Standard Chartered Saadiq Berhad

Pillar 3 Disclosures
31 December 2010

Incorporated in Malaysia with registered Company No. 823437K

Registered Office and Principal Place of Businesses
Level 16, Menara Standard Chartered
No. 30, Jalan Sultan Ismail 50250 Kuala Lumpur

Standard Chartered Saadiq Berhad
Pillar 3 disclosures
31 December 2010

1 Regulatory capital requirement

Disclosure on capital adequacy under the Standardised and IRB approach

Exposure class	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk weighted assets RM'000**	**Risk weighted assets absorbed by PSIA**	**Total risk weighted assets after effects of PSIA**	**Capital requirement RM'000**
					-	
(a) Credit risk						
Exposures under the Standardised approach						
On-balance sheet exposures:-						
Corporates	75,350	75,350	75,350	-	75,350	6,028
Regulatory retail	40,758	40,002	30,002	-	30,002	2,400
Residential mortgages	28	28	10	-	10	1
Higher risk assets	-	-	-	-	-	-
Other assets	52,167	52,923	46,135	-	46,135	3,691
Defaulted exposures	2,300	2,300	3,449	-	3,449	276
Total on-balance sheet exposures	170,603	170,603	154,946	-	154,946	12,396
Off-balance sheet exposures:-						
OTC derivatives	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-
Off-balance sheet exposures other than OTC derivative transactions and credit derivative	7,737	7,737	6,358	-	6,358	509
Defaulted exposures	-	-	-	-	-	-
Total off-balance sheet exposures	7,737	7,737	6,358	-	6,358	509
Total on and off-balance sheet exposures	178,340	178,340	161,304	-	161,304	12,905
Exposures under the IRB approach						
On-balance sheet exposures:-						
Sovereigns/central banks	1,294,001	1,294,001	60,528	-	60,528	4,842
Public sector entities	-	-	-	-	-	-
Banks, development financial institutions				-	-	
& MDBs	324,702	354,702	24,355	-	24,355	1,948
Insurance companies, securities firms &					-	
fund managers	-	-	-	-	-	-
Corporates	1,011,142	981,142	725,545	(133,575)	591,970	47,358
Residential mortgages	347,101	347,101	91,237	-	91,237	7,299
Qualifying revolving retail exposures	-	-	-	-	-	-
Other retail	870,867	870,867	1,237,491	-	1,237,491	98,999
Defaulted exposures	50,924	50,924	110,910	-	110,910	8,873
Total on-balance sheet exposures	3,898,737	3,898,737	2,250,066	(133,575)	2,116,491	169,319
Off-balance sheet exposures:-						
OTC derivatives	220,558	220,558	84,987	-	84,987	6,799
Off-balance sheet exposures other than OTC derivative transactions and credit derivative	204,059	204,059	98,605	(23,724)	74,881	5,990
Defaulted exposures	28	28	31	-	31	3
Total off-balance sheet exposures	424,645	424,645	183,623	(23,724)	159,899	12,792
Total on and off-balance sheet exposures	4,323,382	4,323,382	2,433,689	(157,299)	2,276,390	182,111
(b) Large exposures risk requirement			-	-	-	-
(c) Market risk			-	-	-	-
(d) Operational risk (Basic indicator approach)			209,837	-	209,837	16,787
Total RWA and capital requirements			2,804,830	(157,299)	2,647,531	211,803

Tier 1 capital ratio and risk-weighted capital ratio

	Before effect of PSIA	After effect of PSIA
Tier 1 capital ratio	13.59%	14.40%
Risk-weighted capital ratio	13.59%	14.40%

2. Credit risk

Credit risk is the risk that the counterparty to a financial transaction will fail to discharge an obligation, resulting in financial loss to the Bank. Credit exposures may arise from the banking 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 Group Risk Committee ("GRC"), which also oversees the delegation of credit approval and financing impairment provisioning authorities. Policies and procedures that are specific to each business are established by authorised risk committees within Wholesale and Consumer Banking that cover financing and advances, investment securities and deposits and placements. 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 informed 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 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 Standard Chartered Bank Malaysia Berhad's Risk Management Committee ("RMC").

For IRB portfolios, risk measurement models are approved by the responsible risk committee, on the recommendation of the Bank's Model Assessment Committee (“MAC”). The MAC supports risk committees 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 MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams which develop and maintain the models. Models undergo a detailed annual review. Such reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

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 Committee (“GCC”). The GCC derives its authority from the GRC.

