Standard Chartered Saadiq Berhad

Pillar 3 Disclosures
31 December 2014

Incorporated in Malaysia with registered Company No. 823437K

Registered Office and Principal Place of Businesses

Level 16, Menara Standard Chartered
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1. Overview

Basel II

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

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

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

In Malaysia, the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) came into effect on 1 January 2008, last updated on 27 June 2013. 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 Guidelines on Recognition and Measurement of Profit Sharing Investment Account as Risk Absorbent.

Bank Negara Malaysia ("BNM") has formally approved Standard Chartered Saadiq Berhad ("SCSB") or ("the Bank") to use the 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 obtained from BNM in May 2013 for the use of TSA approach for calculating and reporting operational risk. Effective September 2013, the Bank commenced the use of TSA approach for calculating and reporting operational risk capital requirement.

2. Capital management

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 and to maintain good credit ratings.

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.

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 model 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 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.

2. Capital management (continued)

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.

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 (Internal Capital Adequacy Assessment Process ("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 34 to the financial statements. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

3. Risk management

Risk management is the set of end-to-end activities through which we make risk-taking decisions and we 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 maximize the interests of shareholders and other stakeholders.

Through the Risk Management Framework, the Bank manages enterprise-wide risks. One of the main risks incurred arises from extending credit to customers through financing and trading operations. Beyond credit risk, the Bank is also exposed to a range of other risk types such as market, operational, Syariah, liquidity, reputational and other risks which are inherent to the Bank's strategy and the business the Bank has chosen to participate in.

As part of this framework, the Bank uses a set of principles that describe the risk management culture it wishes to sustain:

- **Balancing risk and return**: risk is taken in support of the requirements of stakeholders, in line with the Bank's strategy and within the Bank's risk appetite;
- **Responsibility**: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. The Bank takes account of its social responsibilities and its commitments to customers in taking risk to produce a return;
- **Accountability**: risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported;
- **Anticipation**: to anticipate future risks and ensure awareness of all known risks;
- **Competitive advantage**: seek competitive advantage through efficient and effective risk management and control.

3. Risk management (continued)

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 delegates authority for the management of risk to several committees.

Acting with an authority delegated by the Board, the Board Risk Committee (BRC) has oversight over risk management framework and senior management activities in managing and controlling all risks. BRC is chaired by and consists only of non executive directors.

Executive Committee ("EXCO"), through its authority delegated by the Board, is responsible for executing strategy as approved by the Board and to ensure robust control environment. EXCO is also responsible for the management of pension and strategic risks.

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 Bank's liquidity and capital adequacy.

The Executive Risk Committee ("ERC") with its authority delegated by EXCO, shall hold executive responsibility for risk management and control of all risks, except those for which EXCO and ALCO have direct responsibilities. The ERC is also responsible for defining the Bank's overall risk management framework.

ERC ensures the effective management of risk throughout the Bank in support of business strategy. The ERC must ensure that risks within the entity are managed effectively within the constraints set by the Bank.

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

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 organizational levels.

Three Lines of Defence

- The first line of defence is that all employees are required to ensure the effective management of risks within the scope of their direct 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 appetite. The second line is independent of the origination, trading and sales functions to ensure that the necessary balance and perspective is brought to risk/return decisions.

3. Risk management (continued)

Three Lines of Defence (continued)

- The third line of defence comprises the independent assurance provided by the Internal Audit function of the Group Internal Audit ("GIA") established at the immediate holding company which has no responsibilities for any of the activities it examines. GIA provides independent assurance of the effectiveness of the management's control of its own business activities (first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

Risk Function

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

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

Risk Appetite

The Standard Chartered PLC Group's Risk Appetite Statement (RAS) is the Standard Chartered PLC's Board of Directors' articulation of the amount of risk that the Standard Chartered PLC Group is willing to take in the pursuit of its strategic goals, reflecting its capacity to sustain losses and continue to meet its obligations arising from a range of different stress trading conditions.

At country level, a local RAS was developed and approved by the Board in April 2014. Risk appetite assessment and monitoring is performed to evidence compliance with the local RAS.

Stress Testing

Stress testing and scenario analysis are used to assess the capability of the Bank 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 customer segments, as a result of developments in the market. Stress testing results are tabled with ERC for approval.

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4. Regulatory capital requirement

Disclosure on capital adequacy under the Standardised and IRB approach

31 December 2014 **Exposure class**	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk weighted assets RM'000**	**Risk weighted assets absorbed by PSIA RM'000**	**Total risk weighted assets after effects of PSIA RM'000**	**Minimum Capital requirement at 8% RM'000**
(a) Credit risk						
Exposures under the Standardised approach						
On-balance sheet exposures:-						
Corporates	20,422	20,422	20,422	-	20,422	1,634
Regulatory retail	788	788	639	-	639	51
Other assets	299,204	299,204	286,545	-	286,545	22,924
Defaulted exposures	24	24	37	-	37	3
Total on-balance sheet exposures	320,438	320,438	307,643	-	307,643	24,612
Off-balance sheet exposures:-						
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	22,128	20,346	20,346	-	20,346	1,628
Total off-balance sheet exposures	22,128	20,346	20,346	-	20,346	1,628
Total on and off-balance sheet exposures	342,566	340,784	327,989	-	327,989	26,240
Exposures under the IRB approach						
On-balance sheet exposures:-						
Sovereigns/central banks	1,455,130	1,455,130	68,383	-	68,383	5,471
Parent bank, Islamic banks, development financial institutions & multilateral development banks ("MDBs")	1,384,088	1,384,088	123,085	-	123,085	9,847
Takaful companies, Syariah compliant securities firms & fund managers	854,147	854,147	91,810	-	91,810	7,345
Corporates	2,249,363	2,247,333	1,822,393	(610,960)	1,211,433	96,915
Home financing	2,580,429	2,580,429	753,375	-	753,375	60,270
Other retail	1,159,424	1,161,454	836,886	-	836,888	66,951
Defaulted exposures	115,783	115,783	319,912	-	319,912	25,593
Total on-balance sheet exposures	9,798,364	9,798,364	4,015,844	(610,960)	3,404,886	272,392
Off-balance sheet exposures:-						
OTC derivatives	258,439	258,439	120,207	(7,294)	112,913	9,033
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	1,237,514	1,237,514	495,020	(6,942)	488,078	39,046
Total off-balance sheet exposures	1,495,953	1,495,953	615,227	(14,236)	600,991	48,079
	11,294,317	11,294,317	4,631,071	(625,196)	4,005,877	320,471
(b) Large exposures risk requirement			-	-	-	-
(c) Market risk			-	-	-	-
(d) Operational risk (Standardised approach)			383,234	-	383,234	30,659
Total RWA and capital requirements			5,342,294	(625,196)	4,717,100	377,370

