

Company No. 823437K



Standard Chartered Saadiq Berhad

(Company No. 823437K)

(Incorporated in Malaysia)

**Financial statements for the financial
year ended 31 December 2016**

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the year ended 31 December 2016.

Principal activities

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

Holding companies

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

Results

	RM'000
Profit before taxation	42,812
Tax expense	<u>(10,710)</u>
Profit for the year	<u><u>32,102</u></u>

Dividends

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

Reserves and provisions

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

Bad and doubtful financing

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

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

Current assets

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

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

Valuation methods

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

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Contingent and other liabilities

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

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

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

Change of circumstances

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

Items of an unusual nature

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

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

Business plan and strategy

2016 Results

The Bank registered a pre-tax profit of RM42.81 million, a RM22.56 million increase against 2015 mainly due to lower operating expenses by 10.64% or RM14.49 million. Total income derived from investments increased by 1.80% to RM479.49 million, mainly attributable to higher income from financing and advances, while profit distributed to investment account holders increased by 72.42% to RM77.13 million and profit distributed to depositors declined by 19.8% to RM203.5 million.

The Bank's total assets declined by 19.06% to RM9.17 billion with financing and advances declining by 1.92% to RM6.60 billion during the year. Meanwhile deposits from customers declined by 13.32% to RM 2.39 billion in 2016.

Nevertheless, as at 31 December 2016, the Bank continues to be well capitalised with Common Equity Tier 1 and Risk-weighted capital ratio of 15.806% and 18.739%, respectively.

Strategy and Economic Environment

The global economy continued to grow at a moderate pace albeit some signs of improvement is seen in the major advanced economies.

The Malaysian economy remains subdued with GDP growth for 2016 expected to be in the 4-4.5% range.

The weak external demand is expected to be partially mitigated by private consumption and infrastructure projects and capital spending.

In July 2016, Bank Negara Malaysia ("BNM") reduced the Overnight Policy Rate ("OPR") to 3.00% from 3.25%. The adjustment to OPR is part of the Central Bank's measures to ensure that the domestic economy continues on a steady growth path amid stable inflation spending in the domestic front.

The Ringgit weakened sharply in fourth quarter of 2016, following market reactions to the results of the US presidential elections.

RAM Rating Services Berhad has maintained the Bank's credit rating at AAA/P1.

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Business plan and strategy (continued)

Plan for 2017

Each of the Group's three business segments has specific key priorities for 2017.

Our Retail business will continue enhancing customer value propositions while investing in technology and people and expanding our partnerships and alliances while the focus of Commercial Banking business will be to ensure a balanced and healthy portfolio supporting high growth sectors. Meanwhile, our Corporate and Institutional Banking segment will continue to align with the Standard Chartered PLC Global Banking agenda, with emphasis on elevating our client relationships through resourcing of coverage teams.

At Standard Chartered, we believe in managing our business and operations to deliver long-term value for our shareholders and society. We invest and work closely with our local communities to promote social and economic development. As a partner to communities in need, Standard Chartered leads by example in Corporate Social Responsibility ("CSR") mainly via its charity arm, the Standard Chartered Foundation ("SCF").

Asides from initiatives under SCF, Standard Chartered Bank aims to foster positive financial behaviour of young people in Malaysia through financial education. Since 2008, the Bank has reached out to over 128,000 students and youth across Malaysia through the Financial Education Programme. The Bank also actively supports the community through employee volunteering. In 2016, staff in Malaysia volunteered 1,433 days towards the community. Standard Chartered has been the title sponsor of the KL Marathon since 2009 and remains committed to raising levels of health and community participation of the nation, reflecting what lies at the heart of the Bank's values.

Statement of Corporate Governance

The Bank is committed to high standards of corporate governance and strives to continually improve the governance processes and structures as articulated in the Principles and Best Practices promulgated in the Malaysian Code on Corporate Governance 2012 (the "Code") as well as in conformity with BNM Revised Guidelines on Corporate Governance (the "BNM Guidelines") issued by BNM in August 2016. The Board is pleased to set out below how the Bank has adhered to the aforesaid principles of the Code and the extent to which the Bank has complied in all material aspects with the best practices of the Code and BNM Guidelines during the financial year ended 31 December 2016.

Board of Directors

Composition of the Board of Directors

The Board of Directors (the "Board") brings a wealth of knowledge, experience and skills in a wide range of business management, audit and accountancy, economics, finance and Islamic banking to the Board. The Board presently has seven (7) members, of which one (1) is the Executive Director, one (1) is the Non-Independent Non-Executive Director and the remaining five (5) are Independent Non-Executive Directors, hence fulfilling the prescribed requirements by BNM for the Board composition to comprise majority Independent Board members.

Members

Datuk Yvonne Chia
(appointed as Director and Chairman on 4 August 2016
and 24 February 2017 respectively)

Adhha' Amir bin Dato' Abdullah - Chief Executive Officer

Datuk Ishak bin Imam Abas

Datuk Seri Michael Yam Kong Choy

Datuk Khairil Anuar Abdullah

Mahendra Gursahani

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman
(resigned on 24 February 2017)

Status of Directorship

Independent Non-Executive Director

Non-Independent Executive Director

Independent Non-Executive Director

Independent Non-Executive Director

Independent Non-Executive Director

Non-Independent Non-Executive Director

Independent Non-Executive Director

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Board of Directors (continued)

Composition of the Board of Directors (continued)

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

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

Roles and responsibilities of the Board

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

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

Appointments to the Board

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

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

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

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Board of Directors (continued)**Frequency and attendance of each Director at Board meetings**

The Board meets regularly and has a formal schedule of matters specifically reserved for its decision. Meetings for the year are scheduled early in the year with due notice given for all scheduled meetings. During the financial year 2016, the Board met six (6) times to deliberate on and consider a variety of significant matters that required its guidance and approval. Relevant management personnel are invited to Board meetings to report and appraise the Board on financials, operations and other developments within their respective purview. Where appropriate, decisions are taken by way of circular resolutions in between scheduled meetings.

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

<u>Members</u>	<u>Attendance and Number of Board Meetings</u>
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman (resigned on 24 February 2017)	6/6
Datuk Ishak bin Imam Abas	6/6
Datuk Seri Michael Yam Kong Choy	5/6
Adhha' Amir bin Dato' Abdullah	5/6
Datuk Khairil Anuar Abdullah	6/6
Mahendra Gursahani	6/6
Datuk Yvonne Chia (appointed as Director and Chairman on 4 August 2016 and 24 February 2017 respectively)	3/3

Training and Development of Directors

During the financial year 2016, the members of the Board had received training on areas relevant to their duties and responsibilities as Directors by attending internally facilitated briefings and external seminars/talks. The Directors had also attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education ("FIDE") Forum as well as the key training programme for new Directors of the financial institution by FIDE. Besides, one new Director has undertaken an induction programme facilitated by the Company Secretary.

Training programmes, conferences and forums attended by the Directors for the financial year 2016 were as follows:

FIDE/ICLIF/FIDE Forum

- FIDE FORUM: Dialogue Session on "The New and Revised Auditor Reporting Standards: Implications to Financial Institutions"
- FIDE FORUM: Special Invitation to Industry Briefing on Directors Register Implementation
- FIDE FORUM: 1st Distinguished Board Leadership Series - "Cyber-Risk Oversight"
- FIDE Forum: Dialogue on Directors' and Officers' Liability Insurance
- FIDE Forum: Strategy to Leverage Technology for Business Solutions
- FIDE Forum: Avoiding Financial Myopia

Other External Seminars/Conferences

- Macro Market & Asset Allocation Perspectives ("MMAAPs") Internal Briefing & Dialogue Session, organised by Valuecap Sdn Bhd
- Global Research Briefing 2016, organised by Standard Chartered Bank
- Macro Market & Asset Allocation Series Briefing - "Wild Swings in the Year of the Monkey", organised by Valuecap Sdn Bhd
- SEACEN Conference on Central Bank and Mandates in Honour of Former Governor Bank of Thailand, Dr Puey Ungphakorn, organised by the SEACEN centre
- Asian Financial Services Congress 2016, organised by IDC Financial Insights
- International Symposium on Precision Medicine (Theme: the Future of Population Health), organised by Sunway University
- Macro Market & Asset Allocation Series March 2016: "Corporate Credit Outlook & Domestic Banking Sector: MARC's Perspectives", organised by Valuecap Sdn Bhd
- Macro Market & Asset Allocation Series: Creating a Robust Process for Dynamic Asset Allocation, organised by Valuecap Sdn Bhd

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Board of Directors (continued)

Frequency and attendance of each director at Board meetings (continued)

Training and Development of Directors (continued)

Other External Seminars/Conferences (continued)

- Dialogue on the Eleventh Malaysia Plan 2015-2020 and Malaysia Education Blueprint 2015-2025, co-hosted by the University Malaya and HELP University
- Invest Malaysia 2016, organised by Malayan Banking Berhad
- Advanced Business Management Programme 2016 – Global Trends and Value Creation in a Technologically and Socially Transformed World, organised by Securities Industry Development Corporation
- Forum on Widening the Talent Pool, organised by Malaysian Accounting Students Convention ("MASC") 2016 of University Malaya
- Briefing Session on Bank Negara Malaysia ("BNM") Annual Report 2015 / Financial Stability and Payments Systems Report 2015, organised by BNM
- BNM Governor 's Address on the Malaysia Economy and Panel Discussion, organised by Persatuan Ekonomi Malaysia
- CIMB 10th Annual Indonesia Conference by CIMB Bank Berhad
- Federation of Public Listed Companies Berhad ("FPLC")'s Corporate Governance, Directors' Duties and Regulatory Updates Seminar 2016, organised by FPLC
- Future Finance Conference, organised by BNM
- VinaCapital 2016 Investor Conference, organised by VinaCapital, Ho Chin Minh
- Corporate Governance Breakfast Series with Directors "Anti-Corruption & Integrity – Foundation of Corporate Sustainability"
- REHDA Mini Property Forum 2016. Looking into the Crystal. REHDA Market 2016: What to Expect?
- Breakfast Talk: Driving Performance Through Human Governance by Prof. Dr. Arfah Salleh, CEO/President, Putra Business School
- New Companies Act organised by Wong & Partners
- 2016 Global & Malaysian Economic Outlook. Another Sluggish Growth Year Through Low Risk of a Global Economic Recession by Lim Chee Seng, Chief Economist of RHB Research Institute
- Shaping the ASEAN Agenda for Inclusion & Growth organised by World Economic Forum
- The Fourth Industrial Revolution & Sustainable Growth: What Next? organised by Ernst & Young
- MAICSA Annual Conference 2016 Sustainability Shaping the Future and Appointment to serve as a member of the Finance Investment Committee 2016-2018 organised by MAICSA
- 2016 CEO Series – Forward Economic Outlook & Global Winning Real Estate Strategies in a Uncertain Market organised by REHDA
- The 19th National Housing & Property Summit 2016 "Revitalising the Housing & Property Industry – What Next for the Housing & Property Sector organised by ASLI"
- Novus Youth Arena Malaysia 2016 organised by CIDB & CIOB
- Pre-Launch Public Lecture by Professor Jeffrey Sachs (Topic: The Grand Challenges of Global Diplomacy) and The Inaugural Conference & Launch of the Jeffrey Sachs Center on Sustainable Development (Topic: Moving Decisively Forward and Sustainable Development Now!) organised by Sunway University
- Shell Talk - New Companies Bill
- Khazanah Megatrends Forum
- Dr Cordella Research
- Shell and Astro Directors training
- Economic and Leadership Forum Sunway University - The Journey So Far and The Next Steps

Internal Training Programmes

- Group Audit Committee Chairman's Call with the Subsidiary Audit Committees
- Group CEO's Call with Subsidiary Independent Directors
- Independent Directors' Briefing : Independent Review on Compliance
- First Annual Dialogue between Board Members and Syariah Advisors
- Independent Directors' Briefing : Independent Credit Review Process and Cyber Security Briefing
- Penang Branch Tour and Presentation on Conventional Bank Business in the Northern Region
- Second Annual Dialogue between Board Members and Syariah Advisors
- Group Chairman's Call with Subsidiary Independent Directors

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

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Board of Directors (continued)

Key information and background of Directors

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

(a) Datuk Yvonne Chia

Datuk Yvonne Chia was appointed as an Independent Non-Executive Director on 4 August 2016. She is currently an Independent Non-Executive Director of Standard Chartered Bank Malaysia Berhad, Shell Refining Company (Federation of Malaya) Berhad, Astro Malaysia Holdings Berhad and Silverlake Axis Limited, a company listed on the Main Board of Singapore Stock Exchange. She has also been appointed to the Board of Trustees for PEMANDU Corporation in July 2014 and for Teach For Malaysia ("TFM") Foundation in May 2015, and is a Council Member of the Asian Institute of Chartered Bankers ("AICB"). She was conferred as a Fellow Chartered Banker of AICB in November 2015. Datuk Yvonne Chia holds a Bachelor of Economics (Honours) from the University of Malaya.

