



Standard Chartered Capital

Saudi Arabia

2016 Pillar 3 Disclosure

1. SCOPE OF APPLICATION

Qualitative Disclosures:

Standard Chartered Capital Saudi Arabia (the "Company") is a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia. The Company operates under commercial registration number 1010289674 dated 19 Jumada-II 1431H (corresponding to 2 June 2010).

The principal activities of the Company is to provide underwriting, dealing, arranging, advising, and keeping custody of financial securities pursuant to the Capital Market Authority ("CMA") number 09144-37, dated 11 Muharram 1431H (corresponding to 28 December 2009) in accordance with the General Investment Authority's (SAGIA) license No. 102031026237 dated 3 Rabi-I 1431H (corresponding to 17 February 2010).

The Company does not have any subsidiary.

2. CAPITAL STRUCTURE

Qualitative Disclosures:

The Company's capital consists of Tier I Capital.

Tier 1 Capital of the Company includes the Paid up capital, Retained Earnings, Regulatory Reserves and deductions against Deferred Tax Asset.

The company does not have any Tier 2 Capital.

Quantitative Disclosures:

The details of the capital structure as at 31 Dec 2016 is provided as under:

App 1: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	100,000
Audited retained earnings	7,907
Reserves (other than revaluation reserves)	4,615
Deductions from Tier-1 capital	-4,327
Total Tier-1 capital	108,195
<u>Tier-2 capital</u>	
Total Tier-2 capital	
TOTAL CAPITAL BASE	108,195

3. CAPITAL ADEQUACY

Qualitative Disclosures:

The Company has a strong governance culture and framework for risk and capital management. The capital adequacy assessment is integral to the Company's governance framework, with continuous involvement of senior management in the process.

The Board is responsible for the overall strategic direction of the Company including management of its capital position. Management provides regular updates to the Board on regulatory changes in capital requirements and the Company's capital position as part of the CEO updates.

The Company maintains capital based on the CMA's prudential regulations. The Company does not maintain internal capital targets given the level of its capital surplus.

The Company submits a monthly capital adequacy report to the local regulator on the current capital position of the Company.

Quantitative Disclosures:

Details of Capital Adequacy as on 31 December 2016 are given under:

App II: Illustrative Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<u>Credit Risk</u>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks	1,028	1,028	206	29
Authorised Persons and Banks	117,244	117,244	27,731	3,882
Corporates	-	-	-	-
Other Assets	586	586	2,189	306
Total On-Balance sheet Exposures	118,857	118,857	30,125	4,218
<i>Off-balance Sheet Exposures</i>	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
Total On and Off-Balance sheet Exposures	118,857	118,857	30,125	4,218
Prohibited Exposure Risk Requirement				
Total Credit Risk Exposures	118,857	118,857	30,125	4,218
<u>Market Risk</u>	Long Position	Short Position		
Interest rate risks				
Equity price risks				
Risks related to investment funds				
Securitisation/resecuritisation positions				
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	7,944	-13		161
Commodities risks.				
Total Market Risk Exposures	7,944	-13		161
<u>Operational Risk</u>				3011.7
Minimum Capital Requirements				7390.0
Surplus/(Deficit) in capital				100,805
Total Capital ratio (time)				14.64

RISK MANAGEMENT

Risk management is the set of end-to-end activities through which the Company makes risk-taking decisions and controls and optimises its risk-return profile. It is a Company-wide activity and starts right at the front-line.

The management of risk lies at the heart of the Company's business. Effective risk management is a central part of the financial and operational management of the Company and fundamental to its ability to generate profits consistently and maximise shareholder value.

The foundation of all risk assessment is aligned to the Group's Risk Management Framework (RMF). Under this framework, there are three lines of defence.

- The **First Line of Defence** is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities.
- The **Second Line of Defence** comprises the Risk Control Owners ("RCO") supported by their respective control functions. They are responsible for ensuring that the residual risks within the scope of their responsibilities remain within appetite.
- The **Third Line of Defence** comprises the independent assurance provided by the Group Internal Audit (GIA) function, which has no management responsibilities for any of the activities it examines. GIA 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). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the RMF.