CET 1, Tier 1 and risk-weighted capital ratios

	Before effect of PSIA	After effect of PSIA
CET 1 capital ratio	10.10%	11.44%
Tier 1 capital ratio	10.10%	11.44%
Risk-weighted capital ratio	12.15%	13.76%

4. Regulatory capital requirement (continued)

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

31 December 2013 **Exposure class**	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk weighted assets RM'000**	**Risk weighted assets absorbed by PSIA RM'000**	**Total risk weighted assets after effects of PSIA RM'000**	**Minimum Capital requirement at 8% RM'000**
(a) Credit risk						
Exposures under the Standardised approach						
On-balance sheet exposures:-						
Corporates	19,553	19,553	19,553	-	19,553	1,564
Regulatory retail	1,168	1,168	931	-	931	74
Other assets	186,977	186,977	172,969	-	172,969	13,838
Defaulted exposures	25	25	38	-	38	3
Total on-balance sheet exposures	207,723	207,723	193,491	-	193,491	15,479
Off-balance sheet exposures:-						
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	18,135	16,947	16,947	-	16,947	1,356
Total off-balance sheet exposures	18,135	16,947	16,947	-	16,947	1,356
Total on and off-balance sheet exposures	225,858	224,670	210,438	-	210,438	16,835
Exposures under the IRB approach						
On-balance sheet exposures:-						
Sovereigns/central banks	2,242,172	2,259,698	106,554	-	106,554	8,524
Parent bank, Islamic banks, development financial institutions & multilateral development banks ("MDBs")	1,081,262	1,081,262	96,205	-	96,205	7,696
Takaful companies, Syariah compliant securities firms & fund managers	200,836	200,836	49,604	-	49,604	3,968
Corporates	1,700,444	1,682,494	1,456,001	(675,948)	780,053	62,404
Home financing	1,607,718	1,607,718	458,618	-	458,618	36,689
Other retail	1,379,396	1,379,820	1,431,580	-	1,431,580	114,526
Defaulted exposures	106,711	106,711	272,331	-	272,331	21,786
Total on-balance sheet exposures	8,318,539	8,318,539	3,870,893	(675,948)	3,194,945	255,593
Off-balance sheet exposures:-						
OTC derivatives	20,934	20,934	9,871	-	9,871	790
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	1,712,451	1,712,451	566,371	(2,367)	564,004	45,120
Total off-balance sheet exposures	1,733,385	1,733,385	576,242	(2,367)	573,875	45,910
Total on and off-balance sheet exposures	10,051,924	10,051,924	4,447,135	(678,315)	3,768,820	301,503
(b) Large exposures risk requirement			-	-	-	-
(c) Market risk			-	-	-	-
(d) Operational risk (Basic indicator approach)			367,218	-	367,218	29,377
Total RWA and capital requirements			5,024,791	(678,315)	4,346,476	347,715

CET 1, Tier 1 and risk-weighted capital ratios

	Before effect of PSIA	After effect of PSIA
CET 1 capital ratio	9.79%	11.31%
Tier 1 capital ratio	9.79%	11.31%
Risk-weighted capital ratio	11.87%	13.72%

5. Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the bank 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.

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. Policies and procedures that are specific to each client or product segment are established by authorised bodies. These are consistent with the Standard Chartered PLC Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics.

Risk reporting and measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk-taking and portfolio management decisions. It is a primary area for sustained investment and senior management attention.

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

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

Credit approval

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

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

Credit Concentration risk

Credit concentration risk is managed within concentration caps set by counterparty or groups of connected counterparties. At the portfolio level, credit concentration thresholds are set and monitored to control for concentrations, where appropriate, by country, industry, product, tenor, collateral type, collateralisation level and credit risk profile. Additional targets are set and monitored for concentrations by credit rating. Credit concentrations are monitored by the ERC.

Section 5.1 provides further analysis on the Bank's credit risk exposures.

5. 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 Committe ("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 GSAM, the specialist recovery unit. Typically, all Corporates, Institutional and Commercial past due accounts are managed by GSAM.

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 PD, LGD, 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. RWA under the IRB approach is determined by BNM's 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 is covered in more detail in Section 5 (iv).

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.

(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 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.

5. Credit risk (continued)

Credit monitoring (continued)

(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 insurance/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, insurance/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 is maintained at fair value.

For further information regarding credit risk mitigation in the trading book see Section 5 (vii).

The credit risk mitigation policy sets out clear criteria that must be satisfied if the mitigation is to be considered effective including:-

- Excessive exposure to any particular risk mitigants or counterparties should be avoided;
- Risk mitigants should not be correlated with the underlying assets such that default would coincide with a lowering of the Forced Sale Value ("FSV") of the collateral;
- Where there is a currency mismatch, haircuts should be applied to protect against currency fluctuations;
- Legal opinions and documentation must be in place; and
- Ongoing review and controls exist where there is a maturity mismatch between the collateral and exposure.

For all credit risk mitigants that meet the policy criteria, a clear set of procedures are applied to ensure that the value of the underlying collateral is appropriately recorded and updated regularly.

Regular valuation of collateral is required in accordance with Standard Chartered PLC Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types.

Section 5.2 provides further analysis on the Bank's credit risk exposures after the effect of CRM.

5. Credit risk (continued)

Credit monitoring (continued)

(iv) Internal Ratings Based models

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

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

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

Model governance

The IRB models used by the Bank calculate PD, LGD and EAD.

Models are developed by Standard Chartered PLC Group's analytics team within the Risk Measurement function. The model development process is conducted and documented in line with specific criteria setting out the minimum standards for model development. All IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Model validation findings are presented to the Standard Chartered PLC Group Credit Model Assessment Committee ("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.

These decision making bodies are comprised of divisional senior management whose role is to challenge model assumptions and performance and agree on appropriate model use for business decision making and regulatory capital requirement calculations. The Standard Chartered PLC Group Risk Committee and Board Risk Committee periodically review overall model performance.

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

Model validation

The model validation process involves a qualitative and quantitative assessment of the model, data, systems and governance. This would typically include an assessment of the:-

- Model assumptions;
- Validity of the technical approach used;
- Statistical and empirical measures of performance;
- Appropriateness of intended model use;
- Model application and infrastructure;
- Data integrity and history;
- Model response to changes in internal and external environment - the extent to which the model provides point in time or through the cycle measures of risk;
- Model monitoring standards and triggers; and
- Levels of conservatism applied.

5. Credit risk (continued)

Credit monitoring (continued)

(iv) Internal Ratings Based models (continued)

Statistical testing is used to determine a model's discriminatory power, predicted versus realised performance and stability over time with pre-defined thresholds for passing such tests.

PD model development

Standard Chartered PLC Group employs a variety of techniques to develop its PD models. In each case the appropriate approach is dictated by the availability and appropriateness of both internal and external data.

If there is a perceived weakness in the data, for example shorter histories or fewer instances of default, an appropriate amount of conservatism is applied to predicted default rates.