All other credit approval authorities are delegated by the GRC to individuals 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.

2. Credit risk (continued)

Concentration risk

Credit concentration risk is managed within concentration caps set by counterparty or groups of connected counterparties, by industry sector and country in Wholesale Banking; and by product in Consumer Banking. Additional targets are set and monitored for concentrations by credit rating. Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to Standard Chartered PLC Group are reviewed and approved at least annually by the GCC at Group and Country level.

Section 2.1 provides further analysis on the Bank's credit risk exposures.

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 risk committees, containing information on key environmental, political and economic trends; portfolio delinquency and financing impairment performance; as well as IRB portfolio metrics including credit grade migration.

The Wholesale Banking Credit Issues Forum, which is a subcommittee of the Wholesale Banking Risk Committee, meets regularly to assess the impact of external events and trends on the credit risk portfolio and to define and implement the response in terms of appropriate changes to portfolio shape, underwriting standards, risk policy and procedures.

Corporate accounts 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 Group Special Assets Management ("GSAM"), the specialist recovery unit. 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.

In Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and informs lending 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.

The Small and Medium Enterprise ("SME") business is managed within Consumer Banking in two distinct segments: small businesses, and medium enterprises, differentiated by the annual turnover of the counterparty. Medium enterprise accounts are monitored in line with Wholesale Banking procedures, while small business accounts are monitored in line with other Consumer Banking accounts. Medium enterprise past due accounts are managed by GSAM.

(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. It is the Bank's 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.

2. Credit risk (continued)

(i) Internal Ratings Based approach to credit risk (continued)

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. The development, use and governance of models under the IRB approach is covered in more detail in Section 2 (iv).

Banks are allowed 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.

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.

For Sovereigns, Corporates and Institutions, external ratings are used to assign risk weights. These external ratings must come from BNM approved rating agencies, known as External Credit Assessment Institutions ("ECAI"); namely RAM, MARC, Moody's, Standard & Poor's and Fitch. Standard Chartered PLC uses ratings from these agencies as part of its day to day business. External ratings for the counterparty are determined as soon as a relationship is established and these ratings are tracked and kept updated. Assessments provided by approved ECAI are mapped to credit quality steps as prescribed by BNM.

The Bank currently does not use assessments provided by external credit agencies for the purpose of evaluating RWA in the Standardised approach.

(iii) 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.

2. Credit risk (continued)

(iii) Credit risk mitigation (continued)

Risk mitigation policies determine the eligibility of collateral types. Collateral types which are eligible for risk mitigation include cash, residential, commercial and industrial property, marketable securities, commodities, 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 companies, parent companies, shareholders and external 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 financing is maintained at fair value.

For further information regarding credit risk mitigation in the trading book see Section 2 (vii).

Wholesale Banking
The process of managing and recognising credit risk mitigation is governed by policies which set out the eligibility criteria that must be met. The credit risk mitigation policy sets out clear criteria that must be satisfied if the mitigation is to be considered effective:-

- Excessive exposure to any particular risk mitigants or counterparties should be avoided. Collateral concentration mitigation standards are maintained at both the portfolio and counterparty level;
- 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.

Consumer Banking
The effective use of collateral is a key tool by which credit risk is mitigated in Consumer Banking. All eligible collateral accepted by Consumer Banking is covered by a product proposal approved by senior credit officers delegated with the relevant authority. New collateral types have to be vetted through a stringent 'New Business Approval' process and approved by the Consumer Banking Risk Committee.

In order to be recognised as security and for the financing to be classified as secured, all items pledged must be valued and there must exist an active secondary resale market for the collateral. Documentation must be held to enable Consumer Banking to realise the asset without the cooperation of the asset owner in the event that this is necessary.

2. Credit risk (continued)

(iii) Credit risk mitigation (continued)

Regular valuation of collateral is required in accordance with Standard Chartered PLC Group's risk mitigation policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. Physical collateral is required to be insured at all times and against all risks, with the Bank as the loss payee under the insurance policy.

Detailed procedures over collateral management are in place for each business within the bank.

Section 2.2 provides further analysis on the Bank's credit risk exposures after the effect of CRM.

(iv) Internal Ratings Based models

<u>Model governance</u>
The IRB models used by the Bank calculate a conservative PD, LGD and EAD, as borne out by the model performance data. The product of this is a conservative view of Regulatory Expected Loss, which is considered necessary for the calculation of regulatory capital.

