
**Standard Chartered Bank (Thai) PCL
& its Subsidiaries
Pillar 3 Disclosures
30 June 2011**



Registered Office: 90 North Sathorn Road, Silom Bangkok, 10500, Thailand

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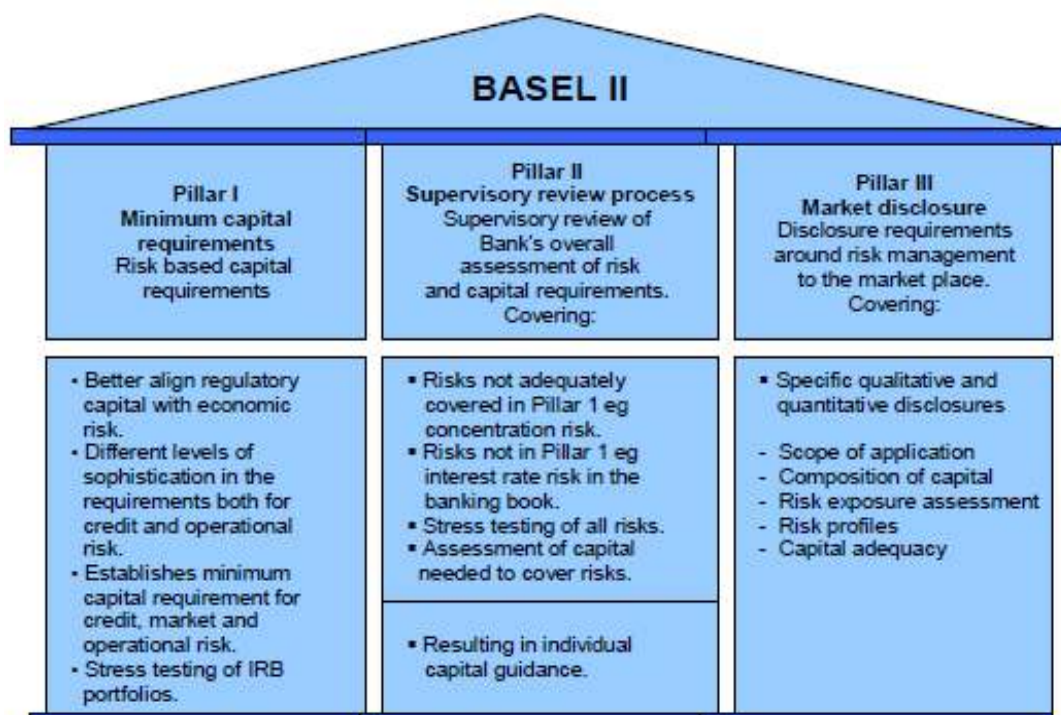
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Overview

In November 2008, the Bank of Thailand (“BOT”) published the notification for Capital Maintenance Supervision of Commercial Banks and several related notifications which are based on “International Convergence of Capital Measurement and Capital Standards – A Revised Framework” (Comprehensive Version: June 2006) from the Basel Committee on Banking Supervision (“BCBS”), which developed from Basel I guidelines. The objectives of these notifications are to enhance the risk management system and ensure the sound capital adequacy assessment of losses in commercial banks.

This notification (commonly referred to as “Basel II”) introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. Basel II is designed to be a catalyst for more advanced risk management techniques, enterprise-wide cultures of risk management and improved corporate governance and public disclosure.

Basel II is structured around three ‘pillars’ which are demonstrated in below diagram.



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Basel II provides an incentive scheme encouraging banks to adopt more advanced risk management practices. To achieve this, three “pillars” 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 and senior management, thus reinforcing principles of internal control and other corporate governance practices; and

Pillar 3 covered in this report, aims to bolster market discipline through enhanced disclosure by banks.

Under Basel II, Standard Chartered Bank (Thai) PCL and its subsidiaries, have adopted Advanced Internal Ratings Based Approach (“AIRB”) for the measurement of credit risk and applied The Standardised Approach (“SA”) for determining the capital requirements for market and operational risks.

