Standard Chartered Bank (Thai) PCL

& its Subsidiaries

Pillar 3 Disclosures

30 June 2012

Standard Chartered

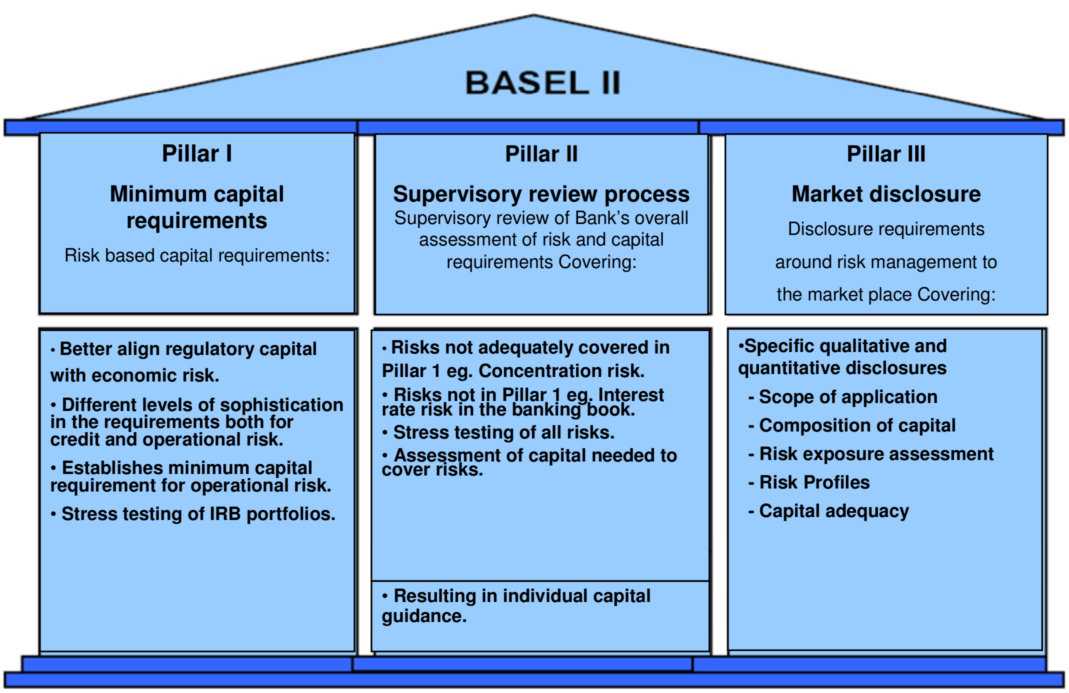
Registered Office: 90 North Sathorn Road, Silom Bangkok, 10500, Thailand

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.



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 Standardized Approach (“SA”) for determining the capital requirements for market and operational risks.

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Contents

Table of Contents

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 SCBT Group and the Bank has been using AIRB approach for the credit risk capital calculation from Basel II method as regulatory capital since December 2009.

The SCBT Group and the Bank are also required to calculate a capital charge to cover market risk and operational risk for which the SCBT Group and the Bank applies the Standardized 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 SCBT Group and the Bank 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 SCBT Group and the Bank's current and projected demand for capital under expected and stressed conditions.

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 SCBT Group and the Bank are required to disclose the data and information relative to risk profile, risk management and capital funds.

The SCBT Group and the Bank 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 SCBT Group and the Bank'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 SCBT Group, which consists of the Standard Chartered Bank (Thai) PCL, Thai Exclusive Leasing Company Limited ("TEL") and Standard Chartered (Thailand) Limited ("SCT") 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 2012 covering the following areas:

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

3. Capital Management

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

The SCBT Group and the Bank'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 SCBT Group and the Bank'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 signaling tool to the market
- Available supply of capital and capital raising options

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

3.1 Capital Structure

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

The following table is a breakdown of total regulatory capital of the SCBT Group and the Bank as at 30 June 2012, comparing with the position of the SCBT Group and the Bank as at 31 December 2011.

