceptances payable	28,942	28,942

**Note:**

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

\* The general allowance of the Bank of RM 20,881,000 is not included in the carrying value.

**Methods and Assumptions****a) Financial Assets****(i) Cash and short term funds, deposits and placements with banks and other financial institutions**

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

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

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

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**29. Fair values of financial assets and liabilities (continued)****Methods and Assumptions (continued)**

## (iii) Financing and advances

The fair values of profit rate of financings with remaining maturity of less than one year and variable rate profit financings are estimated to approximate their carrying values. For fixed rate financings with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date offered for similar financings to new customers with similar credit profiles, where applicable. In respect of non-performing financings, the fair values are deemed to approximate the carrying values, net of profit-in-suspense and specific allowance for bad and doubtful debts and financing.

**b) Financial Liabilities**

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

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

## (ii) Bills and acceptances payable

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

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

	<b>31 December 2008</b>		
	<b>Notional principal amounts RM'000</b>	<b>Positive fair value RM'000</b>	<b>Negative fair value RM'000</b>
Foreign exchange derivative contracts:-			
- Currency swaps	303,511	9,409	9,409
Profit rate derivative contracts:-			
- Swaps	400,000	1,107	828
- Forward rate agreements	56,495	192	192
<b>Total derivatives held for trading</b>	<b>760,006</b>	<b>10,708</b>	<b>10,429</b>
		Note 8	Note 12

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**30. Capital adequacy**

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

	<b>2008</b>
	<b>RM'000</b>
<b>Tier 1 Capital</b>	
Paid-up ordinary share capital	50,000
Share premium	150,000
Other reserves	3,078
Less: Deferred tax asset	(465)
Total Tier 1 Capital	<u>202,613</u>
<b>Tier 2 Capital</b>	
General allowance for bad and doubtful financing	<u>20,881</u>
Total Tier 2 Capital	<u>20,881</u>
Total Capital Base	<u><u>223,494</u></u>

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

	<b>2008</b>	
	<b>Principal amount</b>	<b>Risk weight amount</b>
	<b>RM'000</b>	<b>RM'000</b>
0%	2,934,183	-
10%	-	-
20%	989,712	197,942
50%	112,553	56,277
100%	<u>1,415,488</u>	<u>1,415,488</u>
	<u><u>5,451,936</u></u>	<u><u>1,669,707</u></u>
		<b>2008</b>
		<b>RM'000</b>
Total risk-weighted assets		
- credit risk (as above)		1,669,707
- market risk		-
		<u><u>1,669,707</u></u>
Capital Ratios		
Core capital ratio		12.13%
Risk-weighted capital ratio		13.39%

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**31. Significant events during the financial period****Establishment of Standard Chartered Saadiq Berhad**

On 11 July 2008, the Minister of Finance had granted an Islamic Banking license to Standard Chartered Saadiq Berhad ("the Bank") and a Vesting Order had also been obtained from the High Court of Malaya for the transfer and vesting of the Islamic Banking business of SCBMB to the Bank.

The Islamic Banking business which was previously undertaken by SCBMB via an Islamic Banking window has been vested to the Bank during the period and was effected via transfer of the assets and liabilities under the Islamic Banking window to the Bank.

The net assets transferred were settled via issuance of the Bank's 50 million ordinary shares of RM4 each amounting to RM200 million and cash consideration of RM557,794,000.

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

**Assets transferred**

	<b>RM'000</b>
Cash and short term funds	1,642,305
Securities available-for-sale	243,371
Financing and advances	1,120,709
Others	5,609
	<u>3,011,994</u>

**Liabilities transferred**

Deposits from customers	2,128,874
Bills and acceptances payable	98,114
Other payables	27,212
	<u>2,254,200</u>

Net assets transferred	757,794
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**32. Comparatives**

There are no comparative figures as this is the Bank's first set of financial statements prepared since its incorporation.