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1. Scope of Basel II Framework

Pillar 1: Minimum Capital Requirement

The BOT has approved Standard Chartered Bank (Thai) PCL (“the Bank”) and its Subsidiaries (“the SCBT Group”) to adopt the AIRB approach which is more advanced risk management framework for the measurement of credit risk capital and under the notification, the Bank and the SCBT Group has been using AIRB approach for the credit risk capital calculation from Basel II method as regulatory capital since December 2009.

The Bank and the SCBT Group are also required to calculate a capital charge to cover market risk and operational risk for which the Bank and the SCBT Group apply the Standardised Approach.

During the initial years of Basel II implementation (2009-2011), the minimum capital requirements were restricted by reference to the Basel I framework, so they could not fall below 90 per cent of the Basel I capital requirements in 2009-2010 reducing to 80 per cent in 2011.

Pillar 2: Supervisory Review Process

Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available. This risk and capital assessment is commonly referred to as an Internal Capital Adequacy Assessment Process (“ICAAP”) which covers much broader risk types than Pillar 1, which cover only credit risk, market risk, and operational risk.

The Bank and the SCBT Group have developed an ICAAP policy and framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Bank and the SCBT Group’s current and projected demand for capital under expected and stressed conditions.

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Under Pillar 2, the BOT would undertake a review of Banks' ICAAPs. This is referred to as the Supervisory Review and Evaluation Process ("SREP").

Pillar 3: Market Discipline

Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices. According to the BOT notification, the Bank and the SCBT Group are required to disclose the data and information relative to risk profile, risk management and capital funds.

The Bank and the SCBT Group have implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosure. The information provided has been reviewed and validated by senior management and the Risk Committee. In accordance with the Bank and the SCBT Group's policy, the Pillar 3 disclosure will be published on the Standard Chartered Bank (Thai) PCL website - www.standardchartered.co.th.

The BOT has also set the frequency of disclosure on semi-annual basis and annual basis. Quantitative data of Capital Structure & Adequacy and Market risk will be disclosed on a semi-annual basis. Whereas, the full Pillar 3 disclosures will be made annually on both qualitative and quantitative data.

2. Scope of Application

In compliance with the requirement under Basel II Pillar 3 and sets of the BOT's disclosure requirements, the Bank and the SCBT Group have developed a set of disclosures for its position at both the Bank level (Solo basis) and the SCBT Group level (Full Consolidated basis) as at 30 June 2011 covering the following areas:

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- Quantitative data for Capital and the minimum capital requirement for Credit risk, Market risk, Operational risk, and Equity exposure under AIRB
- Quantitative data for Interest Rate Risk in Non-trading Book (Banking Book)

3. Capital Management

The Bank and the SCBT Group's capital management approach is driven by its desire to maintain a strong capital base to support the development of the Bank and the SCBT Group business activities, to meet regulatory minimum capital requirements at all times and to maintain appropriate credit ratings.

The Bank and the SCBT Group's capital planning is dynamic and regularly refreshed to reflect the business forecasts as they evolve during the course of each year. The strategy-setting and planning is presented to the Board on an annual basis with regularly update on the financial outlook and performance as to the capital adequacy is aligned with the business plan.

The capital plan takes the following into account:

- Current regulatory capital requirements and the Bank and the SCBT Group's assessment of on-going regulatory expectation.
- Demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- Forecast demand for capital to support credit ratings and as a signalling tool to the market
- Available supply of capital and capital raising options

The Asset and Liabilities Management Committee ("ALCO") as appointed by Executive Committee¹ ("EXCO") is responsible for managing the balance sheet, liquidity and capital adequacy in accordance with Standard Chartered Bank Group policies adopted by the Bank and the SCBT Group and regulatory requirements.

¹ Executive Committee is previously named Management Committee (MANCO).