Models are developed by Standard Chartered PLC's Group Analytics teams within the Consumer Banking and Wholesale Banking risk functions and Standard Chartered PLC's Group Risk. 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 annually by a model validation team reporting to Standard Chartered PLC Group's Chief Credit Officer, thereby maintaining independence from the model build processes. Model validation findings are presented to Standard Chartered PLC Group's MAC which in turn makes approval recommendations to the Consumer Banking and Wholesale Banking Risk Committees. 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. The GRC and RMC periodically review overall model performance.

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.

Statistical testing is used to determine a model's discriminatory power, predicted versus actual performance and stability over time with pre-defined thresholds for passing such tests. The model development teams also conduct annual model reviews, which are informed by regular monitoring, to ascertain whether the model is fit for purpose and performing within acceptable boundaries or whether there are potential improvements in performance.

2. Credit risk (continued)

(iv) Internal Ratings Based models (continued)

Model governance (continued)
Models are tabled with the Bank's MAC which in turn makes approval recommendations to the RMC. These decision making bodies are comprised of divisional senior management whose role is to review model assumptions, performance, local regulatory requirements and agree on appropriate model use for local business decision making. Updates are provided to the Board Risk Committee ("BRC") and the Board of Directors (the "Board").

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 is available, Standard Chartered PLC Group deploys a variety of statistical methods to determine the likelihood of default on existing exposures. These methods afford very high discriminatory power by identifying exposure characteristics that have a significant predictive ability.

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 reflect ratings made by established external credit assessment institutions, those agencies having access to large databases of defaults on a variety of credit obligations. These external ratings are customised to develop Standard Chartered PLC Group's own customer rating systems.

Constrained Expert Judgement – for certain types of exposure there is little or no internal or external default history, and therefore no reliable external ratings. In such rare cases, Standard Chartered PLC Group develops quantitative frameworks which include the expert opinions of Standard Chartered PLC Group's credit risk management personnel. These frameworks are called 'knowledge based systems' and are regularly reviewed with respect to historical outcomes.

LGD model development
Standard Chartered PLC Group develops LGD models by assessing unsecured 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 values 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.

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

All LGD models are conservatively calibrated to a 'downturn' – with lower assumed collateral values and lower recoveries on unsecured exposures.

2. Credit risk (continued)

(iv) Internal Ratings Based models (continued)

EAD model development

An EAD model is developed for uncertain exposure products such as lines of credit 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 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 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 such as Economic Capital, Economic Revenue and Economic Profit.

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

- Each model is governed by a separate policy and procedure which defines the applicability of that model and details the procedure for use;
- The model review policy governs the regular review of models and specifies statistical thresholds and other triggers which determine when models need to be redeveloped;
- The model override policy sets the conditions and approval authority required to override model output; and the parental support policy, for Wholesale Banking, determines the extent to which parental support may be utilised to adjust the credit grade of corporates' and financial institutions' subsidiaries.

Section 2.3 provides further analysis on the Bank's credit risk exposures under the IRB approach.

(v) Risk grade profile

Exposures by internal credit grading

For IRB portfolios, a standard alphanumeric credit risk-grading system are used in both Wholesale and Consumer Banking. 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 sub-classified A, B or C. Lower credit grades are indicative of a lower likelihood of default. In Wholesale Banking, credit grades 1A to 12C are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to impaired or defaulted customers. In Consumer Banking, credit grades 1A to 12D are assigned to performing customers or accounts. Impaired accounts are treated as Default whilst debt relief accounts are treated as "DRP" (restructured accounts under the Bank's Debt Relief Program).

The Bank's credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by external ratings agencies ("ECAIs") in determining internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an ECAI is typically assigned a worse internal credit grade.

2. Credit risk (continued)

(v) Risk grade profile (continued)

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	A+
2B	AA–	A
3A	A+	A–
3B	A	BBB+
4A	A–	BBB+, BBB
4B	BBB+	BBB
5A	BBB	BBB–
5B	BBB–	BB+
6A	BB+	BB+, BB
6B		BB
7A	BB	BB,BB–
7B		BB–
8A	BB–	B+
8B		B+, B
9A	B+	B
9B		B, B–
10A	B	B–
10B		B–, CCC
11A - C	B–	CCC
12A - C	N/A	N/A

** Represents corporates/non-bank financial institutions.

Credit grades for Consumer Banking accounts covered by IRB models are based on PD. These models are based on application and behavioural scorecards which make use of credit bureau information as well as Standard Chartered PLC Group's own data. For Consumer Banking portfolios where IRB models have not yet been developed, the PD is calculated using historical portfolio delinquency flow rates and expert judgment, where applicable.

