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Standard Chartered Capital

Saudi Arabia

2020 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 subsidiaries.

2. CAPITAL STRUCTURE

Qualitative Disclosures:

The Company's capital consists of Tier 1 Capital.

Tier 1 Capital of the Company includes the Paid-up capital, Audited Retained Earnings, Regulatory Reserves, Intangible Assets 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 December 2020 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	2,401
Reserves (other than revaluation reserves)	5,435
Deductions from Tier-1 capital	(4,447)
Total Tier-1 capital	**103,389**
<u>Tier-2 capital</u>	
Total Tier-2 capital	
TOTAL CAPITAL BASE	**103,389**

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 2020 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
Credit Risk				
On-balance Sheet Exposures				
Governments and Central Banks	-	-	-	-
CMI and Banks	318,049	318,049	78,460	10,984
Corporates	38	38	269	38
Other Assets	387	387	4,076	571
Total On-Balance sheet Exposures	318,473	318,473	82,806	11,593
Off-balance Sheet Exposures	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
Total On and Off-Balance sheet Exposures	318,473	318,473	82,806	11,593
Prohibited Exposure Risk Requirement				
Total Credit Risk Exposures	318,473	318,473	82,806	11,593

App II: Illustrative Disclosure on Capital Adequacy (Continued)

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	20,172	0	403
Commodities risks.			
Total Market Risk Exposures	20,172	0	403
Operational Risk			4,518
Minimum Capital Requirements			16,513.8
Surplus/(Deficit) in capital			86,875
Total Capital ratio (time)			6.26

ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Enterprise Risk Management Framework ("ERMF") sets out the Company's approach to risk management and the control framework within which risks are managed with the objective of maximising risk-adjusted returns while remaining within the Company's risk appetite.

The ERMF:

- establishes common principles and standards for the management and control of all risks, and to inform behaviour across the organisation;
- provides a shared framework and language to improve awareness of risk management processes and provides clear accountability and responsibility for risk management.

The core components of the ERMF include our risk principles and standards, principal risk types, definitions of roles and responsibilities, and governance structure. In 2017 Group completed a thorough review of our ERMF which included changes in our Principal Risk Types and strengthening of the three lines of defence.

The ERMF is applicable globally to all of the Group's activities, and subsidiaries of the Group are expected to explicitly adopt the framework and related disciplines and standards. The Chief Risk Officer ("CRO"), supported by assessment from the Country Head of Compliance ("CHoC") must ensure that the Company submits a Country level Risk Management Framework ("ERMF") for recommendation by the Executive Risk Committee ("ERC") and approval by the Executive Committee ("EXCOM") level committee at least annually and within 12 months of the implementation of any changes to the Group level ERMF.

To ensure the effectiveness of the Enterprise Risk Management Framework, roles and responsibilities for risk management are defined under a 'Three Lines of Defence' model. Each line of defence describes a specific set of responsibilities for risk management and control as follows:

ERMF three lines of defence

Lines of Defence	Definition	Key responsibilities include
First	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks.	• Identify, monitor, and escalate risks and issues to Second Line and Senior Management and promote a healthy risk culture and good conduct. • Manage risks within Risk Appetite, ensure laws and regulations are being complied with.
Second	The control functions independent of the First Line that provides oversight and challenge of risk management to provide confidence to the Chief Risk Officer, the Management Team and the Board.	• Identify, monitor, and escalate risks and issues to the Chief Risk Officer, the Senior Management and the Board and promote a healthy risk culture and good conduct. • Oversee and challenge First Line risk taking activities and review First Line risk proposals and make decisions.
Third	The independent assurance provided by the Internal Audit Function, of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line.	• Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes. • Independently assess the adequacy of the design of controls and their operating effectiveness.

RISK APPETITE

Risk Appetite defines the boundaries that determine the maximum level of risk the Company ordinarily is willing to take in pursuit of its strategy in accordance with its Risk Management Principles ("RMPs"). The Company's Risk Appetite statements, state:

General: The Company will not compromise adherence to its Risk Appetite Statement in order to pursue revenue growth or higher returns.

Capital and Liquidity Risk: The Company should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support.

ERC is responsible for monitoring management information to evidence that the Company's risk profile is within the approved Risk Appetite. It is responsible for providing assurance to the Board that the overall framework from complying with the RMPs and the Risk Appetite statements. The CFO, as owner of capital and liquidity, monitors movements of actual capital and liquidity ratios.

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 Senior Credit Officer is the Risk Framework Owner ("RFO") 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, foreign deposits with Standard Chartered Bank ("SCB"), receivables on account of fee income, from SCB and its affiliates, and local corporates 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 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 2020, the Company had a credit risk RWA of 82.8 m and minimum capital requirement of SAR 11.6 m against credit risk.