(b) Datuk Ishak bin Imam Abas

Datuk Ishak bin Imam Abas was appointed as an Independent Non-Executive Director on 3 March 2010. He held various senior positions during his 26 years career with Petroliaam Nasional Berhad ("Petronas") including Deputy General Manager, Commercial of Petronas Dagangan Berhad, Senior General Manager, Finance of Petronas, Vice-President, Finance Petronas, Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad. He retired from Petronas as the Senior Vice-President in 2006 but continued to be the Chief Executive Officer of KLCC (Holdings) Sdn Bhd and KLCC Property Holdings Berhad and retired from the aforesaid executive positions in 2007. He is a fellow member of Chartered Institute of Management Accountants ("CIMA") and a member of Malaysian Institute of Accountants ("MIA").

(c) Datuk Seri Michael Yam Kong Choy

Datuk Seri Michael Yam Kong Choy was appointed as an Independent Non-Executive Director on 23 June 2011. He qualified as a professional corporate member and Fellow of the Chartered Institute of Building and also as a Fellow of the Royal Institution of Chartered Surveyors Malaysia following his graduation in building and management studies from the University of Westminster, London in 1979. He is currently the Managing Director and CEO of Impetus Alliance Advisor Sdn Bhd. He is also an independent director on the Boards of Paramount Corporation Berhad, Sunway Berhad, Malaysia Airports Holdings Berhad, Cahya Mata Sarawak Berhad and Government incorporated companies CLAB Berhad and Malaysia Property Incorporated. He is the incumbent Chairman of InvestKL Malaysia and the immediate past President of the Real Estate and Housing Developer's Association Malaysia. He also serves as a member of the Board of Trustees of Standard Chartered Charity Trust and is a director of British Malaysian Chamber of Commerce.

(d) Datuk Khairil Anuar Abdullah

Datuk Khairil Anuar Abdullah was appointed as an Independent Non-Executive Director on 5 May 2015. He is currently the Chairman of Pantai Holdings Berhad and Vice Chairman of Parkway Pantai Limited. He also chairs Valuecap Asset Management and serves on the board of Valuecap Sdn Bhd. His career spanned a diverse range of government and corporate experience in the Economic Planning Unit of the Prime Minister's Department, the Guthrie Group of Companies, Batu Lintang Rubber Company (re-listed on the Bursa Malaysia Securities Berhad as Advance Synergy Berhad) and Arthur D Little since 1973. In 1993, he joined the Securities Commission at its inception as Director for Policy and Development. He also served on the advisory committee of the Bursa Malaysia Depository Sdn Bhd and the Board of the Labuan Offshore Financial Services Authority. He then went on to serve as Executive Chairman of Malaysian Exchange of Securities Dealing & Automated Quotation Bhd (MESDAQ). Datuk Khairil holds a Bachelor of Economics from the University of Malaya and obtained a Master of Business Administration from Harvard Business School, US. He is a Fellow of the Malaysian Institute of Banks.

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Board of Directors (continued)

Key information and background of Directors (continued)

(e) Adhha' Amir bin Dato' Abdullah

Adhha' Amir bin Dato' Abdullah was appointed to the Board and as the Chief Executive Officer of the Bank on 28 November 2014. Prior to joining the Bank as CEO, Adhha spent 12 years in CIMB in various roles ranging from Corporate Finance, Equity Derivatives and Strategic Management Reporting in the Group CEO's Office. Subsequently, he spent 3 years at Bursa Malaysia Berhad as Head of Group Strategy. The last 5 years has been with Standard Chartered Malaysia – where he joined as Head, Investors & Intermediaries, Financial Institutions Group. His last position before moving to the Bank was Managing Director & Head, Public Sector Group reporting to the Country Head, Corporate and Institutional Clients. He has a Master of Philosophy from University of Cambridge, England and a Bachelor (Hons) Degree from University of Bristol, England.

(f) Mahendra Gursahani

Mahendra Gursahani was appointed to the Board on 18 November 2015 as the Non-Independent Non-Executive Director. Prior to this, he was the Chief Executive Officer of Standard Chartered Bank, Philippines. He started his career as an auditor in Hacker Young & Co and Arthur Andersen & Co in London from 1978 to 1985 before he joined American Express Bank in India in 1985. He then joined Standard Chartered Bank, India in 1987 in Credit Risk Management and was based in Sydney from 1989 to 1993 as Credit Risk Manager and Manager Special Asset Management. He moved to Singapore to take on the role as the Head of Audit, South East Asia prior to his appointments as Chief Financial Officer, Singapore in 1995. Since then, he assumed various key roles including Group Chief Financial Officer, Support Functions (1997), Chief Financial Officer, UK and Americas in London (1999-2001), Group BASEL Programme Director in London and Singapore (2001-2003) and Chief Financial Officer in Dubai (2003-2010). Mahendra is a Chartered Accountant (ACA), having qualified in London with the Institute of Chartered Accountants in England and Wales and he has a Bachelor of Commerce degree from Bombay University.

Committees

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

- a) Syariah Advisory Committee
- b) Nomination and Remuneration Committee (formerly known as Nomination Committee)
- c) Audit Committee
- d) Board Risk Committee

These committees operate under clearly defined terms of reference approved by the Board and the Board receives reports of their proceedings and deliberations. These committees have the authority to examine certain issues and report back to the Board with their recommendations. Ultimately, the Board is responsible for making the final decisions on all matters.

The Syariah Advisory Committee was set up as an Advisory Committee to the Board on Syariah matters.

a) Syariah Advisory Committee

Membership and composition

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

Dr. Hikmatullah Babu Sahib - Chairperson
Dr. Wan Azhar Wan Ahmad - Deputy Chairperson
Prof. Madya Datin Dr. Nurdianawati Irwani Abdullah
Dr. Akhtarzaite Abdul Aziz
Ustaz Abdul Latif Ahmad Subki

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Committees (continued)

a) Syariah Advisory Committee (continued)

Functions, responsibilities and terms of reference

Main Responsibilities of the Syariah Advisory Committee

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

Responsibilities of the Syariah Advisory Committee

1. To endorse, approve and review all Islamic Banking products and services offered by the Bank. The Advisers' approval is thus required on all Product Programme documents, Product Development documents, Country Addendum, Transaction Programme and the subsequent reviews of these documents.
2. To advise and review the operations of the Bank to ensure that it is in compliance with the Syariah principles.
3. To guide and review the Bank's Islamic Banking practice. The Advisers' must therefore approve all legal contracts, agreements and documentation. Similarly, all marketing materials, sales illustrations, advertisements and brochures must carry the Advisers' approval.
4. To satisfy itself that the formulated endorsement, approval, advice and guidelines are being properly undertaken by the Bank.
5. To provide guidance and advice upon request from the Bank's legal council, auditors and consultants. In addition, to provide written opinions on Syariah matters to the Bank as required from time to time.
6. To advise the Chairman of the Board on matters that require consultation from the Bank Negara Malaysia's Syariah Advisory Council and to prepare a written opinion when such matter is referred to the Council.
7. To review the terms of reference of the Syariah Advisory Committee from time to time and propose to the Board of Standard Chartered Saadiq Berhad any change that it considers appropriate.

Syariah Compliance Review

1. Suitable Syariah Compliance Manuals have been prepared and reviewed by the Committee from time to time covering all products and services introduced by the Bank to the market. The Syariah Compliance Manuals shall guide the Bank's officers and personnel in ensuring its standard operating procedures and practices are in compliance with Syariah principles.
2. The Syariah Review Unit of the Syariah Department will use the Syariah Compliance Manuals to undertake Syariah Compliance Reviews as may be required from time to time.
3. The Syariah Compliance Review Unit of the Syariah Department shall report and discuss its findings directly to the Syariah Advisory Committee.

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Committees (continued)

a) Syariah Advisory Committee (continued)

Syariah Risk Management

Syariah risk arises from the Bank's failure to comply with the Syariah rules and principles as determined by the SAC and by BNM Syariah Advisory Council. Syariah non-compliance risk is managed as part of the Bank's operational risk framework and the Bank adopts the Group's operational risk management framework to monitor and manage this risk.

Non-Syariah Income

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

Any non-Syariah income identified must be escalated to the SAC for their decision on the appropriate course of action. Compliance to the SAC's decision is tracked in Business Operational Risk Committee ("BORC").

During the financial period, there were two (2015: one) Syariah non-compliant income events being detected. Total Syariah non-compliant income for 2016 was RM347,009 comprising of one event in 2016 amounting to RM339,509 and one event detected in 2015 which was classified Syariah non-compliant income in 2016 amounting to RM7,500 (2015: RM111,848).

The RM339,509 was refunded to the customer and the remaining has been channelled to a non-profit organisation as part of channelling the Syariah non-compliant income for charity purposes.

Additional control measures to prevent recurrence include enhancing staff awareness, clear documentation of processes, controls and process improvements.

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

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

Number of meetings held

Members

Attendance and Number of Meetings

Dr. Hikmatullah Babu Sahib - Chairperson	9/10
Dr. Wan Azhar Wan Ahmad - Deputy Chairperson	10/10
Prof. Madya Datin Dr. Nurdianawati Irwani Abdullah	8/10
Dr. Akhtarzaite Abdul Aziz	9/10
Ustaz Abdul Latif Ahmad Subki	10/10

b) Nomination and Remuneration Committee

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

Membership and composition

The members of the NRC are:-

Datuk Ishak bin Imam Abas - Chairman (appointed on 1 December 2016)
Datuk Seri Michael Yam Kong Choy (appointed on 1 December 2016)
Datuk Yvonne Chia (appointed on 1 December 2016)

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

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Committees (continued)

b) Nomination and Remuneration Committee (continued)

Functions and responsibilities and terms of reference

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

The primary functions of the NRC are to assist the Board:-

- To bring to the Board recommendations as to the minimum requirements (including skills, experience, qualifications and competencies) for appointees to the Board and for the Chief Executive Officer.
- To regularly review the overall structure, size and composition (including the skills, knowledge, experience and compliance with corporate governance best practice) of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary.
- To identify and nominate for the approval of the Board, candidates to fill Board vacancies as and when they arise as well as the re-appointment of Directors, subject to such application for approval to BNM as may be required from time to time.
- To determine and implement a process for the evaluation of the performance and effectiveness of the Board, its committees and each individual Director.
- To determine the fit and proper criteria of the Directors prior to their appointment and on an annual basis.
- To support the Board in actively overseeing the design and operation of the Bank's remuneration system.
- To approve the remuneration for each director, senior management including material risk takers on annual basis and regularly review the list of material risk takers.

In 2016, prior to the set up of the NRC, the NC has made assessment for the appointment of one (1) director and was convinced that the new appointment of director would assist in achieving a mix of Board members that represents a diversity of backgrounds and experiences that would best complement the current Board effectiveness.