Table1: Capital Structure

Unit: Million Baht

	The SCBT Group		The Bank	
	30 Jun 12	**31 Dec 11**	**30 Jun 12**	**31 Dec 11**
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	683	503	683	503
Retained earnings	9,870	7,697	9,870	7,697
Less: deferred tax assets	(452)	-	(452)	-
: excess expected loss	(132)	(368)	(132)	(368)
Total Tier 1 Capital	33,862	31,725	33,862	31,725

Tier 2 Capital				
Capital tier 2 before deduction	173	250	173	250
- General Provision under SA	173	250	173	250
Less: excess expected loss	(132)	(250)	(132)	(250)
Total Tier 2 Capital	41	-	41	-
Total Regulatory Capital				
Deductions	(716)	(618)	(716)	(618)
Total Regulatory Capital	**33,903**	**31,725**	**33,903**	**31,725**

Capital Sources

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

The SCBT Group and the Bank'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 SCBT Group and the Bank 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 SCBT Group and the Bank as at 30 June 2012 were 17.51% and 17.49% respectively. Tier 1 Capital Ratios were 17.49% and 17.47% respectively, which exceeded minimum requirements of the BOT.

Table 2: Capital Adequacy

Unit: Percent

	Minimum Requirement	The SCBT Group		The Bank	
		30 Jun 12	**31 Dec 11**	**30 Jun 12**	**31 Dec 11**
Total capital funds to risk weighted assets	8.50	17.51	17.15	17.49	17.13
Tier 1 capital funds to risk weighted assets	4.25	17.49	17.15	17.47	17.13

3.3 Minimum Capital Requirement

The SCBT Group and the Bank 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 SCBT Group and the Bank as at 30 June 2012.

Table 3: Minimum Capital Requirement

Unit: Million Baht

Minimum Capital	The SCBT Group		The Bank	
	30 Jun 12	**31 Dec 11**	**30 Jun 12**	**31 Dec 11**
Credit Risk	12,652	12,000	12,657	12,005
Market Risk	2,140	2,129	2,140	2,129
Operational Risk	1,667	1,596	1,680	1,609
Total Minimum Capital Requirements	**16,459**	**15,725**	**16,477**	**15,743**

AIRB Adoption

The SCBT Group and the Bank 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).

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

Unit: Million Baht

Asset Class	The SCBT Group		The Bank	
	30 Jun 12	31 Dec 11	30 Jun 12	31 Dec 11
Non-Default exposures				
Claims on sovereigns, financial institutions and Corporations	7,266	6,185	7,266	6,185
Claims on retail portfolios				
-Claims on residential mortgage	-	-	-	-
-Qualifying revolving retail exposures	1,224	1,197	1,224	1,197
-Other retail exposures	1,359	1,326	1,359	1,326
Equity exposures	2	3	7	8
Other assets	140	139	140	139
Default exposures	190	185	190	185
First-to-default credit derivatives and Securitization	**-**	**-**	**-**	**-**
Total minimum capital requirement for credit risk – AIRB	**10,181**	**9,035**	**10,186**	**9,040**

Minimum capital requirement for credit risk under AIRB increased by THB 1,146 million mainly due to increase in non default exposures of claim on corporate.

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

Unit: Million Baht

Asset Class	The SCBT Group		The Bank	
	30 Jun 12	**31 Dec 11**	**30 Jun 12**	**31 Dec 11**
Non-Default exposures				
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	-	717	-	717
Claims on corporates, PSEs treated as claims on corporate	727	643	727	643
Claims on retail portfolios	897	748	897	748
Claims on residential mortgage	794	807	794	807
Other assets	-	-	-	-
Default exposures	53	50	53	50
First-to-default credit derivatives and Securitisation	**-**	**-**	**-**	**-**
Total minimum capital requirement for credit risk – SA	**2,471**	**2,965**	**2,471**	**2,965**

