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chartered

**Standard Chartered Johannesburg Bank  
Pillar 3 Disclosures  
31 December 2020**

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## 1. Introduction

### 1.1 Purpose and basis of preparation

Standard Chartered Bank, Johannesburg Branch (the Bank) is a Branch of Standard Chartered Bank PLC (incorporated in the United Kingdom) (SCB Group). The Bank is primarily involved in the provision of wholesale banking services.

This report presents the annual Pillar 3 disclosures of the Bank as at 31 December 2020 and should be read in conjunction with the SCB Group's Annual Report and Accounts and Pillar 3 disclosures. Where appropriate this document provides links to the Group reports for the year ended 31 December 2020 which can also be found directly at:

Annual Report – <https://av.sc.com/corp-en/content/docs/standard-chartered-plc-full-year-2020-report.pdf>

Pillar 3 report – <https://av.sc.com/corp-en/content/docs/standard-chartered-plc-full-year-2020-pillar3-disclosure.pdf>

The Pillar 3 disclosures comprise detailed information on the underlying drivers of Risk Weighted Assets (RWA), capital, leverage and liquidity ratios as at 31 December 2020 in accordance with Regulation 43 and the South African Banks Act 1990 (as amended).

The information presented in this Pillar 3 report is not required to be, and has not been, subjected to external audit.

### 1.2 Bank management's responsibility statement

Bank management is responsible for the preparation and fair presentation of the annual financial statements of the Bank, comprising the statement of financial position at 31 December 2020, and disclosure requirements in respect of Regulation 43 of the Regulations relating to Banks.

The Pillar 3 Disclosures document has been verified internally in accordance with the Bank's policies on disclosure and its financial reporting and governance processes.

During 2020, SCBJ approved the Pillar 3 disclosure policy, which had been updated to incorporate the revised Pillar 3 disclosure requirements set out by the BCBS.

### 1.3 Highlights

- The Bank's capital and leverage position is managed within the Bank's risk appetite.
- The Bank is sufficiently capitalised with a Common Equity Tier 1 (CET1) ratio of 15.85 per cent, above the minimum regulatory requirement of 7.00 per cent.
- The Bank is not highly leveraged and its leverage ratio of 8.63 per cent is above the minimum regulatory leverage requirement of 4 per cent.
- The Bank continues to manage its balance sheet proactively, with a focus on the efficient management of RWA.

### 1.4 Key metrics for the Bank

The key prudential metrics (KM1) as at 31 December 2020 are disclosed in the Quarterly 31 December 2020 Pillar 3 disclosure. No transitional arrangement has been applied with regards implementation of IFRS 9 for the impact of expected credit loss accounting on regulatory capital.

### 1.5 Comparison of accounting balance sheet and exposure at default

The Regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. The following tables show in two steps how the accounting values in the regulatory balance sheet link to regulatory Exposure at Default (EAD). Regulatory capital reconciles to the balance sheet as per Table 1 below as required in CC2 disclosure table.

**Table 1: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (LI1)**

	2020						
	Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	Subject to credit risk framework	Subject to counter-party credit risk framework ZAR'million	Subject to securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>							
Cash and balances at central banks	641	641	641	-	-	-	-
Derivative financial instruments	5,549	5,549	-	5,549	-	5,549	-
Loans and advances to banks	9,689	9,689	9,689	-	-	-	-
Loans and advances to customers	7,139	7,139	7,139	-	-	-	-
Reverse repurchase agreements and other similar lending	326	326	326	-	-	-	-
Investment securities	12,465	12,465	12,465	-	-	-	-
Other assets	700	700	700	-	-	-	-
Goodwill and intangible assets	326	326	158	-	-	-	168
Property, plant and equipment	61	61	61	-	-	-	-
Deferred tax assets	156	156	-	-	-	-	156
<b>Total assets</b>	<b>37,052</b>	<b>37,052</b>	<b>31,179</b>	<b>5,549</b>	<b>-</b>	<b>5,549</b>	<b>324</b>
<b>Liabilities</b>							
Deposits by banks	2,181	2,181	-	-	-	-	2,181
Customer accounts	23,240	23,240	-	-	-	-	23,240
Derivative financial instruments	5,506	5,506	-	-	-	5,506	5,506
Other liabilities	1,443	1,443	-	-	-	-	1,443
Current tax liabilities	12	12	-	-	-	-	12
Deferred tax liabilities	15	15	-	-	-	-	15
Provisions for liabilities and charges	186	186	-	-	-	-	186
<b>Total liabilities</b>	<b>32,583</b>	<b>32,583</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,506</b>	<b>32,583</b>
<b>Equity</b>							
Share capital and share premium account	4,054	4,054	-	-	-	-	-
Other reserves	91	91	-	-	-	-	-
Retained earnings	325	325	-	-	-	-	-
<b>Total equity</b>	<b>4,469</b>	<b>4,469</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total equity and liabilities</b>	<b>37,052</b>	<b>37,052</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,506</b>	<b>32,583</b>

Table 2 shows the effect of regulatory adjustments required to derive the Bank's EAD for the purposes of calculating its credit risk capital requirements. The differences between the carrying values under regulatory scope of consolidation and amounts considered for regulatory purposes shown in Table 2 are mainly due to derivatives netting benefits, provisions, collateral and off-balance sheet exposures.

**Table 2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)**

	2020		
	Subject to Credit risk framework	Subject to CCR framework	Subject to Securitisation framework
	ZAR'million		
Total assets amount under regulatory scope of consolidation	31,179	5,549	-
Derivatives netting benefit	-	(530)	-
Differences due to off-balance sheet amounts recognised in regulatory exposures	27,572	-	-
Other	(3,267)	2,056	-
Regulatory exposure at default pre credit risk mitigation	55,484	7,075	-

**Table 3: Prudent valuation adjustment (PVA) (PV1)**

	Equity	Interest Rates	FX	2020		Total	Total Trading	Total Banking
				Credit	Commodities			
	ZAR'million							
Close-out uncertainty; of which:	-	15.9	-	0.62	-	16.5	13.32	3.2
MPU	-	7.9	-	0.40	-	8.3	7.20	1.1
Close-out cost	-	4.0	-	0.05	-	4.1	4.08	-
Concentration	-	3.9	-	0.17	-	4.1	2.05	2.0
Early Termination	-	-	-	-	-	-	-	-
Model Risk	-	0.1	-	-	-	0.1	0.13	-
Operational risk	-	1.3	-	0.05	-	1.3	1.24	0.1
Investing and Funding costs	-	-	-	-	-	-	-	-
Unearned Credit Spreads	-	-	-	-	-	-	-	-
Future Administrative costs	-	0.4	-	0.35	-	0.7	0.66	0.1
Others	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>17.8</b>	<b>-</b>	<b>1.01</b>	<b>-</b>	<b>18.8</b>	<b>15.4</b>	<b>3.4</b>

## 1.6 Financial Performance

Table 1 LI1 outline the financial position as at 31 December 2020. The net profit after tax for the period ending 31 December 2020 reported a loss of ZAR211 million.

