
Standard Chartered Bank (Thai) PCL

Pillar 3 Disclosures

30 June 2018



Registered Office: 100 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”) to adopt the AIRB approach which is more advanced Risk Management Framework for the measurement of credit risk capital and under the notification, the Bank has been using AIRB approach for the credit risk capital calculation as regulatory capital since December 2009.

The Bank is also required to calculate a capital charge to cover market risk and operational risk for which the Bank applies 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 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”).

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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 Bank is required to disclose the data and information relative to risk profile, risk management and capital funds.

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 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 Bank has developed a set of disclosures for its position (Solo basis) as at 30 June 2018 covering the following areas:

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 Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of the Bank 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 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 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 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 2018, comparing with the position of the Bank as at 31 December 2017.

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Table 1: Capital Structure

	Unit: Million Baht	
	30-Jun-18	31-Dec-17
Tier 1 Capital		
Paid up share capital	14,837	14,837
Share premium account	9,056	9,056
Legal reserve	1,212	1,096
Net profit after appropriation	13,213	13,202
Accumulated other comprehensive income	(103)	(9)
Item of reserve arising from business combination under common control, shareholders' equity which shall be regarded as CET 1	-	-
Other adjustment items which not effected capital fund	(67)	-
Deductions from Common Equity Tier1	(271)	(297)
Total Common Equity Tier 1 (CET1)	37,877	37,885
Additional Tier 1 (AT1)	-	-
Total Tier 1 Capital	37,877	37,885
Tier 2 Capital		
General Provision for normal/performing loans	42	52
Surplus of provision	354	397
Total Tier 2 Capital	396	449
Total Regulatory Capital	38,273	38,334

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3.2 Capital Source

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 normal performing loans and surplus of provision.

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Table 2: Reconciliation of Regulatory Capital to Financial Statement

Unit: Million Baht			
Capital related items as of 30 June 2018	Statement of Financial Position as in published financial statements	Statement of Financial Position as per Balance Sheet	References
Assets			
Cash	53	53	
Interbank and money market items, net	62,624	62,624	
Derivative assets	17,578	17,578	
Investments, net	35,564	35,564	
Investments in subsidiaries	48	48	
Loans to customers and accrued interest receivable, net			
Loans to customers	40,103	40,103	
Accrued interest receivable	164	164	
Total loans to customers and accrued interest Receivable	40,267	40,267	
Less allowance for doubtful accounts	(3,036)	(3,036)	
Total loans to customers and accrued interest receivable, net	37,231	37,231	
Customer's liability under acceptances	703	703	
Properties for sale, net	-	26	
Premises and equipment, net [/]	444	444	
Deferred tax assets	271	271	G
Accounts receivable from sales of investments and debt securities in issue	4,416	4,416	
Collateral from Credit Support Annex agreements and margin receivables from private repo transactions	4,958	4,958	
Assets of disposal group classified as held for sales	26	-	
Other assets, net	614	614	
Total assets	164,530	164,530	

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Unit: Million Baht			
Capital related items as of 30 June 2018	Statement of Financial Position as in published financial statements	Statement of Financial Position as per Balance Sheet	References
Liabilities			
Deposits	61,950	61,950	
Interbank and money market items	30,422	30,422	
Liabilities payable on demand	1,121	1,121	
Liabilities to deliver security	3,573	3,573	
Derivative liabilities	16,325	16,325	
Debt issued and borrowings	-	-	
Bank's liability under acceptances	703	703	
Provisions	285	285	
Accounts payable from purchase of investments	3,344	3,344	
Collateral from Credit Support Annex agreements and margin payables from private repo transactions	3,642	3,642	
Accrued expenses	1,821	1,821	
Liabilities of disposal group classified as held for sales	-	-	
Other liabilities	1,303	1,303	
Total liabilities	124,489	124,489	

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Unit: Million Baht			
Capital related items as of 30 June 2018	Statement of Financial Position as in published financial statements	Statement of Financial Position as per Balance Sheet	References
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
Other reserves			
Fair value change in available -for-sale investments	(102)	(102)	E ^{/1}
Cash flow hedges	(1)	(1)	F
Total other reserves	(103)	(103)	
Retained earnings			
Appropriated			
Legal reserve	1,212	1,212	C
Unappropriated			
Unappropriated retained earnings	1,709	1,709	
Net profit after appropriation	13,330	13,330	D
Total Unappropriated	15,039	15,039	
Total equity	40,041	40,041	
Total liabilities and equity	164,530	164,530	

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		Unit: Million Baht
Items	Component of regulatory capital	References base on Statement of Financial Position as per Balance Sheet
Common Equity Tier 1 Capital (CET1)		
Issued and paid-up share capital	14,837	A
Premium on share capital	9,056	B
Legal reserve	1,212	C
Net profit after appropriation	13,213	D
Other reserves		
Fair value change in available -for-sale investments	(102)	E ^{/1}
Cash flow hedges	(1)	F
Total CET1 capital before regulatory adjustments and deduction	38,215	
Regulatory adjustments on CET1		
Cash flow hedges	1	F
Debit Valuation Adjustment : DVA	(68)	
Regulatory deduction on CET1		
Deferred tax assets	(271)	G
Total Common Equity Tier 1 (CET1)	37,877	
Additional Tier 1 (AT1)	-	
Total Tier 1 capital	37,877	
Tier 2 Capital		
General Provision under SA	42	
Surplus of provision	354	
Total Tier 2 capital	396	
Total Regulatory capital	38,273	