Note: PSE is non-central government public sector entities

Table 6: Minimum Capital Requirement for Equity Exposure under AIRB

Unit: Million Baht

Item	The SCBT Group		The Bank	
	30 Jun 12	31 Dec 11	30 Jun 12	31 Dec 11
Equity exposure exempted from credit risk calculation by IRB	2	3	7	8
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	**2**	**3**	**7**	**8**

4. Risk Management

The management of risk lies at the heart of the SCBT Group and the Bank's business. One of the main risks incurred arises from extending credit to customers through trading and lending operations. Beyond credit risk, the SCBT Group and the Bank is 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 SCBT Group and the Bank's strategy and its 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 SCBT Group and the Bank.

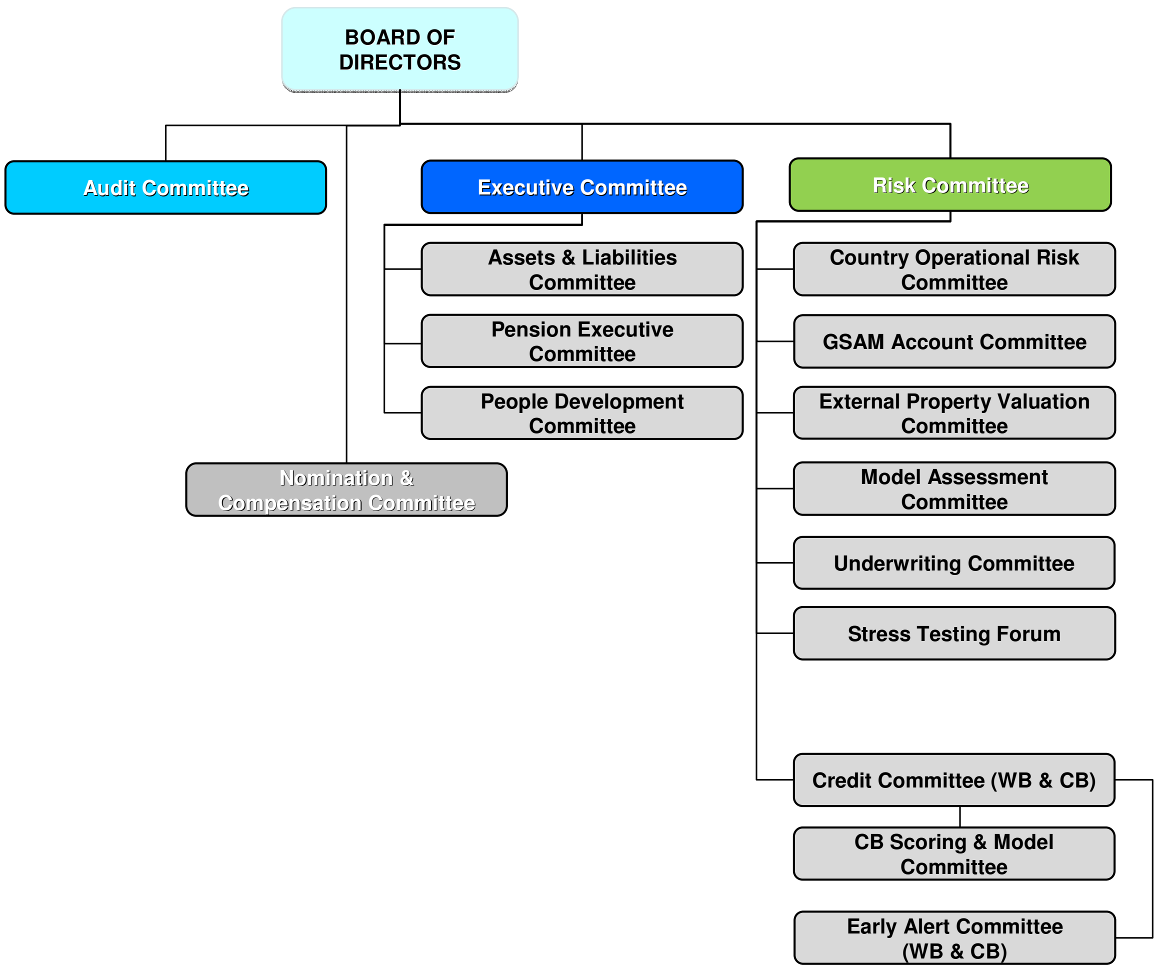
Through its risk management framework the SCBT Group and the Bank manage bank-wide risks, with the objective of maximizing risk-adjusted returns while remaining within its risk appetite.