For 2016, the Board has adopted a self-evaluation initiative to evaluate the performance of the Board and its committees. The purpose of the evaluation is to determine whether the Board and its committees are functioning effectively and to increase the effectiveness of the Board. By including individual Directors, the evaluation is intended to capitalise on the strengths that each director brings to the Board and enhance each Director's contribution.

Number of meetings held

The Nomination Committee meets at least once a year and during the financial year 2016, the committee met three (3) times and the attendance of the NC members are as follows. There is no NRC meeting held during the financial year 2016 after its establishment.

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman (resigned on 24 February 2017)	3/3
Mahendra Gursahani - Deputy Chairman	3/3
Adhha' Amir bin Dato' Abdullah	3/3
Datuk Ishak Imam Abas	3/3
Datuk Seri Michael Yam Kong Choy	2/3

c) Audit Committee

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

Membership and composition

The members of the AC are:-

Datuk Ishak bin Imam Abas - Chairman
Datuk Khairil Anuar Abdullah
Datuk Seri Michael Yam Kong Choy

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

STANDARD CHARTERED SAADIQ BERHAD
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Committees (continued)

c) Audit Committee (continued)

Terms of Reference

The terms of reference of the AC was revised and approved by the Board on 22 September 2010, 31 July 2012 and 19 February 2014.

The primary functions of the AC are to assist the Board to:-

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

Number of meetings held

The AC meets on a quarterly basis and during the financial year 2016, the committee met four (4) times and the attendance of the members are as follows:-

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Datuk Ishak bin Imam Abas - Chairman	4/4
Datuk Khairil Anuar Abdullah	4/4
Datuk Seri Michael Yam Kong Choy	3/4

d) Board Risk Committee

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

Membership and composition

The members of the BRC are:-

Datuk Seri Michael Yam Kong Choy - Chairman
Datuk Ishak bin Imam Abas
Datuk Khairil Anuar Abdullah

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

Terms of Reference

The terms of reference of BRC was subsequently revised and approved by the Board on 13 October 2009, 31 March 2010, 22 September 2010, 31 July 2013 and 14 June 2016.

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Committees (continued)

d) Board Risk Committee (continued)

Terms of Reference (continued)

The primary functions of the BRC 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 framework and policies 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 BRC meets on a quarterly basis and during the financial year 2016, the committee met four (4) times and the attendance of the members are as follows:-

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Datuk Seri Michael Yam Kong Choy - Chairman	4/4
Datuk Ishak bin Imam Abas	3/4
Datuk Khairil Anuar Abdullah	4/4

Risk Management

The Risk Management Framework:

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

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

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

Balancing risk and return:

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

Conduct of business:

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

STANDARD CHARTERED SAADIQ BERHAD
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Risk Management (continued)

Responsibility and accountability:

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

Anticipation:

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

Competitive advantage:

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

Risk Governance

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

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

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

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

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

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

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

Flow of Authority

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

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Risk Management (continued)

Three Lines of Defence

- The First Line of defence is that all employees are required to ensure the effective management of risks within the scope of their direct organizational responsibilities.
- The Second Line of defence comprises the Risk Control Owners, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the residual risks within their scope of their responsibilities remain within Risk Tolerance and Risk Appetite boundaries. The Second Line is independent of the origination, trading and sales functions to ensure that the necessary balance and perspective is brought to risk/return decisions.
- The Third Line of defence comprises the independent assurance provided by the Internal Audit function established at the immediate holding company which has no management responsibilities for any of the activities it examines. Internal Audit provides independent assurance of the effectiveness of the First Line and of the Second Line. As a result, Internal Audit provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

Risk Function

The role of the risk function led by the Country Chief Risk Officer is:

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

Risk Tolerance

Risk Tolerance is the boundary Standard Chartered Bank Malaysia Group ("SCBMB Group") determines as the maximum level of risk the SCBMB Group is ordinarily willing to take in pursuit of its strategy, in accordance with its Risk Principles. The local Risk Tolerance Statement has been approved by the local Board in December 2016.

Stress Testing

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

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 maximise profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. This is supported by the Risk Management Framework ("RMF") described earlier, which is underpinned by policy statements, written procedures and control manuals.

STANDARD CHARTERED SAADIQ BERHAD
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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 regularly by the ultimate holding company's Internal Audit, which previously used to cover the Islamic banking operations of the immediate holding company as well. The Group Internal Audit ("GIA"), which is independent from the business operations, monitors compliance with policies and standards and the effectiveness of internal controls structures of SCBMB Group and highlights significant findings in respect of any non-compliance. The work of GIA is focused on areas of greatest risk as determined by a risk assessment approach and reports regularly to the AC. The AC reviewed the annual confirmation from the Senior Management that throughout 2016, significant risks had been regularly assessed and monitored and all major systems of internal control had been operating effectively. All material risks and losses received adequate management attention and were reported on a regular basis to the relevant committees and the Board.

The AC also reviewed and approved the annual audit plan (including Syariah audit), internal audit reports, audit recommendations made as well as the management's response to these recommendations. All medium and high risk issues are tracked and reported to AC and immediate corrective action is required.

Related Party Transactions

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

Management Report

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

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

Ratings Statement

RAM Rating Services Berhad had re-affirmed the long and short-term general bank ratings of Standard Chartered Saadiq Berhad to be AAA and P1, respectively, in October 2016.

Compliance with Bank Negara Malaysia's expectation on Financial Reporting

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

STANDARD CHARTERED SAADIQ BERHAD
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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 year in the shares of the Bank and its related corporations are as follows:-

	As at 1.1.2016	Number of shares		As at 31.12.2016
		Acquired	Disposed	
<u>In Standard Chartered PLC</u>				
<u>Ordinary shares of US\$0.50 each</u>				
Mahendra Gursahani	75,268	-	-	75,268
<u>Performance Share Award</u>				
Mahendra Gursahani	21,760	-	(10,302)	11,458
<u>Deferred Restricted Share Award</u>				
Mahendra Gursahani	9,912	102	-	10,014
Adhha' Amir bin Dato' Abdullah	937	8	(465)	480
<u>Management Long Term Incentive Plan</u>				
Mahendra Gursahani	-	90,951	-	90,951

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Bank during the financial year, other than those aforementioned.

Directors' benefits

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

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangements to which the Bank is a party whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except for shares and options awarded under the Performance Share Award, Deferred Restricted Share Award and Management Long Term Incentive Plan.

Indemnity and insurance costs

Standard Chartered Bank Malaysia Berhad, being the immediate holding company of the Bank, has granted indemnity to the Directors and officers of Standard Chartered Bank Malaysia Berhad and its subsidiaries ("SCBMB Group"). As at 31 December 2016, the total amount of indemnity given to the Directors and officers of the SCBMB Group is RM20,516,500.

Zakat Obligation

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

STANDARD CHARTERED SAADIQ BERHAD
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Auditors

The auditors, Messrs KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

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

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

.....
Datuk Yvonne Chia
Director

.....
Adhha Abdullah
Director

Kuala Lumpur
Date: 13 April 2017

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 25 to 100 are drawn up in accordance with the requirements of Companies Act, 1965 in Malaysia, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and cash flows for the year then ended.

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

.....
Datuk Yvonne Chia
Director

.....
Adhha Abdullah
Director

Kuala Lumpur
Date: 13 April 2017

Company No. 823437K

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

I, Mabel Lau Kit Cheng, the officer primarily responsible for the financial management of Standard Chartered Saadiq Berhad, do solemnly and sincerely declare that the financial statements set out on pages 25 to 100 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Mabel Lau Kit Cheng, I/C No: 770411-10-5300 in Kuala Lumpur on 13 April 2017.

.....
Mabel Lau Kit Cheng

Before me:

**Independent Auditors' Report to the members of
Standard Chartered Saadiq Berhad**

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

Report on the Financial Statements

We have audited the financial statements of Standard Chartered Saadiq Berhad, which comprise the statement of financial position as at 31 December 2016 of the Bank, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 25 to 100.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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 to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other Matter(s)

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

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

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

Petaling Jaya
Date: 13 April 2017



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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

SYARIAH ADVISORY COMMITTEE'S REPORT

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Standard Chartered Saadiq Berhad during the year ended 31 December 2016. We have also conducted our review to form an opinion as to whether the Standard Chartered Saadiq Berhad has complied with the Syariah principles and with the Syariah rulings issued by the Syariah Advisory Council of Bank Negara Malaysia, as well as Syariah decisions made by us.

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

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

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

In our opinion:

1. the contracts, transactions and dealings entered into by Standard Chartered Saadiq Berhad during the year ended 31 December 2016 that we have reviewed are in compliance with the Syariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Syariah principles;
3. all earnings that have been realised from sources or by means prohibited by the Syariah principles have been considered for disposal to charitable causes.
4. Standard Chartered Saadiq Berhad during the year ended 31 December 2016 is not required to pay *zakat* because its shareholder is non-Muslim.

We, the members of the Syariah Advisory Committee of Standard Chartered Saadiq Berhad, do hereby confirm that the operations of Standard Chartered Saadiq Berhad for the year ended 31 December 2016 have been conducted in conformity with the Syariah principles.

On behalf of the Syariah Advisory Committee

Chairman of the Syariah Advisory Committee

Dr. Hikmatullah Babu Sahib

Kuala Lumpur
Date: 13 April 2017

Deputy Chairman of Syariah Advisory
Committee

Dr. Wan Azhar Wan Ahmad

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Cash and short term funds	3	1,392,350	1,404,220
Investment securities available-for-sale	4	99,576	606,416
Financing and advances	5	6,600,489	6,730,018
Derivative financial assets	34	294,900	335,251
Other assets	7	627,453	1,972,120
Current tax assets		4,707	15,982
Statutory deposits with Bank Negara Malaysia	8	143,150	261,086
Property, plant and equipment	9	151	398
Deferred tax assets	27	5,803	1,705
Total assets		9,168,579	11,327,196
Liabilities			
Deposits from customers	10	2,389,883	2,757,058
Investment accounts of customers	11	668,677	731,155
Deposits and placements of banks and other financial institutions	12	2,590,008	3,754,834
Investment accounts due to designated financial institutions	13	1,937,198	2,465,799
Derivative financial liabilities	34	308,333	337,987
Other liabilities	14	568,696	604,013
Subordinated sukuk	15	100,000	100,000
Total liabilities		8,562,795	10,750,846
Equity			
Share capital	16	102,750	102,750
Reserves	17	503,034	473,600
Total equity attributable to owner of the Bank		605,784	576,350
Total liabilities and equity		9,168,579	11,327,196
Commitments and contingencies	31	8,365,793	11,662,874

The notes set out on pages 30 to 100 form an integral part of, and should be read in conjunction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RM'000	2015 RM'000 Restated
Income derived from investment of depositors' funds	18	305,993	347,005
Income derived from investment of investment account funds	19	98,312	56,772
Income derived from investment of shareholder's funds	20	75,182	67,224
Allowances for impairment on financing and advances	21	(34,301)	(16,054)
Total distributable income		<u>445,186</u>	<u>454,947</u>
Profit/hibah distributed to depositors	22	(203,514)	(253,736)
Profit distributed to investment account holders	23	(77,128)	(44,732)
Total net income		<u>164,544</u>	<u>156,479</u>
Other operating expenses	24	(121,732)	(136,224)
Profit before taxation		<u>42,812</u>	<u>20,255</u>
Tax expense	26	(10,710)	(5,710)
Profit for the year		<u><u>32,102</u></u>	<u><u>14,545</u></u>
Other comprehensive (expense)/income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Fair value reserve (investment securities available-for-sale):			
Net change in fair value		(2,668)	1,883
Other comprehensive (expense)/income for the year, net of income tax		<u>(2,668)</u>	<u>1,883</u>
Total comprehensive income for the year		<u><u>29,434</u></u>	<u><u>16,428</u></u>
Basic/diluted earnings per ordinary share (sen)	30	<u><u>31.2</u></u>	<u><u>14.2</u></u>