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.

2. Credit risk (continued)

(v) Risk grade profile (continued)

The Bank makes use of internal risk estimates of PD, LGD 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 a combination of PD, LGD and EAD of the obligor with reference to the nominal exposure;
- Pricing – In Wholesale Banking 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. In Consumer Banking a scorecard approach is taken to assess the level of risk using PD, LGD and EAD;
- Limit Setting – In Wholesale Banking 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. This process operates similarly in Consumer Banking;
- Provisioning – The Bank complies with BNM's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 which prescribes that banking institutions are required to maintain Collective Impairment Provisions ("CIP") of at least 1.5% of total outstanding financing and advances, net of IIP;
- Risk Appetite – 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; and
- Economic Capital – PD, LGD and EAD are key components of the model used to calculate Economic Capital which is used in the strategic planning, budgeting, pricing and performance measurement processes at business unit, portfolio and client relationship level.

(vi) Problem credit management and provisioning

Consumer Banking

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

Provisioning within Consumer Banking reflects the fact that the product portfolios (excluding medium enterprises among SME customers) consist of a large number of comparatively small exposures. As a result, much of the provisioning is initially done at an account level for each product and a collective impairment provisions ("CIP") is raised on a portfolio basis. 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 has not been raised.

For unsecured products, individual impairment provisions ("IIP") are raised at 90 days past due and the entire outstanding amount is generally written off at 150 days past due. Secured financing IIP are raised at 90 days past due.

2. Credit risk (continued)

(vi) Problem credit management and provisioning (continued)

The provisions are based on the estimated present values of future cash flows, in particular those resulting from the realisation of securities. Following such realisation, 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 IIP 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).

The procedures for managing problem credits for medium enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking.

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

The individual circumstances of each customer are taken into account when GSAM estimates future cash flow. All available sources, such as cash flow arising from operations, selling of 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 Consumer Banking, a collective impairment provisions ("CIP") to cover the inherent risk of losses which although not identified, are known to be present in any portfolio. In Wholesale Banking, this is set with reference to historic loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The PIP methodology provides for accounts for which an individual impairment provision has not been raised.

Section 2.5 provides further analysis on the Bank's exposures on problem credit managements 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 lending limits to banks and customers.

2. Credit risk (continued)

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

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.

The Bank further reduces its credit exposures to counterparties by entering into contractual netting agreements which result in a single amount owed by or to the counterparty through netting the sum of the positive (amounts owed by the counterparty) and negative (amounts owed by the Bank) mark-to-market ("MTM") values of these transactions. Following Financial Reporting Standard ("FRS") 132 requirements, exposures are however presented on a gross basis in the financial statements as such transactions are not intended to be settled net in the ordinary course of business.

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.

<u>Credit reserves</u>
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 ECAIs long term rating. 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.

<u>Wrong way risk</u>
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.

<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. The benefit from master netting agreements is applied to the portfolio of counterparty trades in the CCR calculation according to the Net to Gross Ratio rules.

Section 2.6 provides further analysis on the Bank's off-balance sheet and counterparty credit risk exposures.

Standard Chartered Saadiq Berhad
Pillar 3 Disclosures
31 December 2010

2.1 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 undrawn facility included is dependant on the product type, and for IRB exposure classes this amount is modeled internally.

Geographical analysis

The below table provides the Bank's EAD analysed by the booking location of the exposure as at 31 December 2010.

Geographical analysis

	Malaysia RM'000	Others RM'000	Total RM'000
IRB exposures			
Sovereigns/Central banks	1,375,996	-	1,375,996
Banks, development financial institutions & multilateral development banks ("MDBs")	218,341	243,994	462,335
Insurance companies, securities firms & fund managers	810	-	810
Corporate exposures (excluding specialised lending and firm-size adjustment)	972,253	31,500	1,003,753
			-
Corporate exposures (with firm-size adjustment)	63,626	-	63,626
Qualifying corporate purchased receivables	-	-	-
Specialised lending	108,359	-	108,359
Retail exposures	1,308,503	-	1,308,503
Residential mortgages	*370,017*	-	*370,017*
Other retail exposures	*938,486*	-	*938,486*
Total IRB exposures	**4,047,888**	**275,494**	**4,323,382**
Standardised exposures			
Corporates	77,573	-	77,573
Regulatory retail	48,572	-	48,572
Residential mortgages	28	-	28
Other assets	52,167	-	52,167
Total Standardised exposures	**178,340**	**-**	**178,340**
Total credit risk exposures	**4,226,228**	**275,494**	**4,501,722**