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

- Balancing risk and return: risk is taken in support of the requirements of the SCBT Group and the Bank's stakeholders, in line with the SCBT Group and the Bank'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 SCBT Group and the Bank 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 SCBT Group and the Bank seek to anticipate future risks and ensure awareness of all known risks; and
- Competitive advantage: the SCBT Group and the Bank seek to achieve competitive advantage through efficient and effective risk management and control.

The following diagram illustrates the high level risk committee structure:



4.2 Risk Governance

Ultimate responsibility for setting the SCBT Group and the Bank'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 SCBT Group and the Bank 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, Legal, Risk Management, Human Resources, Compliance and Corporate Affairs.

The Asset & Liability Committee ("ALCO") ensures that the balance sheet of the SCBT Group and the Bank are managed in accordance with the policies of Standard Chartered Bank Group adopted by the SCBT Group and the Bank and any other applicable regulatory requirements relating to management of liquidity, capital adequacy and 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 SCBT Group and the Bank 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, 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 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 alternate chairs the RC and is a member of EXCO. The roles of the Risk function are:

- To ensure the effective application of the SCBT Group and the Bank's Risk Management Framework.
- To ensure risk identification and measurement capabilities are objective, consistent and compliant with the SCBT Group and the Bank standards and applicable regulations, and that risk control and risk origination decisions are properly informed.
- To ensure the effective application of the SCBT Group and the Bank's risk assurance framework to evidence that existing governance and risk control processes are effectively implemented within the SCBT Group and the Bank.

- To ensure that the Committee's authorities are effectively delegated to properly constituted sub-committees or authorized 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 SCBT Group and the Bank, including policies, control standards, risk exposure limits or other control levers; to maintain the SCBT Group and the Bank'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 SCBT Group and the Bank.
- 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 Assessment

Risk Appetite assessment is an exercise conducted as a framework for the amount of risk the SCBT Group and the Bank are willing to take in pursuit of its strategic objectives, reflecting the SCBT Group and the Bank'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 SCBT Group and the Bank also define risk appetite assessment with respect to liquidity risk, market risk and operational risk.

The SCBT Group and the Bank's quantitative risk profile are assessed through a 'bottom-up' analytical approach covering all of the SCBT Group and the Bank's major businesses and products. The risk appetite assessment 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 SCBT Group and the Bank's risk profile is managed in compliance with the risk appetite assessment approved by the Board.

4.4 Stress Testing

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

The SCBT Group and the Bank'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 SCBT Group and the Bank's business.

The SCBT Group and the Bank's stress testing activity focused on specific asset classes, customer segments and the potential impact of macroeconomic factors which are in line with the SCBT Group and the Bank'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.

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 SCBT Group and the Bank 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 SCBT Group and the Bank use the AIRB approach to manage credit risk for the majority of its portfolios. This allows the SCBT Group and the Bank 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. The SCBT Group and the Bank must produce an internal estimate of PD for all borrowers in each borrower grade. 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 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 Standardized Approach to Credit Risk

The Standardized 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 Standardized Approach is given by the BOT and is based on the asset class to which the exposure is assigned.

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.

Collateral is held to mitigate credit risk exposures and 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 SCBT Group and the Bank also enter into collateralized reverse repurchase agreements.

For certain types of lending – typically mortgages, asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default.