The notes set out on pages 30 to 100 form an integral part of, and should be read in conjunction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

The notes set out on pages 30 to 100 form an integral part of, and should be read in conjunction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	← <i>Non-Distributable Reserves</i> →				<i>Distributable Reserves Retained profits</i>	Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	AFS reserves RM'000	RM'000	
At 1 January 2015	102,750	308,250	102,750	(20)	46,192	559,922
Fair value reserve (investment securities available-for-sale):- Net changes in fair value	-	-	-	1,883	-	1,883
Total other comprehensive income for the year	-	-	-	1,883	-	1,883
Profit for the year	-	-	-	-	14,545	14,545
Total comprehensive income for the year	-	-	-	1,883	14,545	16,428
At 31 December 2015	102,750	308,250	102,750	1,863	60,737	576,350
	Note 16	Note 17	Note 17	Note 17	Note 17	

The notes set out on pages 30 to 100 form an integral part of, and should be read in conjunction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	2016 RM'000	2015 RM'000 Restated
Cash flows from operating activities		
Profit before taxation	42,812	20,255
Adjustments for:-		
Depreciation	292	1,612
Allowances for impairment on financing and advances	34,301	16,054
Amortisation of premium less accretion of discount on investment securities available-for-sale	(652)	(3,034)
Operating profit before working capital changes	<u>76,753</u>	<u>34,887</u>
Changes in working capital:-		
Financing and advances	95,228	350,226
Derivative financial instruments	10,697	(935)
Other assets	1,344,666	(967,550)
Statutory deposits with Bank Negara Malaysia	117,936	(9,636)
Deposits from customers	(367,175)	(728,313)
Investment accounts of customers	(62,478)	731,155
Deposits and placements of banks and other financial institutions	(1,164,826)	(1,329,004)
Investment accounts due to designated financial institutions	(528,601)	2,465,799
Other liabilities	(35,316)	248,028
Cash (used in) / generated from operations	<u>(513,116)</u>	<u>794,657</u>
Income taxes paid	<u>(2,689)</u>	<u>(7,485)</u>
Net cash (used in) / generated from operating activities	<u>(515,805)</u>	<u>787,172</u>
Cash flows from investing activities		
Purchase of investment securities available-for-sale	(100,000)	(605,000)
Purchase of property, plant and equipment	(45)	(133)
Proceeds from disposal of investment securities available-for-sale	603,980	102,660
Net cash generated from / (used in) investing activities	<u>503,935</u>	<u>(502,473)</u>
Net (decrease) / increase in cash and cash equivalents	(11,870)	284,699
Cash and cash equivalents at beginning of year	<u>1,404,220</u>	<u>1,119,521</u>
Cash and cash equivalents at end of year	<u>1,392,350</u>	<u>1,404,220</u>
Cash and cash equivalents comprise:		
Cash and short term funds (Note 3)	<u>1,392,350</u>	<u>1,404,220</u>

The notes set out on pages 30 to 100 form an integral part of, and should be read in conjunction with, these financial statements.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

Notes to the financial statements

Corporate Information

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

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

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

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

The financial statements were approved by the Board of Directors on 13 April 2017.

1. Basis of preparation of the financial statements

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs"), Companies Act, 1965 in Malaysia, and Syariah requirements.

The accounting policies adopted by the Bank are consistent with those adopted in the most recent annual financial statements for the year ended 31 December 2015, except for the adoption of the following MFRS and Amendments to MFRSs during the current financial year end:

- i) MFRS 14 *Regulatory Deferral Accounts*
- ii) *Investment Entities: Applying the Consolidation Exception* (Amendments to MFRS 10, MFRS 12 and MFRS 128)
- iii) *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to MFRS 11)
- iv) *Disclosure Initiative* (Amendments to MFRS 101)
- v) *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to MFRS 116 and MFRS 138)
- vi) *Agriculture: Bearer Plants* (Amendments to MFRS 116 and MFRS 141)
- vii) *Equity Method in Separate Financial Statements* (Amendments to MFRS 127)
- viii) *Annual Improvements to MFRSs 2012-2014 Cycle*

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

Accounting standards not yet effective

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

Amendments to MFRSs effective for annual periods beginning on or after 1 January 2017

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

(a) Statement of compliance (continued)

Accounting standards not yet effective (continued)

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

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

MFRS effective for annual periods beginning on or after 1 January 2019

i)	MFRS 16	<i>Leases</i>
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MFRSs and and Amendments to MFRSs effective for a date yet to be confirmed

i)	Amendments to MFRS 10 and MFRS 128	<i>Consolidated Financial Statements and Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
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The initial application of the abovementioned accounting standards and amendments are not expected to have any material impact to the financial statements of the Bank except as mentioned below:-

MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

MFRS 15. *Revenue from Contracts with Customers*

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

MFRS 16 *Leases*

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

The adoption of MFRS 9, MFRS 15 and MFRS 16 will result in a change in accounting policies. The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9, MFRS 15 and MFRS 16.

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

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

2. Significant accounting policies

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

(a) Financial instruments

i) *Initial recognition and measurement*

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

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

ii) Financial instrument categories and subsequent measurement

The Bank categorises financial instruments as follows:-

Financial assets

A) Financial assets at fair value through profit or loss

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

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

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

B) Investment securities held-to-maturity

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

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

C) Financing and receivables

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

D) Available-for-sale financial assets

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

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

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

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

Financial liabilities

The financial liabilities of the Bank include Deposits from customers, Deposits and placements of banks and other financial institutions, Financial derivatives and Other liabilities.

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

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

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

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

iii) Financial guarantee contracts

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

iii) Financial guarantee contracts (continued)

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

iv) Regular way purchase or sale of financial assets

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

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

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

v) Derivative financial instruments and hedge accounting

The derivative financial instruments are recognised at inception on the statement of financial position (including the transaction costs), which are usually zero or negligible at inception, and subsequent changes in fair value as a result of fluctuation in market profit rates or foreign exchange rates are recorded as derivative financial assets (favourable) and derivative financial liabilities (unfavourable).

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

The objective of applying hedge accounting is to reduce volatility in the statement of comprehensive income arising from fair valuation of derivatives. The Bank formally assess, both at the inception of the hedge and on an on-going basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items. 'Hedge effectiveness' represents the amount by which the changes in the fair value of the hedging derivatives differ from changes in the fair value of the hedged item relating to the hedged risk. Such gains or losses are recorded in current period earnings.

Fair value hedge

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

v) *Derivative financial instruments and hedge accounting (continued)*

Fair value hedge (continued)

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

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

Cash flow hedge

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

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

vi) Derecognition

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

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

vii) Offsetting

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

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

viii) Impairment of financial assets

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

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

A) Securities

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

viii) Impairment of financial assets (continued)

A) *Securities (continued)*

- *Securities carried at amortised cost (continued)*
If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.
- *Investment securities available-for-sale*
The cumulative loss that had been recognised directly in other comprehensive income shall be removed from other comprehensive income and recognised in the statement of comprehensive income 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 statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income for an investment in an equity investment classified as available-for-sale, is not reversed through the statement of comprehensive income.

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

B) *Financing and advances*

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

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

viii) Impairment of financial assets (continued)

B) Financing and advances (continued)

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

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

(b) Property, plant and equipment

i) Recognition and measurement

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

ii) Subsequent costs

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

iii) Depreciation

Depreciation on other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the estimated useful lives of the assets concerned.

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

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

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

STANDARD CHARTERED SAADIQ BERHAD
(Incorporated in Malaysia)

2. Significant accounting policies (continued)

(c) Provisions

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

(d) Cash and cash equivalents

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

(e) Impairment of other assets

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

An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus of the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus of the same asset.

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

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

(f) Staff retirement and service benefits

(i) Short-term employee benefits

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

STANDARD CHARTERED SAADIQ BERHAD
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2. Significant accounting policies (continued)

(f) Staff retirement and service benefits (continued)

(i) Short-term employee benefits (continued)

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

(ii) Share-based compensation

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

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

(g) Operating leases

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

(h) Income recognition

(i) Financing income

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

Tawarruq

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

Ijarah

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

Musharakah Mutanaqisah

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

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

STANDARD CHARTERED SAADIQ BERHAD
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2. Significant accounting policies (continued)

(h) Income recognition (continued)

(ii) Hibah

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

(iii) Other operating income

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

Service charges and processing fees are recognised when earned.

(iv) Income derived from Syariah non-compliant activities

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

(i) Tax expense

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

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

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

Deferred tax liability is recognised for all taxable temporary differences.

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

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

(j) Recognition of financing expense

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

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2. Significant accounting policies (continued)

(k) Foreign currency transactions and balances

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

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

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

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

(l) Effective profit rate

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

(m) Earnings per share

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

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

(n) Fair value measurements

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

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

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2. Significant accounting policies (continued)**(n) Fair value measurements (continued)**

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

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can assess at the measurement date.
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	unobservable inputs for the asset or liability.

3. Cash and short term funds

	2016	2015
	RM'000	RM'000
Cash and balances with banks and other financial institutions	4,839	9,308
Money at call and deposit placements maturing within one month	1,387,511	1,394,912
	<u>1,392,350</u>	<u>1,404,220</u>

4. Investment securities available-for-sale

	2016	2015
	RM'000	RM'000
<u>At fair value</u>		
Malaysian Government treasury bills	-	74,542
Bank Negara Malaysia Notes	-	49,860
Government Islamic bonds	99,576	482,014
	<u>99,576</u>	<u>606,416</u>

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5. Financing and advances**(i) By type and by contract**

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

[^] Baiⁱ comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn.

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5. Financing and advances (continued)

(i) By type and by contract (continued)

	Bai [^]	Ijarah	Ijarah Thumma Al- Bai	Murabahah	Tawarruq	Musarakah Mutanaqisah	Others	Total financing and advances
As at 31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Term financing								
- House financing	557,285	-	-	-	-	2,674,755	4,259	3,236,299
- Hire purchase receivables	-	-	154,638	-	-	-	-	154,638
- Lease receivables	-	234,699	-	-	-	-	-	234,699
- Other term financing	381,543	-	-	326,018	889,160	898,475	34,692	2,529,888
Bills receivable	169,843	-	-	6,355	108,114	-	-	284,312
Trust receipts	-	-	-	516,078	-	-	-	516,078
Staff financing	982	-	-	-	1,181	109	-	2,272
Revolving credit	-	-	-	-	574,439	-	-	574,439
	1,109,653	234,699	154,638	848,451	1,572,894	3,573,339	38,951	7,532,625
Less: Unearned income								(680,635)
Gross financing and advances								6,851,990
Less: Impairment provisions on financing and advances:-								
- Individual impairment provisions								(28,622)
- Collective impairment provisions								(93,350)
Total net financing and advances								6,730,018

[^] Baiⁱ comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn.