## 2. Capital

### 2.1 Capital management

The Bank's capital and leverage positions are managed within the CRC approved risk appetite. The Bank is well capitalised with low leverage and high levels of loss-absorbing capacity.

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 always.

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 Country Management Team (CMT) on an annual basis with regular updates on the financial outlook and performance to ensure 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.

The Risk management approach section of the 2020 SCB Group Annual Report and Accounts sets out our approach to capital management (pages 259 to 260).

### 2.2 Capital resources

For regulatory purposes, capital is categorised into two tiers, depending on the degree of permanence and loss-absorbency exhibited. These are Tier 1 and Tier 2 capital. The regulatory capital reconciles to the capital per the Bank's Annual Report.

### 2.3 Leverage ratio

The Bank is currently subject to a minimum leverage ratio of 4 per cent. The Bank's current leverage ratio of 8.63 per cent is well above the current regulatory minimum requirement. The quantitative disclosures for 31 December 2020 LR1 Summary comparison of accounting assets compared to leverage ratio exposure and LR2 Leverage ratio common disclosure template are included in the Quarterly Pillar 3 report for 31 December 2020.

### 2.4 Capital requirements

Pillar 1 and Pillar 2A CET1 requirements and the combined buffer requirement together represent the Bank's Maximum Distributable Amount threshold. The Bank will be subject to restrictions on discretionary distributions if the CET1 ratio falls below this threshold. The Bank expects to continue to operate with a prudent management buffer above this threshold in the forecast period.

The tables that present the Bank's RWA and capital requirements key metrics KM1 (calculated as 10.5 per cent of RWA) are included in the Quarterly Pillar 3 report for 31 December 2020. The table that shows the overview of risk management as at 31 December 2020 is included in the Quarterly Pillar 3 report for 31 December 2020.

Table 4: Composition of regulatory capital (CC1)

	2020 ZAR'million
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	4,054
Of which: Share premium accounts	-
Retained earnings	325
Accumulated other comprehensive income (and other reserves)	91
Non-controlling interests (amount allowed in consolidated CET1)	-
Independently reviewed interim and year-end profits/(loss)	247
Foreseeable dividends net of scrip	-
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>4,223</b>
Common Equity Tier 1 capital: regulatory adjustments	
Additional value adjustments	-
Intangible assets	(326)
Deferred tax assets that rely on future profitability	-
Fair value reserves related to gains or losses on cash flow hedges	-
Negative amounts resulting from the calculation of expected loss amounts	-
Gains or losses on liabilities at fair value resulting from changes in own credit	-
Defined-benefit pension fund assets	-
Fair value gains and losses from own credit risk related to derivative liabilities	-
Exposure amounts which could qualify for risk weight of 1250%	-
Of which: securitisation positions	-
Of which: free deliveries	-
<b>Total regulatory adjustments to Common Equity Tier 1 capital</b>	<b>(326)</b>
<b>Common Equity Tier 1 capital</b>	<b>3,896</b>
Additional Tier 1 (AT1) capital: instruments	
Capital Instruments and the related share premium accounts	-
Of which: classified as equity under applicable accounting standards	-
Of which: classified as liabilities under applicable accounting standards	-
<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>-</b>
Additional Tier 1 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own Additional Tier 1 (AT1) instruments and subordinated loans	-
Total regulatory adjustments to Additional Tier 1 capital	-
<b>Additional Tier 1 capital</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>3,896</b>
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts	-
Qualifying items and the related share premium accounts subject to phase out from T2	-
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third parties	-
<b>Tier 2 capital before regulatory adjustments</b>	<b>-</b>
Tier 2 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans	-
Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-
Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-
Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>
<b>Tier 2 capital (T2)</b>	<b>228</b>
<b>Total capital (TC = T1 + T2)</b>	<b>4,124</b>
<b>Total risk-weighted assets</b>	<b>24,580</b>
Capital ratios and buffers	
Common Equity Tier 1 capital	15.47%
Tier 1 capital	15.29%
Total capital	16.03%



Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirement, plus systematic risk buffer, plus systematically important intuition buffer expressed as a percentage of risk exposure amount.)	8.47%
Of which: capital conservation buffer requirement	2.50%
Of which: countercyclical buffer requirement	-
Of which systematic risk buffer requirement	-
Of which: Global systematically important institution (G-SII) or Other Systematically important institution (O-SII) buffer	-
Common Equity Tier 1 available to meet buffers (as percentage of risk exposure amount)	8.50%
Amounts below the thresholds for deduction (before risk weighting)	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-
Applicable caps on the inclusion of provisions in Tier 2	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
Cap on inclusion of provisions in Tier 2 under standardised approach	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	-
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
Current cap on AT1 instruments subject to phase-out arrangements	-
Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-
Current cap on T2 instruments subject to phase-out arrangements	-
Amount excluded from T2 due to cap (excess after redemptions and maturities)	-

### 3. Risk Management

The management of risk lies at the heart of the Bank's business. All risk types, both financial and non-financial are managed and reported in accordance with the Enterprise Risk Management Framework (ERMF), which sets out the principles and standards for risk management. Under the ERMF, there are 10 Principal Risk Types (PRTs), including Credit risk, Capital & Liquidity risk, Traded risk, Operational risk, Country risk, Reputational risk, Compliance risk, Conduct risk, Financial Crime risk and Information & Cyber Security risk.