Collateral is reported 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. Where appropriate collateral values are adjusted to reflect, current market conditions, the probability of recovery and the period of time to realize the collateral in the event of possession. The collateral values reported are also adjusted for the effects of over-collateralization.

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.

The SCBT Group and the Bank 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.

6. Market Risk

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

The SCBT Group and the Bank transact 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 SCBT Group and the Bank are primarily over-the-counter derivatives.

The SCBT Group and the Bank 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, RC and the Board. 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 SCBT Group and the Bank 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 SCBT Group and the Bank currently do not trade equity.
- 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 SCBT Group and the Bank are fully hedged through a back-to-back position.

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

Unit: Million Baht

Type of Risk	The SCBT Group		The Bank	
	30 Jun 12	31 Dec 11	30 Jun 12	31 Dec 11
Interest Rate Risk	2,025	1,946	2,025	1,946
Equity Position Risk	-	-	-	-
Foreign Exchange Rate Risk	115	183	115	183
Commodity Risk	-	-	-	-
Total Minimum Capital Requirements	**2,140**	**2,129**	**2,140**	**2,129**

The SCBT Group and the Bank are required to have THB 2,140 million total capitals against Market Risk. Comparing with December 2011, the decrement of THB 11 million is due mainly to the reduction in FX Risk.

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.

Objective

The SCBT Group and the Bank's exposure to operational risk arises as a consequence of the SCBT Group and the Bank's business activities. It is the SCBT Group and the Bank's objective to minimize exposure to operational risk. To facilitate proactive risk identification and assessment, the SCBT Group and the Bank 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 Businesses and Functions Operational Risk Committees. Operational risk governance is also ensured at business and country levels via a defined structure of risk committees that integrate into the SCBT Group and the Bank'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. The Second Line of defence, Operational Risk is shared between the Operational Risk function which has overall responsibility for Operational Risk and the specialist Operational Risk Control Owners in ensuring that the overall exposure to operational risk is contained within appetite. Internal Audit, the third line of defence 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 Functions (the Second Line) in accordance with Risk Management Framework.

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). ALM will transact deals in the market within 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 centralized 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 and the banking exposure to a rate which re-prices under slightly different conditions, is also analyzed.

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 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 2012 for the SCBT Group and the Bank 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 SCBT Group		The Bank	
	30 Jun 12	31 Dec 11	30 Jun 12	31 Dec 11
THB	200	217	197	214
USD	135	136	135	136
EURO	-	-	-	-
OTHER	-	2	-	2
Total Impact on Net Interest Income	**335**	**355**	**332**	**352**

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
CB	Consumer Banking
CBCC	Consumer Banking Credit Committee
CCF	Credit Conversion Factor
CCH	Country Credit Head – Consumer Bank
CCR	Counterparty Credit Risk
CCRO	Country Chief Risk Officer
CEO	Chief Executive Officer
CG	Credit Risk Grade
CORC	Country Operational Risk Committee
CRM	Credit Risk Mitigation
CSA	Credit Support Annex
EAD	Exposure at Default
EL	Expected Loss
EXCO	Executive Committee
FSV	Forced Sale Value
FTP	Fund Transfer Pricing
GSAM	Group Special Asset Management
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IIP	Individual Impairment Provision
IPRE	Income –Producing Real Estate
IRB	Internal Ratings Based
LGD	Loss Given Default
MAC	Model Assessment Committee
MANCO	Management Committee
MDBs	Multilateral Development Banks

NII	Net Interest Income
PD	Probability of Default
PIP	Portfolio Impairment Provision
PSEs	Non-central government Public Sector Entities
RC	Risk Management Committee
RMF	Risk Management Framework
RW	Risk Weight
RWA	Risk Weighted Assets
SA	Standardized Approach
SCB Group	Standard Chartered Bank Group
SCBT	Standard Chartered Bank (Thai) PCL
SME	Small and Medium Enterprise
SREP	Supervisory Review and Evaluation Process
WB	Wholesales Banking
WBCC	Wholesales Banking Credit Committee