

# **Standard Chartered Bank (Thai) PCL**

## **Pillar 3 Disclosures**

**30 June 2021**



standard  
chartered

Registered Office: 100 North Sathorn Road, Silom Bangkok, 10500, Thailand

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## **1. Scope of Basel III Framework**

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### **Pillar 1: Minimum Capital Requirement**

The BOT has approved Standard Chartered Bank (Thai) PCL (“the Bank”) to adopt the AIRB approach which is more advanced under Enterprise Risk Management Framework for the measurement of credit risk capital. Under the notification, the Bank has been using AIRB approach for the credit risk capital calculation as regulatory capital since December 2009.

The first of the three pillars of the Basel framework provide the approach to calculation of the minimum capital requirements for credit, market and operational risk.

### **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 covers only credit risk, market risk, and operational risk.

The Bank has 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 Bank’s current and projected demand for capital under expected and stressed conditions.

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

### **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 management. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of the bank’s risk profile.

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The Bank has 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 Executive Risk Committee. In accordance with the Bank's policy, the Pillar 3 disclosure will be published on the Standard Chartered Bank (Thai) PCL - website [www.sc.com/th](http://www.sc.com/th)

The BOT has also set the frequency of disclosure on semi-annual and annual basis. Quantitative data of Key Prudential Metrics, 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**

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In compliance with the requirement under Basel III Pillar 3 and sets of the BOT's disclosure requirements, the Bank has developed a set of disclosures for its position as at 30 June 2021 covering the following areas:

- Quantitative data of Key Prudential Metrics, Capital Structure & Adequacy.
- Market risk

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### 3. Key Prudential Metrics

The table below provides the key prudential metrics related to regulatory capital and liquidity standards.

<b>Table 1: Key Prudential Metrics</b>	<b>30-Jun-21</b>	<b>31-Dec-20</b>
<b>Capital (Unit: Million Baht)</b>		
1 Common equity tier 1 (CET1) capital	25,308	24,794
1A Fully loaded ECL CET 1	25,308	24,794
2 Tier 1 capital	25,308	24,794
2A Fully loaded ECL Tier 1	25,308	24,794
3 Total capital	25,531	25,088
3A Fully loaded ECL total capital	25,531	25,088
<b>Risk weighted assets (Unit: Million Baht)</b>		
4 Total risk weighted assets	77,168	82,185
<b>Capital adequacy ratio (Unit: Percentage)</b>		
5 Common equity tier 1 (CET1) ratio	32.80	30.17
5A Fully loaded ECL CET1 ratio	32.80	30.17
6 Tier 1 ratios	32.80	30.17
6A Fully loaded ECL Tier 1 ratio	32.80	30.17
7 Total capital ratios	33.09	30.53
7A Fully loaded ECL total capital ratio	33.09	30.53
<b>Additional capital adequacy ratio (Unit: Percentage)</b>		
8 Capital Conservation buffer	2.50	2.50
9 Counter cyclical buffer	-	-
10 Higher loss absorbency	-	-
11 Total additional capital adequacy ratios (item 8+ 9 + 10)	2.50	2.50
12 CET1 after maintenance of minimum capital requirement	25.80	23.17
<b>Liquidity coverage ratio (LCR)</b>		
13 Total high-quality liquid asset (HQLA) (Unit: Million Baht)	74,884	76,953
14 Total net cash outflows (within a 30-day period) (Unit: Million Baht)	37,093	40,516
15 LCR (Unit: Percentage)	202	190

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The Bank apply the fully loaded Expected Credit Loss since 1 January 2020 under TFRS 9. Under this approach, the capital adequacy ratios as of 30 June 2021 and 31 Dec 2020 were higher than the BOT's minimum capital ratios included capital buffer requirement at 7.0% for CET1, 8.5% for Tier1 and 11.0% for Total Capital Ratio.

