
**Standard Chartered Bank (Thai) PCL
& its Financial Business Group
Pillar 3 Disclosures
30 June 2015**



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

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Overview

During 2013, the Bank of Thailand (“BOT”) published the notifications re. Disclosure of Capital Maintenance of Commercial Banks and Disclosure of Capital Maintenance of Commercial Banks under Consolidation which are based on “Basel III: A global regulatory framework for more resilient banks and banking systems” (Revised Version: June 2011) from the Basel Committee on Banking Supervision (“BCBS”). The objectives of these notifications (commonly referred to as “Basel III”) are to strengthen capital rules with the goal of promoting a more resilient banking sector. The objective of the reforms is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

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1. Scope of Basel III Framework

Pillar 1: Minimum Capital Requirement

The BOT has approved Standard Chartered Bank (Thai) PCL (“the Bank”) and its Financial Business Group (“the SCBT Group”) to adopt the AIRB approach which is more advanced risk management framework for the measurement of credit risk capital and under the notification, the SCBT Group and the Bank have been using AIRB approach for the credit risk capital calculation as regulatory capital since December 2009.

The SCBT Group and the Bank are also required to calculate a capital charge to cover market risk and operational risk for which the SCBT Group and the Bank apply the Standardised Approach.

Pillar 2: Supervisory Review Process

Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available. This risk and capital assessment is commonly referred to as an Internal Capital Adequacy Assessment Process (“ICAAP”) which covers much broader risk types than Pillar 1, which cover only credit risk, market risk, and operational risk.

The SCBT Group and the Bank have developed an ICAAP policy and framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the SCBT Group and the Bank’s current and projected demand for capital under expected and stressed conditions.

Under Pillar 2, the BOT would undertake a review of the SCBT Group and the Banks’ ICAAP. This is referred to as the Supervisory Review and Evaluation Process (“SREP”).

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Pillar 3: Market Discipline

Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices. According to the BOT notification, The SCBT Group and the Bank are required to disclose the data and information relative to risk profile, risk management and capital funds.

The SCBT Group and the Bank have implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosure. The information provided has been reviewed and validated by senior management and the Risk Committee. In accordance with the SCBT Group and the Bank policy, the Pillar 3 disclosure will be published on the Standard Chartered Bank (Thai) PCL - website www.sc.com/th.

The BOT has also set the frequency of disclosure on semi-annual basis and annual basis. Quantitative data of Capital Structure & Adequacy and Market risk will be disclosed on a semi-annual basis. Whereas, the full Pillar 3 disclosures will be made annually on both qualitative and quantitative data

2. Scope of Application

In compliance with the requirement under Basel III Pillar 3 and sets of the BOT's disclosure requirements, the SCBT Group, which consists of the Standard Chartered Bank (Thai) PCL, Thai Exclusive Leasing Company Limited ("TEL"), Standard Chartered (Thailand) Limited ("SCT") and Standard Chartered (Thai) Asset Management Company Limited ("SCTAMC") have developed a set of disclosures for its position at both the Bank level (Solo basis) and the SCBT Group level (Full Consolidated basis) as at 30 June 2015 covering the following areas:

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- Qualitative and quantitative data for Capital and the minimum capital requirement for Credit risk, Market risk, Operational risk, and Equity in Banking Book exposure under AIRB.

3. Capital Management

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

The SCBT Group and the Bank's capital planning is dynamic and regularly refreshed to reflect the business forecasts as they evolve during the course of each year. The strategy-setting and planning is presented to the Board on an annual basis with regularly update on the financial outlook and performance as to the capital adequacy is aligned with the business plan. The capital plan takes the following into account:

- Current regulatory capital requirements and the SCBT Group and the Bank's assessment of on-going regulatory expectation.
- Demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- Forecast demand for capital to support credit ratings and as a signaling tool to the market
- Available supply of capital and capital raising options

The Asset and Liabilities Management Committee ("ALCO") as appointed by Executive Committee ("EXCO") is responsible for the management of capital and liquidity and the establishment of and compliance with policies relating to balance sheet management, including management of the Bank's liquidity and capital adequacy.

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3.1 Capital Structure

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

The following table is a breakdown of total regulatory capital of the SCBT Group and the Bank as at 30 June 2015, comparing with the position of the SCBT Group and the Bank as at 31 December 2014.