Further details of Credit Risk as on 31 December 2020 are given below:

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

Risk Weights	Exposures after netting and credit risk mitigation					
	Governments and central banks	**CMI and banks**	**Corporates**	**Other assets**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets**
0%	-	-	-	-	-	-
20%	-	268,547	-	-	268,547	53,709
50%	-	49,502	-	-	49,502	24,751
100%	-	-	-	-	-	-
150%	-	-	-	-	-	-
200%	-	-	-	-	-	-
300%	-	-	-	902	902	2,706
400%	-	-	-	-	-	-
500%	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	38	192	230	1,639
Average Risk Weight	0%	25%	714%	373%	26%	
Deduction from Capital Base	-	10,984	38	571	11,593	

Details of long term and short-term ratings against Credit Risk Exposures as on 31 December 2020 are given below:

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

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	Unrated
	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	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks			-					
CMI and Banks		1,932	316,117					
Corporates								38
Total	0	1,932	316,117	0	0	0	0	38

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			-			
CMI and Banks		1,932	316,117			
Corporates						38
Total	0	1,932	316,117	-	-	38

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 2020 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	-					-
CMI and Banks	318,049					318,049
Corporates	38					38
Other Assets	387					387
Total On-Balance sheet Exposures	318,473					318,473
Off-balance Sheet Exposures						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	318,473					318,473

* Refer to Chapter 2 of Annex 3.

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 2020.

7. MARKET RISK DISCLOSURE

Qualitative Disclosures:

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Chief Risk Officer ("CRO") is the RCO responsible for market risk. The Market Risk Policy sets the parameters for managing the market risk. The ERC, in conjunction with Traded Risk Management ("TRM") provides oversight, reporting and management of the market risk profile. Market risk limits are applied as required by the Market Risk Limits Policy and related procedures documents.

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.

Under Pillar 1, market risk relates 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.

Quantitative Disclosures:

As at 31 December 2020, the Company had minimum capital requirement of SAR 0.403m under Pillar 1 Market risk against foreign exchange rate risk.

As at 31 December 2020, the Pillar 2 market risk capital for the non-trading book against interest rate risk is SAR 0.09 m

8. OPERATIONAL RISK DISCLOSURE

Qualitative Disclosures:

Operational risk ("OR") is the potential for loss arising from inadequate or failed processes, people, and systems or from the impact of external events, including legal risks. The Company's objective is to control operational risks to remain within Risk Appetite.

OR exposures are managed in accordance with the standards set by Group Operational Risk in the Operational Risk Framework ("ORF"). The ORF is required to be installed for prioritised risks in all businesses and functions. It defines the OR management responsibilities of the First and Second Lines, including the OR sub-types and the country RFO for each type.

The Country Head of Operational Risk is responsible for operational risk. The Executive Risk Committee (ERC) oversees the management of operational risk and ensures that it is aligned with the Company's Risk Appetite Approach and meets the standards of the ORF. The ERC meets bi-monthly to review the Company's significant risk exposures and to ensure appropriateness and adequacy of mitigating action plans. The CRO is the chairman of the ERC.

The responsibility for daily management of OR exposures rests with the business. Operational Risk Officers have been appointed to ensure that the approach to OR management is implemented and works with Risk Owners to monitor and maintain the Operational Risk profile.

The Company's Pillar 1 approach is the Basic Indicator Approach ("BIA"). However, the capital requirement for operational risks shall correspond to not less than 25% of the Company's overhead expenses. As at 31 December 2020 25% of the Company's overhead expenses exceeded the BIA.

Quantitative Disclosures:

As at 31 December 2020, the Company had minimum capital requirement of SAR 4.5m against operational risk.

9. LIQUIDITY RISK DISCLOSURE

Liquidity risk is the potential for loss because the Company, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

Funding risk is the potential for actual or opportunity loss because the Company does not have stable or diversified sources of funding in the medium and long term to enable it to meet its financial obligations in pursuit of its desired business strategy or growth objectives.

The CFO is the country RFO is responsible for meeting this framework and ensuring that risks are monitored and remain within risk limits.

The ERC is responsible for ensuring that the capital, liquidity and funding risks remain within the overall risk appetite and are supported by the regional Treasury-Markets desk so as to ensure they operate within the predefined liquidity limits and remain within compliance with liquidity policies and practices.

The Company is of the view that capital is not a mitigant for any of its liquidity and funding risks; liquidity reserves (high quality liquid assets) are the appropriate mitigant. Accordingly, the Company does not hold capital in respect of liquidity risk.