The general approaches fall into three categories:-

Default History Based ('Good-Bad') – where a sufficient number of defaults are available, Standard Chartered PLC Group deploys a variety of statistical methods to determine the likelihood that counterparties would default on existing exposures. These methods afford very high discriminatory power by identifying counterparty characteristics that have a significant predictive ability. The majority of the Group's retail and corporate exposures are rated under such an approach.

Shadow Rating Approach – if it is determined that Standard Chartered PLC Group's internal data does not provide a sufficient default history (for example, so called 'low default portfolios'), then Standard Chartered PLC Group develops models which are designed to be comparable to the ranking of issuer ratings assigned by established ECAIs, where those agencies have access to large databases of defaults over a long time period on a variety of credit obligations.

Constrained Expert Judgement – for certain types of exposure there is little or no internal or external default history, and no reliable external ratings. In such rare cases, SCB Group has quantitative frameworks to incorporate expert opinions of Standard Chartered PLC Group's credit risk management personnel into the model development process.

LGD model development

Standard Chartered PLC Group develops LGD models by assessing recoveries and the forced sale value of collateral together with the economic costs in securing these recoveries, and the timing with which such cash flows occur. All such cash flows are then measured at net present value using a suitable discount rate to derive a recovery rate. LGD is therefore the EAD less these estimated recoveries.

Recoveries are estimated based upon empirical evidence which has shown that factors such as customer segment and product have predictive content.

All LGD models are conservatively calibrated to a 'downturn' – with lower collateral values and lower recoveries on exposures, compared to those estimated over the long run.

5. Credit risk (continued)

Credit monitoring (continued)

(iv) Internal Ratings Based Models (continued)

EAD model development

An EAD model is developed for uncertain exposures such as lines of credit, credit cards, overdrafts and other commitments. Based on Standard Chartered PLC Group's experience (and supplemented by external data), EAD models assess changes to limits and the likely draw-down of undrawn committed and uncommitted limits as an exposure approaches default. The factor generated by the model and applied to the undrawn limit is referred to as the Credit Conversion Factor (CCF).

Standard Chartered PLC Group has used conservative assumptions in assessing EAD, in keeping with the expected experience in an economic downturn.

Model use

In addition to supporting credit decisions, IRB models also support risk-based pricing methodologies and measures used to assess business performance.

The use of models is governed by a suite of policies:

- The credit grading policy and procedure which defines the applicability of each model, details the procedure for use and sets the conditions and approval authority required to override model output; and
- The Standard Chartered PLC Group's Model Risk Policy specifies that models are subject to regular monitoring and review with underlying Standard Chartered PLC Group's Model Standards for IRB Credit Risk Models specifying statistical thresholds and other triggers which determine when models need to be redeveloped.

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

Corporates, Institutional and Commercial model results

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

IRB PD estimates are computed as of 1 January 2014 and are compared with default observations through 31 December 2014. Since the historical default experience for institutions, central governments or central banks has been minimal, the predicted PD for these asset classes has been minimal.

The calculation of realised versus predicted loss given default ("LGD") is affected by the fact that it may take a number of years for the workout process to be completed. To address this, our approach for corporates and institutions is based on a four-year rolling period of predicted and realised LGD, which for the current reporting year includes 2011 to 2014 defaults that have completed their workout process as at the end of 2014. However, there have been no defaulted cases since the Bank started its operations in October 2008 for corporates, institutions, central governments or central banks making it therefore not meaningful to compute the realised versus predicted outcomes for this period.

Exposures at default ("EAD") takes into consideration the potential drawdown of a commitment as an obligor defaults by estimating the Credit Conversion Factor of undrawn commitments. For assets which defaulted in 2014, the comparison of realised versus predicted EAD is summarised in the ratio of the EAD one year prior to default to the outstanding amount at time of default. No ratio is reportable for corporate, institutions and central governments or central banks given there was no default in 2014.

The Corporate SME consists primarily of secured business term financing, ODs and trade facilities. Predicted PD was computed as at 31 December 2013 and compared to the actual default observations over a one year period ended 31 December 2014. Portfolio size remained stable and default pool has been minimal, as such the observed default rate is lower than the predicted default rate. The realised LGD for Corporate SME was lower than predicted LGD and no material difference between predicted EAD as compared to realised EAD.

	Predicted PD %	Observed PD %	Predicted LGD %	Realised LGD %	Predicted EAD/ Realised EAD
IRB exposures					
Central governments or central banks	0.0%	0.0%	NA	NA	-
Institution	0.1%	0.0%	NA	NA	-
Corporates	1.0%	0.0%	NA	NA	-
Corporate SME	4.9%	2.6%	33.4%	28.1%	1.4

5. Credit risk (continued)

Credit monitoring (continued)

(iv) Internal Ratings Based Models (continued)

Retail model results

Retail models have been developed for majority of its portfolios. Predicted PD was computed as at 31 December 2013 and compared to the actual default observations over a one year period ending 31 December 2014.

The observed default rate for home financing asset class is lower than the predicted PD, however, this is not the case with other retail asset class, which comprises of residential properties under construction and unsecured personal term financing. The observed higher default rate for Other Retail assets class as compared to the predicted PD is attributed primarily to personal financing exposures, for which a series of portfolio initiatives has been implemented to manage this exposure. New Basel model and scorecards are being redeveloped to avoid the under-prediction issue for personal financing exposures.

The realised LGD for home financing was higher than predicted LGD due to small number of defaults that caused volatility in the realised LGD.

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

	Predicted PD %	Actual PD %	Predicted LGD %	Actual LGD %	Predicted EAD/ Actual EAD
IRB exposures					
Home Financing	4.4%	1.7%	13.8%	15.0%	1.1
Other retail exposures *	10.5%	12.5%	94.2%	67.8%	1.2

** Observed default rate excluding small balance defaults in personal financing exposures*

Actual losses

The table below shows net individual impairment charges raised and write off during the financial year of 2014 versus 2013 for IRB exposure classes. The net individual impairment charge is a point in time actual charge raised in accordance with accounting standards that require the Bank to either provide for or write-off debts when certain conditions are met.

	31 December 2014 Actual losses RM'000	31 December 2013 Actual losses RM'000
Home financing	1,140	735
Other Retail	77,946	101,648
	79,086	**102,383**

The lower actual loss as compared to the corresponding period was in line with the reduction in personal financing.

5. Credit risk (continued)

Credit monitoring (continued)

(v) Risk grade profile

Exposures by internal credit grading

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

The Bank's credit grades in Corporates, Institutional and Commercial clients are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining internal credit grades. Nonetheless, as the factors used to grade a customer may be similar, a customer rated poorly by an ECAI is typically expected to be assigned a weak internal credit grade.

As a guide, the table below presents the Bank's credit grades corresponding to that of Standard and Poor's credit ratings.

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

* Represents corporates/non-bank financial institutions.

5. Credit risk (continued)

Credit monitoring (continued)

(v) Risk grade profile (continued)

Credit grades for Retail Clients accounts covered by IRB models are based on a probability of default. These models are based on application and behavioural scorecards which make use of credit bureau information as well as Bank’s internal data.