Standard Chartered Saadiq Berhad
Pillar 3 disclosures
31 December 2010

2.1 Exposure values (continued)

Sector or economic purpose analysis

The below table provides the Bank's EAD analysed by sector or economic purpose of the exposure as at 31 December 2010.

Sector or economic purpose analysis

	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 restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance and business services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	1,375,996	-	-	-	1,375,996
Banks, development financial institutions & MDBs	-	-	-	-	-	-	-	462,335	-	-	-	462,335
Insurance companies, securities firms & fund managers	-	-	-	-	-	-	-	810	-	-	-	810
Corporate exposures (excluding specialised lending and firm-size adjustment)	123,506	6,180	188,360	-	12,048	74,993	289,917	127,495	57,017	-	124,237	1,003,753
Corporate exposures (with firm-size adjustment)	-	-	34,132	-	3,300	14,918	-	11,276	-	-	-	63,626
Specialised lending	-	-	-	-	-	-	-	-	108,359	-	-	108,359
Retail exposures	-	-	-	-	-	1,404	2,308	-	-	1,239,985	64,806	1,308,503
Residential mortgages	-	-	-	-	-	-	-	-	-	*370,017*	-	*370,017*
Other retail exposures	-	-	-	-	-	*1,404*	*2,308*	-	-	*869,968*	*64,806*	*938,486*
Total IRB exposures	**123,506**	**6,180**	**222,492**	**-**	**15,348**	**91,315**	**292,225**	**1,977,912**	**165,376**	**1,239,985**	**189,043**	**4,323,382**

	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 restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance and business services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
Standardised exposures												
Corporates	1,313	-	15,933	-	3,283	1,599	1,822	64	30,086	-	23,473	77,573
Regulatory retail	-	85	24,746	192	212	10,615	779	9,892	66	1,040	945	48,572
Residential mortgages	-	-	-	-	-	-	-	-	-	28	-	28
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	52,167	52,167
Total Standardised exposures	**1,313**	**85**	**40,679**	**192**	**3,495**	**12,214**	**2,601**	**9,956**	**30,152**	**1,068**	**76,585**	**178,340**
Total credit risk exposures	**124,819**	**6,265**	**263,171**	**192**	**18,843**	**103,529**	**294,826**	**1,987,868**	**195,528**	**1,241,053**	**265,628**	**4,501,722**

2.1 Exposure values (continued)

Contractual maturity analysis

The following table shows the Bank's maturity of EAD by each principal category of exposure class as at 31 December 2010.

Contractual maturity analysis

	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	1,294,001	81,995	-	1,375,996
Banks, development financial institutions & MDBs	355,528	106,807	-	462,335
Insurance companies, securities firms & fund managers	36	774	-	810
Corporate exposures (excluding specialised lending and firm-size adjustment)	805,015	198,738	-	1,003,753
Corporate exposures (with firm-size adjustment)	46,841	16,785	-	63,626
Qualifying corporate purchased receivables	-	-	-	-
Specialised lending	107,308	1,051	-	108,359
Retail exposures	62,325	865,901	380,277	1,308,503
Residential mortgages	12,789	3,803	353,425	370,017
Other retail exposures	49,536	862,098	26,852	938,486
Total IRB exposures	**2,671,054**	**1,272,051**	**380,277**	**4,323,382**
Standardised exposures				
Corporates	1,157	76,416	-	77,573
Regulatory retail	4,372	43,752	448	48,572
Residential mortgages	-	28	-	28
Other assets	52,167	-	-	52,167
Total Standardised exposures	**57,696**	**120,196**	**448**	**178,340**
Total credit risk exposures	**2,728,750**	**1,392,247**	**380,725**	**4,501,722**

2.2 Credit risk mitigation

The following table discloses the amount of exposure after the effect of CRM (excluding the impact of guarantees and credit derivatives) in the IRB portfolio as at 31 December 2010. For the IRB portfolios, there is no requirement to disclose the value of collateral as this is typically captured within the LGD models. The amount of the exposure that is covered by guarantees/credit derivatives is also shown by asset class.