4. CREDIT RISK

Qualitative Disclosures:

Credit risk is the potential for loss due to failure of counterparty to meet its obligations to pay the Company in accordance with agreed terms.

The regional credit officer is the RCO responsible for credit risk. Executive Risk Committee ("ERC") is responsible for the management of credit risk. ERC meets bi-monthly and monitors/discusses any key credit concerns. Given the nature of the Company's business, the Company's exposure to credit risk is limited to deposits with local banks and receivables, on account of fee income, from Standard Chartered Bank ("SCB") and its affiliates, which are the only financial assets on the Company's balance sheet.

The Company does not engage in financing activities, underwriting, or securitisation activities, nor does it maintain internal models for the calculation of credit risk weighted assets (RWA). Accordingly, there is no commentary included in this section in respect of settlement risk, credit residual risk, underwriting, securitization or credit model risk.

Furthermore, there is no commentary included in respect of past due claims, impairments, specific debt provisions, geographic distribution of exposures,

classification of exposures, reconciliation of impairment and provisions and impaired liabilities.

The Company's exposure to credit risk is limited to deposits with local banks, advance tax to the General Authority of Zakat and Tax ("GAZT") and receivables, on account of fee income, from SCB and its affiliates, which are the only financial assets on the Company's balance sheet.

The deposits in the local bank and advance tax to GAZT are classified under category '2' in the credit quality step as per Capital Market Authority's Prudential regulations.

The Company has used the S&P for rating of its exposures against SCB. It has been rated as 'A' for long term exposure and 'A-1' for short term exposure. Accordingly the exposures against SCB are classified under category '2' in the credit quality step as per Capital Market Authority's Prudential regulations.

Quantitative Disclosures:

As at 31 December 2016, the Company had a credit risk RWA of SAR 30.1m and minimum capital requirement of SAR 4.2m against credit risk.

Further details of Credit Risk as on 31 December 2016 are given below:

App III: Illustrative Disclosure on Credit Risk's Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation					Total Risk Weighted Assets
	Governments and central banks	Authorised persons and banks	Corporates	Other assets	Total Exposure after netting and Credit Risk Mitigation	
0%	-	-	-	1	1	-
20%	1,028	102,970	-	-	103,998	20,800
50%	-	14,274	-	-	14,274	7,137
100%	-	-	-	-	-	-
150%	-	-	-	-	-	-
200%	-	-	-	-	-	-
300%	-	-	-	479	479	1,437
400%	-	-	-	-	-	-
500%	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	105	105	752
Average Risk Weight	20%	24%	-	374%	25%	
Deduction from Capital Base	29	3,882	-	306	4,218	

Details of long term and short term ratings against Credit Risk Exposures as on 31 December 2016 are given below:

App IV: Illustrative Disclosure on Credit Risk's Rated Exposure

Exposure Class	Long term Ratings of counterparties						
	Credit quality step	1	2	3	4	5	6
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below
On and Off-balance-sheet Exposures							
Governments and Central Banks			1,028				
Authorised Persons and Banks		101,884	15,360				
Corporates							
Total	0	101,884	16,388	0	0	0	0

Exposure Class	Short term Ratings of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+, F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
	Capital Intelligence	A1	A2	A3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks			1,028			
Authorised Persons and Banks		101,884	15,360			
Corporates						
Total	0	101,884	16,388	-	-	-

5. CREDIT RISK MITIGATION EXPOSURE

Qualitative Disclosures:

The Company does not engage in financing activities. Accordingly there is no commentary included in respect of Credit Risk Mitigation Exposure.