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

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

- Credit Approval and Decision – The level of authority required for the sanctioning of credit requests and the decision made is based on PD, LGD, EL and EAD of the obligor with reference to the nominal exposure;
- Pricing – In Corporates, Institutional and Commercial clients, a pre-deal pricing calculator is used which takes into consideration PD, LGD and EAD in the calculation of expected loss and economic capital for the proposed transactions to ensure appropriate return. Retail Clients pricing considers obligor's risk profile (as it takes into account the financing size and customer segment), pricing regulations if any, and competition in the market place;
- Limit Setting – In Corporates, Institutional and Commercial clients concentration limits for some portfolios, as counterparty limits are determined by PD, LGD and EAD. The limits operate on a sliding scale to ensure that the Bank does not have over concentration of low credit quality assets. The Bank's concentration risk monitoring dashboard utilises IRB Model output such as credit grades, PD, LGD and EADs. In Retail Clients, portfolio limits are based on recession loss;
- Provisioning – Collective Impairment Provision ("CIP") are raised at the portfolio level and are set with reference to expected loss which is based on PD, LGD and EAD amongst other qualitative and quantitative factors;
- Risk Appetite assessment – PD, LGD and EAD models provide some of the key inputs into the risk-based methodologies used in the assessment of business and market variables which in turn are key components in the approach taken in setting Risk Appetite assessment; and
- Economic Capital – PD, LGD and EAD are key components of the model in credit risk economic capital calculation.

(vi) Problem credit management and provisioning

Retail Clients

In Retail Clients, 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 Clients, 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.

Provisioning within Retail Clients reflects the fact that the product portfolios consist of a large number of comparatively small exposures. A 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. Secured financing IIP 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 120 days past due (secured), respectively.

5. Credit risk (continued)

Credit monitoring (continued)

(vi) Problem credit management and provisioning (continued)

Corporates, Institutional and Commercial Clients

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 the specialist recovery unit, GSAM, which is separate from our main businesses. Where any amount is considered irrecoverable, an individual impairment provision 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 Clients, 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 Corporates, Institutional and Commercial and Clients, 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.

Section 5.5 provides further analysis on the Bank's exposures on problem credit management and provisioning.

(vii) 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.

Credit reserves

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

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

Wrong way risk

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

5. Credit risk (continued)

Credit monitoring (continued)

(vii) Counterparty credit risk in the trading book (continued)

<u>Exposure value calculation</u>

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

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

5. Credit risk

5.1 Exposure values

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

Geographical analysis

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

31 December 2014	Malaysia RM'000	Others RM'000	Total RM'000
IRB exposures			
Sovereigns/Central banks	1,455,130	-	1,455,130
Parent bank, Islamic banks, development financial institutions & MDBs	1,509,808	106,153	1,615,961
Takaful companies, Syariah compliant securities firms & fund managers	878,257	-	878,257
Corporate exposures (excluding specialised financing and firm-size adjustment)	2,157,530	144,462	2,301,992
Corporate exposures (with firm-size adjustment)	529,874	2,069	531,943
Specialised financing	40,048	-	40,048
Retail exposures	4,470,986	-	4,470,986
Home financing	*3,085,500*	-	*3,085,500*
Other retail exposures	*1,385,486*	-	*1,385,486*
Total IRB exposures	**11,041,633**	**252,684**	**11,294,317**
Standardised exposures			
Corporates	40,640	1,909	42,549
Regulatory retail	813	-	813
Other assets	299,204	-	299,204
Total Standardised exposures	**340,657**	**1,909**	**342,566**
Total credit risk exposures	**11,382,290**	**254,593**	**11,636,883**

5. Credit risk (continued)

5.1 Exposure values (continued)

Geographical analysis (continued)

31 December 2013	Malaysia RM'000	Others RM'000	Total RM'000
IRB exposures			
Sovereigns/Central banks	2,242,172	-	2,242,172
Parent bank, Islamic banks, development financial institutions & MDBs	1,092,034	-	1,092,034
Takaful companies, Syariah compliant securities firms & multilateral fund managers	207,124	-	207,124
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,225,017	30,392	1,255,409
Corporate exposures (with firm-size adjustment)	630,522	-	630,522
Specialised financing	110,928	-	110,928
Retail exposures	4,513,735	-	4,513,735
Home financing	*2,782,323*	-	*2,782,323*
Other retail exposures	*1,731,412*	-	*1,731,412*
Total IRB exposures	**10,021,532**	**30,392**	**10,051,924**
Standardised exposures			
Corporates	37,213	476	37,689
Regulatory retail	1,193	-	1,193
Other assets	186,976	-	186,976
Total Standardised exposures	**225,382**	**476**	**225,858**
Total credit risk exposures	**10,246,914**	**30,868**	**10,277,782**

5. Credit risk (continued)

5.1 Exposure values (continued)

Sector or economic purpose analysis

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

31 December 2014	Agricultural, hunting, forestry and fishing RM'000	Mining quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale & retail trade and restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance/ takaful and services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	1,455,130	-	-	-	1,455,130
Parent bank, Islamic banks, development financial institutions & MDBs	-	-	-	-	-	-	-	1,615,961	-	-	-	1,615,961
Takaful companies, Syariah compliant securities firms & fund managers	-	-	-	-	-	-	-	878,257	-	-	-	878,257
Corporate exposures (excluding specialised financing and firm-size adjustment)	120,650	26,043	922,755	-	12,234	464,500	90,996	222,890	270,851	-	171,073	2,301,992
Corporate exposures (with firm-size adjustment)	-	340	33,382	-	56,790	1,551	25,551	29,354	12,819	-	372,156	531,943
Specialised financing	-	-	-	-	-	-	-	-	40,048	-	-	40,048
Retail exposures	1,801	2,622	34,408	281	24,933	72,986	12,623	23,269	371	3,556,748	740,944	4,470,986
Home financing	-	-	-	-	-	-	-	-	-	3,085,500	-	3,085,500
Other retail exposures	1,801	2,622	34,408	281	24,933	72,986	12,623	23,269	371	471,248	740,944	1,385,486
Total IRB exposures	**122,451**	**29,005**	**990,545**	**281**	**93,957**	**539,037**	**129,170**	**4,224,861**	**324,089**	**3,556,748**	**1,284,173**	**11,294,317**
Standardised exposures												
Corporates	-	-	-	-	40,640	-	-	-	-	-	1,909	42,549
Regulatory retail	-	-	-	-	218	-	-	-	-	595	-	813
Other assets	-	-	-	-	-	-	-	-	-	234,627	64,577	299,204
Total Standardised exposures	**-**	**-**	**-**	**-**	**40,858**	**-**	**-**	**-**	**-**	**235,222**	**66,486**	**342,566**
Total credit risk exposures	**122,451**	**29,005**	**990,545**	**281**	**134,815**	**539,037**	**129,170**	**4,224,861**	**324,089**	**3,791,970**	**1,350,659**	**11,636,883**