#### 3.1 Enterprise Risk Management Framework

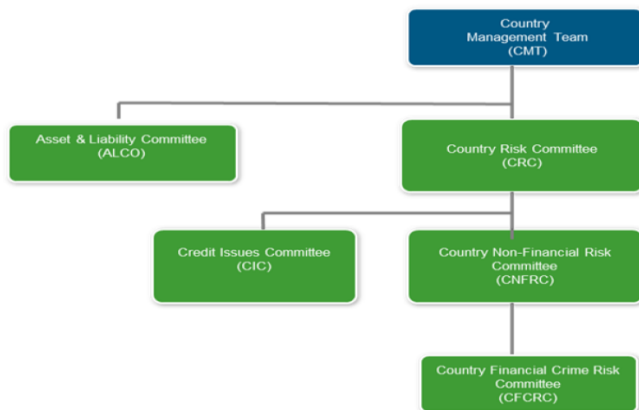
Effective risk management is essential to consistent and sustainable performance for all of stakeholders and is therefore a central part of the financial and operational management of the Bank. The Bank adds value to clients and therefore the communities in which they operate, generating returns for shareholders by taking and managing risk.

Through our ERMF Country Addendum (CA), the Bank manages enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining in compliance with the Bank's Risk Appetite Statement. Risk Appetite is defined by the Bank and approved by the CRC. It is the maximum amount and type of risk that the Bank is willing to assume in pursuit of its strategies.

SCB Group's outline of the ERMF is detailed in Risk Management section in the 2020 SCB Group Annual Report and Accounts on page 248 to 253.

The following diagram illustrates the high-level risk committee structure for the Bank:

Figure 1: Risk committee structure



### 3.2 Risk Governance

Ultimate responsibility for the effective management of risk rests with the CRC. The CRC delegates the authority for the management of risks to several committees.

The CMT is responsible for driving business agenda bringing alignment between functions to achieve financial performance target and to ensure day-to-day management, operations and control of the Bank in conformity with the Bank's policies and strategies. The CMT is chaired by the Chief Executive Officer (CEO) and comprises of senior executives from Global Banking, Financial Markets, Transaction Banking, Risk Management, Information Technology and Operations, Finance, Human Resources, Legal and Compliance.

The Asset & Liability Committee (ALCO) ensures that the balance sheet of the Bank is managed in accordance with the policies of SCB Group adopted by the Bank and any other applicable regulatory requirements relating to management of liquidity, capital adequacy and structural market risks.

The Country Risk Committee (CRC)'s main responsibilities are to provide leadership on forward looking and anticipated risk issues with the effective implementation of the ERMF which includes Credit Risk, Capital & Liquidity risk, Traded Risk, Operational Risk, Country risk, Reputational risk, Compliance risk, Conduct risk, Financial Crime risk and Information & Cyber Security risk. CRC also supervises and directs the management of all risks within the Bank to be in accordance with standards of the SCB Group and policies as approved by the CRC or delegated committee.

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.

The first line of defence is defined as the businesses and functions engaged in or supporting revenue-generating activities that own and manage risks.

The second line of defence is defined as the control functions independent of the first line that provide oversight and challenge of risk management to provide confidence to the Country Chief Risk Officer (CCRO), the CRC and the CMT.

The third line of defence is the independent assurance provided by the Group Internal Audit function on the effectiveness of controls that support the first line's risk management of business activities and the processes maintained by the second lines.

### 3.3 The Risk Function

The Risk function is responsible for the sustainability of the Bank's business through good management of risk and ensuring that business is conducted in line with regulatory expectations.

The CCRO directly manages a Risk function that is separated and independent from the origination, trading and sales functions of the businesses. The CCRO also chairs the CRC and is a member of CMT.

The roles of the Risk function are:

- To maintain the Bank's ERMF, ensuring it remains appropriate to the Bank's activities, is effectively communicated and implemented across the Bank, and to administer related governance and reporting processes;
- To uphold the overall integrity of the Bank's risk and return decisions to ensure that risks are properly assessed, that these decisions are made transparently on the basis of this proper assessment and that risks are controlled in accordance with the Bank's standards and Risk Appetite Statement; and
- Overseeing and challenging the management of PRTs under the ERMF.

The independence of the Risk function is to ensure that the necessary balance in making risk and return decisions is not compromised by short-term pressures to generate revenues. In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the broader organization.

## 4. Credit risk

### 4.1 Approach

SCB Group's approach to credit risk can be found in the Risk management approach section in the 2020 SCB Group Annual Report and Accounts on page 254 to 256.

#### Credit Risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

Credit risk is managed through a Risk Type Framework (RTF) that sets out policies and procedures covering the measurement and management of credit risk. The Credit Risk function is the second line control function responsible for independent challenge, monitoring and oversight of the Credit risk management practices of the business and functions engaged in or supporting revenue-generating activities, which constitute the first line of defence. In addition, to ensure that credit risks are properly assessed and are transparent, credit decisions are controlled in accordance with the Risk Appetite Statement. The Bank manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors. Credit exposure limits are approved within a defined credit approval authority framework, credit policies and standards.

#### Credit Policies

The Bank's Credit Policy sets the principles that must be followed for the end-to-end credit process including credit initiation, credit grading, credit assessment, structuring of product, credit risk mitigation, monitoring and control and documentation. In addition, there are other Group-wide policies such as those relating to Risk Appetite, Model Risk, stress testing and impairment provisioning.

#### Decision-making authorities and delegation

Credit authority is delegated by the Chief Credit Officer to the Senior Credit Officer who is empowered to further delegate credit authorities to individual credit officers by applying delegated credit authority matrices, which determine the maximum limits based on risk-adjusted scales by customer type or portfolio. The individual delegating the Credit Risk authorities performs oversight by reviewing a sample of the limit applications approved by the delegated credit officers on a monthly basis.

#### Credit Monitoring

The Bank regularly monitors credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports containing information on key political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance are presented to CRC on a regular basis.

The CRC is responsible to assess the impact of external events and trends on the credit risk portfolio and to define and implement the response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Clients and portfolios are subjected to additional review when they display signs of actual or potential weakness, for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, or non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts are subjected to a dedicated process overseen by the Credit Issue Committees (CIC). Client account strategies and credit grades are re-evaluated when they display signs of actual or potential weakness. In addition, remedial actions, including exposure reduction, security enhancement, or exiting the account could be undertaken, and certain accounts could also be transferred into the control of Group Special Assets Management (GSAM), the Bank's specialist recovery unit.