In Q2 2021, The average LCR of the Bank is 202%, which is 102% higher than the minimum LCR as specified by the Bank of Thailand. This LCR is the average of LCRs from the month ended of Apr to the month ended of Jun 21. The LCR consists of 2 main components, namely;

**1. Total High-Quality Liquid Asset (HQLA)** include unencumbered high-quality assets with low risk and low volatility that can be easily monetized without any significant changes to their values, even in times of liquidity stress. The value of each type of HQLA is after the application of both haircuts and any applicable caps as specified by the BOT. The average HQLA of the Bank for Q2 of 2021 is THB 74,884 million (100% is Level 1 assets, namely Government bonds and cash), which is the average of HQLA from the month ended of Apr to the month ended of Jun 21. On this, the Bank holds several types of high-quality liquid assets to ensure the diversification of the stock of HQLA.

**2. The amount of net cash outflows (net COF)** is represents expected cash outflows within the 30-day time horizon minus expected cash inflows within the 30-day time horizon under liquidity stress scenarios; however, the expected cash inflows must not exceed 75% of the expected cash outflows. The average net COF of the "Bank" for Q2 of 2021 is THB 37,093 million, which is the average of net cash outflows within the 30-day time horizon from the month ended of Apr to the month ended of Jun 21. The expected cash outflows on which the Bank focuses under the severe liquidity stress scenarios are the run-off of wholesales deposits and borrowings, repayments of secured borrowings under repurchase agreements (repos), to which the run-off rates as specified by the Bank of Thailand have been assigned. On the other hand, expected cash inflows are mostly from loan repayments from high-quality customers, and maturing debt securities, to which the inflow rates as specified by the Bank of Thailand have been assigned.

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## **4. Capital Management**

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

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 regular updates on the financial outlook and performance to ensure capital adequacy is aligned with the business plan. The capital plan takes the following into account:

- Current regulatory capital requirements 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.
- 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 oversight of liquidity and capital management. The primary aim is to provide liquidity to the Bank in order to ensure that the liquidity and capital position in both domestic and foreign currencies are sufficient for the Bank's normal operations as well as for any crisis that may arise, and that the Bank's liquidity and capital level is to exceed the minimum as required by Bank of Thailand (BoT) and comply with risk framework approved by the Risk Management Committee and the Board of Directors.

### **4.1 Capital Structure**

The Bank maintains capital to meet the minimum regulatory capital requirements set by the BOT. In addition, 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 Bank as at 30 June 2021, comparing with the position of the Bank as at 31 December 2020.



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**Table 2: Capital Structure**

Unit: Million Baht

	30-Jun-21	31-Dec-20
<b>Tier 1 Capital</b>		
Issued and paid-up share capital	14,837	14,837
Premium on share capital	9,056	9,056
Statutory reserve	1,484	1,447
Retained earnings after appropriation	525	150
Other comprehensive income	(34)	97
Adjustment items from Common Equity Tier1 Capital	(20)	(31)
Deduction items from Common Equity Tier1 Capital*	(540)	(762)
<b>Total Common Equity Tier 1 (CET1) Capital</b>	<b>25,308</b>	<b>24,794</b>
Additional Tier 1 (AT1) Capital	-	-
<b>Total Tier 1 Capital</b>	<b>25,308</b>	<b>24,794</b>
<b>Tier 2 Capital</b>		
General Provision for performing loans under SA portfolio	38	37
Surplus of provision	185	257
<b>Total Tier 2 Capital</b>	<b>223</b>	<b>294</b>
<b>Total Regulatory Capital</b>	<b>25,531</b>	<b>25,088</b>

\* Consist of intangible assets, net losses

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**4.2 Capital Sources**

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 comprehensive income items in the shareholders' equity & regulatory adjustment. There is no additional tier 1. The Bank's Tier 2 Capital comprise of the general provision for performing loans and surplus of provision.