5. Credit risk (continued)

5.1 Exposure values (continued)

Sector or economic purpose analysis (continued)

31 December 2013	Agricultural, hunting, forestry and fishing RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale & retail trade and restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance/ takaful and services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	2,242,172	-	-	-	2,242,172
Parent bank, Islamic banks, development financial institutions & MDBs	-	-	-	-	-	-	-	1,092,034	-	-	-	1,092,034
Takaful companies, Syariah compliant securities firms & fund managers	-	-	-	-	-	-	-	207,124	-	-	-	207,124
Corporate exposures (excluding specialised financing and firm-size adjustment)	120,569	74,496	354,929	-	38,694	254,977	67,844	58,702	246,868	-	38,330	1,255,409
Corporate exposures (with firm-size adjustment)	-	-	45,957	-	-	6,651	158,317	14,799	17,493	-	387,305	630,522
Specialised financing	-	-	-	-	-	-	-	-	110,928	-	-	110,928
Retail exposures	1,629	299	53,320	223	21,947	70,195	18,756	14,952	132	3,604,470	727,812	4,513,735
Home financing	-	-	-	-	-	-	-	-	-	2,782,323	-	2,782,323
Other retail exposures	1,629	299	53,320	223	21,947	70,195	18,756	14,952	132	822,147	727,812	1,731,412
Total IRB exposures	**122,198**	**74,795**	**454,206**	**223**	**60,641**	**331,823**	**244,917**	**3,629,783**	**375,421**	**3,604,470**	**1,153,447**	**10,051,924**
Standardised exposures												
Corporates	-	-	-	-	37,213	-	-	-	-	-	476	37,689
Regulatory retail	-	-	-	-	446	-	-	-	-	-	747	1,193
Other assets	-	-	-	-	-	-	-	-	-	-	186,976	186,976
Total Standardised exposures	**-**	**-**	**-**	**-**	**37,659**	**-**	**-**	**-**	**-**	**-**	**188,199**	**225,858**
Total credit risk exposures	**122,198**	**74,795**	**454,206**	**223**	**98,300**	**331,823**	**244,917**	**3,629,783**	**375,421**	**3,604,470**	**1,341,646**	**10,277,782**

5. Credit risk (continued)

5.1 Exposure values (continued)

Residual contractual maturity analysis

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

31 December 2014	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	1,203,680	251,450	-	1,455,130
Parent bank, Islamic banks, development financial institutions & MDBs	15,324	1,600,115	522	1,615,961
Takaful companies, securities firms & Syariah compliant fund managers	677,295	200,962	-	878,257
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,522,230	519,439	260,323	2,301,992
Corporate exposures (with firm-size adjustment)	113,404	100,873	317,666	531,943
Specialised financing	40,048	-	-	40,048
Retail exposures	2,994,981	468,786	1,007,219	4,470,986
Home financing	*2,812,023*	*6,609*	*266,868*	*3,085,500*
Other retail exposures	*182,958*	*462,177*	*740,351*	*1,385,486*
Total IRB exposures	**6,566,962**	**3,141,625**	**1,585,730**	**11,294,317**
Standardised exposures				
Corporates	13,206	27,708	1,635	42,549
Regulatory retail	-	596	217	813
Other assets	299,204	-	-	299,204
Total Standardised exposures	**312,410**	**28,304**	**1,852**	**342,566**
Total credit risk exposures	**6,879,372**	**3,169,929**	**1,587,582**	**11,636,883**

Note: The above table shows that exposures with residual contractual maturity more than 5 years amounted to RM1,587,582,000. Of this amount, 21% are collateralized.

5. Credit risk (continued)

5.1 Exposure values (continued)

Residual contractual maturity analysis (continued)

31 December 2013	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	2,242,172	-	-	2,242,172
Parent bank, Islamic banks, development financial institutions & MDBs	1,088,948	1,933	1,153	1,092,034
Takaful companies, securities firms & Syariah compliant fund managers	6,281	200,836	7	207,124
Corporate exposures (excluding specialised financing and firm-size adjustment)	757,101	259,897	238,411	1,255,409
Corporate exposures (with firm-size adjustment)	194,243	83,513	352,766	630,522
Specialised financing	50,011	60,917	-	110,928
Retail exposures	2,753,404	882,281	878,050	4,513,735
Home financing	*2,477,451*	*6,531*	*298,341*	*2,782,323*
Other retail exposures	*275,953*	*875,750*	*579,709*	*1,731,412*
Total IRB exposures	**7,092,160**	**1,489,377**	**1,470,387**	**10,051,924**
Standardised exposures				
Corporates	6,160	31,392	137	37,689
Regulatory retail	116	498	579	1,193
Other assets	186,976	-	-	186,976
Total Standardised exposures	**193,252**	**31,890**	**716**	**225,858**
Total credit risk exposures	**7,285,412**	**1,521,267**	**1,471,103**	**10,277,782**

Note: The above table shows that exposures with residual contractual maturity more than 5 years amounted to RM1,471,103,000. Of this amount, 28% are collateralized.

5. Credit risk (continued)

5.2 Credit risk mitigation

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

31 December 2014	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/Central banks	1,455,130	-	-	-
Parent bank, Islamic banks, development financial institutions & MDBs	1,384,088	-	-	-
Takaful companies, Syariah compliant securities firms & fund managers	854,147	-	2,592	-
Corporates	2,229,737	2,497	196,520	368,139
Regulatory retail	1,160,212	-	-	65
Home financing	2,580,429	-	-	2,163,292
Other assets	299,204	-	-	-
Specialised financing/investment	40,048	-	-	-
Defaulted exposures	115,807	-	-	2,017
Total on-balance sheet exposures	**10,118,802**	**2,497**	**199,112**	**2,533,513**
Off-balance sheet exposures				
OTC derivatives	258,439	-	-	-
Off balance sheet exposures other than Islamic OTC derivatives or Islamic credit derivatives	1,259,642	2,968	48,136	96,835
Total off-balance sheet exposures	**1,518,081**	**2,968**	**48,136**	**96,835**
Total on and off-balance sheet exposures	**11,636,883**	**5,465**	**247,248**	**2,630,348**

5. Credit risk (continued)

5.2 Credit risk mitigation (continued)

31 December 2013	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/Central banks	2,242,172	-	-	-
Parent bank, Islamic banks, development financial institutions & MDBs	1,081,262	-	-	-
Takaful companies, Syariah compliant securities firms & fund managers	200,836	-	2,592	-
Corporates	1,609,069	17,948	268,725	272,790
Regulatory retail	1,380,564	-	39	5,669
Home financing	1,607,718	-	-	1,360,079
Other assets	186,977	-	-	-
Specialised financing/investment	110,928	-	-	-
Defaulted exposures	106,736	-	-	1,682
Total on-balance sheet exposures	**8,526,262**	**17,948**	**271,356**	**1,640,220**
Off-balance sheet exposures				
OTC derivatives	20,934	-	-	-
Off balance sheet exposures other than Islamic OTC derivatives or Islamic credit derivatives	1,730,586	75	5,254	430,201
Total off-balance sheet exposures	**1,751,520**	**75**	**5,254**	**430,201**
Total on and off-balance sheet exposures	**10,277,782**	**18,023**	**276,610**	**2,070,421**