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Table1: Capital Structure

Unit: Million Baht

	The SCBT Group		The Bank	
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
Tier 1 Capital				
Paid up share capital	14,837	14,837	14,837	14,837
Share premium account	9,056	9,056	9,056	9,056
Legal reserve	1,071	987	1,063	981
Net profit after appropriation	13,962	13,389	13,146	13,140
Accumulated other comprehensive income	14	60	14	60
Item of reserve arising from business combination under common control, shareholders' equity which shall be regarded as CET 1	(497)	(497)	-	-
Other adjustment items which not effected capital fund	(3)	(21)	(3)	(21)
Deductions from Common Equity Tier 1	(801)	(642)	(541)	(392)
Total Common Equity Tier 1 (CET1)	37,639	37,169	37,572	37,661
Additional Tier 1 (AT1)	-	-	-	-
Total Tier 1 Capital	37,639	37,169	37,572	37,661
Tier 2 Capital				
General Provision under SA	322	360	289	322
Surplus of provision (Excess Provisions)	608	578	621	589
Total Tier 2 Capital	930	938	910	911
Total Regulatory Capital	38,569	38,107	38,482	38,572

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3.2 Capital Source

The SCBT Group and the Bank's Tier 1 Capital consist of Common Equity Tier 1 which are issued and paid up share capital & premium, statutory reserve, net profit after appropriation and other components of shareholders' equity & regulatory adjustment. There is no additional tier 1.

The SCBT Group and the Bank's Tier 2 Capital comprises of the general provision for normal performing loans and surplus of provision.

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Table2: Reconciliation of Regulatory Capital to Financial Statement

Unit: Million Baht			
Capital related items as of Jun 30 June 2015	Statement of Financial Position as in published financial statements	Statement of Financial Position as under Consolidated Supervision	References
Assets			
Cash	380	380	
Interbank and money market items, net	52,213	52,213	
Claims on security	6,500	6,500	
Derivative assets	31,235	31,235	
Investments, net	45,202	45,202	
Investments in subsidiaries	-	-	
Loans to customers and accrued interest receivable, net	-	-	
Loans to customers	102,558	102,558	
Accrued interest receivable	334	334	
Total loans to customers and accrued interest receivable	102,892	102,892	
Less allowance for doubtful accounts	(9,161)	(9,161)	
Total loans to customers and accrued interest receivable, net	93,731	93,731	
Properties for sale, net	73	73	
Premises and equipment, net	584	584	
Intangible assets, net	143	143	H
Deferred tax assets	735	735	I
Accounts receivable from sales of investments and debt securities in issue	1,825	1,825	
Collateral from Credit Support Annex agreements and margin receivables from private repo transactions	2,949	2,949	
Other assets, net	591	598	
Total assets	236,162	236,169	

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Unit: Million Baht			
Capital related items as of 30 June 2015	Statement of Financial Position as in published financial statements	Statement of Financial Position as under Consolidated Supervision	References
Liabilities			
Deposits	104,042	104,032	
Interbank and money market items	41,955	41,955	
Liabilities payable on demand	1,673	1,673	
Liabilities to deliver security	6,500	6,500	
Derivative liabilities	29,348	29,348	
Debt issued and borrowings	2,822	2,483	
Provisions	620	620	
Accounts payable from purchase of investments	2,407	2,407	
Collateral from Credit Support Annex agreements and margin payables from private repo transactions	3,529	3,529	
Accrued expenses	2,260	2,260	
Other liabilities	1,970	1,992	
Total liabilities	197,126	196,799	
Equity			
Share capital			
Authorised share capital	14,843	14,843	
Issued and paid-up share capital	14,837	14,837	A
Premium on share capital	9,056	9,056	B
Reserve arising from business combination under common control	(497)	(497)	G
Other reserves			
Fair value change in available -for-sale investments	28	28	E
Cash flow hedges	3	3	F
Total other reserves	31	31	
Retained earnings			
Appropriated			
Legal reserve	1,071	1,071	C
Unappropriated			
Unappropriated retained earnings	586	586	
Net profit after appropriation	13,962	13,962	D
Actuarial gain (loss) on defined benefit plans	(10)	(10)	J
Total Unappropriated	14,538	14,538	
Total shareholders' equity	39,036	39,036	
Non-controlling interest	-	334	
Total equity	39,036	39,370	
Total liabilities and equity	236,162	236,169	

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		Unit: Million Baht
Items	Component of regulatory capital reported by Financial Group	References base on Statement of Financial Position as under Consolidated Supervision
Common Equity Tier 1 Capital (CET1)		
Issued and paid-up share capital	14,837	A
Premium on share capital	9,056	B
Legal reserve	1,071	C
Net profit after appropriation	13,962	D
Other reserves		
Fair value change in available -for-sale investments	11	E ^{/1}
Cash flow hedges	3	F
Other owner changes items	-	
Item of reserve arising from business combination under common control, shareholders' equity which shall be regarded as CET 1	(497)	G
Total CET1 capital before regulatory adjustments and deduction	38,443	
Regulatory adjustments on CET1		
Cash flow hedges	(3)	F
Regulatory deduction on CET1		
Actuarial gain (loss) on defined benefit plans	(10)	J
Intangible assets	(57)	H ^{/2}
Deferred tax assets	(734)	I
Total Common Equity Tier 1 (CET1)	37,639	
Additional Tier 1 (AT1)	-	
Total Tier 1 capital	37,639	
Tier 2 Capital		
General Provision under SA	322	
Surplus of provision (Excess Provision)	608	
Total Tier 2 capital	930	
Total Regulatory capital	38,569	