All credit proposals are subject to a robust Credit Risk assessment. It includes a comprehensive evaluation of the client's credit quality, including willingness, ability and capacity to repay. The primary lending consideration is based on the client's credit quality and the repayment capacity from operating cashflows for counterparties. The risk assessment gives due consideration to the client's liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the Credit Risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a deterioration in a client's credit quality leading to default.

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions.

### Credit Concentration Risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated. Risk Appetite metrics are set at portfolio level and monitored to control concentrations, where appropriate, by industry, tenor, credit grades and top 20 concentrations. Single name credit concentration thresholds are set by client group. Credit concentrations are monitored by CRC. Credit Risk Appetite threshold and escalation triggers are reviewed at least annually by CRC.

## 4.2 Standardised Approach to Credit Risk

Since 1 April 2020, the Bank has used the Standardised Approach to calculate Credit Risk capital requirements in line with the approval from our relevant regulators.

The Standardised Approach measures credit risk pursuant to fixed risk-weights and is the least sophisticated of the capital requirement calculation methodologies under Basel III.

**Table 5: Credit quality of exposures by exposure class and instruments (CR1)**

	Carrying value of			2020 Of which ECL accounting provisions for credit losses on standardised approach exposures		Net values
	Defaulted exposures	Non- defaulted exposures	Allowances /Impairments	Allocated in	Allocated in	
				regulatory category of specific	regulatory category of general	
	ZAR'million					
Loans	1,989	24,999	650	566	84	24,349
Debt securities	-	9,988	17	-	17	9,971
Off-balance sheet exposures	289	27,572	244	230	14	27,327
<b>Total</b>	<b>2,278</b>	<b>62,559</b>	<b>911</b>	<b>796</b>	<b>115</b>	<b>61,648</b>

**Table 6: Changes in the stock of general and specific credit risk adjustments (CR2)**

	2020
	Gross carrying value of defaulted exposures
	ZAR'million
Opening balance	528
Loans and debt securities that have defaulted or impaired since the last reporting period	1,861
Returned to non-defaulted status	-
Amounts written off	(110)
Other changes	-
Closing balance	2,278

### 4.3 Exposure values

The following tables detail the Bank's EAD (including counterparty risk) before the effect of collateral, broken down by exposure class and further split by geography, industry and maturity. For credit risk exposures, EAD is based on the current outstanding exposure and accrued interest and fees, which are recognised in the Bank's balance sheet in accordance with IFRS, and a proportion of the undrawn component of the facility.

**Table 7: Credit risk exposure by geographic region (CRB-A)**

	2020		
	Exposure	RWA	Capital
	ZAR'million		
South Africa	50,810	17,572	1,845
Other African countries	540	116	12
Europe	9,410	101	11
Asia	1,645	660	69
North America	150	90	9
South America	2	-	-
Other	3	-	-
As at 31 December 2020	62,559	18,540	1,946

**Table 8: Credit risk exposure by industry sector overview (CRB-B)**

	2020		
	Exposure	RWA	Capital
	ZAR'million		
Agriculture, hunting, forestry and fishing	495	381	40
Mining and quarrying	4,819	696	73
Manufacturing	11,538	4,039	424
Electricity, gas and water supply	979	212	22
Construction	352	124	13
Wholesale and retail trade, repair of specified items, hotels and restaurants	-	-	-
Transport, storage and communication	1,275	656	69
Financial intermediation and insurance	23,195	8,220	863
Real estate	1,699	1,324	139
Business services	5,564	2,137	224
Community, social and personal services	-	-	-
Private households	24	11	1
Other	12,619	741	78
As at 31 December 2020	62,559	18,540	1,946

**Table 9: Exposure by maturity (CRB-C)**

	2020			
	Exposure value			Total
	Less than 1 year	Between 1 to 5 years	Greater than 5 years	
ZAR'million				
Corporate	37,134	61	66	37,261
Public sector entities	518	-	-	518
Sovereign (including central governments and central banks)	10,306	-	-	10,306
Banks	14,450	-	-	14,450
Retail exposure	24	-	-	24
As at 31 December 2020	62,432	61	66	62,559

#### 4.4 Problem Credit Management and Provisioning

Loans are classified as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by a specialist recovery unit, GSAM, which is independent from the Bank's main businesses. Where any amount is considered irrecoverable, an Individual Impairment Provision (IIP) is raised. This provision is the difference between the loan carrying amount and the present value of estimated future cash flows.

The individual circumstances of each customer are taken into account when GSAM estimates future cash flow. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an IIP has been raised, that amount will be written off.

The SCB Group Accounting definition of past-due, default, restructured exposure and impaired exposures is outlined in the Glossary sections of Pillar 3 SCB Group Disclosures.

Approaches and methods used for determining Expected Credit Losses is detailed in Note 8 of the 2020 SCB Annual Report and Account on pages 316 to 320.

**Table 10: Breakdown of restructured exposures between impaired and not impaired exposures (CRB-D)**

	2020		
	Gross credit exposure		
	Impaired	Not impaired	Total
	ZAR'million		
Advances and off-balance sheet exposures	233	9	242
Total	233	9	242

**Table 11: Amounts of impaired exposures and related allowances and write-offs, broken down by geographical areas and industry (CRB-E)**

	2020		
	Defaulted advances	Write-offs	Specific impairments
	ZAR'million		
South Africa	928	-	527
Total	928	-	527
Agriculture, hunting, forestry and fishing	72	-	47
Manufacturing	148	-	68
Electricity, gas and water supply	399	-	323
Construction	76	-	76
Business services	233	-	12
Total	928	-	527

**Table 12: Ageing analysis of accounting past-due exposures (CRB-F)**

	2020		
	Gross credit exposure		
	Past due < 30 days	Past due > 30 days < 60 days	> Past due 90 days
	ZAR'million		
Corporate	1,385	73	360
Public sector entities	456	-	5
As at 31 December 2020	1,841	73	365

#### 4.5 Credit ratings under Standardised Approach

External ratings, where available, are used to assign risk weights for Standardised Approach exposures. These external ratings must come from South Africa approved rating agencies, known as External Credit Assessment Institutions (ECAI); which currently include Moody's, Standard & Poor's and Fitch. The Bank uses the ECAI ratings from these agencies in its day-to-day business, which are tracked and kept updated. For unrated counterparties the relevant Standardised Approach principles apply.