Quantitative Disclosures:

Details of Credit Risk Mitigation as on 31 December 2016 are given below:

App V: Illustrative Disclosure on Credit Risk Mitigation (CRM)

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
<u>Credit Risk</u>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	1,028					1,028
Authorised Persons and Banks	117,244					117,244
Corporates	-					-
Other Assets	586					586
Total On-Balance sheet Exposures	118,857					118,857
<i>Off-balance Sheet Exposures</i>						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	118,857					118,857

6. COUNTERPARTY CREDIT RISK (CCR) AND OFF BALANCE SHEET DISCLOSURE

The Company does not engage in financing activities. Accordingly there is no commentary included in respect of counterparty credit risk disclosure.

The company does not have any off balance sheet exposure as of 31 December 2016

7. MARKET RISK DISCLOSURE

Qualitative Disclosures:

Market risk is the risk of loss resulting from changes in market prices and rates. The primary category of market risk for the Company is currency exchange rate risk.

The Regional Head of MTCR Market Risk is the RCO responsible for market risk. The Market Risk Policy sets the parameters for managing the market risk. The ERC, in conjunction with Market and Traded Credit Risk ("MTCR") provides oversight, reporting and management of the market risk profile.

Under Pillar 1, market risk relates mainly to the trading book. The primary category of Pillar 1 market risk for the Company is currency exchange rate risk. The Company adopts the Capital Adequacy Model (CAM) for reporting market risk regulatory capital to the CMA under Pillar 1.

Market risk under Pillar 2 relates to the Company's internal capital assessment using its own models for the trading book and the non-trading book otherwise known as IRRBB. The company does not have trading book exposures as at 31 December 2016.

The Company measures the risk of losses from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. The Company applies a historical simulation based VaR methodology. 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 seven times per year.

The company does not have any trading book. Accordingly there is no commentary included in respect of Interest rate risk; Equity Price risk; Risk related to investment funds; Securitisation/Re-securitisation positions; Excess exposure risks; Settlement and Counterparty risks under pillar 1.

The Company does not have any exposures related to Commodity risks for its business activities. Accordingly there is no commentary included in respect of Commodities risk.

Quantitative Disclosures:

As at 31 December 2016, the Company had minimum capital requirement of SAR 0.161m under Pillar 1 Market risk against foreign exchange rate risk.

As at 31 December 2016, the Company had an additional minimum capital requirement of SAR 0.079m under Pillar 2 market risk for the non-trading book against interest rate risk.

8. OPERATIONAL RISK DISCLOSURE

Qualitative Disclosures:

Operational risk ("OR") is the potential for loss arising from the failure of people, processes, technology or the impact of external events. It is the Company's objective to minimise exposure to operational risks, subject to cost trade-offs. OR exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Locally, the CFO is the RCO responsible for operational risk. OR is managed by the Executive Risk Committee ("ERC"), which exercises oversight of the Company's OR exposures to ensure that it is aligned with the Risk Management Framework. The ERC meets bi-monthly to review the Company's significant risk exposures and to ensure appropriateness and adequacy of mitigating action plans. The CEO is the chairman of the ERC.

The responsibility for daily management of OR exposures rests with the business. Senior Operational Risk Officer have been appointed to ensure that the OR management framework is implemented and that OR exposures are effectively controlled. The Company has not incurred any operational loss since its inception.

The Company calculates OR regulatory capital using the Expenditure Based Approach of Capital Adequacy Model as per Prudential regulations.

Quantitative Disclosures:

As at 31 December 2016, the Company had minimum capital requirement of SAR 3.0m against operational risk.

9. LIQUIDITY RISK DISCLOSURE

Liquidity risk is the potential that the Company either does not have sufficient liquid financial resources available to meet all its obligations as they fall due, or can only access these financial resources at excessive cost.

Regional Head of Market and Liquidity Risk is the RCO responsible for liquidity risk. The Company does not engage in any lending or deposit taking activity. The only financial obligations the Company has are payables for its day to day operations. The Company places its capital in highly liquid short term assets with a well reputed local bank.

The Company is of the view that capital is not a mitigant for liquidity risk; liquidity reserves and a short tenured book are the appropriate mitigant. Accordingly, the Company does not hold capital in respect of liquidity risk.