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3.1 Capital Structure

The Bank and the SCBT Group maintain capital to meet the minimum regulatory capital requirements set by the BOT. In addition, the Bank and the SCBT Group assess its capital adequacy to support current and future business activities.

The following table is a breakdown of total regulatory capital of the Bank and the SCBT Group as at 30 June 2011, comparing with the position of the Bank and the SCBT Group as at 31 December 2010.

Table1: Capital Structure

Unit: Million Baht				
	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
Tier 1 Capital				
Paid up share capital	14,837	14,837	14,837	14,837
Share premium account	9,056	9,056	9,056	9,056
Statutory reserve	503	408	503	408
Retained earnings	7,697	6,648	7,697	6,648
Less: excess expected loss	(351)	(350)	(351)	(350)
Total Tier 1 Capital	31,742	30,599	31,742	30,599
Tier 2 Capital				
Capital tier 2 before deduction	424	398	424	398
- General Provision under SA	422	394	422	394
- Surplus of provision (Excess Provisions)	-	-	-	-
- Gain on equity securities under available-for-sale	2	4	2	4
Less: excess expected loss	(351)	(350)	(351)	(350)
Total Tier 2 Capital	73	48	73	48
Total Regulatory Capital				
Deductions	(702)	(700)	(702)	(700)
Total Regulatory Capital	31,815	30,647	31,815	30,647

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Capital Sources

The Bank and the SCBT Group's Tier 1 Capital consists of issued and paid up share capital & premium, statutory reserve and retained earnings.

The Bank and the SCBT Group's Tier 2 Capital comprises of the general provision for normal performing loans and surplus of provision and the revaluation gain on equity securities under available-for-sale ("AFS") portfolio in the amount as allowed by the BOT.

3.2 Capital Adequacy

Under the BOT guidelines, the Bank and the SCBT Group are required to maintain a minimum ratio of total capital to risk weighted assets of 8.50%, with the minimum ratio of tier 1 capital to risk weighted assets at 4.25%. In addition, Tier 2 capital cannot exceed Tier 1 capital.

Total Capital Adequacy Ratios of the Bank and the SCBT Group as at 30 June 2011 were 16.04% and 16.07% respectively. Tier 1 Capital Ratios were 16.01% and 16.03% respectively, which exceeded minimum requirements of the BOT.

Table 2: Capital Adequacy

Unit: Percent

	Minimum Requirement	The Bank		The SCBT Group	
		30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
Total capital funds to risk weighted assets	8.50	16.04	15.12	16.07	15.12
Tier 1 capital funds to risk weighted assets	4.25	16.01	15.10	16.03	15.10

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3.3 Minimum Capital Requirement

The Bank and the SCBT Group maintain minimum capital inline with the BOT's requirement. Table 3 shows the breakdown of minimum Capital requirement for Credit Risk, Market Risk and Operational risk of the Bank and the SCBT Group as at 30 June 2011.

Table 3: Minimum Capital Requirement

Unit: Million Baht

Minimum Capital	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
Credit Risk	12,678	12,928	12,674	12,925
Market Risk	2,613	2,671	2,613	2,671
Operational Risk	1,564	1,631	1,546	1,631
Total Minimum Capital Requirements	16,855	17,230	16,833	17,227

AIRB Adoption

The Bank and the SCBT Group use AIRB approach to calculate credit risk for material portfolios whilst SA approach is applied to portfolios that are classified as permanently exempt from the AIRB approach as well as those portfolios that are currently under transition to the AIRB approach.

The following tables show Minimum Capital Requirement for Credit Risk Classified by Asset Classes under AIRB (table 4), Minimum Capital Requirement for Credit Risk Classified by Asset Classes under SA (table 5) and Minimum Capital Requirement for Equity Exposure under AIRB (table 6).