	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	1,294,001	-	-	-
Banks, development financial institutions & MDBs	324,702	-	-	-
Corporates	979,184	54,000	29,223	65,018
Regulatory retail	911,625	756	-	-
Residential mortgages	347,129	-	-	297,548
Other assets	52,167	-	-	-
Specialised financing/investment	107,308	-	-	-
Defaulted exposures	53,224	-	-	6,312
Total on-balance sheet exposures	**4,069,340**	**54,756**	**29,223**	**368,878**
Off-balance sheet exposures				
OTC derivatives	220,558	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	211,796	-	1,413	31,758
Defaulted exposures	28	-	-	27
Total off-balance sheet exposures	**432,382**	**-**	**1,413**	**31,785**
Total on and off-balance sheet exposures	**4,501,722**	**54,756**	**30,636**	**400,663**

2.3 Exposures under IRB approach

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

The below table analyses the Bank's PD range or internal risk grading of non-retail exposures as at 31 December 2010.

	0<0.04%	0.04<0.17%	0.17<0.59%	0.59<3.05%	3.05<12.00%	12.00<100%	Default or 100%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Total non retail exposures (EAD)							
Sovereign	1,294,001	-	-	-	-	-	-
Bank	212,613	112,090	-	-	-	-	-
Corporate	24,000	55,161	251,530	488,045	192,405	-	-
Total exposures	**1,530,614**	**167,251**	**251,530**	**488,045**	**192,405**	**-**	**-**
Undrawn commitments							
Sovereign	-	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-
Corporate	-	3,000	42,495	17,068	1,979	-	-
Total undrawn commitments	**-**	**3,000**	**42,495**	**17,068**	**1,979**	**-**	**-**
Derivatives							
Sovereign	-	81,995	-	-	-	-	-
Bank	3,454	96,621	-	6,732	-	-	-
Corporate	-	-	-	1,659	30,096	-	-
Total derivatives	**3,454**	**178,616**	**-**	**8,391**	**30,096**	**-**	**-**
Contingent							
Sovereign	-	-	-	-	-	-	-
Bank	30,825	-	-	-	-	-	-
Corporate	-	-	388	50,076	18,646	-	-
Total contingent	**30,825**	**-**	**388**	**50,076**	**18,646**	**-**	**-**
Exposure weighted average LGD (%)							
Sovereign	26.20%	26.20%	0.00%	0.00%	0.00%	0.00%	0.00%
Bank	26.23%	21.44%	0.00%	26.20%	0.00%	0.00%	0.00%
Corporate	69.94%	57.25%	53.89%	46.07%	20.28%	0.00%	0.00%
Exposure weighted average risk weight (%)							
Sovereign	4.68%	15.87%	0.00%	0.00%	0.00%	0.00%	0.00%
Bank	4.70%	11.19%	0.00%	54.88%	0.00%	0.00%	0.00%
Corporate	12.49%	22.12%	51.60%	98.24%	58.28%	0.00%	0.00%

Standard Chartered Saadiq Berhad
Pillar 3 disclosures
31 December 2010

2.3 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 of retail exposures as at 31 December 2010.

	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
Total retail exposures (EAD)							
Residential mortgage	55	7,819	7,702	257,032	54,162	20,331	7,620
Other retail	9,931	15,069	5,881	275,067	408,524	156,396	43,304
Total exposures	**9,986**	**22,888**	**13,583**	**532,099**	**462,686**	**176,727**	**50,924**
Undrawn commitmetns							
Residential mortgage	-	-	-	14,240	119	909	28
Other retail	6	11	131	15,549	7,455	1,162	-
Total undrawn commitments	**6**	**11**	**131**	**29,789**	**7,574**	**2,071**	**28**
Exposure weighted average LGD (%)							
Residential mortgage	12.28%	12.41%	12.98%	13.28%	13.54%	13.95%	18.69%
Other retail	20.73%	21.36%	26.16%	85.88%	93.94%	93.02%	86.46%
Exposure weighted average risk weight (%)							
Residential mortgage	2.97%	5.39%	8.59%	19.89%	45.75%	73.03%	112.61%
Other retail	3.77%	11.11%	16.47%	115.41%	145.98%	198.65%	236.30%