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Table 3: Basel III Capital during transitional period

Unit: Million Baht		
Capital Amount as at 30 June 2018	Capital value	Net value of items during transitional phase
Tier 1 Capital		
Common Equity Tier 1 Capital	38,215	(0) ^{1/}
Total regulatory adjustments to CET1	(67)	
Total regulatory deduction to CET1	(271)	
Total Common Equity Tier 1 Capital (CET1)	37,877	
Additional Tier 1 Capital (AT1)	-	
Total Tier 1 Capital	37,877	
Tier 2 Capital	396	
Total Regulatory Capital	38,273	

^{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.

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3.3 Capital Adequacy

Under the BOT guidelines, the Bank is required to maintain a minimum ratio of total capital to risk weighted assets of 8.50%^{2/}, with the minimum ratio of Common Equity Tier 1 and tier 1 capital to risk weighted assets at 4.50%^{2/} and 6.00%^{2/}, respectively.

Total Capital Adequacy Ratios of the Bank as at 30 June 2018 was 38.00%. CET1 Ratios was 37.61% and Tier 1 Capital Ratios was 37.61% which exceeded minimum requirements of the BOT.

Table 4: Capital Adequacy

		Unit: Percent	
	BOT Minimum Requirement	30-Jun-18	31-Dec-17
Total capital funds to risk weighted assets	8.50	38.00	36.71
Common Equity Tier 1 capital funds to risk weighted assets	4.50	37.61	36.28
Tier 1 capital funds to risk weighted assets	6.00	37.61	36.28
Capital conservation buffer (CCB) ^{2/}	1.875		
Total capital funds to risk weighted assets, including CCB ^{2/}	10.375	38.00	36.71

^{2/} From 1 January 2016, Capital conservation buffer under BOT guidelines shall be gradually added to minimum capital requirement by 0.625% per annum for 4 years. And after 1 January 2019, the minimum requirement plus conservation buffer for total capital ratio, CET 1 ratio, and Tier 1 capital ratio shall be 11%, 7%, and 8.5%, respectively.

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3.4 Minimum Capital Requirement

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 2018.

Table 5: Minimum Capital Requirement

Unit: Million Baht

	30-Jun-18	31-Dec-17
Credit Risk	5,329	5,972
Market Risk	2,145	1,670
Operational Risk	1,087	1,234
Total Minimum Capital Requirements	8,561	8,876

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).

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

Asset Class	Unit: Million Baht	
	30-Jun-18	31-Dec-17
Non-Default exposures		
Claims on sovereigns, financial institutions and Corporates	4,904	5,517
Claims on retail portfolios		
-Claims on residential mortgage	-	-
-Qualifying revolving retail exposures	-	-
-Other retail exposures	-	-
Equity exposures	6	5
Other assets	83	61
Default exposures	34	38
First-to-default credit derivatives and Securitization	-	-
Total minimum capital requirement for credit risk – AIRB	5,027	5,621

Minimum capital requirement for credit risk under AIRB for the Bank decreased by THB 594 million, mainly due to decrease in non-default exposures of claim on sovereigns, financial institutions and corporations.

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

Unit: Million Baht		
Asset Class	30-Jun-18	31-Dec-17
Non-Default exposures		
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	298	346
Claims on retail portfolios	-	-
Claims on residential mortgage	-	-
Other assets	-	-
Default exposures	4	5
First-to-default credit derivatives and Securitization	-	-
Total minimum capital requirement for credit risk – SA	302	351

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

Total minimum capital requirement for credit risk under SA approach for the Bank decreased by THB 49 million, mainly due to decrease in Claims on corporates, PSEs treated as claims on corporate

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Table 8: Minimum Capital Requirement for Equity Exposure under AIRB

Item	Unit: Million Baht	
	30-Jun-18	31-Dec-17
Equity exposure exempted from credit risk calculation by IRB	6	5
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	-	-
Total minimum capital requirement for equity exposure – AIRB	6	5

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 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 and from the translation of non-Thai baht denominated assets, liabilities and earnings. 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 transacts 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 policies and framework, including limit setting, monitoring and reporting and control procedures, which are reviewed regularly by the relevant committees – ALCO, Executive Risk Committee 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
- 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.

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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

Type of Risk	Unit: Million Baht	
	30-Jun-18	31-Dec-17
Interest Rate Risk	1,870	1,632
Equity Position Risk	-	-
Foreign Exchange Rate Risk	275	38
Commodity Risk	-	-
Total Minimum Capital Requirements	2,145	1,670

The Bank is required to have THB 2,145 million total capitals against Market Risk. Comparing with December 2017, the increase of THB 475 million is due to Interest Rate Risk THB 238 million and Foreign Exchange Rate Risk THB 237 million.

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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
SREP	Supervisory Review and Evaluation Process