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Table 4: Minimum Capital Requirement for Credit Risk Classified by Asset Classes under AIRB

Unit: Million Baht

Asset Class	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
<i>Non-Default exposures</i>				
Claims on sovereigns, financial institutions and Corporates	7,247	7,673	7,247	7,673
Claims on retail portfolios				
-Claims on residential mortgage	-	-	-	-
-Qualifying revolving retail exposures	1,206	1,175	1,206	1,175
-Other retail exposures	1,073	874	1,073	873
Equity exposures	9	10	4	5
Other assets	117	125	118	125
<i>Default exposures</i>	216	288	216	288
<i>First-to-default credit derivatives and Securitisation</i>	-	-	-	-
Total minimum capital requirement for credit risk – AIRB	9,868	10,144	9,864	10,139

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Table 5: Minimum Capital Requirement for Credit Risk Classified by Asset Classes under SA

Unit: Million Baht

Asset Class	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
<i>Non-Default exposures</i>				
Claims on sovereigns and central banks, MDBs and PSEs treated as claims on sovereigns	-	-	-	-
Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms	699	626	699	626
Claims on corporates, PSEs treated as claims on corporate	587	738	587	738
Claims on retail portfolios	701	628	701	630
Claims on residential mortgage	795	763	795	763
Other assets	-	-	-	-
<i>Default exposures</i>	28	29	28	29
<i>First-to-default credit derivatives and Securitisation</i>	-	-	-	-
Total minimum capital requirement for credit risk – SA	2,810	2,784	2,810	2,786

Note: PSE is non-central government public sector entities

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Table 6: Minimum Capital Requirement for Equity Exposure under AIRB

Unit: Million Baht

Item	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
Equity exposure exempted from credit risk calculation by IRB	9	10	4	5
Equity exposure subject to the IRB approach				
1. Equity holdings subject to the Market-based approach				
1.1 Simple Risk Weight Approach	-	-	-	-
1.2 Internal Model Approach (for equity exposure in non-trading book (banking book))	-	-	-	-
2. Equity holdings subject to a PD/LGD approach	-	-	-	-
Total minimum capital requirement for equity exposure – AIRB	9	10	4	5

4. Risk Management

The management of risk lies at the heart of the Bank and the SCBT Group's business. One of the main risks incurred arises from extending credit to customers through trading and lending operations. Beyond credit risk, the Bank and the SCBT Group are also exposed to a range of other risk types such as country cross border, market, liquidity, operational, reputational and other risks that are inherent to the Bank and the SCBT Group's strategy and their product range.

4.1 Risk Management Framework ("RMF")

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank and the SCBT Group.

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Through its risk management framework the Bank and the SCBT Group manage bank-wide risks, with the objective of maximising risk-adjusted returns while remaining within its risk appetite.

As part of this framework, the Bank and the SCBT Group use a set of principles that describe the risk management culture the Bank and the SCBT Group wish to sustain:

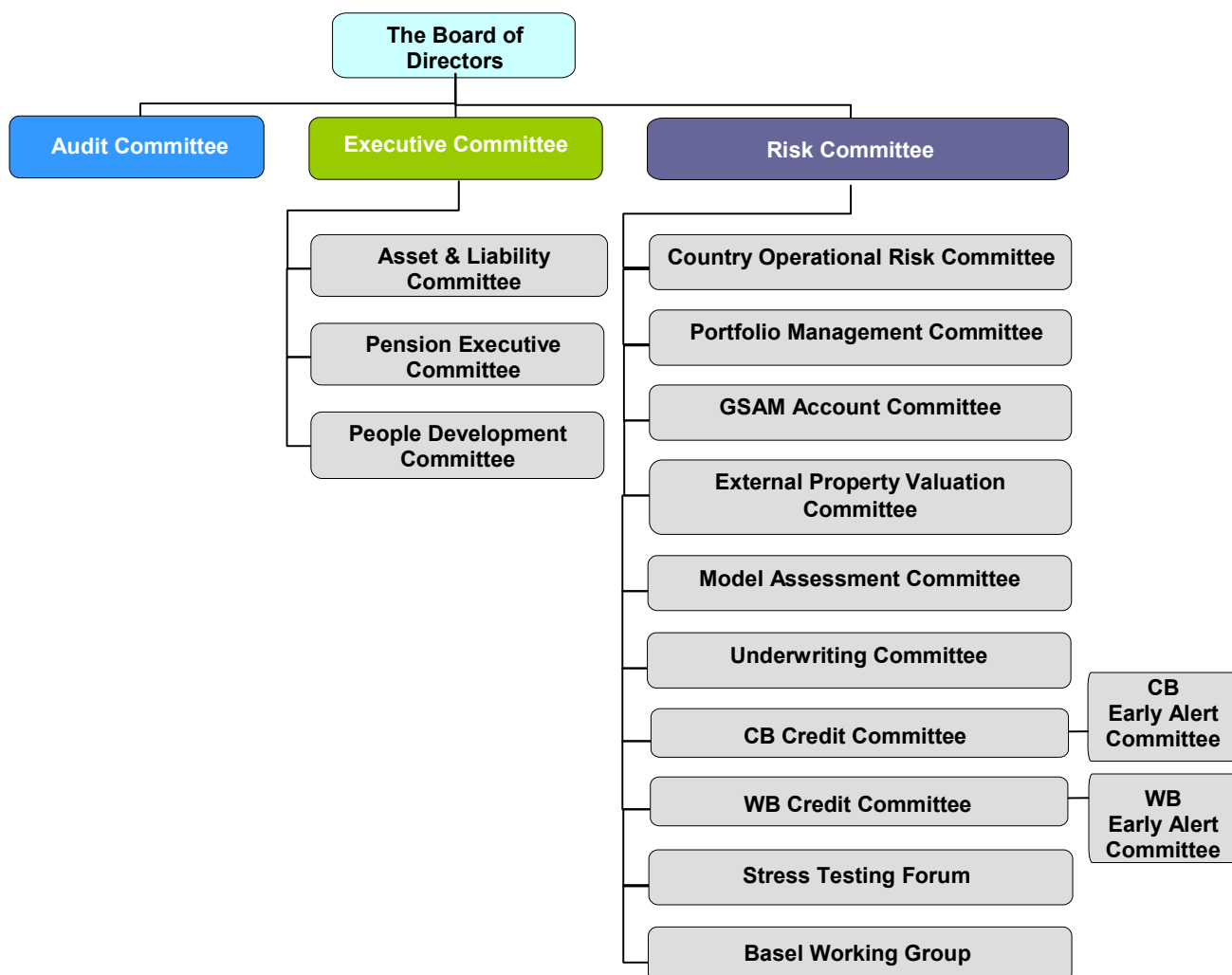
- **Balancing risk and return:** risk is taken in support of the requirements of the Bank and the SCBT Group's stakeholders, in line with the Bank and the SCBT Group's strategy and within its risk appetite;
- **Responsibility:** it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. The Bank and the SCBT Group take account of its social responsibilities, and its commitment 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:** the Bank and the SCBT Group seek to anticipate future risks and ensure awareness of all known risks; and
- **Competitive advantage:** the Bank and the SCBT Group seek to achieve competitive advantage through efficient and effective risk management and control.

The following diagram illustrates the high level risk committee structure:

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4.2 Risk Governance

Ultimate responsibility for setting the Bank and the SCBT Group's risk appetite and for the effective management of risk rests with the Board. The Board delegates the authority for the management of risks to several committees.

The Executive Committee ("EXCO") is responsible for the day to day management, operation and control of the Bank and the SCBT Group in conformity with policies and strategies approved by the Board of Directors. The EXCO is chaired by the CEO and comprises senior executives from Consumer Banking, Wholesale Banking (Origination and Client Coverage and Financial Markets), Finance, Group Technology & Operations,

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Legal, Risk Management, Human Resources, Compliance & Assurance and Corporate Affairs.

The Asset & Liability Committee (“ALCO”) ensures that the balance sheet of the Bank and the SCBT Group are managed in accordance with the policies of Standard Chartered Bank Group adopted by the Bank and the SCBT Group and any other applicable regulatory requirements relating to management of liquidity, capital adequacy and structural market risks.

