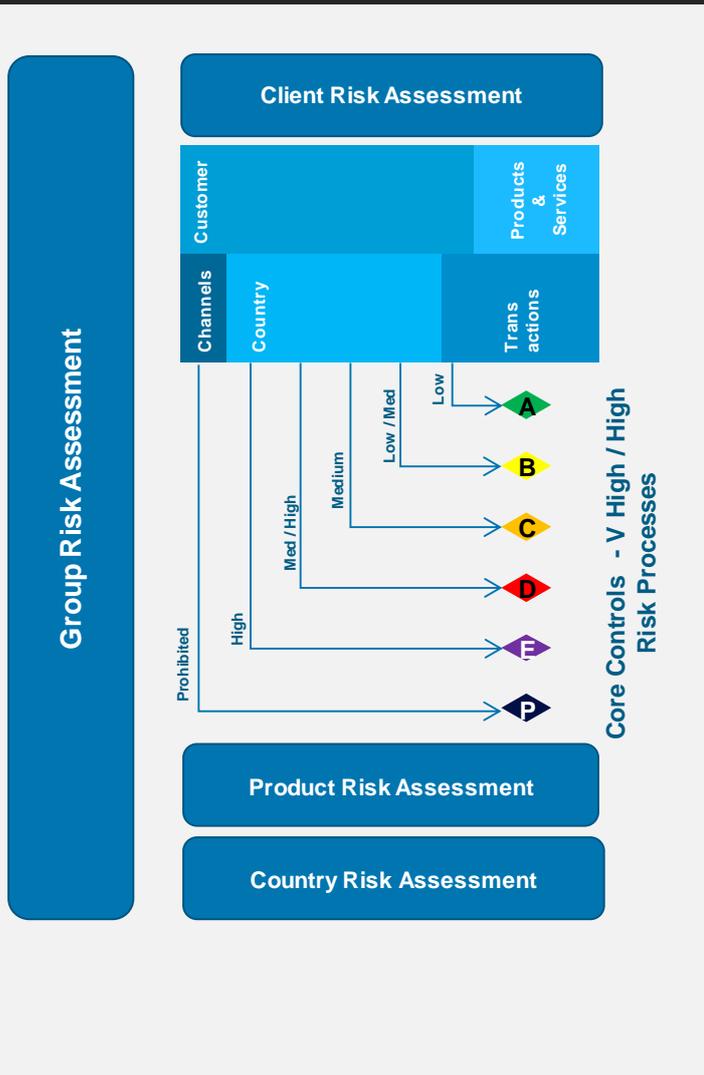


The Group Risk Assessment

Definition

The Standard Chartered Bank (SCB) Group Risk Assessment (GRA) is a pan-Bank assessment of inherent risk, control effectiveness and residual risk. It measures factors such as client risk, country risk and product risk for inherent risk. It also assesses the key Financial Crime Compliance (FCC) relevant controls such as name screening, transaction monitoring and CDD/KYC plus the enabling controls such as risk governance, training and conduct. The GRA is executed by a streamlined central team, and supplemented by a central business risk analytics function. The bulk of the activity, however, is spread throughout the network, with all FCC teams contributing to the measurement and mitigation of the risks. Overall, the GRA system has over 660 users across the Bank.



Active risk management

The GRA is a strategic tool to monitor and assess the performance of the FCC programme. Over recent years it has facilitated active management of the bank's inherent risk exposures and driven up standards of control throughout the network. The GRA has identified inherent risk concentrations in the private bank clients and the correspondent banking product, which have in turn led to proactive risk management, specifically driving major initiatives. It has also highlighted relatively lower levels of inherent risk in large parts of the retail and institutional business, allowing resources to be focused towards the areas of highest financial crime risk.

The risk assessment framework

To achieve this level of insight, the GRA has become incrementally more granular and is now one of the biggest collectors of data in the Bank. In order to be sustainable, the GRA is an aggregation of numerous underlying risk assessment activities and processes, which are 'BAU' activities embedded throughout the function. This wider FCC Risk Assessment Framework is a programmatic architecture encompassing the output of numerous risk identification and risk mitigation teams. SCB is moving towards a truly integrated risk management framework where oversight and analysis is determining all activity on a risk-based approach, whether at a client, portfolio, product or country level.

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Inherent risk

is enabled as the key aggregation model via the SCB Client Risk Assessment. This model assesses inherent risk according to a 5 point scale, and takes into account a number of factors:

- The SCB Product Risk Assessment is produced by the FCC Product team, and measures both the inherent risk of the product, but also product utilization.
- Country Risk Assessments are also produced in-house by the Intelligence & Investigations team, based on a 'base list' provided by Thomson Reuters. This assessment includes separate underlying ratings for the 'Incidence of Financial Crime' and the 'Quality of Regulation', which are applied differently depending on the client type, to give a nuanced view of country exposure. SCB's knowledge and presence in a country is also factored in.
- Client relationship risk is assessed using specialised Politically Exposed Persons (PEP) and Sanctions Risk Assessments for relevant clients. These are created by dedicated PEP and Sanctions teams. It is also assessed using factors such as length of relationship and age of business.
- Industry and occupation ratings are applied to clients to assess Activity Risk.
- Channels risk is assessed across both client-onboarding / management methods and product delivery methods.
- Behavioural risks are monitored via the output of the Bank's surveillance systems, including Suspicious Activity Reports (SARs), adverse media and other risk events.

Control effectiveness

is monitored across central processes and in-country activity. It is measured according to a 5 point scale in two ways:

- Control Risk Assessments carried out under the Operational Risk (OR) framework feed half of the Control Effectiveness assessment. For example circa 600 individual controls are included in the AML Control Assessment, each subject to ongoing testing by the control owners and validation by OR and FCC Risk owners.
- In addition the GRA issues evidenced self-assessment questionnaires to measure the effectiveness of non-operational controls such as governance, plus coverage of processes not subject to OR assessments, such as a Court Order and SAR filing. For AML this includes circa 40 separate questions.

Controls Design & Effectiveness



Risk tolerance

The key outputs of the GRA are global and country action plans to drive continuous improvement and better risk management. It is a central measurement of the Bank's FCC tolerance and appetite, with the results and plans tracked by country and global Financial Crime (FC) committees. As well as focusing on specific issues, this has given the Bank a consistent FC lexicon and an objective barometer of risk across a diverse footprint and business model.