5. Credit risk (continued)

5.3 Exposures under IRB approach

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

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

31 December 2014	0<0.04% RM'000	0.04<0.17% RM'000	0.17<0.59% RM'000	0.59<3.05% RM'000	3.05<12.00% RM'000	12.00<100% RM'000	Default or 100% RM'000
Non-retail exposures (EAD)							
On-balance sheet exposures							
Sovereign	1,455,130	-	-	-	-	-	-
Parent Bank & Islamic Bank	-	1,384,088	-	-	-	-	-
Corporate	-	1,017,453	392,205	1,566,322	123,167	4,363	1,325
Total on-balance sheet exposures	**1,455,130**	**2,401,541**	**392,205**	**1,566,322**	**123,167**	**4,363**	**1,325**
Undrawn commitments							
Corporate	140,679	28,355	178,682	298	-	-	-
Total undrawn commitments	**140,679**	**28,355**	**178,682**	**298**	**-**	**-**	**-**
Derivatives							
Parent Bank & Islamic Bank	18,422	125,682	-	87,731	-	-	-
Corporate	-	21,092	151	5,361	-	-	-
Total derivatives	**18,422**	**146,774**	**151**	**93,092**	**-**	**-**	**-**
Contingent							
Corporate	-	8,501	15,043	229,151	20,092	-	-
Total contingent	**-**	**8,501**	**15,043**	**229,151**	**20,092**	**-**	**-**
Exposure weighted average LGD (%)							
Sovereign	29.16%	-	-	-	-	-	-
Parent Bank & Islamic Bank	26.20%	26.20%	-	41.20%	-	-	-
Corporate	-	28.79%	46.12%	39.68%	47.76%	84.56%	78.44%
Exposure weighted average risk weight (%)							
Sovereign	4.70%	-	-	-	-	-	-
Parent Bank & Islamic Bank	11.20%	9.67%	-	100.28%	-	-	-
Corporate	-	10.09%	57.09%	81.98%	159.61%	493.73%	1039.35%

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

31 December 2013	0<0.04% RM'000	0.04<0.17% RM'000	0.17<0.59% RM'000	0.59<3.05% RM'000	3.05<12.00% RM'000	12.00<100% RM'000	Default or 100% RM'000
Non-retail exposures (EAD)							
On-balance sheet exposures							
Sovereign	2,242,172	-	-	-	-	-	-
Parent Bank & Islamic Bank	-	1,081,262	-	-	-	-	-
Corporate	17,525	203,851	433,438	1,172,749	56,223	17,494	-
Total on-balance sheet exposures	**2,259,697**	**1,285,113**	**433,438**	**1,172,749**	**56,223**	**17,494**	**-**
Undrawn commitments							
Corporate	75	12,000	8,851	135,371	136	-	-
Total undrawn commitments	**75**	**12,000**	**8,851**	**135,371**	**136**	**-**	**-**
Derivatives							
Parent Bank & Islamic Bank	-	10,772	-	-	-	-	-
Corporate	-	5,302	164	4,282	414	-	-
Total derivatives	**-**	**16,074**	**164**	**4,282**	**414**	**-**	**-**
Contingent							
Corporate	-	-	68,450	63,891	3,767	-	-
Total contingent	**-**	**-**	**68,450**	**63,891**	**3,767**	**-**	**-**
Exposure weighted average LGD (%)							
Sovereign	26.20%	-	-	-	-	-	-
Parent Bank & Islamic Bank	-	26.20%	-	-	-	-	-
Corporate	25.75%	32.75%	19.01%	43.11%	35.83%	7.0%	-
Exposure weighted average risk weight (%)							
Sovereign	4.68%	-	-	-	-	-	-
Parent Bank & Islamic Bank	-	8.93%	-	-	-	-	-
Corporate	9.56%	24.25%	23.99%	100.46%	132.26%	32.67%	-

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

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

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

31 December 2014	0<0.11% RM'000	0.11<0.30% RM'000	0.30<0.43% RM'000	0.43<3.05% RM'000	3.05<9.20% RM'000	9.20<100% RM'000	Default or 100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	3,830	173,291	200,002	1,719,958	364,414	118,934	1,748
Other retail	45,150	41,660	102,921	649,945	186,181	133,567	112,710
Total on-balance sheet exposures	**48,980**	**214,951**	**302,923**	**2,369,903**	**550,595**	**252,501**	**114,458**
Undrawn commitments							
Home financing	-	-	318	491,785	10,158	1,062	-
Other retail	111	441	-	112,547	253	-	-
Total undrawn commitments	**111**	**441**	**318**	**604,332**	**10,411**	**1,062**	**-**
Exposure weighted average LGD (%)							
Home financing	12.32%	12.09%	12.14%	12.23%	12.36%	12.77%	15.93%
Other retail	15.82%	14.09%	19.63%	44.52%	73.31%	80.22%	83.34%
Exposure weighted average risk weight (%)							
Home financing	9.18%	13.83%	16.32%	25.71%	49.65%	77.22%	96.97%
Other retail	2.61%	7.42%	12.28%	53.93%	114.68%	168.83%	270.12%

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

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

31 December 2013	0<0.11% RM'000	0.11<0.30% RM'000	0.30<0.43% RM'000	0.43<3.05% RM'000	3.05<9.20% RM'000	9.20<100% RM'000	Default or 100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	1,372	105,788	131,213	1,094,880	200,750	73,715	1,911
Other retail	32,731	23,053	42,928	750,262	306,890	223,532	104,800
Total on-balance sheet exposures	**34,103**	**128,841**	**174,141**	**1,845,142**	**507,640**	**297,247**	**106,711**
Undrawn commitments							
Home financing	-	-	722	1,146,247	23,373	2,352	-
Other retail	452	318	231	244,237	1,952	26	-
Total undrawn commitments	**452**	**318**	**953**	**1,390,484**	**25,325**	**2,378**	**-**
Exposure weighted average LGD (%)							
Home financing	12.37%	12.11%	12.16%	12.38%	12.35%	12.99%	15.98%
Other retail	17.09%	20.77%	20.29%	51.90%	89.46%	87.55%	84.01%
Exposure weighted average risk weight (%)							
Home financing	6.98%	12.87%	14.36%	26.91%	51.01%	79.36%	97.82%
Other retail	3.08%	10.75%	12.57%	66.22%	140.00%	186.00%	258.07%

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

Retail exposures under the IRB approach by expected loss range for retail exposures