The Risk Committee’s (“RC”) main responsibilities are to provide leadership on forward looking and anticipating risk issues covering strategic risk, operational risk, credit risk, market & liquidity risk, legal & regulatory risk, and reputational risk etc. The Committee also supervises and directs the management of all risks within the Bank and the SCBT Group to be in accordance with standards of Standard Chartered Bank Group and policies laid down by the RC.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

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. Business and function heads are accountable for risk management in their respective businesses and functions.

The second line of defence comprises the Risk Control Owners and Assurance Team, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a Risk Control Owner’s responsibilities is defined by a given Risk Type and the risk management processes that relate to that Risk Type as mentioned above.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined by the Audit Committee. The findings from its audit are

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reported to all relevant management, relevant oversight functions or committees and committees of the Board. The Internal Audit provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Function (the second line). As a result, the Internal Audit provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

The Risk Function

The Country Chief Risk Officer ("CCRO") directly manages a Risk function which is separated from the origination, trading and sales functions of the businesses. The CCRO also chairs the RC and is a member of EXCO. The roles of the Risk function are:

- To ensure the effective application of the Bank and the SCBT Group's Risk Management Framework.
- To ensure risk identification and measurement capabilities are objective, consistent and compliant with the Bank and the SCBT Group standards and applicable regulations, and that risk control and risk origination decisions are properly informed.
- To ensure the effective application of the Bank and the SCBT Group's risk assurance framework to evidence that existing governance and risk control processes are effectively implemented within the Bank and the SCBT Group.
- To ensure that the Committee's authorities are effectively delegated to properly constituted sub-committees or authorised individuals, to achieve the right balance between business efficiency and risk control.
- To set and maintain risk control parameters for all types of risk of the Bank and the SCBT Group, including policies, control standards, risk exposure limits or other control levers; to maintain the Bank and the SCBT Group's risk profile within the boundaries set by the Board and Standard Chartered Bank Group.
- To monitor all material risk exposures and key external trends.
- To initiate stress tests and scenario plans and review their results and those of any Group-wide, business, country or specific risk type stress tests or scenario plans which would have a material impact on the Bank and the SCBT Group.

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- To review the findings of sub-committees, Group Internal Audit, Credit Risk Review, other internal functions and external regulators on material risk issues.
- To direct appropriate action in response to material risk issues or themes those come to the attention.
- To ensure that material risk issues and changes are reported to the Board and Standard Chartered Bank Group risk committees as appropriate.
- To ensure that authorities for the setting of policies, control standards, exposure limits and other risk control levers are delegated appropriately, in line with the Bank's Committees and Standard Chartered Bank Group risk authorities frameworks.

4.3 Risk Appetite

Risk Appetite is an expression of the amount of risk the Bank and the SCBT Group are willing to take in pursuit of its strategic objectives, reflecting the Bank and the SCBT Group's capacity to sustain losses and continue to meet its obligation arising from a range of different stress trading conditions.

Risk appetite is defined in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. The Bank and the SCBT Group also define risk appetite with respect to liquidity risk.

The Bank and the SCBT Group's quantitative risk profile are assessed through a 'bottom-up' analytical approach covering all of the Bank and the SCBT Group's major businesses and products. The risk appetite is approved by the Board and forms the basis for establishing the risk parameters within which businesses must operate, including policies, concentration limits and business mix.

The RC and ALCO are responsible for ensuring that the Bank and the SCBT Group's risk profile is managed in compliance with the risk appetite set by the Board.

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4.4 Stress Testing

Stress testing and scenario analysis are used to assess the financial and management capability of the Bank and the SCBT Group to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors.

The Bank and the SCBT Group's stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite
- Identify key risks to strategy, financial position, and reputation
- Examine the nature and dynamics of the risk profile and assess the impact of stresses on profitability and business plans
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing
- Inform senior management
- Ensure adherence to regulatory requirements.