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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

	2016	2015
	RM'000	RM'000
Domestic non-bank financial institutions	298,625	200,895
Domestic business enterprises	2,957,681	2,835,722
<i>Small medium enterprises</i>	1,001,368	1,098,377
<i>Others</i>	1,956,313	1,737,345
Individuals	2,842,028	3,160,888
Foreign entities	608,981	654,485
	6,707,315	6,851,990

(iii) By profit rate sensitivity

	2016	2015
	RM'000	RM'000
Fixed rate		
- House financing	1,363	1,754
- Hire purchase receivables	101,619	154,638
- Other financing	1,091,654	1,433,497
Variable rate		
- House financing	3,066,795	3,234,545
- Revolving credit	725,355	538,422
- Other financing	1,720,529	1,489,134
	6,707,315	6,851,990

(iv) By sector

	2016	2015
	RM'000	RM'000
Agriculture	130,240	2,816
Mining and quarrying	239,849	181,232
Manufacturing	685,188	842,198
Electricity, gas and water	1,694	2,323
Construction	168,784	155,970
Real estate	339,622	333,684
Wholesale & retail trade and restaurants & hotels	815,775	722,879
Transport, storage and communication	73,754	100,511
Finance, takaful and business services	665,412	557,910
Household	3,344,557	3,673,703
Others	242,440	278,764
	6,707,315	6,851,990

STANDARD CHARTERED SAADIQ BERHAD

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

	2016	2015
	RM'000	RM'000
Purchase of landed property		
- Residential	2,821,086	2,947,860
- Non-residential	875,003	921,425
Fixed assets excluding land and building	95,725	147,954
Personal use	308,380	486,450
Working capital	2,607,121	2,348,301
	<u>6,707,315</u>	<u>6,851,990</u>

(vi) By maturity structure

	2016	2015
	RM'000	RM'000
Maturing within one year	1,708,542	1,236,056
One year to three years	466,481	563,235
Three years to five years	589,916	991,779
Over five years	3,942,376	4,060,920
	<u>6,707,315</u>	<u>6,851,990</u>

(vii) By geographical distribution

	2016	2015
	RM'000	RM'000
Within Malaysia	6,600,863	6,710,320
Outside Malaysia	106,452	141,670
	<u>6,707,315</u>	<u>6,851,990</u>

(viii) Analysis of foreign currency exposure

	2016	2015
	RM'000	RM'000
USD	1,051,860	1,079,059
Other foreign currencies	9,976	-
	<u>1,061,836</u>	<u>1,079,059</u>

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

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

	2016	2015
	RM'000	RM'000
At 1 January	36,817	38,121
Classified as impaired during the financial year	120,084	75,098
Reclassified as performing during the financial year	(54,623)	(12,911)
Amount recovered during the financial year	(3,408)	(13,065)
Amount written off during the financial year	<u>(41,987)</u>	<u>(50,426)</u>
At 31 December	56,883	36,817
Individual impairment provisions	<u>(26,162)</u>	<u>(28,622)</u>
Net impaired financing and advances	<u><u>30,721</u></u>	<u><u>8,195</u></u>
	2016	2015
	RM'000	RM'000
Collective impairment provisions		
At 1 January	93,350	119,038
Impairment made during the financial year	20,459	17,745
Amount written back	<u>(33,145)</u>	<u>(43,433)</u>
At 31 December	<u><u>80,664</u></u>	<u><u>93,350</u></u>
As a percentage of gross financing and advances less individual impairment provisions	<u>1.21%</u>	<u>1.37%</u>
	2016	2015
	RM'000	RM'000
Individual impairment provisions		
At 1 January	28,622	23,790
Impairment made during the financial year	74,205	65,120
Amount written back	(13,948)	(10,310)
Amount written off	<u>(62,717)</u>	<u>(49,978)</u>
At 31 December	<u><u>26,162</u></u>	<u><u>28,622</u></u>

STANDARD CHARTERED SAADIQ BERHAD

(Incorporated in Malaysia)

6. Impaired financing and advances (continued)**(ii) Impaired financing and advances by sector**

	2016	2015
	RM'000	RM'000
Manufacturing	839	1,588
Wholesale & retail trade and restaurants & hotels	6,272	1,951
Construction	455	64
Transport, storage and communication	3,537	625
Finance, takaful and business services	1,086	-
Household	41,212	32,477
Others	3,482	112
	<u>56,883</u>	<u>36,817</u>

(iii) Impaired financing and advances by purpose

	2016	2015
	RM'000	RM'000
Purchase of landed property	30,427	10,847
- Residential	25,262	9,754
- Non-residential	5,165	1,093
Fixed assets excluding land and building	2,743	859
Personal use	15,550	21,630
Working capital	8,163	3,481
	<u>56,883</u>	<u>36,817</u>

(iv) Impaired financing and advances by geographical distribution

	2016	2015
	RM'000	RM'000
Within Malaysia	<u>56,883</u>	<u>36,817</u>

7. Other assets

	2016	2015
	RM'000	RM'000
Income receivable	1,544	2,343
Other receivables, deposits and prepayments	625,909	1,969,777
	<u>627,453</u>	<u>1,972,120</u>

8. Statutory deposits with Bank Negara Malaysia

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

STANDARD CHARTERED SAADIQ BERHAD
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9. Property, plant and equipment

Cost	Premises, plant and equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Total RM'000
At 1 January 2016	5,376	3,093	3,747	12,216
Additions	45	-	-	45
Reclassification	(4)	132	(128)	-
Fully depreciated assets written off	(5,168)	(2,707)	(3,619)	(11,494)
At 31 December 2016	<u>249</u>	<u>518</u>	<u>-</u>	<u>767</u>
Accumulated depreciation				
At 1 January 2016	5,342	2,857	3,619	11,818
Charge for the year	56	236	-	292
Fully depreciated assets written off	(5,168)	(2,707)	(3,619)	(11,494)
At 31 December 2016	<u>230</u>	<u>386</u>	<u>-</u>	<u>616</u>
Net book value				
At 31 December 2016	<u>19</u>	<u>132</u>	<u>-</u>	<u>151</u>
Cost	Premises, plant and equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Total RM'000
At 1 January 2015	5,376	3,598	3,747	12,721
Additions	-	133	-	133
Fully depreciated assets written off	-	(638)	-	(638)
At 31 December 2015	<u>5,376</u>	<u>3,093</u>	<u>3,747</u>	<u>12,216</u>
Accumulated depreciation				
At 1 January 2015	4,460	3,069	3,315	10,844
Charge for the year	882	426	304	1,612
Fully depreciated assets written off	-	(638)	-	(638)
At 31 December 2015	<u>5,342</u>	<u>2,857</u>	<u>3,619</u>	<u>11,818</u>
Net book value				
At 31 December 2015	<u>34</u>	<u>236</u>	<u>128</u>	<u>398</u>

STANDARD CHARTERED SAADIQ BERHAD

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

	2016	2015
	RM'000	RM'000
Demand deposits		
- Wadiah	758,035	788,984
Savings deposits		
- Wadiah	86,787	100,000
Term deposits	1,545,061	1,868,074
- Tawarruq	1,388,369	1,651,879
- Mudharabah	21,084	88,342
Negotiable instruments of deposits		
- Bai-Inah	118,009	111,061
Structured deposits		
- Tawarruq	17,599	16,792
	<u>2,389,883</u>	<u>2,757,058</u>

(ii) By type of customers

	2016	2015
	RM'000	RM'000
Government and statutory bodies	667,230	136,057
Business enterprises	616,513	1,022,611
Individuals	644,093	1,133,045
Others	462,047	465,345
	<u>2,389,883</u>	<u>2,757,058</u>

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

	2016	2015
	RM'000	RM'000
Due within six months	1,271,162	1,334,093
Six months to one year	155,890	399,006
One year to three years	-	134,975
Three years to five years	118,009	-
	<u>1,545,061</u>	<u>1,868,074</u>

STANDARD CHARTERED SAADIQ BERHAD

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11. Investment accounts of customers

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

The placements from the Investment account of customers will be invested into (i) commodity murabahah contracts with the Bank's designated counterparty where certain commodities are bought and sold at an agreed profit, and (ii) Overnight Islamic Interbank Placement with Bank Negara Malaysia.

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

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

	2016	2015
	RM'000	RM'000
Unrestricted investment accounts		
Without maturity Mudharabah	<u>668,677</u>	<u>731,155</u>
Movement in the Unrestricted Investment Account		
As at 1 January	731,155	-
Conversion (to)/from deposits from customers	(90,122)	607,756
New placements during the year	1,289,739	834,225
Redemption during the year	(1,285,026)	(720,504)
Income from investment	30,566	12,955
Profit distributed to the Bank	(7,635)	(3,277)
As at 31 December	<u>668,677</u>	<u>731,155</u>
Investment asset:		
Commodity Murabahah Placement-i ("CMP-i")	<u>668,677</u>	<u>731,155</u>
Total investment asset	<u>668,677</u>	<u>731,155</u>

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

	2016	2015
	(%)	(%)
Unrestricted investment accounts		
Average profit sharing ratio	<u>75.02</u>	<u>74.70</u>
Average rate of return on investment	<u>4.66</u>	<u>4.67</u>

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12. Deposits and placements of banks and other financial institutions

	2016 RM'000	2015 RM'000
Non-Mudharabah		
Licensed banks	2,528,988	3,638,017
Other financial institutions	61,020	116,817
	<u>2,590,008</u>	<u>3,754,834</u>

13. Investment accounts due to designated financial institutions

	2016 RM'000	2015 RM'000
Restricted investment accounts		
Mudharabah	<u>1,937,198</u>	<u>2,465,799</u>
By type of counterparties		
Licensed bank	<u>1,937,198</u>	<u>2,465,799</u>

Movement in the Restricted Investment Account

As at 1 January	2,465,799	-
Conversion from deposits and placements of banks and other financial institutions	-	2,347,117
New placements during the year	292,173	617,680
Redemption during the year	(874,971)	(534,052)
Income from investment	67,746	43,817
Profit distributed to the Bank	(13,549)	(8,763)
As at 31 December	<u>1,937,198</u>	<u>2,465,799</u>
Investment assets:		
Financing and advances	1,082,284	1,301,759
Investment securities available-for-sale	-	401,287
Deposits and placements with banks and other financial institutions	854,914	762,753
Total investment asset	<u>1,937,198</u>	<u>2,465,799</u>

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

	2016 (%)	2015 (%)
Restricted investment accounts		
Average profit sharing ratio	<u>80.00</u>	<u>80.00</u>
Average rate of return	<u>3.11</u>	<u>3.55</u>

14. Other liabilities

	2016 RM'000	2015 RM'000
Income payable	22,587	14,011
Other payables and accruals	546,109	590,002
	<u>568,696</u>	<u>604,013</u>

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15. Subordinated sukuk

	2016	2015
	RM'000	RM'000
Subordinated sukuk	<u>100,000</u>	<u>100,000</u>

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

The Sukuk is subject to the following redemption conditions:-

- (a) the Sukuk is replaced with capital of the same or better quality, and the replacement of the same capital is effected at conditions which are sustainable for the income capacity of the Issuer; or
- (b) the Bank demonstrates that its capital position is well above BNM's capital adequacy requirements and capital buffer requirements after the redemption.

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

16. Share capital

	2016		2015	
	Amount	Number	Amount	Number
	RM'000	of shares	RM'000	of shares
		'000		'000
Ordinary share of RM1 each				
Authorised				
At 1 January/31 December	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid				
At 1 January/31 December	<u>102,750</u>	<u>102,750</u>	<u>102,750</u>	<u>102,750</u>

17. Reserves

	2016	2015
	RM'000	RM'000
<i>Non-distributable:</i>		
Share premium	308,250	308,250
Statutory reserves	102,750	102,750
AFS reserves	(805)	1,863
	<u>410,195</u>	<u>412,863</u>
<i>Distributable:</i>		
Retained profits	<u>92,839</u>	<u>60,737</u>
	<u>503,034</u>	<u>473,600</u>

The statutory reserves are maintained in compliance with Section 12 of the Islamic Financial Services Act 2013 and are not distributable as cash dividends.