#### 4.6 Credit Risk Mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation and credit risk of the guarantor. The presence of Credit Risk Mitigation (CRM) is not a substitute for the ability to pay, which is the primary consideration for any credit decision, but may influence credit limit sizing, for example eligible financial collateral taken under eligible master netting agreements supported by a legal opinion may be netted against exposures.

Our approach to CRM can be found in the Risk management approach section of the 2020 SCB Group Annual Report and Accounts on pages 212 to 216.

The table below shows the unfunded credit protection held by the Bank, consisting of credit derivatives and guarantees, and funded credit protection, including financial collateral. Exposure class has been defined based on the guarantor of the exposure.

**Table 13: Credit risk mitigation techniques – overview (CR3)**

	2020						
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives: secured amount
	ZAR'million						
Loans	26,988	297	297	-	-	-	-
Debt securities	9,988	-	-	-	-	-	-
Total	36,976	297	297	-	-	-	-
Of which defaulted	6,150						



Table 14 presents the EAD before and after the effect of CRM, including credit substitution and financial collateral.

**Table 14: Standardised approach – credit risk exposure and CRM effects (CR4)**

Standardised Exposure Class	2020					
	Exposures before CCF and CRM <sup>1</sup>		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	RWA	RWA density
	ZAR million					
						%
Sovereigns and their central Banks	10,306	-	10,297	-	-	-
Non-central government public sector entities	518	-	502	-	675	4
Multilateral development banks	-	-	-	-	-	-
Banks	12,957	1,494	12,966	744	3,041	16
Securities firms	-	-	-	-	-	-
Corporates	11,183	26,078	10,234	4,487	14,814	80
Regulatory retail portfolios	-	-	-	-	-	-
Secured by residential property	24	-	24	-	11	0
Secured by commercial real estate	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>34,988</b>	<b>27,572</b>	<b>34,023</b>	<b>5,230</b>	<b>18,541</b>	<b>100</b>

The following tables set out EAD and EAD after CRM associated with each risk weight as prescribed.

**Table 15: Standardised approach – exposures by asset classes and risk weights (CR5)**

Standardised Exposure Class	2020										Total credit exposures amount (post CCF and post-CRM)
	Risk Weight										
	0%	10%	20%	35%	50%	75%	100%	150%	Others		
Sovereigns and their central Banks	10,297	-	-	-	-	-	-	-	-	-	10,297
Non-central government public sector entities	-	-	63	-	-	-	-	440	-	-	502
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Banks	9,714	-	1,189	-	27	-	2,755	24	-	-	13,710
Securities firms	-	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	338	-	88	-	14,058	237	-	-	14,721
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	18	2	-	4	-	-	-	24
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>20,011</b>	<b>-</b>	<b>1,590</b>	<b>18</b>	<b>117</b>	<b>-</b>	<b>16,817</b>	<b>701</b>	<b>-</b>	<b>-</b>	<b>39,254</b>

## 5. Traded risk

Traded risk is defined as the potential for loss resulting from activities undertaken by the Bank in financial markets. This includes market risk, counterparty credit risk and other risk sub-types.

### 5.1 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 the following two sources:

- **Trading book:** The Bank provides clients access to financial markets, facilitation of which entails the Bank taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking.
- **Non-trading Book:** The Treasury Markets desk is required to hold a liquid assets buffer, much of which is held in high-quality marketable debt securities. The Bank has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Bank is subject to structural foreign exchange risk which is reflected in reserves.

Interest rate risk from non-trading book portfolios is transferred to local Treasury Markets desks under the supervision of ALCO. Treasury Markets deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved Value at Risk (VaR) and risk limits.

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;
- Foreign exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options

### **Trading book**

The Trading book contains positions held with trading intent or hedges for such positions. The Traded RTF sets out the Bank's standard systematic approach to risk managing market risk. The Trading Book Policy Statement identifies the policies and procedures determining the positions included in the Trading book and their risk management and valuation. All trading book desks are subject to market risk limits. Traded Risk Management, an independent risk control function, monitors the limits and reports daily to senior management.

### **Valuation framework**

Valuation of financial assets and liabilities held at fair value is subject to an independent review by Valuation Control within the Finance function. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs or to a valuation model, an assessment is made by Valuation Control against external market data and consensus services. Valuation Control also ensures adherence to the valuation adjustment policies to incorporate bid/ask spreads, model risk and other reserves, and, where appropriate, to mark all positions in accordance with prevailing accounting and regulatory guidelines. The Valuation and Benchmarks Committee (VBC), a sub-committee of the Corporate, Commercial and Institutional Banking Risk Committee, provides oversight and governance of all financial markets valuation adjustments and price testing policies and reviews the results of the valuation control process on a monthly basis. In addition, the VBC also provides governance over the Group's benchmark rates review process.

### **Management VaR**

Management VaR is one of the tools used by management to monitor the total market risk within the trading and banking books.

### **Stressed VaR**

Stressed VaR uses a one-year historical observation period from a stressed period relevant to the trading book portfolio. Stressed VaR uses a one-year historical observation period (260 business days). Stress shocks are typically, but not exclusively, based on market stresses observed within the last ten years overlaid by management judgment.

### **Stress testing**

Group-wide stress testing is performed to measure the potential loss on a portfolio of financial positions due to low probability market events or risk to the Group posed by a breakdown of risk model assumptions. Stress testing supplements the use of VaR as the primary measure of risk. The roles and responsibilities of the various business functions are set out in the Traded Risk Stress Testing standard.

Our approach to market risk can be found in the Risk management approach section in the 2020 SCB Annual Report and Accounts on pages 257 to 258.

The Bank applies the Standardised Approach to portfolios that attract market risk.

**Table 16: Market risk under standardised approach (MR1)**

	2020	
	Risk Weighted Assets	Regulatory capital requirement
	ZAR'million	
Outright products		
Interest rate risk	3	-
Equity risk	-	-
Foreign exchange risk	8	1
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
<b>Total</b>	<b>11</b>	<b>1</b>

## 5.2 Counterparty credit risk

Counterparty credit risk (CCR) is the risk that a counterparty in a foreign exchange, interest rate, commodity, equity or credit derivative or repo contract defaults prior to the maturity date of the contract, and that the Bank at the time has a claim on the counterparty.

CCR arises predominantly in the trading book, but also arises in the non-trading book when hedging with external counterparties is required.