**Table 3: Reconciliation of Regulatory Capital to Financial Statement**

Unit: Million Baht		
As of 30 June 2021	Statements of Financial Position as in published financial statements	References
<b>Assets</b>		
Cash	50	
Interbank and money market items - net	52,844	
Financial assets measured at fair value through profit or loss	33,380	
Derivative assets	18,859	
Investments - net	3,677	
Loans to customers and accrued interest receivable - net	30,834	
Premises, equipment and right-of-use assets - net	200	
Intangible assets - net	540	F
Collateral receivables under the Credit Support Annex agreements and the private sector repurchase transactions	6,453	
Others	4,665	
<b>Total assets</b>	<b>151,502</b>	

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Unit: Million Baht

<b>As of 30 June 2021</b>	<b>Statements of Financial Position as in published financial statements</b>	<b>References</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Deposits	68,180	
Interbank and money market items	21,195	
Liabilities payable on demand	928	
Financial liabilities measured at fair value through profit or loss	1,854	
Derivative liabilities	18,942	
Provision liabilities	438	
Deferred tax liabilities	7	
Collateral payable under the Credit Support Annex agreements and the private sector repurchase transactions	5,991	
Payables on purchase of securities	4,970	
Others	3,034	
<b>Total liabilities</b>	<b>125,539</b>	
<b>Shareholders' equity</b>		
Share capital		
Registered share capital	14,843	
Issued and paid-up share capital	14,837	A
Premium on share capital	9,056	B
Other components of equity	(47)	E

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Unit: Million Baht

<b>As of 30 June 2021</b>	<b>Statements of Financial Position as in published financial statements</b>	<b>References</b>
Retained earnings		
Appropriated		
Statutory reserve	1,484	C
Unappropriated		
Unappropriated retained earnings	108	
Net profit after appropriation	525	D
Total Unappropriated	633	
<b>Total shareholders' equity</b>	<b>25,963</b>	
<b>Total liabilities and shareholders' equity</b>	<b>151,502</b>	

Unit: Million Baht

<b>Capital related items as of 30 June 2021</b>	<b>Component of regulatory capital</b>	<b>References base on Statement of Financial Position</b>
<b>Common Equity Tier 1 Capital (CET1)</b>		
Issued and paid-up share capital	14,837	A
Premium on share capital	9,056	B
Statutory reserve	1,484	C
Net profit after appropriation	525	D
Other comprehensive income		
Fair value change in investment in debt securities	(34)	E <sup>1/</sup>
<b>Total CET1 capital before regulatory adjustments and deduction</b>	<b>25,868</b>	

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Unit: Million Baht

<b>As of 30 June 2021</b>	Statements of Financial Position as in published financial statements	References
Adjustment items from Common Equity Tier1 Capital		
Debit Valuation Adjustment	5	
Fair Value Option adjustment as per TFRS9	(25)	
Deduction items from Common Equity Tier1 Capital		
Intangible assets	(540)	F
<b>Total Common Equity Tier 1 (CET1)</b>	<b>25,308</b>	
Additional Tier 1 (AT1)	-	
<b>Total Tier 1 capital</b>	<b>25,308</b>	
<b>Tier 2 Capital</b>		
General Provision for performing loans under SA portfolio	38	
Surplus of provision	185	
<b>Total Tier 2 capital</b>	<b>223</b>	
<b>Total Regulatory capital</b>	<b>25,531</b>	

<sup>1/</sup> Excluded Owned Credit Adjustment (OCA) and ECL (net tax) on change in investment in debt securities THB 13 million.

### 4.3 Capital Adequacy

Under the BOT guidelines, the Bank is required to maintain a minimum ratio of total capital to risk weighted assets of 11.00%, with the minimum ratio of Tier 1 capital and Common Equity Tier 1 to risk weighted assets at 8.50% and 7.00%, respectively.

Total Capital Adequacy Ratios of the Bank as at 30 June 2021 was 33.09%. Tier 1 Ratios was 32.80% and CET 1 Capital Ratios was 32.80% which exceeded minimum requirements of the BOT.