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18. Income derived from investment of depositors' funds

	2016 RM'000	2015 RM'000 Restated
Income derived from investment of:-		
(i) Term deposits	207,612	281,075
(ii) Other deposits	98,381	65,930
	<u>305,993</u>	<u>347,005</u>

(i) Income derived from investment of term deposits

	2016 RM'000	2015 RM'000 Restated
Finance income and hibah		
Financing and advances	188,173	244,506
Investment securities available-for-sale	2,005	595
Money at call and deposits with financial institutions	9,813	25,074
	199,991	270,175
Amortisation of premium less accretion of discount	(5,822)	(5,048)
Total finance income and hibah	<u>194,169</u>	<u>265,127</u>
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss	19,964	28,044
Fees and commission expense:-		
- Arising from financial instruments not fair valued through profit or loss	(6,521)	(12,096)
	13,443	15,948
	<u>207,612</u>	<u>281,075</u>

(ii) Income derived from investment of other deposits

	2016 RM'000	2015 RM'000 Restated
Finance income and hibah		
Financing and advances	89,170	57,353
Investment securities available-for-sale	950	140
Money at call and deposits with financial institutions	4,650	5,881
	94,770	63,374
Amortisation of premium less accretion of discount	(2,759)	(1,184)
Total finance income and hibah	<u>92,011</u>	<u>62,190</u>
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss through profit or loss	9,460	6,578
Fees and commission expense:-		
- Arising from financial instruments not fair valued through profit or loss	(3,090)	(2,838)
	6,370	3,740
	<u>98,381</u>	<u>65,930</u>

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19. Income derived from investment of investment account funds

	2016 RM'000	2015 RM'000 Restated
Finance income and hibah		
Financing and advances	64,345	36,834
Investment securities available-for-sale	2,597	2,345
Money at call and deposits with financial institutions	31,370	17,593
	<u>98,312</u>	<u>56,772</u>

20. Income derived from investment of shareholder's funds

	2016 RM'000	2015 RM'000 Restated
Finance income and hibah		
Financing and advances	68,143	58,478
Investment securities available-for-sale	726	142
Money at call and deposits with financial institutions	3,553	5,997
	72,422	64,617
Amortisation of premium less accretion of discount	(2,108)	(1,207)
Total finance income and hibah	<u>70,314</u>	<u>63,410</u>
Other operating income		
Fees and commission income:-		
- Arising from financial instruments not fair valued through profit or loss	7,230	6,707
Fees and commission expense:-		
- Arising from financial instruments not fair valued through profit or loss	(2,362)	(2,893)
	4,868	3,814
	<u>75,182</u>	<u>67,224</u>

21. Allowances for impairment on financing and advances

	2016 RM'000	2015 RM'000
Provisions for financing:-		
Individual impairment provisions	60,257	54,810
- Made in the financial year	74,205	65,120
- Written back	(13,948)	(10,310)
Collective impairment provisions	(12,686)	(25,688)
- Made in the financial year	20,459	17,745
- Written back	(33,145)	(43,433)
Bad and doubtful debts on financing and advances:-		
Recovered	(13,270)	(13,068)
	<u>34,301</u>	<u>16,054</u>

22. Profit/hibah distributed to depositors

	2016 RM'000	2015 RM'000 Restated
Deposits from customers		
- Mudharabah fund	2,245	55,016
- Non-Mudharabah fund	56,561	43,423
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	-	85,402
- Non-Mudharabah fund	144,708	69,895
	<u>203,514</u>	<u>253,736</u>

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23. Profit/hibah distributed to investment account holders

	2016 RM'000	2015 RM'000 Restated
Investment accounts of customers	22,931	9,678
Investment accounts due to designated financial institutions	54,197	35,054
	<u>77,128</u>	<u>44,732</u>

24. Other operating expenses

	2016 RM'000	2015 RM'000
Personnel costs		
- Salaries, bonuses, wages and allowances	9,436	8,901
- Pension fund contributions	1,144	1,479
- Other staff related costs	1,778	2,653
	<u>12,358</u>	<u>13,033</u>
Establishment costs		
- Depreciation of property, plant and equipment	292	1,612
- Rental	1,602	2,019
- Information technology and project expenses	24	113
- Utilities and maintenance	4,270	3,630
	<u>6,188</u>	<u>7,374</u>
Marketing expenses		
- Advertisement and publicity	49	472
- Others	134	472
	<u>183</u>	<u>944</u>
Administration and general expenses		
- Communication expenses	162	239
- Group administration fees and business support expenses	15,892	21,901
- Management fee	81,859	88,478
- Others	5,090	4,255
	<u>103,003</u>	<u>114,873</u>
Total other operating expenses	<u>121,732</u>	<u>136,224</u>

The above expenditure includes the following items:-

	2016 RM'000	2015 RM'000
Directors' remuneration, excluding benefits-in-kind (Note 25)	1,520	1,625
Auditor's remuneration:-		
- Statutory audit	107	100
- Other services	193	196
	<u>193</u>	<u>196</u>

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25. CEO, Directors' and Syariah Advisory Committee members' remuneration

	2016	2015
	RM'000	RM'000
Directors		
- Fees	98	94
- Remuneration	1,422	1,531
- Other short-term employee benefits (including estimated monetary value of benefit-in-kind)	7	1
Total short-term employee benefits*	<u>1,527</u>	<u>1,626</u>
Syariah Advisory Committee members	<u>341</u>	<u>335</u>
	<u><u>1,868</u></u>	<u><u>1,961</u></u>

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

All other key management personnel of the Bank is similar with the key management personnel of SCBMB. Hence, the key management personnel compensation of the Bank are disclosed in the financial statements of SCBMB.

* Included in the total short term employee benefits are the Executive Director's ("ED") / Chief Executive Officer's ("CEO") remuneration and benefit-in-kind amounting to RM 1,386,400 (2015: RM 1,491,797) and RM 7,200 (2015: RM 433) respectively.

26. Tax expense

	2016	2015
	RM'000	RM'000
Income tax expense:-		
- Current period	14,261	5,087
- (Over)/Under provision in prior years	(296)	74
	<u>13,965</u>	<u>5,161</u>
Deferred tax expense (Note 27):-		
- Origination and reversal of temporary differences	(3,240)	708
- Over provision in prior years	(15)	(159)
	<u>(3,255)</u>	<u>549</u>
Total tax expense	<u><u>10,710</u></u>	<u><u>5,710</u></u>
Reconciliation of tax expense:-		
Profit before taxation	<u>42,812</u>	<u>20,255</u>
Income tax using Malaysian tax rate @ 24% (2015: 25%)	10,275	5,064
Non-deductible expenses	746	635
Effect of changes in tax rate	-	96
(Over)/Under provision in prior years		
- Income tax	(296)	74
- Deferred tax	(15)	(159)
Total tax expense	<u><u>10,710</u></u>	<u><u>5,710</u></u>
Tax recognised directly in equity:-		
AFS reserves	<u>(843)</u>	<u>595</u>

27. Deferred tax

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

	2016	2015
	RM'000	RM'000
Property, plant and equipment	252	323
Other temporary differences	5,297	1,971
Available-for-sale reserves	254	(589)
	<u><u>5,803</u></u>	<u><u>1,705</u></u>

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27. Deferred tax (continued)

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

	At 1 January 2015 RM'000	Recognised in statement of comprehensive income RM'000	Recognised in equity RM'000	At 31 December 2015 RM'000	Recognised in statement of comprehensive income RM'000	Recognised in equity RM'000	At 31 December 2016 RM'000
Property, plant and equipment	350	(27)	-	323	(71)	-	252
Other temporary differences	2,493	(522)	-	1,971	3,326	-	5,297
Reserves							
- Investment securities available -for-sale	6	-	(595)	(589)	-	843	254
	<u>2,849</u>	<u>(549)</u>	<u>(595)</u>	<u>1,705</u>	<u>3,255</u>	<u>843</u>	<u>5,803</u>
		Note 26	Note 26		Note 26	Note 26	

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28. Credit exposure to connected parties

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

	2016	2015
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	<u>363,807</u>	<u>218,356</u>
As a percentage of total credit exposures	<u>4.5%</u>	<u>2.5%</u>

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

29. Significant related party transactions and balances**Identity of related parties**

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

The related parties of the Bank are:-

(i) Immediate holding company

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

(ii) Fellow subsidiaries of Standard Chartered PLC

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

(iii) Key management personnel

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

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

These are entities in which certain key management personnel have significant voting power.

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

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29. Significant related party transactions and balances (continued)**(a) Transactions and balances with immediate holding company**

	2016	2015
	RM'000	RM'000
Transactions		
Expenditure		
Profit paid on inter-company financing	165,263	153,961
Management fee paid	81,859	88,478
	<u>247,122</u>	<u>242,439</u>
	2016	2015
	RM'000	RM'000
Balances		
Amount due from immediate holding company		
Derivative financial instruments	4,191	32,825
Other balances	619,064	1,927,051
	<u>623,255</u>	<u>1,959,876</u>
Amount due to immediate holding company		
Inter-company financing	(4,466,186)	(6,103,816)
Derivative financial instruments	(339,249)	(301,722)
Other balances	(379,940)	(464,784)
	<u>(5,185,375)</u>	<u>(6,870,322)</u>

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

	2016	2015
	RM'000	RM'000
Transactions		
Income derived from depositors' funds		
Profit received on inter-company financing	21	25
	<u>21</u>	<u>25</u>
Expenditure		
Other operating expenses	16,239	23,786
	<u>16,239</u>	<u>23,786</u>

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29. Significant related party transactions and balances (continued)**(b) Transactions and balances with fellow subsidiaries of Standard Chartered PLC (excluding immediate holding company)(continued)**

	2016 RM'000	2015 RM'000
Balances		
Amount due from fellow subsidiaries of Standard Chartered PLC		
Other balances	398	2,702
Amount due to fellow subsidiaries of Standard Chartered PLC		
Amount due in respect of support charges	(15,762)	(14,731)
Other balances	(6,770)	(10,707)
	<u>(22,532)</u>	<u>(25,438)</u>

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

Key management personnel compensation is disclosed in Note 25.

Transactions and balances other than compensation

	2016 RM'000	2015 RM'000
Transactions		
Income from depositors' funds		
Profit on financing and advances		
- Other key management personnel	58	65
Income attributable to depositors		
- Directors	19	10
- Other key management personnel	24	20
	<u>101</u>	<u>95</u>
Balances		
Financing and advances		
- Other key management personnel	1,250	1,635
Deposits		
- Directors	(1,326)	(423)
- Other key management personnel	(710)	(1,067)
	<u>(710)</u>	<u>(1,067)</u>

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

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30. Earnings per ordinary share

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

	2016 RM'000	2015 RM'000
Net profit attributable to ordinary shareholder	<u>32,102</u>	<u>14,545</u>
Weighted average number of ordinary shares as at 31 December	<u>102,750</u>	<u>102,750</u>
Basic/diluted earnings per ordinary share (sen)	<u>31.2</u>	<u>14.2</u>

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31. Commitments and contingencies

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

The commitments and contingencies are as follows:-

	As at 31 December 2016			As at 31 December 2015		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	2,817	1,463 **	536 **	1,344	1,344	301
Transaction-related contingent items	212,675	157,604 **	22,114 **	193,481	193,481	43,703
Short-term self liquidating trade-related contingencies	41,190	37,581 **	8,987 **	125,059	125,059	38,424
Irrevocable commitments to extend credit:-						
- maturity not exceeding one year	3,255,162	339,491 **	163,784 **	3,026,733	472,298 **	189,108 **
- maturity exceeding one year	404,986	93,936	80,683	859,118	110,970 **	144,228 **
Foreign exchange related contracts:-						
- less than one year	610,656	12,109	5,844 **	1,891,965	61,173 **	7,871 **
- one year to less than five years	2,335,014	193,823 **	80,677 **	2,146,412	222,202 **	149,977 **
Profit rate related contracts:-						
- one year to less than five years	1,503,293	72,086	12,718	3,385,365	124,332 **	27,768 **
Miscellaneous commitments and contingencies	-	-	-	33,397	617	64
	<u>8,365,793</u>	<u>908,093</u>	<u>375,343</u>	<u>11,662,874</u>	<u>1,311,476</u>	<u>601,444</u>

** Excluded from the credit equivalent and risk weighted amount of the Bank are RM411.0 million (2015: RM509.8 million) and RM272.2 million (2015: RM408.9 million) respectively related to exposures funded by Profit Sharing Investment Account ("PSIA") placements from SCBMB as provided by BNM's guidelines on the Booking of General and Specific Provisions for Financing Asset Funded by PSIA. The credit risk of the facilities funded by the PSIA is allowed to be transferred to SCBMB as the fund provider.