CCR is managed within the overall credit risk appetite for corporate and financial institutions. CCR limits are set for individual counterparties, including central clearing counterparties, and for specific portfolios. Individual limits are calibrated to the credit grade and business model of the counterparties and are set on Potential Future Exposure (PFE). Portfolio limits are set to contain concentration risk across multiple dimensions and are set on PFE or other equivalent measures.

### Wrong way risk

Wrong-Way Risk (WWR) occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the Mark To Market (MTM) on a derivative or repo contract increases in favour of the Bank, the driver of this MTM change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements. WWR mostly arises from FX transactions and financing transactions. The Bank employs various policies and procedures to ensure that WWR exposures are recognised upfront, monitored, and where required, contained by limits on country, tenor, collateral type and counterparty.

### Exposure value calculation

Exposure calculation used for risk management is based on PFE. The PFE is mostly calculated from simulation models, and from PFE add-ons for the non-simulated products. Derivatives exposures are calculated using the MTM method. Individual transactions are measured using the sum of current replacement cost and potential future credit exposure, and the benefit of master netting agreements is applied using the Net-Gross Ratio.

Exposure for repurchase transactions and securities lending or borrowing transactions is calculated using the Financial Collateral Comprehensive Method. Supervisory volatility adjustments are applied to both collateral and exposure legs and the benefit of master netting agreements is taken into consideration.

The Bank has credit policies and procedures setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainty, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

The Bank seeks to negotiate Credit Support Annexes (CSA) with counterparties when collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of a CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral is specified in the legal document and is typically cash or highly liquid securities.

The MTM of all trades captured under CSAs is calculated daily. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA. Additional collateral may be required from the counterparty to provide an extra buffer to the daily variation margin process.

The Bank also has policies and procedures in place setting out the criteria for guarantees to be recognised as a CRM.

Where guarantees meet regulatory criteria, the Bank treats the exposure as guarantor risk from CCR capital standpoint.

### Stress testing

Stress testing is an integral part of CCR management, complementing PFE or other portfolio limits. Single and multi-factor scenarios are regularly applied to the CCR portfolio to identify and quantify exposures that could become a concern for the Bank. The stressed exposures are monitored monthly at regional and global counterparty credit risk exposure forums. The relevance and severity of the stress scenarios are periodically reviewed with cross functional stakeholders.

### Credit valuation adjustments

Credit Valuation Adjustments (CVA) measures potential MTM loss associated with the deterioration in the creditworthiness of the counterparty. The Bank applies Standardised Approach to calculate CVA capital charge on over-the counter derivative contracts.

**Table 17: Analysis of CCR exposure by approach (CCR1)**

	2020					
	Replacement cost/current market value	Potential future exposure	EEPE ZAR'million	Multiplier	EAD post CRM	RWA
SA-CCR	6,199	5,669			7,075	3,283
IMM (for derivatives and SFTs)			-	-	-	-
Financial collateral simple method (for SFTs)					-	-
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
VaR for SFTs					-	-
<b>Total</b>						<b>3,283</b>

**Table 18: Credit valuation adjustment capital charge (CCR2)**

	2020	
	Exposure Value	RWA
	ZAR'million	
Total portfolios subject to the Advanced Method	-	-
(i) VaR component (including the 3x multiplier)	-	-
(ii) Stressed VaR component (including the 3x multiplier)	-	-
All portfolios subject to the Standardised Method	2,254	2,001
Total subject to the CVA capital charge	2,254	2,001

**Table 19: Standardised approach - CCR exposures by regulatory portfolio and risk weights (CCR3)**

Standardised Exposure Class	2020											Total	Of which unrated	
	Risk Weight													
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others			
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	3,377	-	-	-	7	-	-	-	5	-	-	3,389	-	
Retail	-	-	-	-	-	-	-	-	3,246	5	-	3,251	2	
Secured on real estate property	-	-	-	-	-	-	-	-	-	-	-	-	-	
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	
Items belonging to regulatory high risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other items	318	-	-	-	116	-	-	-	-	-	-	434	-	
Total Standardised	3,695	-	-	-	123	-	-	-	3,251	5	-	7,074	2	

**Table 20: Impact of netting and collateral held on exposure value (CCR5)**

	2020				
	EAD before netting benefit	Netting benefits	Netted current credit exposure	Collateral held	Net derivatives credit exposure
	ZAR'million				
Derivative contracts	7,075	(530)	6,545	-	-
Repo style transactions	-	-	-	-	-
Total	7,075	(530)	6,545	-	-

**Table 21: Credit derivatives exposures (CCR6)**

	2020		
	Bought	Sold	Total
	ZAR'million		
<b>Notionals</b>			
Single-name credit default swaps	-	-	-
Index credit default swaps	95,604	9,921	105,525
Total return swaps	-	-	-
Credit options	9,227	8,817	18,044
Other credit derivatives	8,483	8,915	17,398
<b>Fair values</b>			
Positive fair value (asset)	4,704	845	5,549
Negative fair value (liability)	5,072	434	5,506

In line with market convention the Bank negotiates CSA terms for certain counterparties where the thresholds related to each counterparty are dependent on their ECAI long-term rating. Such clauses are typically mutual in nature. As a result, a downgrade in the Group's rating would result in some counterparties seeking additional collateral cover calls to cover negative MTM portfolios where thresholds are lowered. Due to the interconnected structure of the Group, this collateral would be held centrally by the Group as it is not always possible to determine the exact entity that contributed to the exposure.

## 6. Interest rate risk in the banking book

### Overview

The Bank defines Interest Rate Risk in the Banking Book (IRRBB) as the potential for loss of future earnings or economic value following adverse movements in interest rates, which arises from a mismatch in the re-pricing profile of assets, liabilities, and off-balance sheet items in the banking book. This risk is incorporated in the Capital and Liquidity RTF, as a risk sub-type of capital and liquidity risk. The Group Board delegates the management of IRRBB to the Group ALCO, which in turn mandates ALCOs and the Group's Operational Balance Sheet Committee to monitor IRRBB as per the RTF. IRRBB is managed at a country level by the Country ALCO, chaired by the Country CEO, and is independently monitored by Treasury.