Annual Stress Testing with participation from Group Research, Country Credit Risk, Country Finance and Group Treasury aim to ensure that the earnings and capital implications of specific stress scenarios are fully understood. Such Stress Testing team generates and considers pertinent and plausible scenarios that have the potential to adversely affect the Bank and the SCBT Group's business.

The Bank and the SCBT Group's stress testing activity focused on specific asset classes, customer segments and the potential impact of macroeconomic factors which are in line with the Bank and the SCBT Group's internal capital adequacy assessment process and framework, as well as regulatory requirement. Stress tests have taken into consideration possible future scenarios that could arise as a result of the development of prevailing market conditions.

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5. Credit Risk

5.1 Credit Risk

Credit risk is the potential for loss due to the failure of counterparty to meet its obligations to pay the Bank and the SCBT Group in accordance with agreed terms. Credit exposures may arise from both the non-trading (banking) and trading books. 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 approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

5.2 Internal Ratings Based Approach to Credit Risk

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

PD is the likelihood that an obligor will default on an obligation. CCF is the amount that is expected to be further drawn down from the undrawn portion in a committed facility. LGD is the percentage of EAD that a lender expects to lose in the event of obligor default.

5.3 Standardised Approach to Credit Risk

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 the BOT and is based on the asset class to which the exposure is assigned.

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5.4 Credit Risk Mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, 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 that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees and letters of credit. The Bank and the SCBT Group also enter into collateralised reverse repurchase agreements.

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 companies, parent companies, shareholders and export credit agencies. 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 loans is maintained at fair value.

The Bank and the SCBT Group use bilateral and multilateral netting to reduce pre-settlement and settlement counterparty risk. Pre-settlement risk exposures are normally netted using the bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery vs. Payments or Payment vs. Payments systems.

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6. Market Risk

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

The Bank and the SCBT Group transacts in the money market, foreign exchange markets and capital markets giving rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, interest rates, exchange rates, or indices. They include futures, forwards, swaps, and options transactions in the foreign exchange and interest rate markets. Derivative contracts entered into by the Bank and the SCBT Group are primarily over-the-counter derivatives.

The Bank and the SCBT Group have established market risk management policies and framework, including limit setting, monitoring and reporting and control procedures, which are reviewed regularly by the relevant committees – ALCO, and the Board; and are overseen by RC. Market risk limits are proposed by the business within the terms of agreed policy. Risk officers and relevant committees review and approve the limits within delegated authorities, and monitor exposures against these limits. Risks are monitored against limits on a daily basis.

The primary categories of market risk for the Bank and the SCBT Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options. For this category of market risk, the Bank and the SCBT Group do not take equity price risk.

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- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options; and
- Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agricultural. For this category of market risk, the Bank and the SCBT Group are fully hedged through a back-to-back position.

The BOT specifies minimum capital requirements against market risk in the trading book. Interest rate risk in the non-trading book (banking book) is covered separately under the Pillar 2 framework. The minimum regulatory market risk capital requirements for the trading book of the Bank and the SCBT Group are presented below.

TABLE 7: Minimum Capital Requirement for each Type of Market Risk under the SA Approach

Unit: Million Baht

Type of Risk	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
Interest Rate Risk	2,278	2,206	2,278	2,206
Equity Position Risk	-	-	-	-
Foreign Exchange Rate Risk	335	465	335	465
Commodity Risk	-	-	-	-
Total Minimum Capital Requirements	2,613	2,671	2,613	2,671

7. Operational Risk

Operational Risk is the risk of direct or indirect loss due to an event or action resulting from either inadequate or failed internal processes, people or systems, or from external events.