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**Table 4: Capital Adequacy**

Unit: Percent

	<b>BOT Minimum Requirement</b>	<b>BOT Minimum Requirement and conservation buffer</b>	<b>30-Jun-21</b>	<b>31-Dec-20</b>
Total capital funds to risk weighted assets	8.50	11.00	33.09	30.53
Tier 1 capital funds to risk weighted assets	6.00	8.50	32.80	30.17
Common Equity Tier 1 capital funds to risk weighted assets	4.50	7.00	32.80	30.17

#### **4.4 Minimum Capital Requirement by Type of Risk**

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 Bank as at 30 June 2021.

**Table 5: Minimum Capital Requirement by Type of Risk**

Unit: Million Baht

	<b>30-Jun-21</b>	<b>31-Dec-20</b>
Credit Risk	3,561	4,678
Market Risk	2,245	1,500
Operational Risk	753	807
<b>Total Minimum Capital Requirements</b>	<b>6,559</b>	<b>6,985</b>

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**AIRB Adoption**

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).

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

	Unit: Million Baht	
Asset Class	30-Jun-21	31-Dec-20
<b>Non-Default exposures</b>		
Claims on sovereigns, financial institutions and Corporates	2,535	3,529
Claims on retail portfolios		
-Claims on residential mortgage	-	-
-Qualifying revolving retail exposures	-	-
-Other retail exposures	-	-
Equity exposures	1	1
Other assets	62	53
<b>Default exposures</b>	656	662
<b>First-to-default credit derivatives and Securitisation</b>	-	-
<b>Total minimum capital requirement for credit risk – AIRB</b>	<b>3,254</b>	<b>4,245</b>

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Minimum capital requirement for credit risk under AIRB for the Bank decreased by THB 991 million, mainly due to decreasing in non-default exposures of claim on sovereigns, financial institutions and corporates.

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

Unit: Million Baht		
Asset Class	30-Jun-21	31-Dec-20
<b>Non-Default exposures</b>		
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	456	433
Claims on retail portfolios	-	-
Claims on residential mortgage	-	-
Other assets	-	-
<b>Default exposures</b>	-	-
<b>First-to-default credit derivatives and Securitization</b>	-	-
<b>Total minimum capital requirement for credit risk – SA</b>	<b>456</b>	<b>433</b>

Note: PSEs (non-central government public sector entities) is provincial administrations, government entities, and state enterprises



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**Table 8: Minimum Capital Requirement for Equity Exposure under AIRB**

Unit: Million Baht		
Item	30-Jun-21	31-Dec-20
Equity exposure exempted from credit risk calculation by IRB	1	1
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 non-trading book (banking book))	-	-
2. Equity holdings subject to a PD/LGD approach	-	-
<b>Total minimum capital requirement for equity exposure – AIRB</b>	<b>1</b>	<b>1</b>

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## **5. Market Risk**

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Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market prices or rates. The Bank's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Bank'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. The objective of the Bank's market risk policies and processes is to achieve the optimal balance of risk and return while meeting customers' requirements.

The Bank undertakes transactions 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 Bank are primarily over-the-counter derivatives.

The Bank has established market risk management framework that covers limit setting, monitoring and reporting and control procedures, which are reviewed regularly by the relevant committees, Executive Risk Committees 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 Bank are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options; and

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- 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 Bank is fully hedged through a back-to-back position.

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	30-Jun-21	31-Dec-20
Interest Rate Risk	1,989	1,309
Equity Position Risk	-	-
Foreign Exchange Rate Risk	256	191
Commodity Risk	-	-
<b>Total Minimum Capital Requirements</b>	<b>2,245</b>	<b>1,500</b>

The Bank is required to have THB 2,245 million total capital against Market Risk. Comparing with December 2020, the increase of THB 745 million is mainly due to Interest Rate Risk category.

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## **6. Acronyms**

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AIRB	Advanced Internal Ratings Based
ALCO	Asset and Liabilities Management Committee
BOT	The Bank of Thailand
COF	Cash Outflows
EXCO	Executive Committee
HQLA	High-Quality Liquid Asset
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
SREP	Supervisory Review and Evaluation Process
TFRS9	Thai Financial Reporting Standard no.9