### Measurement of IRRBB

The Bank uses two key metrics for measuring IRRBB: Net Interest Income (NII) Sensitivity, an income measure which quantifies the potential change in projected net interest income over a one-year horizon from defined movements in interest rates; and Economic Value (EV) Sensitivity, a value measure which estimates the potential change in the present value of the Bank's Banking Book assets and liabilities from defined movements in interest rates. These measures differ in their coverage of the drivers of interest rate risk and the time horizon for these to materialise but used together they can provide a complementary and rounded view of the Bank's risk profile. These measures are reported and managed in the monthly ALCO.

### Methodology

NII and EV Sensitivities are calculated under various interest rate scenarios, including parallel and non-parallel shifts and a range of internally designed scenarios that assess vulnerabilities in the Bank's business model and key behavioural assumptions under interest rate shocks and stresses. IRRBB models and methodologies are defined for the Group by the Treasury function, independently validated and approved by the Risk function.

### Management and mitigation of IRRBB

The Bank uses Funds Transfer Pricing (FTP) to transfer re-pricing risk from the business to Treasury, including that arising from structural positions such as the investment of equity and non-maturity deposit balances. For non-maturity deposits, the assumed duration is dependent on the portion that can be considered stable and the degree to which these balances are considered price sensitive. The re-pricing risk transferred to Treasury is managed on an integrated basis with a securities portfolio maintained for liquidity and investment management purposes. Any basis risk that is not transferred and cannot be hedged by Treasury is

reported and overseen at ALCO. Re-pricing risk arising within Treasury is managed using a combination of on-balance sheet and derivative hedges; derivative hedges are subject to Fair Value and Cash Flow Hedge accounting treatment where available. Treasury's interest rate risk positions and limits are independently monitored by the Risk function.

**Table 22: Exposures to interest rate risk in the banking book**

	2020
	ZAR'million
Exposure to interest rate risk in the Banking Book	
NII sensitivity <sup>1</sup>	
2% instantaneous increase in interest rates	(4)
2% instantaneous decline in interest rates	4
<b>EVE sensitivity<sup>2</sup></b>	
2% instantaneous increase in interest rates	-275
2% instantaneous decline in interest rates	275

More details on IRRBB can be found in the 2020 SCB Group Pillar 3 Disclosures page 98.

## 7. Operational Risk

The Bank defines operational Risk as the potential for loss from inadequate or failed internal processes, and systems, human error, or from the impact of external events (including legal risks).

### Risk Appetite Statement

The Bank aims to control operational risks to ensure that operational losses (financial or reputational), do not cause material damage to the Bank's franchise.

### Roles and responsibilities

The Operational Risk Type Framework (ORTF) defines and collectively groups operational risks which have not been classified as PRTs into non-Principal Risk Types (non-PRTs) and sets standards for the identification, control, monitoring and treatment of risks. These standards are applicable across all PRTs and non-PRTs. The non-PRTs relate to execution capability, governance, reporting and obligations, legal enforceability, and operational resilience (including client service, third party vendor services, change management, safety and security and system availability). The management of Operational Risk is a challenge due to its broad scope as operational risks arise from all activities carried out within the Bank. To address this challenge, we map risks across the Bank at a process level with controls installed to mitigate these risks.

The ORTF reinforces clear accountability for managing risk throughout the Bank and delegates second line of defence responsibilities to identified subject matter experts. For each non-PRT, the expert sets policies for the organisation to comply with, and provides guidance, oversight and challenge over the activities of the Bank. They ensure that key risk decisions are only taken by individuals with the requisite skills, judgement, and perspective to ensure that the Bank's risk-return objectives are met.



## Mitigation

The ORTF sets out the Bank's overall approach to the management of Operational Risk in line with the Bank's Operational Risk Appetite. This is supported by Control Assessment Standards (CAS) which define roles and responsibilities for the identification, control and monitoring of risks (applicable to all non-PRTs and PRTs).

The CAS are used to determine the design strength and reliability of each process, and require:

- The recording of processes run by client segments, products, and functions into a process universe;
- The identification of potential breakdowns to these processes and the related risks of such breakdowns;
- An assessment of the impact of the identified risks based on a consistent scale;
- The design and monitoring of controls to mitigate prioritised risks; and
- Assessments of residual risk and timely actions for elevated risks

Risks that exceed the Bank's Operational Risk Appetite require treatment plans to address underlying causes.

## Governance committee oversight

The CRC oversees the effective management of Operational Risk through delegation of authority to the Country Non-Financial Risk Committee (CNFRC) to monitor the Bank's Operational Risk Appetite and to oversee the Bank's Operational Risk profile. The CNFRC has the authority to challenge, constrain and, if required, stop business activities where risks are not aligned with the Bank's Operational Risk Appetite. Business and function Operational Risk committees and forums also provide enterprise oversight of their respective processes and related operational risks.

## Monitoring

To deliver services to clients and to participate in the financial services sector, the Bank runs processes which are exposed to operational risks. The Bank prioritises and manages risks which are significant to clients and to the financial services sectors. Control indicators are regularly monitored to determine the residual risk the Bank is exposed to. The residual risk assessments and reporting of events form the Bank's Operational Risk profile. The completeness of the Operational Risk profile ensures appropriate prioritisation and timeliness of risk decisions, including risk acceptances with treatment plans for risks that exceed acceptable thresholds.

The CRC is informed on adherence to Operational Risk Appetite through metrics reported for selected risks. These metrics are monitored, and escalation thresholds are derived based on the materiality and significance of the risk. These Operational Risk Appetite metrics are consolidated and reported at the CRC and the CNFRC on a regular basis. This provides senior management with the relevant information to inform their risk decisions.

The Bank applies the Standardised Approach for measuring the capital requirements for operational risk.

## Stress testing

As part of our operational risk management approach, we conduct stress testing under the Internal Capital Adequacy Assessment Process (ICAAP). The exercises included judgemental overlays for the potential risk of low-frequency, high-severity events occurring during stress conditions. The macroeconomic scenarios are considered in the stress testing. These scenarios included information and cyber security, political unrest, mis-selling, regulatory non-compliance, fraud, etc.

Table 23 below indicates the RWA and minimum capital required to be held for the Bank as 31 December 2020 based on the Standardised Approach.

**Table 23: Operational Risk RWA and capital requirement**

	2020	
	RWA's	Capital Required
	ZAR'million	
Operational Risk	3,067	322

## 8. Liquidity Risk

Liquidity Risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations.

The Bank 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 for at least 60 days without recourse to extraordinary central bank support.