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Table3: Basel III Capital during transitional period

Unit: Million Baht				
	The SCBT Group		The Bank	
	Capital value	Net value of items with transitional phase subject to Basel III	Capital value	Net value of items with transitional phase subject to Basel III
Capital Amount as at 30 June 2015				
Tier 1 Capital				
Common Equity Tier 1 Capital	38,434	17 ^{1/}	38,106	17 ^{1/}
Total regulatory adjustments to CET1	(3)		(3)	
Total regulatory deduction to CET1	(792)	(86) ^{2/}	(531)	(86) ^{2/}
Total Common Equity Tier 1 Capital (CET1)	37,639		37,572	
Additional Tier 1 Capital (AT1)	-		-	
Total Tier 1 Capital	37,639		37,572	
Tier 2 Capital	930		910	
Total Regulatory Capital	38,569		38,482	

^{1/} From 1 January 2014, gain/(loss) from fair value change in available -for-sale investments shall be gradually included in/(deducted from) CET1 for 5 years by 20%, 40%, 60%, 80% and 100%. And after 2018, it shall be included in/(deducted from) CET 1 for the whole amount.

^{2/} From 1 January 2014, intangible assets shall be gradually deducted from CET1 for 5 years by 20%, 40%, 60%, 80% and 100%. And after 2018, it shall be deducted from CET 1 for the whole amount.

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3.3 Capital Adequacy

Under the BOT guidelines, the SCBT Group and the Bank are required to maintain a minimum ratio of total capital to risk weighted assets of 8.50%, with the minimum ratio of Common Equity Tier 1 and tier 1 capital to risk weighted assets at 4.50% and 6.00% respectively.

Total Capital Adequacy Ratios of the SCBT Group and the Bank as at 30 June 2015 were 23.22% and 23.33% respectively. Tier 1 Capital Ratios were 22.66% and 22.77% respectively, and CET1 Ratios were 22.66% and 22.77% respectively which exceeded minimum requirements of the BOT.

Table 4: Capital Adequacy

Unit: Percent					
	Minimum Requirement	The SCBT Group		The Bank	
		30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
Total capital funds to risk weighted assets	8.50	23.22	22.61	23.33	23.16
Tier 1 capital funds to risk weighted assets	6.00	22.66	22.05	22.77	22.61
Common Equity Tier 1 capital funds to risk weighted assets	4.50	22.66	22.05	22.77	22.61

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3.4 Minimum Capital Requirement

The SCBT Group and the Bank maintain minimum capital in line with the BOT's requirement. Table 5 shows the breakdown of minimum Capital requirement for Credit Risk, Market Risk and Operational risk of the SCBT Group and the Bank as at 30 June 2015.

Table 5: Minimum Capital Requirement

Unit: Million Baht

Minimum Capital	The SCBT Group		The Bank	
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
Credit Risk	10,805	10,629	10,758	10,535
Market Risk	1,416	1,770	1,416	1,770
Operational Risk	1,896	1,928	1,849	1,851
Total Minimum Capital Requirements	14,117	14,327	14,023	14,156

AIRB Adoption

The SCBT Group and the Bank use AIRB approach to calculate credit risk for material portfolios whilst SA approach is applied to portfolios that are classified as permanently exempt from the AIRB approach as well as those portfolios that are currently under transition to the AIRB approach.

The following tables show Minimum Capital Requirement for Credit Risk Classified by Asset Classes under AIRB (table 6), Minimum Capital Requirement for Credit Risk Classified by Asset Classes under SA (table 7) and Minimum Capital Requirement for Equity Exposure under AIRB (table 8).

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Table 6: Minimum Capital Requirement for Credit Risk Classified by Asset Classes under AIRB

Unit: Million Baht

Asset Class	The SCBT Group		The Bank	
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
<i>Non-Default exposures</i>				
Claims on sovereigns, financial institutions and Corporations	6,600	6,476	6,782	6,638
Claims on retail portfolios				
-Claims on residential mortgage	-	-	-	-
-Qualifying revolving retail exposures	856	887	856	887
-Other retail exposures	353	437	352	437
Equity exposures	1	1	61	61
Other assets	97	115	90	111
<i>Default exposures</i>	712	268	712	268
<i>First-to-default credit derivatives and Securitization</i>	-	-	-	-
Total minimum capital requirement for credit risk – AIRB	8,619	8,184	8,853	8,402

Minimum capital requirement for credit risk under AIRB for the SCBT Group and the Bank increased by THB 435 million and THB 451 million respectively, mainly due to increase in default exposures.