Standard Chartered Saadiq Berhad
Pillar 3 disclosures
31 December 2010

2.3 Exposures under IRB approach (continued)

Retail exposures under the IRB approach by expected loss range

	Up to 0.10%	>0.10 to 0.20%	>0.20 to 0.50%	>0.50 to 1.00%	>1.00 to 30.00%	>30 to <100%	100%
Total retail exposures (EAD)							
Residential mortgage	109,930	58,629	131,671	17,936	36,555	-	-
Other retail	30,881	17,972	5,595	11,237	766,195	82,292	-
Total exposures	**140,811**	**76,601**	**137,266**	**29,173**	**802,750**	**82,292**	**-**
Undrawn commitments							
Residential mortgage	1,676	3,203	9,444	22	951	-	-
Other retail	148	8	11,664	127	12,367	-	-
Total undrawn commitments	**1,824**	**3,211**	**21,108**	**149**	**13,318**	**-**	**-**
Exposure weighted average risk weight (%)							
Residential mortgage	11.54%	18.16%	29.63%	48.28%	78.42%	0.00%	0.00%
Other retail	9.80%	18.77%	35.95%	88.38%	147.99%	226.18%	0.00%

2.3 Exposures under IRB approach (continued)

The following tables set out exposures subject to the supervisory risk weights under the IRB approach for the Bank as at 31 December 2010.

	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	-	51,357	57,002	-	-
- Risk weighted assets		46,221	65,552	-	-

2.4 Exposures under Standardised approach

Risk weights under the Standardised approach

The following table sets out analysis of risk weights under the Standardised approach for the Bank as at 31 December 2010.

	← Exposures After Netting and Credit Risk Mitigation →					
	Corporates RM'000	**Regulatory retail RM'000**	**Residential mortgages RM'000**	**Other assets RM'000**	**Total exposures after netting and credit risk mitigation RM'000**	**Total risk weighted assets RM'000**
Risk weights						
0%	-	-	-	6,675	6,675	-
20%	-	-	-	143	143	29
35%	-	-	28	-	28	10
75%	-	45,515	-	-	45,515	34,137
100%	77,573	-	-	46,106	123,679	123,679
150%	-	2,300	-	-	2,300	3,449
Total exposures	77,573	47,815	28	52,924	178,340	161,304
Risk-weighted assets by exposures	77,573	37,586	10	46,135	161,304	
Average risk weight	100.0%	78.6%	35.7%	87.2%	90.4%	

Rated exposures according to ratings by ECAIs

The following table sets out analysis of unrated on and off-balance sheet credit exposures for the Bank as at 31 December 2010.

	RM'000
Corporates	77,573
Total	**77,573**

2.5 Problem credit management and provisioning

Impairment provisions analysed by borrowers' business or industry

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

	Collective impairment provisions as at 31 December 2010 RM'000	Individual impairment provisions held as at 1 January 2010 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 2010 RM'000
Loans to individuals					
Mortgages	4,781	949	1,783	(1,364)	1,368
Others	11,412	10,179	44,263	(43,568)	10,874
Small and medium enterprises and others	2,312	114	-	-	114
Consumer Banking	**18,505**	**11,242**	**46,046**	**(44,932)**	**12,356**
Agriculture	1,629	-	-	-	-
Mining and quarrying	82	-	-	-	-
Manufacturing	2,597	-	-	-	-
Construction	159	-	-	-	-
Real estate	1,904	-	-	-	-
Wholesale & retail trade and restaurants & hotels	533	-	-	-	-
Transportation, storage and communication	3,037	-	-	-	-
Finance, insurance and business services	1,224	-	-	-	-
Others	1,629	-	-	-	-
Wholesale Banking	**12,794**	**-**	**-**	**-**	**-**

2.5 Problem credit management and provisioning (continued)

The following table analyses the Bank's financing and advances past due but not impaired, analysed by borrowers' business and industry for Consumer Banking and Wholesale Banking as at 31 December 2010.

	RM'000
Loans to individuals	
Mortgages	128,128
Others	41,012
Small and medium enterprises and others	15,276
Consumer Banking	184,416
Wholesale Banking	**-**

The following table analyses the Bank's financing and advances past due but not impaired, analysed by significant geographical areas as at 31 December 2010.