The Bank develops policies to address material Liquidity risks. Metrics are set against Liquidity and Funding Risk to maintain the Bank's risk profile within its Risk Appetite. Risk Appetite metrics are established in the form of limits and management action triggers. We implement various business-as-usual and stress risk metrics and monitor these against limits and management action triggers. This ensures that the Bank maintains an adequate and well-diversified liquidity buffer as well as a stable funding base, and that it meets its liquidity and funding regulatory requirements.

The Net Stable Funding Ratio (NSFR) **LIQ2** and Liquidity Coverage Ratio **LIQ1** as at 31 December 2020 are included in the Quarterly 31 December 2020 Pillar 3 disclosure.

For information on the Group's Liquidity & Funding risk management practices and risk profile we refer to the Principal Risks and Risk Profile sections of the 2020 SCB Group Annual Report and Accounts on pages 259 and 260 respectively.

The Group's Liquidity and Funding Risk framework requires each country to ensure that it operates within predefined liquidity limits and remains in compliance with Group liquidity policies and practices, as well as local regulatory requirements. The Group achieves this through a combination of setting Risk Appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

The Bank's funding strategy is largely driven by its policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. The Bank's funding profile is therefore well diversified across different sources, maturities and currencies. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Bank. The Bank has established internal measures to closely monitor and highlight any build up in counterparty and tenor concentrations to ensure it can meet liquidity needs under different stress scenarios and time horizons.

### Roles and responsibilities

The Treasurer is responsible for developing an RTF for Capital and Liquidity Risk and for complying with regulatory requirements at a Group level. In country, the Treasurer is supported by Treasury and Finance in implementing the Capital and Liquidity RTF. The Bank's Capital and Liquidity RTF CA is owned by the CFO who together with the Liquidity Risk Function form the second line of defence, provide independent challenge and oversight of the first line risk management activities relating to Liquidity Risk.

### Monitoring

On a day-to-day basis, the management of Liquidity Risk at the country level is performed by the business and Treasury Markets. The Bank regularly reports and monitors Liquidity Risk inherent in its business activities and those that arise from internal and external events. The management of capital and liquidity is monitored by Treasury and Finance with appropriate escalation processes in place.

Internal risk management reports covering the balance sheet and the capital and liquidity position of the Bank are presented to the ALCO. The reports contain key information on balance sheet trends, exposures against Risk Appetite and supporting risk measures which enable members to make informed decisions around the overall management of the Bank's balance sheet with a focus on the local capital and liquidity risks, local prudential requirements and risks that arise from local internal and external events.

**Governance committee oversight**

The ALCO ensures the effective management of risk throughout the Bank in support of the its strategy, guides the Bank's strategy on balance sheet optimisation and ensures that the Bank operates within the internally approved Risk Appetite and other internal and external capital and liquidity requirements.

The CFO as the country Risk Framework Owner for Capital and Liquidity RTF CA ensures that the Bank remains in compliance with capital and liquidity policies and practices, as well as local regulatory requirements.

**Stress Testing**

The ALCO and the CRC ensures the effective management of capital and liquidity-related enterprise stress testing in line with the Group's Enterprise Stress Testing Policy and applicable regulatory requirements. The ALCO reviews, challenges and approves stress scenarios, results and management actions for all enterprise stress tests. Insights gained from the stress tests are used to inform underwriting decisions, risk management, capital and liquidity planning and strategy.

Stress testing and scenario analysis are an integral part of the capital and liquidity framework and are used to ensure that the Bank's internal assessment of capital and liquidity considers the impact of extreme but plausible scenarios on its risk profile. A number of stress scenarios, some designed internally, some required by regulators, are run periodically. They provide an insight into the potential impact of significant adverse events on the Bank's capital and liquidity position and how this could be mitigated through appropriate management actions to ensure that the Bank remains within the approved Risk Appetite and regulatory limits. Daily liquidity stress scenarios are also run to ensure the Bank holds sufficient high-quality liquid assets to withstand extreme liquidity events.

**Recovery Planning**

In line with Prudential Authority requirements, the Bank maintains a Recovery Plan which is a live document to be used by management in the event of stress in order to restore the Bank to a stable and sustainable position. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions capable of being implemented in a stress. The recovery plan is subject to periodic fire drill testing and outlines the contingency funding plans.

**Mitigation**

The Bank develops policies to address material Liquidity risks and aims to maintain its risk profile within Risk Appetite. In order to do this, metrics are set against Liquidity and Funding Risk.

## 9. Remuneration

The Remuneration Committee has oversight of all reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for all compensation decisions.

The Bank's remuneration is directly linked to the SCB Group design and operation structure and frequency of review.

The qualitative and quantitative Pillar 3 remuneration disclosures for the 2020 performance year are set out on pages 163 to 165 of the Directors' remuneration report in the SCB Group Annual Report and Accounts and the SCB Group Pillar 3 report on pages 3 and 134. Information is provided on the key components of our remuneration approach and how we develop our approach. The section outlines the definition of material risk -takers and senior managers.

**Table 24: Remuneration awarded during the financial year (REM1)**

Remuneration amount ZAR'million		Senior management	Other material risk-takers
Fixed remuneration	Number of employees #	12	5
	Total fixed remuneration	39.96	24.12
	Of which: cash-based	39.96	24.12
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Variable remuneration	Number of employees#	12	5
	Total variable remuneration	15.62	11.88
	Of which: cash-based	12.96	7.23
	Of which: deferred	1.39	1.91
	Of which: shares or other share-linked instruments	2.66	4.65
	Of which: deferred	1.39	1.91
	Of which: other forms	-	-
	Of which: deferred	-	-
<b>Total remuneration</b>	<b>55.58</b>	<b>36.00</b>	

**Table 25: Special payments (REM2)**

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount ZAR'million	Number of employees	Total amount ZAR'million	Number of employees	Total amount ZAR'million
Senior management	-	-	-	-	-	-
Other material risk-takers	-	-	-	-	1	0.19

**Table 26: Deferred remuneration (REM3)**

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
USD'million					
Senior management	-	-	-	-	-
Cash	0.22	-	-	-	0.11
Shares (value)	81,582	-	-	-	22,874
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	-	-	-	-	-
Cash	0.35	-	-	-	0.16
Shares	123,168	-	-	-	49,522
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>0.58</b>	-	-	-	<b>0.27</b>