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Table 7: Minimum Capital Requirement for Credit Risk Classified by Asset Classes under SA

Unit: Million Baht

Asset Class	The SCBT Group		The Bank	
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
<i>Non-Default exposures</i>				
Claims on sovereigns and central banks, MDBs and PSEs treated as claims on sovereigns	-	-	-	-
Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms	-	-	-	-
Claims on corporates, PSEs treated as claims on corporate	228	188	228	188
Claims on retail portfolios	944	1,176	944	1,176
Claims on residential mortgage	674	709	674	709
Other assets	-	-	-	-
<i>Default exposures</i>	340	372	59	60
<i>First-to-default credit derivatives and Securitisation</i>	-	-	-	-
Total minimum capital requirement for credit risk – SA	2,186	2,445	1,905	2,133

Note: PSE is non-central government public sector entities

Total minimum capital requirement for credit risk under SA approach for the SCBT Group and the Bank also decreased by THB 259 million and THB 228 million respectively, mainly due to decrease in Claims on retail portfolios and Claims on residential mortgage.

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Table 8: Minimum Capital Requirement for Equity Exposure under AIRB

Unit: Million Baht

Item	The SCBT Group		The Bank	
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
Equity exposure exempted from credit risk calculation by IRB	1	1	61	61
Equity exposure subject to the IRB approach				
1. Equity holdings subject to the Market-based approach				
1.1 Simple Risk Weight Approach	-	-	-	-
1.2 Internal Model Approach (for equity exposure in banking book)	-	-	-	-
2. Equity holdings subject to a PD/LGD approach	-	-	-	-
Total minimum capital requirement for equity exposure – AIRB	1	1	61	61

Total minimum capital requirement for equity exposure under AIRB approach for the Bank remained constant.

4. Market Risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market prices or rates. The SCBT Group and the Bank's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the SCBT Group's taking moderate market risk positions. Market risk also arises in the non-trading book ("banking book") from the requirement to hold a large liquidity assets buffer of higher quality liquid debt securities and from the translation of non-Thai baht denominated assets, liabilities and earnings. The objective

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of the SCBT Group and the Bank's market risk policies and processes is to achieve the optimal balance of risk and return while meeting customers' requirements.

The SCBT Group and the Bank undertake in the money market, foreign exchange markets and capital markets giving rise to market risk exposures. Other financial instruments undertaken include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, interest rates, exchange rates, or indices. They include futures, forwards, swaps, and options transactions in the foreign exchange and interest rate markets. Derivative contracts entered into by the SCBT Group and the Bank are primarily over-the-counter derivatives.

The SCBT Group and the Bank have established market risk management policies and framework, including limit setting, monitoring and reporting and control procedures, which are reviewed regularly by the relevant committees – ALCO, CRC and the Board. Market risk limits are proposed by the business within the terms of agreed policy. Risk officers and relevant committees review and approve the limits within delegated authorities, and monitor exposures against these limits. Risks are monitored against limits on a daily basis.

The primary categories of market risk for the SCBT Group and the Bank are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options.
- Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options. For this category of market risk, the SCBT Group and the Bank currently do not trade equity.
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options; and
- Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agricultural. For this category of market risk, the SCBT Group and the Bank is fully hedged through a back-to-back position.

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The BOT specifies minimum capital requirements against market risk in the trading book. Interest rate risk in the non-trading book (“banking book”) is covered separately under the Pillar 2 framework. The minimum regulatory market risk capital requirements for the trading book are presented below.

TABLE 9: Minimum Capital Requirement for each Type of Market Risk under the SA Approach

Unit: Million Baht

Type of Risk	The SCBT Group		The Bank	
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14
Interest Rate Risk	1,385	1,626	1,385	1,626
Equity Position Risk	-	-	-	-
Foreign Exchange Rate Risk	31	144	31	144
Commodity Risk	-	-	-	-
Total Minimum Capital Requirements	1,416	1,770	1,416	1,770

The SCBT Group and the Bank are required to have THB 1,416 million total capitals against Market Risk. Comparing with December 2014, the change of THB 354 million is due to the decrease exposure in Interest Rate Risk. .

5. Acronyms

AIRB	Advanced Internal Ratings Based
ALCO	Asset and Liabilities Management Committee
BCBS	Basel Committee on Banking Supervision
BOT	The Bank of Thailand
EXCO	Executive Committee
ICAAP	Internal Capital Adequacy Assessment Process
IRB	Internal Ratings Based
LGD	Loss Given Default
MDBs	Multilateral Development Banks
PD	Probability of Default
PSEs	Non-central government Public Sector Entities
SA	Standardized Approach
SCBT	Standard Chartered Bank (Thai) PCL
SCBT Group	Standard Chartered Bank (Thai) PCL and its Financial Business Group
SREP	Supervisory Review and Evaluation Process