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

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32. Risk management policies

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

(a) Operational risk

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

Syariah risk is an integral part of the operational risk.

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

Objective

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

Governance Structure

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

Roles and Responsibilities

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

Risk Management Approach

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

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32. Risk management policies (continued)

(a) Operational risk (continued)

Assurance

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

(b) Credit risk

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

Executive Risk Committee

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

Risk reporting and measurement

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

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

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

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

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

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32. Risk management policies (continued)

(b) Credit risk (continued)

Credit policies

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

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

Credit approval

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

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

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

Credit concentration risk

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

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

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

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32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring

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

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

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

(i) Internal Ratings Based approach to credit risk

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

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

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

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

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32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring (continued)

(ii) Standardised approach to credit risk

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

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

(iii) Credit risk mitigation

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

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

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

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

(iv) Problem credit management

Retail Banking

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

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32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring (continued)

(iv) Problem credit management (continued)

Retail Banking (continued)

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

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

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

Corporate, Institutional and Commercial Banking

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

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

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

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32. Risk management policies (continued)

(b) Credit risk (continued)

Credit monitoring (continued)

(v) Counterparty credit risk in the trading book

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

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

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

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

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

(c) Market risk

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

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

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

The Bank has adopted the Standardised approach for market risk.

Market Risk Governance

The Board approves the Bank's market risk appetite taking into account the market volatility, the range of traded products and asset classes, business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2015.

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

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

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32. Risk management policies (continued)

(c) Market risk (continued)

Market Risk Governance (continued)

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

Value at Risk

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

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

The Bank applies two VaR methodologies:-

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and from the fourth quarter of 2012 has been extended to also cover the majority of specific (credit spread) risk VaR.
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is now applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

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

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

Back testing

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

Stress testing

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

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

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32. Risk management policies (continued)

(c) Market risk (continued)

Stress testing (continued)

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

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

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

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

Valuation framework

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

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

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

Market risk VaR coverage

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

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

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

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32. Risk management policies (continued)**(c) Market risk (continued)****Market risk VaR coverage (continued)**

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

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

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

	←	2015	→	Actual
	Average	High	Low	31 December 2015
	RM'000	RM'000	RM'000	RM'000
Non-trading	287	459	179	439

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

(d) Liquidity risk

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

Liquidity risk is managed through SCBMB's ALCO. This committee, chaired by SCBMB's Chief Executive Officer ("CEO"), is responsible for both statutory and prudential liquidity.

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

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

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

(e) Business risk

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

(f) Compliance risk

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

(g) Legal risk

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

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33. Financial instruments**Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:-

- (a) Financing and receivables ("F&R")
- (b) Fair value through profit or loss ("FVTPL")
 - Designated upon initial recognition ("DUIR")
- (c) Available-for-sale financial assets ("AFS")
- (d) Other liabilities ("OL")

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

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33. Financial instruments (continued)

2015	Carrying amount RM'000	F&R / OL RM'000	FVTPL / DUIR RM'000	AFS RM'000
<u>Financial assets</u>				
Cash and short term funds	1,404,220	1,404,220	-	-
Investment securities available-for-sale	606,416	-	-	606,416
Financing and advances	6,730,018	6,730,018	-	-
Derivative financial assets	335,251	-	335,251	-
Other balances	2,233,206	2,233,206	-	-
Total financial assets	<u>11,309,111</u>	<u>10,367,444</u>	<u>335,251</u>	<u>606,416</u>
<u>Financial liabilities</u>				
Deposits from customers	2,757,058	2,740,266	16,792	-
Investment accounts of customers	731,155	731,155	-	-
Deposits and placements of banks and other financial institutions	3,754,834	3,751,205	3,629	-
Investment accounts due to designated financial institutions	2,465,799	2,465,799	-	-
Derivative financial liabilities	337,987	-	337,987	-
Subordinated sukuk	100,000	100,000	-	-
Other balances	604,013	604,013	-	-
Total financial liabilities	<u>10,750,846</u>	<u>10,392,438</u>	<u>358,408</u>	<u>-</u>

Net gains and losses arising from financial instruments

	2016 RM'000	2015 RM'000
Investment securities available-for-sale	(7,079)	(2,335)
- recognised in other comprehensive income	(2,668)	1,883
- income from depositors' funds and others	(4,411)	(4,218)
Financing and receivables	411,273	432,795
Financial liabilities measured at amortised cost	(208,017)	(298,468)
	<u>196,177</u>	<u>131,992</u>

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33. Financial instruments (continued)**Credit risk****(i) Maximum exposure to credit risk**

The following tables present the Bank's maximum exposure to credit risk of their on-balance sheet and off-balance sheet financial instruments at 31 December 2016 and 31 December 2015, and credit exposures covered by collaterals and other credit enhancements. For on-balance sheet and other financial instruments, the maximum exposure to credit risk is the carrying amount reported on the statement of financial position. For off-balance sheet financial instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	Maximum exposures to credit risk 2016 RM'000	Credit exposures covered by collaterals and other credit enhancements 2016 RM'000	Maximum exposures to credit risk 2015 RM'000	Credit exposures covered by collaterals and other credit enhancements 2015 RM'000
On-balance sheet assets				
Money at call and deposits placements				
maturing within one month	1,387,511	-	1,394,912	-
Investment securities available-for-sale	99,576	-	606,416	-
Financing and advances	6,600,489	3,142,096	6,730,018	3,119,356
Derivative financial assets	294,900	-	335,251	-
Income receivable	1,544	-	2,343	-
Statutory deposits with Bank Negara Malaysia	143,150	-	261,086	-
	<u>8,527,170</u>	<u>3,142,096</u>	<u>9,330,026</u>	<u>3,119,356</u>
Off-balance sheet items				
Contingent commitments	256,682	21,894	319,884	11,089
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	3,660,148	97,912	3,885,851	165,437
	<u>3,916,830</u>	<u>119,806</u>	<u>4,205,735</u>	<u>176,526</u>

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33. Financial instruments (continued)**Credit risk (continued)****(ii) Offsetting financial assets and financial liabilities**

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

	Carrying amounts of recognised financial instruments in the statement of financial position RM'000	Related financial instruments that are not offset in the statement of financial position RM'000	Net amount RM'000
2016			
Derivative financial assets	<u>294,900</u>	<u>(5,481)</u>	<u>289,419</u>
Derivative financial liabilities	<u>(308,333)</u>	<u>5,481</u>	<u>(302,852)</u>
2015			
Derivative financial assets	<u>335,251</u>	<u>(38,434)</u>	<u>296,817</u>
Derivative financial liabilities	<u>(337,987)</u>	<u>38,434</u>	<u>(299,553)</u>

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33. Financial instruments (continued)**Credit risk (continued)****(iii) Summary analysis of financing and advances**

	2016	2015
	RM'000	RM'000
Individually impaired financing and advances *	30,721	8,195
Past due but not impaired financing and advances	421,697	434,175
Neither past due nor impaired financing and advances	6,228,735	6,380,998
Total financing and advances	<u>6,681,153</u>	<u>6,823,368</u>
Collective impairment provisions	<u>(80,664)</u>	<u>(93,350)</u>
	<u><u>6,600,489</u></u>	<u><u>6,730,018</u></u>

* Included in the balance is RM 21,976,000 (2015: RM 12,240,000) in respect of financing and advances where no individual impairment provisions were made as the recoverable amounts are in excess of the carrying amounts for secured financing. For unsecured financing, collective impairment provisions were made for financing for which an individual impairment provision has not been raised.

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33. Financial instruments (continued)**Credit risk (continued)****(iii) Summary analysis of financing and advances (continued)****Credit quality****Financing and advances neither past due nor impaired**

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

	2016	2015
	RM'000	RM'000
Neither past due nor individually impaired		
- Grades 1-5	1,700,196	649,881
- Grades 6-7	2,217,385	2,620,387
- Grades 8-9	1,844,119	2,177,853
- Grades 10-12	467,035	932,877
	<u>6,228,735</u>	<u>6,380,998</u>

Financing and advances past due but not individually impaired

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

	2016	2015
	RM'000	RM'000
Up to 30 days past due	359,238	364,835
Between 31 - 60 days past due	48,786	49,424
Between 61 - 90 days past due	13,673	19,916
	<u>421,697</u>	<u>434,175</u>

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33. Financial instruments (continued)**Credit risk (continued)****(iii) Summary analysis of financing and advances (continued)****Credit quality (continued)****Financing and advances past due but not individually impaired (continued)**

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

2016	Within Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Gross impaired financing and advances	56,883	-	56,883
Individual impairment provisions	26,162	-	26,162
Collective impairment provisions	80,664	-	80,664
	Within Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Gross impaired financing and advances	36,817	-	36,817
Individual impairment provisions	28,622	-	28,622
Collective impairment provisions	93,350	-	93,350

(iv) Summary analysis on securities portfolio

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

	2016 RM'000	2015 RM'000
Government securities	99,576	606,416

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33. Financial instruments (continued)**Liquidity risk**

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

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

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33. Financial instruments (continued)**Liquidity risk (continued)**

Restated As at 31 December 2015	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Financial assets					
Cash and short term funds	1,407,884	-	-	-	1,407,884
Investment securities available-for-sale	124,852	83,019	438,573	-	646,444
Financing and advances					
- Performing	934,044	565,132	1,485,178	6,005,678	8,990,032
- Impaired	-	-	-	8,195	8,195
Derivative financial assets	6,166	23,730	305,355	-	335,251
Other balances	2,233,206	-	-	-	2,233,206
	4,706,152	671,881	2,229,106	6,013,873	13,621,012
Financial liabilities					
Deposits from customers	1,576,782	1,041,984	154,622	15,824	2,789,212
Investment accounts of customers	732,873	-	-	-	732,873
Deposits and placements of banks and other financial institutions	835,720	2,963,088	4,232	-	3,803,040
Investment accounts due to designated financial institutions	2,123,904	354,843	-	-	2,478,747
Derivative financial liabilities	6,165	23,629	308,193	-	337,987
Subordinated sukuk	-	-	-	129,100	129,100
Other balances	603,468	545	-	-	604,013
	5,878,912	4,384,089	467,047	144,924	10,874,972
Net liquidity gap	(1,172,760)	(3,712,208)	1,762,059	5,868,949	2,746,040
Gross financing commitments	125,059	2,250,285	630,965	1,199,426	4,205,735

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33. Financial instruments (continued)**Market risk**

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

Profit rate risk

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

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33. Financial instruments (continued)**Market risk (continued)****Profit rate risk (continued)**

Restated As at 31 December 2015	3 months or less RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000
Financial assets						
Cash and short term funds	1,393,400	-	-	-	10,820	1,404,220
Investment securities available-for-sale	74,541	130,588	401,287	-	-	606,416
Financing and advances						
- Performing	4,024,339	627,789	1,528,475	541,220	-	6,721,823
- Impaired	-	-	-	-	8,195	8,195
Derivative financial assets	6,168	23,730	305,353	-	-	335,251
Other balances	-	-	-	-	2,233,206	2,233,206
	5,498,448	782,107	2,235,115	541,220	2,252,221	11,309,111
Financial liabilities						
Deposits from customers	1,572,893	1,026,588	143,966	13,611	-	2,757,058
Investment accounts of customers	731,155	-	-	-	-	731,155
Deposits and placements of banks and other financial institutions	831,022	2,920,183	3,629	-	-	3,754,834
Investment accounts due to designated financial institutions	2,114,116	351,683	-	-	-	2,465,799
Derivative financial liabilities	6,166	23,629	308,192	-	-	337,987
Other balances	-	-	-	-	604,013	604,013
Subordinated sukuk	-	-	-	100,000	-	100,000
	5,255,352	4,322,083	455,787	113,611	604,013	10,750,846
On-balance sheet profit sensitivity gap	243,096	(3,539,976)	1,779,328	427,609	1,648,208	
Total profit sensitivity gap	243,096	(3,539,976)	1,779,328	427,609	1,648,208	