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

31 December 2014	Up to 0.10% RM'000	>0.10 to 0.20% RM'000	>0.20 to 0.50% RM'000	>0.50 to 1.00% RM'000	>1.00 to 30.00% RM'000	>30 to <100% RM'000	100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	104,008	69,576	1,224,228	931,900	252,465	-	-
Other retail	189,584	274,635	92,120	82,142	487,481	146,172	-
Total on-balance sheet exposures	**293,592**	**344,211**	**1,316,348**	**1,014,042**	**739,946**	**146,172**	**-**
Undrawn commitments							
Home financing	169	5	28,238	469,399	5,512	-	-
Other retail	798	3,673	108,269	367	245	-	-
Total undrawn commitments	**967**	**3,678**	**136,507**	**469,766**	**5,757**	**-**	**-**
Exposure weighted average risk weight (%)							
Home financing	9.56%	18.28%	20.25%	32.58%	67.13%	-	-
Other retail	8.85%	16.20%	28.25%	57.63%	129.01%	257.65%	-

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

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

31 December 2013	Up to 0.10% RM'000	>0.10 to 0.20% RM'000	>0.20 to 0.50% RM'000	>0.50 to 1.00% RM'000	>1.00 to 30.00% RM'000	>30 to <100% RM'000	100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	129,090	71,518	718,053	536,481	154,487	-	-
Other retail	102,980	84,453	267,322	43,520	824,226	161,695	-
Total on-balance sheet exposures	**232,070**	**155,971**	**985,375**	**580,001**	**978,713**	**161,695**	**-**
Undrawn commitments							
Home financing	177	5	63,084	1,096,683	12,745	-	-
Other retail	1,037	2,548	240,036	2,046	1,529	20	-
Total undrawn commitments	**1,214**	**2,553**	**303,120**	**1,098,729**	**14,274**	**20**	**-**
Exposure weighted average risk weight (%)							
Home financing	9.79%	18.25%	19.97%	31.60%	68.44%	-	-
Other retail	8.06%	16.64%	33.69%	76.80%	140.81%	243.99%	-

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

The following tables set out exposures subject to the supervisory risk weights under the IRB approach for the Bank.

31 December 2014	Strong or 70% RM'000	Good or 90% RM'000	Satisfactory or 115% RM'000	Weak or 250% RM'000	Default or 0% RM'000
Income producing real estate					
- Total exposures	-	40,048	-	-	-
- Risk weighted assets	-	36,044	-	-	-

31 December 2013	Strong or 70% RM'000	Good or 90% RM'000	Satisfactory or 115% RM'000	Weak or 250% RM'000	Default or 0% RM'000
Income producing real estate					
- Total exposures	-	110,928	-	-	-
- Risk weighted assets	-	99,836	-	-	-

5. Credit Risk (continued)

5.4 Exposures under Standardised approach

Risk weights under the Standardised approach

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

31 December 2014	← Exposures After Netting and Credit Risk Mitigation →				Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
	Corporates* RM'000	Regulatory retail RM'000	Home financing RM'000	Other assets RM'000		
Risk weights						
0%	-	-	-	12,658	12,658	-
35%	-	-	-	-	-	-
50%	-	-	-	-	-	-
75%	-	596	-	-	596	447
100%	40,768	192	-	286,546	327,506	327,506
150%	-	24	-	-	24	36
Total exposures	40,768	812	-	299,204	340,784	327,989
Risk-weighted assets by exposures	40,768	675	-	286,546	327,989	
Average risk weight	100.0%	83.1%	-	95.8%	96.2%	
Deduction from capital base	-	-	-	-	-	

31 December 2013	← Exposures After Netting and Credit Risk Mitigation →				Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
	Corporates* RM'000	Regulatory retail RM'000	Home financing RM'000	Other assets RM'000		
Risk weights						
0%	-	-	-	14,008	14,008	-
35%	-	-	-	-	-	-
50%	-	-	-	-	-	-
75%	-	947	-	-	947	710
100%	36,500	221	-	172,969	209,690	209,690
150%	-	25	-	-	25	38
Total exposures	36,500	1,193	-	186,977	224,670	210,438
Risk-weighted assets by exposures	36,500	969	-	172,969	210,438	
Average risk weight	100.0%	81.2%	-	92.5%	93.7%	
Deduction from capital base	-	-	-	-	-	

* All corporate standardised exposures are unrated.

5. Credit risk (continued)

5.5 Problem credit management and provisioning

Impairment provisions analysed by customers' business or industry

The following tables show the Bank's collective impairment provisions and movement in individual impairment provisions by each principal category of customers' business or industry for Consumer Banking and Wholesale Banking.

31 December 2014	Collective impairment provisions as at 31 December 2014 RM'000	Individual impairment provisions held as at 1 January 2014 RM'000	Net individual impairment charge during the financial period RM'000	Amounts written off or other movements during the financial period RM'000	Individual impairment provisions held as at 31 December 2014 RM'000
Home financing	9,184	369	1,762	(1,610)	521
Others	104,920	14,694	77,324	(69,469)	22,549
Retail Clients	**114,104**	**15,063**	**79,086**	**(71,079)**	**23,070**
Agriculture	368	-	-	-	-
Mining and quarrying	-	-	-	-	-
Manufacturing	1,971	720	-	-	720
Construction	80	-	-	-	-
Real estate	228	-	-	-	-
Wholesale & retail trade and restaurants & hotels	1,167	-	-	-	-
Transportation, storage and communication	57	-	-	-	-
Finance, insurance/takaful and business services	833	-	-	-	-
Others	230	-	-	-	-
Corporates, Institutional and Commercial Clients	**4,934**	**720**	**-**	**-**	**720**

5. Credit risk (continued)

5.5 Problem credit management and provisioning (continued)

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

31 December 2013	Collective impairment provisions as at 31 December 2013 RM'000	Individual impairment provisions held as at 1 January 2013 RM'000	Net individual impairment charge during the financial year RM'000	Amounts written off or other movements during the financial year RM'000	Individual impairment provisions held as at 31 December 2013 RM'000
Home financing	3,347	393	735	(759)	369
Others	96,896	2,614	101,295	(89,215)	14,694
Retail Clients	**100,243**	**3,007**	**102,030**	**(89,974)**	**15,063**
Agriculture	339	-	-	-	-
Mining and quarrying	124	-	-	-	-
Manufacturing	1,406	367	353	-	720
Construction	88	-	-	-	-
Real estate	361	-	-	-	-
Wholesale & retail trade and restaurants & hotels	421	-	-	-	-
Transportation, storage and communication	421	-	-	-	-
Finance, insurance/takaful and business services	482	-	-	-	-
Others	52	-	-	-	-
Corporates, Institutional and Commercial Clients	**3,694**	**367**	**353**	**-**	**720**