	RM'000
Malaysia	184,416
Others	-
	184,416

Standard Chartered Saadiq Berhad
Pillar 3 disclosures
31 December 2010

2.6 Off-balance sheet and counterparty credit risk

	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	33,827	-	-	33,827	14,105
Transaction related contingent items	24,687	-	-	24,687	7,273
Short term self liquidating trade related contingencies	10,596	-	-	10,596	3,312
Lending of banks' securities or the securities as collateral by banks, including instances where these arise out of repo-style transactions	30,825	-	-	30,825	1,442
Foreign exchange related contracts					
One year or less	2,155	27	27	32	20
Over one year to five years	282,837	15,415	15,415	29,556	6,042
Over five years	-	-	-	-	-
Profit rate related contracts					
One year or less	-	-	-	-	-
Over one year to five years	10,300,000	33,029	32,111	139,031	21,105
Over five years	623,339	11,310	11,310	51,939	57,820
Other commitments, such as formal facilities and credit lines, with an original maturity of over one year	371,082	-	-	20,780	16,961
Other commitments, such as formal facilities and credit lines, with an original maturity of up to one year	966,546	-	-	91,109	61,901
	12,645,894	59,781	58,863	432,382	189,981

3. Market risk

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

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

- Profit rate risk: arising from changes in yield curves, credit spreads and implied volatilities on profit rate options;
- 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 BRC 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 2010.

The BRC is responsible, under authority delegated by the Board, for setting Value at Risk ("VaR") limits at a business level. The BRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Bank. Limits by portfolios are proposed by the businesses within the terms of agreed policy.

Standard Chartered PLC Group's Market Risk ("GMR") approves the limits within delegated authorities and monitors exposures against these limits. 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 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.

3. Market risk (continued)

Value at Risk (continued)

The Bank applies two VaR methodologies:-

- Historic simulation: involves the revaluation of all unmatured contracts 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.
- Monte Carlo simulation: this methodology is similar to historic 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 applied for credit spread VaR.

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. Back testing is conducted daily against clean profit and loss, which is the actual profit and loss for a given business day adjusted to remove the effect of certain items unrelated to market risk. Back testing is also conducted against clean hypothetical profit and loss which is the clean profit and loss that would have occurred for a given business day if the portfolio on which the VaR number for that business day is based remained unchanged.

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.

GMR 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.

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

Regular stress test scenarios are applied to profit rates, credit spreads and exchange rates. This covers all major asset classes in the Financial Markets non-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 Standard Chartered PLC Group's Internal Audit 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 FRS.

3. Market risk (continued)

Valuation framework (continued)

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 ensure 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 from across the non-trading book portfolios is transferred to Financial Markets where it is managed by Standard Chartered Bank Malaysia Berhad'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, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to non-trading book exposures in the same way as for the trading book, including listed available for sale securities. Securities classed as Financing and receivables 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 the Bank's daily VaR by primary categories of market risk:-

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

	← 2010 →			Actual
	Average	High	Low	31 December 2010
	RM'000	RM'000	RM'000	RM'000
Non-trading	496	769	274	274

4. Operational risk

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

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 that drive risk identification, assessment, control and monitoring.

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 Charterd PLC Group’s overall risk governance structure. Standard Chartered PLC's Group Operational Risk Committee ("GORC"), a subcommittee of the Standard Chartered PLC RMC, supervises the management of operational risks across all businesses and functions while at a County level, this role is performed by the Country Operational Risk Group ("CORG"). 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. Operational risks are managed through an end to end process of identification, assessment, control and monitoring. This four step management process is performed at all levels across Standard Chartered PLC Group and is the foundation of the 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. Risk mitigation plans are overseen by the appropriate governance committee.

Assurance

Independent assurance and audit/reviews provide management and governance bodies with confirmation that Standard Chartered PLC Group’s risk management standards and controls are being adhered to.

These audit/reviews are conducted by specialised control functions with the support of an independent audit and assurance function. Standard Chartered PLC’s Group audit function conducts regular audits of assurance activities.

Measurement

The Bank uses the Basic Indicator Approach ("BIA") to assess its regulatory and internal capital requirements for Operational Risk. The BIA for operational risk capital calculation applies a beta to the average income that was achieved in the previous three years by the Bank.

Standard Chartered Saadiq Berhad
Pillar 3 disclosures
31 December 2010

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 year ended 31 December 2010 are consistent with the manner in which the Bank assesses and manages its risk, and are not misleading in any particular way.

....

Azrulnizam bin Abdul Aziz
Chief Executive Officer

Date: 16 March 2011