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33. Financial instruments (continued)**Market risk (continued)**

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

Type of Currency	Impact on Positions as at Reporting Period			
	(200 basis points) Parallel Shift		(200 basis points) Parallel Shift	
	Increase/(Decline)			
	in profit before taxation 2016 RM'000	in equity 2016 RM'000	in profit before taxation 2015 RM'000	in equity 2015 RM'000
MYR	14,735	11,198	(5,216)	(3,912)
USD	(4,694)	(3,568)	(5,480)	(4,110)
EUR	1	1	-	-

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33. Financial instruments (continued)**Market risk (continued)****Foreign currency risk**

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

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

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33. Financial instruments (continued)**Market risk (continued)****Foreign currency risk (continued)**

Restated As at 31 December 2015	MYR RM'000	USD RM'000	GBP RM'000	SGD RM'000	Others RM'000	Total RM'000
Financial assets						
Cash and short term funds	1,404,220	-	-	-	-	1,404,220
Investment securities						
available-for-sale	606,416	-	-	-	-	606,416
Financing and advances	5,650,959	1,079,059	-	-	-	6,730,018
Other balances	125,070	1,712,625	-	(58,964) *	454,475	2,233,206
Derivative financial assets	162,208	166,918	6,068	57	-	335,251
	7,948,873	2,958,602	6,068	(58,907)	454,475	11,309,111
Financial liabilities						
Deposits from customers	2,630,992	123,983	-	408	1,675	2,757,058
Investment accounts of customers	731,155	-	-	-	-	731,155
Deposits and placements of banks and other financial institutions	3,476,821	278,013	-	-	-	3,754,834
Investment accounts due to designated financial institutions	1,503,514	962,285	-	-	-	2,465,799
Other balances	479,515	68,651	-	62,041	(6,194) **	604,013
Derivative financial liabilities	139,806	188,249	9,189	743	-	337,987
Subordinated sukuk	100,000	-	-	-	-	100,000
	9,061,803	1,621,181	9,189	63,192	(4,519)	10,750,846
Total foreign currency sensitivity gap	(1,112,930)	1,337,421	(3,121)	(122,099)	458,994	558,265

* Included in 'other balances' is a payable to the immediate holding company amounting to SGD 58,964,000, which will be settled net together with balances in other currencies.

** Included in 'other balances' is a past due receivable amounting to EUR 6,162,000 which will be settled net together with balances in other currencies.

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34. Fair values of financial assets and liabilities

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

	Carrying value		Fair Value	
	2016	Restated	2016	Restated
	RM'000	2015 RM'000	RM'000	2015 RM'000
Financial assets				
Cash and short term funds	1,392,350	1,404,220	1,392,350	1,404,220
Investment securities available-for-sale	99,576	606,416	99,576	606,416
Financing and advances *	6,681,153	6,823,368	6,696,156	6,741,561
Derivative financial assets	294,900	335,251	294,900	335,251
Financial liabilities				
Deposits from customers	2,389,883	2,757,058	2,395,223	2,764,549
Investment accounts of customers	668,677	731,155	668,677	731,155
Deposits and placements of banks and other financial institutions	2,590,008	3,754,834	2,590,008	3,754,834
Investment accounts due to designated financial institutions	1,937,198	2,465,799	1,937,198	2,465,799
Derivative financial liabilities	308,333	337,987	308,333	337,987
Subordinated sukuk	100,000	100,000	100,000	100,000

Note:

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

- * The collective impairment provision of the Bank of RM80,664,000 (31 December 2015: RM93,350,000) is not included in the carrying amount.

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

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

(ii) Investment securities available-for-sale

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

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

Methods and assumptions (continued)

(a) Financial assets (continued)

(iii) Financing and advances

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

(iv) Derivative financial instruments

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

(b) Financial liabilities

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

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

(ii) Investment accounts of customers and designated financial institutions

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

(iii) Derivative financial instruments

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

(iv) Subordinated sukuk

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

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34. Fair values of financial assets and liabilities (continued)**Methods and assumptions (continued)****(c) Fair value hierarchy**

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

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

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34. Fair values of financial assets and liabilities (continued)**Methods and assumptions (continued)****c) Fair value hierarchy (continued)**

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

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34. Fair values of financial assets and liabilities (continued)**Methods and assumptions (continued)****c) Fair value hierarchy (continued)**

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Restated 2015										
Assets										
Cash and short term funds	-	-	-	-	-	1,404,220	-	1,404,220	1,404,220	1,404,220
Financing and advances	-	-	-	-	-	-	6,741,561	6,741,561	6,741,561	6,823,368
Investment securities available-for-sale										
Malaysian Government treasury bills	-	74,542	-	74,542	-	-	-	-	74,542	74,542
Bank Negara Malaysia Notes	-	49,860	-	49,860	-	-	-	-	49,860	49,860
Government Islamic bonds	-	482,014	-	482,014	-	-	-	-	482,014	482,014
Derivative financial instruments	-	335,251	-	335,251	-	-	-	-	335,251	335,251
Other assets	-	-	-	-	-	1,972,120	-	1,972,120	1,972,120	1,972,120
At 31 December 2015	-	941,667	-	941,667	-	3,376,340	6,741,561	10,117,901	11,059,568	11,141,375
Liabilities										
Deposits from customers	-	16,792	-	16,792	-	2,747,757	-	2,747,757	2,764,549	2,757,058
Investment accounts of customers	-	-	-	-	-	731,155	-	731,155	731,155	731,155
Deposits and placements of banks and other financial institutions	-	3,629	-	3,629	-	3,751,205	-	3,751,205	3,754,834	3,754,834
Investment accounts due to designated financial institutions	-	-	-	-	-	2,465,799	-	2,465,799	2,465,799	2,465,799
Derivative financial instruments	-	337,987	-	337,987	-	-	-	-	337,987	337,987
Other liabilities	-	-	-	-	-	604,013	-	604,013	604,013	604,013
Subordinated sukuk	-	-	-	-	-	100,000	-	100,000	100,000	100,000
At 31 December 2015	-	358,408	-	358,408	-	10,399,929	-	10,399,929	10,758,337	10,750,846

There were no transfers between Level 1 and Level 2 in 2015 and 2016.

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

	31 December 2016			31 December 2015		
	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
Foreign exchange derivative contracts:-						
- Forward foreign exchange contracts	745,830	7,290	7,270	1,891,965	30,165	30,063
- Currency swaps	2,199,840	260,457	271,887	2,146,412	270,545	270,545
Profit rate derivative contracts:-						
- Swaps	1,503,293	27,153	29,176	2,758,759	31,500	34,338
- Options purchased	-	-	-	313,303	2,424	-
- Options sold	-	-	-	313,303	-	2,424
Commodity derivative contracts:-						
- Forward rate agreements and options	-	-	-	33,397	617	617
Total derivatives	4,448,963	294,900	308,333	7,457,139	335,251	337,987

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34. Fair values of financial assets and liabilities (continued)**Methods and assumptions (continued)****d) Derivative financial instruments (continued)****Derivative financial instruments by sector**

	31 December 2016			31 December 2015		
	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
Agriculture	-	-	-	85,836	427	1,224
Manufacturing	24,788	-	-	23,719	-	1,132
Wholesale and retail trade and restaurants and hotels	-	-	-	136,566	137	1,164
Finance, takaful and business services	3,600,768	266,499	303,719	7,211,018	334,687	334,467
Commerce	61,275	-	2,887	-	-	-
Others	762,132	28,401	1,727	-	-	-
	4,448,963	294,900	308,333	7,457,139	335,251	337,987

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35. Lease commitments

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases.

Total future minimum lease payments under non-cancellable long term commitments is as follows:-

	2016 RM'000	2015 RM'000
Less than one year	863	1,215
Between one and five years	776	344
	<u>1,639</u>	<u>1,559</u>

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

36. Capital management**(i) Capital management approach**

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

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

The capital plan takes the following into account:-

- current regulatory capital requirements and assessment of future standards;
- demand for capital due to business growth, forecasts, financing impairment outlook and market shocks or stresses; and
- available supply of capital and capital raising options.

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

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

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

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36. Capital management (continued)

(i) Capital management approach (continued)

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

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

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

(ii) Basel II

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

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

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

In Malaysia, the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) came into effect on 1 January 2008, and updated on 22 August 2016. The framework (previously known as Capital Adequacy Framework for Islamic Banks) sets out the approaches for the computation of Risk-Weighted Asset (RWA) for Islamic banking institutions. The framework forms part of the overall capital adequacy framework for Islamic banking institutions, hence should be read alongside: Capital Adequacy Framework for Islamic Banks (Capital Components); and Investment Account Guidelines.

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

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37. Capital adequacy

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

	2016	2015
	RM'000	RM'000
Tier 1 Capital		
Paid-up ordinary share capital	102,750	102,750
Share premium	308,250	308,250
Other reserves	195,589	163,487
Less: Deferred tax asset	(5,663)	(2,029)
Excess of Expected Loss over Eligible Provisions under AIRB approach	-	(14,971)
Unrealised (gains)/losses on 'available-for-sale' financial instruments	(805)	838
Common Equity Tier ("CET") 1 and Eligible Tier 1 capital	<u>600,121</u>	<u>558,325</u>
Tier 2 Capital		
Islamic subordinated sukuk	100,000	100,000
Collective impairment provisions	4,169	9,826
Surplus of total Eligible Provisions over total Expected Loss under AIRB approach	<u>7,187</u>	<u>-</u>
Eligible Tier 2 capital	<u>111,356</u>	<u>109,826</u>
Total Capital Base	<u><u>711,477</u></u>	<u><u>668,151</u></u>

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

	2016	2015
	RM'000	RM'000
Total risk-weighted assets		
- credit risk	3,446,093	3,896,048
- operational risk	<u>350,763</u>	<u>356,681</u>
	<u><u>3,796,856</u></u>	<u><u>4,252,729</u></u>
	2016	2015
CET 1 capital ratio	15.806%	13.129%
Tier 1 capital ratio	15.806%	13.129%
Risk-weighted capital ratio	18.739%	15.711%

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38. Sources and uses of charity funds

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

	2016	2015
	RM'000	RM'000
Sources of charity funds		
Balance as at 1 January	112	-
Syariah non-compliant income	<u>7</u>	<u>112</u>
Total sources of charity funds during the year	<u><u>119</u></u>	<u><u>112</u></u>
Uses of charity funds		
Contribution to non-profit organisation	<u>(119)</u>	<u>-</u>
Total uses of charity funds during the year	<u><u>(119)</u></u>	<u><u>-</u></u>
Undistributed charity funds as at 31 December	<u>-</u>	<u>112</u>

39. Comparative figures

For the financial year ended 31 December 2016, the Bank is required to disclose its 'Income derived from investment of funds' into the various categories of 'Income derived from investment of depositors' funds, investment account funds and shareholder's funds'.

For the financial year ended 31 December 2015, 'Income derived from investment of investment account funds' due to designated financial institutions in the Statement of Comprehensive Income was shown on a net basis of income from investment, less profit distributed to investment account holders. In 2016, the Bank decided to present the gross balances in line with the presentation of the related investment account assets and liabilities in 'Financing and advances' and 'Investment accounts due to designated financial institutions' in the Statement of Financial Position.

Arising from the above, the Bank amended certain prior year comparative figures to conform to the current year's presentation, as follows:

Statement of comprehensive income for the year ended 31 December 2015

	As previously reported	Re-classification	As restated
	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	296,371	(296,371)	-
Income derived from investment of depositors' funds	-	347,005	347,005
Income derived from investment of investment account funds	-	56,772	56,772
Income derived from investment of shareholder's funds	132,206	(64,982)	67,224
Profit/hibah attributed to depositors	(248,419)	(5,317)	(253,736)
Profit distributed to investment account holders	<u>(7,625)</u>	<u>(37,107)</u>	<u>(44,732)</u>