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Objective

The Bank and the SCBT Group's exposure to operational risk arises as a consequence of the Bank and the SCBT Group's business activities. It is the Bank and the SCBT Group's objective to minimise exposure to operational risk. To facilitate proactive risk identification and assessment, the Bank and the SCBT Group further sub-divides operational risk into specific risk sub-types, where each risk sub-type represents a grouping of material potential operational risk losses that need to be managed. Designated operational risk control owners ensure that the risk sub-types are managed within appetite across their respective risk control areas by seeking to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Governance Structure

Governance over operational risk management is achieved through a defined structure of Country Operational Risk Control Committees ("CORC"), which are responsible for overseeing all material risks, responses to risk issues and the adequacy and effectiveness of controls within a given Operational Risk Control Area. The CORC is responsible for overseeing the adequacy of risk governance and control by the Operational Risk Control Committees. Operational risk governance is also ensured at business and country levels via a defined structure of risk committees that integrate into the Bank and the SCBT Group's overall risk committee structure at each level. All operational risk committees operate on the basis of a defined structure of delegated authorities and terms of reference, derived from the RC.

Roles and Responsibilities

Responsibility for the management of operational risk rests with business and function management as an integral component of their first line risk management responsibilities. They are assisted in their responsibilities by embedded unit operational risk managers. An independent Operational Risk Assurance and Audit function performs the second line of defence and ensures that the Bank and the

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SCBT Group's exposure to operational risk is controlled within acceptable residual risk levels through a framework of effective controls.

8. Equity Exposure in the Non-Trading Book (Banking Book)

The holdings of non-trading book (banking book) equities are considered immaterial.

9. Interest Rate Risk in the Non-trading Book (Banking Book)

Interest rate risk from the non-trading book (banking book) portfolios is transferred to Financial Markets where it is managed by Asset and Liability Management (ALM) desks under the supervision of Asset and Liability Committees (ALCO). The ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits. VaR and stress tests are therefore applied to non-trading book (banking book) exposures in the same way as for the trading book including listed 'available-for-sale' securities.

From Fund Transfer Pricing ("FTP") process, there is the assumption for loan repayments incorporated. Businesses will not bear any interest rate risk since all interest rate risks will be centralised at ALM and ALM has to turn this risk to be revenue opportunity via active ALM strategies. ALM has to manage and monitor interest risk on daily basis.

Basis risk, or the risk arising from hedging exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions, is also analysed.

Interest rate risk arises due to the investment into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the

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impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one year time horizon.

The impacts of Interest Rate Change on Net Interest Income as at 30 June 2011 for the Bank and the SCBT Group are shown in below table.

Table 8: Impact of Interest Rate Change on Net Interest Income

Unit: Million Baht

Currency	Impact of a 1% interest rate change on Net Interest Income			
	The Bank		The SCBT Group	
	30 Jun 11	31 Dec 10	30 Jun 11	31 Dec 10
THB	259	332	259	332
USD	(34)	(66)	(34)	(66)
EURO	-	-	-	-
OTHER	(2)	(9)	(2)	(9)
Total Impact on Net Interest Income	223	257	223	257

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10. Acronyms

AIRB	Advanced Internal Ratings Based
ALCO	Asset and Liabilities Management Committee
ALM	Asset and Liabilities Management
AFS	Available for Sale
BCBS	Basel Committee on Banking Supervision
BOT	The Bank of Thailand
CCF	Credit Conversion Factor
CCRO	Country Chief Risk Officer
CEO	Chief Executive Officer
CORC	Country Operational Risk Committee
CRM	Credit Risk Mitigation
EAD	Exposure at Default
EL	Expected Loss
EXCO	Executive Committee
FTP	Fund Transfer Pricing
ICAAP	Internal Capital Adequacy Assessment Process
IRB	Internal Ratings Based
LGD	Loss Given Default
MANCO	Management Committee
MDBs	Multilateral Development Banks
NII	Net Interest Income
PD	Probability of Default
PSEs	Non-central government Public Sector Entities
RC	Risk Management Committee
RMF	Risk Management Framework
RWA	Risk Weighted Assets
SA	Standardised Approach
SCBT	Standard Chartered Bank (Thai) PCL
SREP	Supervisory Review and Evaluation Process