5. Credit risk (continued)

5.5 Problem credit management and provisioning (continued)

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

	31 December 2014 RM'000	31 December 2013 RM'000
Home financing	283,960	193,788
Others	181,624	242,807
Retail Clients	465,584	436,595
Manufacturing	14	-
Wholesale & retail trade and restaurants & hotels	-	191
Transport, storage and communication	1,115	440
Finance, insurance and business services	-	15,503
Corporates, Institutional and Commercial Clients	**1,129**	**16,134**

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

	31 December 2014 RM'000	31 December 2013 RM'000
Malaysia	466,713	452,729
Others	-	-
	466,713	452,729

Summary analysis of financing and advances

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

	Within Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
31 December 2014			
Gross impaired financing and advances	38,121	-	38,121
Individual impairment provisions	23,790	-	23,790
Collective impairment provisions	119,038	-	119,038
31 December 2013			
Gross impaired financing and advances	40,609	-	40,609
Individual impairment provisions	15,783	-	15,783
Collective impairment provisions	103,937	-	103,937

5. Credit risk (continued)

5.6 Off-balance sheet and counterparty credit risk

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

31 December 2014	Principal amount RM'000	Positive fair value of contracts RM'000	Negative fair value of contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	27,997	-	-	27,997	24,324
Transaction related contingent items	154,144	-	-	154,144	58,183
Short term self liquidating trade related contingencies	103,036	-	-	103,036	27,821
Foreign exchange related contracts					
One year or less	1,374,936	15,688	18,385	39,770	5,184
Over one year to five years	835,380	50,321	50,321	125,506	96,382
Over five years					
Profit rate related contracts					
One year or less	-	-	-	-	-
Over one year to five years	1,406,085	30,336	31,310	85,909	17,722
Over five years	228	516	516	528	137
Commodity contracts					
One year or less	-	330	330	330	29
Over one year to five years	27,427	3,105	3,105	6,396	753
Over five years					
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,073,862	-	-	662,351	280,726
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	258,146	-	-	161,242	71,622
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	1,366,948	-	-	150,872	52,690
	6,628,189	100,296	103,967	1,518,081	635,573

31 December 2013	Principal amount Restated RM'000	Positive fair value of contracts RM'000	Negative fair value of contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	2,812	-	-	2,812	572
Transaction related contingent items	73,090	-	-	73,090	20,747
Short term self liquidating trade related contingencies	66,157	-	-	66,157	31,071
Foreign exchange related contracts					
One year or less	523,528	8,048	3,660	14,406	2,152
Profit rate related contracts					
One year or less	-	-	-	-	-
Over one year to five years	27,902	2,782	1,686	3,619	3,753
Over five years	6,293	843	1,499	1,160	292
Equity related contracts					
One year or less					
Over one year to five years	14,291	-	1,096	1,143	2,290
Over five years	6,065	-	524	606	1,384
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,667,262 *	-	-	232,681	87,349
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	2,217,348 *	-	-	1,355,846	443,579
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	805,690 *	-	-	-	-
	5,410,438	11,673	8,465	1,751,520	593,189

* The comparative figures have been restated to conform with current year presentation which reflected the results of revision to the Bank's Corporate Exposure At Default model during the year.

6. 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 interest 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 account of market volatility, the range of traded products and asset classes, the business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2014.

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") monitor exposures against these limits.

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, whereas foreign exchange is measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the options' value.

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.

6. Market risk

Value at Risk (continued)

In both methods an 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 quarterly stress testing market risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

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 stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

Stress scenarios are subject to periodic review 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

Products may only be traded subject to a formally approved Product Programme which identifies the risks, controls and regulatory treatment. The control framework is assessed by the relevant Bank functions as well as GIA on an ongoing basis. It is the Bank's policy that all assets and liabilities held are to be recorded in the financial accounts on a fair-value basis that is consistent with Malaysian Financial Reporting Standards.

The Product Control function is responsible for valuation controls in accordance with policy. Where possible, positions held are marked to market on a consistent and daily basis using quoted prices within active markets. Where this is not possible, positions are marked to model using models which have been independently and periodically validated by GMR. Product Control ensures adherence to Standard Chartered PLC Group's policy for valuation adjustments to incorporate counterparty risk, bid/ask spreads, market liquidity and where appropriate model risk reserves to mark all positions on a prudent basis. The BRC provides oversight and governance of all policy.

Market risk VaR coverage

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

6. Market risk (continued)

Market risk VaR coverage (continued)

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 and 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.

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

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

31 December 2014

	← 2014 →			Actual as at
	Average	**High**	**Low**	**31 December 2014**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-trading				
Profit rate risk (comparable to interest rate risk in conventional)	171	253	125	181

31 December 2013

	← 2013 →			Actual as at
	Average	**High**	**Low**	**31 December 2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-trading				
Profit rate risk (comparable to interest rate risk in conventional)	233	318	193	252

6. Market risk (continued)

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

	Impact on positions as at reporting period (200 basis points) parallel shift	
31 December 2014	**Increase/(Decline) in earnings at risk**	**Increase/(Decline) in economic value**
Type of Currency	**RM'000**	**RM'000**
Ringgit Malaysia	(3,864)	(31,233)
US Dollar	(2,161)	1,964
Pound Sterling	(1)	1

	Impact on positions as at reporting period (200 basis points) parallel shift	
31 December 2013	**Increase/(Decline) in earnings at risk**	**Increase/(Decline) in economic value**
Type of Currency	**RM'000**	**RM'000**
Ringgit Malaysia	(33,296)	(145,691)
US Dollar	(1,796)	376

7. Operational risk

Operational Risk is the potential for loss arising from the failure of people, process or technology or the impact of external events.

BNM has formally approved the Bank's use of the 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 our risk management approach through six inter-dependent risk management process categories of plan, inform, control, originate, optimize and communicate.

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 Global Business Risk Committee, a subcommittee of Standard Chartered PLC Group's 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. Operational risks are managed through an end to end process of plan, inform, control, originate, optimize and communicate. This six 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.

Assurance

The GIA function 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.

Measurement

The operational risk capital charge for TSA is calculated as the three-year average of the simple summation of the regulatory capital charges across the eight business lines in each year. The capital charge for each business line is calculated by multiplying the annual gross income by a factor assigned to that business line.

8. Shariah non-compliant events and income

During the financial year, there were four (2013: three) syariah non-compliant events being detected. None of the Syariah non-compliant event resulted in Syariah non-compliant income. Syariah non-compliant income in 2013 was RM65,716.

9. Comparative figures

Except as disclosed in Section 5.6, certain comparative figures have been restated to conform with current year presentation in line with the Standard Chartered PLC Group's refreshed strategy and the creation of new customer segment group.

Chief Executive Officer Attestation

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Standard Chartered Saadiq Berhad's Pillar 3 Disclosures report for the financial period ended 31 December 2014 are consistent with the manner in which the Bank assesses and manages its risk, and are not misleading in any particular way.

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Adhha Abdullah
Chief Executive Officer

Date: 31 March 2015