

Standard Chartered Capital

Saudi Arabia

2017 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 2017 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 Reserves (other than	9,026
revaluation reserves)	4,739
Deductions from Tier-1 capital	-12,233
Total Tier-1 capital	101,532
<u>Tier-2 capital</u>	
Total Tier-2 capital	
TOTAL CAPITAL BASE	101,532

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 2017 are given under:

App II: Illustrative Disclosure on Capital Adequacy

Exposure Class		s before CRM IR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<u>Credit Risk</u>					
On-balance Sheet Exposures					
Governments and Central Banks		-	-	-	-
Authorised Persons and Banks		113,361	113,361	26,564	3,719
Corporates		563	563	4,017	562
Other Assets		576	576	1,968	276
Total On-Balance sheet Exposures		114,500	114,500	32,549	4,557
Off-balance Sheet Exposures		-	-	-	-
Total Off-Balance sheet Exposures		-	-	-	-
Total On and Off-Balance sheet Exposures		114,500	114,500	32,549	4,557
Prohibited Exposure Risk Requirement					
Total Credit Risk Exposures		114,500	114,500	32,549	4,557
Market Risk	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	4,041	-10			82
Commodities risks.					
Total Market Risk Exposures	4,041	-10			82
Operational Risk					3420.1
Minimum Capital Requirements					8059.2
Surplus/(Deficit) in capital					93,473
Total Capital ratio (time)					12.60

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 bimonthly 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, receivables, on account of fee income, from SCB and its affiliates and local corporate, which are the only financial assets on the Company's balance sheet.

The deposit in the local bank is classified under category '1' 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.

The Company has classified the exposure against the unrated corporate under "Unrated" category in the credit quality step as per Capital Market Authority's prudential regulations.

Quantitative Disclosures:

As at 31 December 2017, the Company had a credit risk RWA of SAR 32.5m and minimum capital requirement of SAR 4.6m against credit risk.

Further details of Credit Risk as on 31 December 2017 are given below:

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

	Exposures after netting and credit risk mitigation								
Risk Weights	Governments and central banks	Authorised persons and banks	Corporates	Other assets	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets			
0%	-	1	-	2	2	-			
20%	-	100,390		-	100,390	20,078			
50%	-	12,972	-	-	12,972	6,486			
100%	-	-	-	-	-	-			
150%	-	-	-	-	-	-			
200%	-	-	-	-	-	-			
300%	-	-	-	515	515	1,544			
400%	-	-	-	-	-	-			
500%	-	-	-	-	-	-			
714% (include prohibited exposure)	-	1	563	59	622	4,440			
Average Risk Weight	-	23%	714%	342%	28%				
Deduction from Capital Base	-	3,719	562	276	4,557				

Details of long term and short term ratings against Credit Risk Exposures as on 31 December 2017 are given below:

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

	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
Exposure Class	S&P	AAA TO AA-	A+TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	В	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks			-					
Authorised Persons and Banks		100,148	13,214					
Corporates								563
Total	0	100,148	13,214	0	0	C	0	563
	Short term Ratings of counterparties							
	Credit quality step	1	2	3	4	Unrated		
Exposure Class	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated		
Exposure class	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			-					
Authorised Persons and Banks		113,361	-					
Corporates						563		
Total	0	113,361	٠	٠		563		

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 2017 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
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	-					-
Authorised Persons and Banks	113,361					113,361
Corporates	563					563
Other Assets	576					576
Total On-Balance sheet Exposures	114,500					114,500
Off-balance Sheet Exposures						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	114,500					114,500

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 2017

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 2017.

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 2017, the Company had minimum capital requirement of SAR 0.082m under Pillar 1 Market risk against foreign exchange 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 2017, the Company had minimum capital requirement of SAR 3.42m 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.