



**Johannesburg Branch**

# **PILLAR 3**

## **Basel III Public Disclosure Report**

# CONTENTS

Executive Summary.....	3
Branch Management.....	3
Risk Governance and Culture.....	3
Financial Performance.....	5
Risk Management.....	6
Credit risk.....	6
Liquidity risk.....	12
Market risk.....	14
Operational risk.....	15
Interest rate risk in the Banking Book (IRRBB).....	16
Capital management.....	17
Remuneration.....	18
Annexures	
Annexure A: Retail and Wholesale portfolio.....	21
Annexure B: Capital Disclosure Template.....	22
Annexure C: Main features Disclosure Template.....	27

## Executive Summary

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

The pillar 3 capital disclosure report on the Bank’s Pillar III Capital adequacy is in terms of Regulation 43 and Section 6(6) of the South African Banks Act 94 of 1990 (as amended) (“the Act”).

The Branch is well capitalised and the Financial Statements reflects the comprehensive income, changes in equity and cash flows for the year and the notes to the financial statements includes a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Endowment capital received from Standard Chartered Bank at 31 December 2017 amounts to R3,342,602,000 (2016: R3,342,602,000). There were no capital injections in the current.

## Branch management’s responsibility statement

Branch management is responsible for the preparation and fair presentation of the annual financial statements of Standard Chartered Bank, Johannesburg Branch (“the Branch”), comprising the statement of financial position at 31 December 2017, and Disclosure requirements in respect of Regulation 43 of the Regulations relating to Banks.

## Risk Governance Structure and Culture

Through its risk management structure, the Branch seeks to efficiently manage its core risks: credit, market, liquidity and operational risk. These arise directly through the Branch’s commercial activities whilst business, regulatory, operational and reputational risks are normal consequences of any business undertaking. The key element of risk management philosophy is for the risk functions to operate as an independent control working in partnership with the business units to provide a competitive advantage to the Branch.

The basic principles of risk management followed by the Branch include:

- ensuring that business activities are controlled on the basis of risk adjusted return;
- managing risk within agreed parameters with risk quantified wherever possible;
- assessing risk at the outset and throughout the time that the Branch continues to be exposed to;
- abiding by all applicable laws, regulations, and governance standards;
- applying high and consistent ethical standards to our relationships with all customers, employees and other stakeholders; and
- undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

Ultimate responsibility for the effective management of risk rests with the Group’s (Standard Chartered PLC) Board of Directors. The Group’s Audit and Risk Committee reviews specific risk areas

and monitors the activities of the Group Risk Committee and the Group Asset and Liability Committee. The Group Head of Risk manages an independent risk function which:

- recommends the Standard Chartered Bank Group standards and policies for risk measurement and management;
- monitors and reports specific risk exposures for country, credit, market and operational risk;
- approves market risk limits and monitors exposure;
- sets country risk limits and monitors exposure;
- chairs the credit committee and delegates credit authorities subject to oversight;
- validates risk models; and
- recommends risk appetite and strategy.

The Branch has a Country Operational Risk Committee that reviews and monitors the operational risk within the Branch. The Branch also has its own Asset and Liability Committee (ALCO) which reports to the Group Asset and Liability Committee.

Individual Group Executive Directors are accountable for risk management in their businesses and support functions and for countries where they have governance responsibilities. This includes:

- implementing the policies and standards as agreed by the Group Risk Committee across all business activity;
- managing risk in line with appetite levels agreed by the Group Risk Committee; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policy.

The Group Head of Risk, together with Group Internal Audit, provides independent assurance that risk is being measured and managed in accordance with the Group's standards and policies.

**Financial Performance- USED AFS**

The following is a statement of the financial position on 31 December 2017 and 2016:

<b>Statement of financial position</b>		
	<b>2017</b>	<b>2016</b>
	<b>ZAR'000</b>	<b>ZAR'000</b>
<b>Assets</b>		
Cash and cash equivalents	1,070,819	705,624
Derivative financial instruments held for risk management	2,332,727	1,916,134
Loans and advances to banks	5,300,994	3,563,091
Loans and advances to customers	13,956,485	15,578,633
Investment securities	8,764,432	8,226,865
Non-current assets held for sale	30,683	38,101
Other assets	1,592,723	1,730,334
Property, plant and equipment	9,237	16,107
Goodwill and intangible assets	342,012	387,154
Deferred taxation asset	28,345	28,189
<b>Total assets</b>	<b>33,428,457</b>	<b>32,190,232</b>
<b>Liabilities</b>		
Derivative financial instruments held for risk management	2,222,830	1,881,185
Deposits by banks	4,048,659	5,067,772
Customer accounts	21,778,788	20,217,323
Accruals and other liabilities	1,137,198	1,126,975
Debt securities in issue	-	-
<b>Total liabilities</b>	<b>29,187,475</b>	<b>28,293,255</b>
<b>Equity</b>		
Endowment capital	3,342,602	3,342,602
Retained earnings	860,329	546,932
Fair value reserve	4,442	(26,166)
Non-distributable regulatory reserve	33,609	33,609
<b>Total equity</b>	<b>4,240,982</b>	<b>3,896,977</b>
<b>Total liabilities and equity</b>	<b>33,428,457</b>	<b>32,190,232</b>

## Risk Management

### Management of credit risk

Policies and procedures for managing credit risk is determined by the Branch's Credit Committee monitored by the Group in London. The Group Risk Committee defines the procedures and limits for accepting credit risk:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers.
- Reviewing and assessing credit risk. Group Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentration of exposure to counterparties and industries (for loans and advances), and by user, credit rating band, market liquidity.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Audits of business units and Group Credit processes are undertaken by Internal Audit.

Credit risk associated with trading and investing activities is managed through the Branch's market risk management process.

The detail of the wholesale credit portfolio is set out in Annexure A

#### *Debt securities and government bonds*

The credit grading used relates as far as possible to external credit gradings provided by Standard and Poor ("S&P") or Fitch. They are recorded on the underlying transaction systems. The ratings for the Branch's investment securities in the form of debt securities and government bonds are shown on the table below:

31 December	2017	2016
	ZAR'000	ZAR'000
BBB- to BBB+	8,764,432	8,226,865
<b>Gross</b>	<b>8,764,432</b>	<b>8,226,865</b>

#### Impaired loans and securities

Impaired loans and securities are loans and securities for which the Branch determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 12 to 14 in the Branch's internal credit risk grading system.

*Past due but not impaired loans*

Loans and securities where contractual interest or principal payments are past due but the Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branch.

*Loans with renegotiated terms*

Loans and advances are generally renegotiated either as part of an ongoing client relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Branch offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forbore loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

*Allowances for impairment losses*

The Branch establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance is a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

*Write off policy*

The Branch writes off a loan balance (and any related allowances for impairment losses) when the Bank Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balances and standardised loans, write off decisions generally are based on a product specific past due status.

*Exposure to credit risk – Loans and advances*

Loans and advances are summarised as follows:

31 December	2017		2016	
	Loans and advances to customers ZAR'000	Loans and advances to banks ZAR'000	Loans and advances to customers ZAR'000	Loans and advances to banks ZAR'000
Neither past due nor impaired	13,862,904	5,300,994	15,303,924	3,563,091
- of the above, renegotiated loans	-	-	-	-
Past due but not impaired	-	-	-	-
Individually impaired	178,511	-	551,368	-
<b>Gross loans and advances</b>	<b>14,041,415</b>	<b>5,300,994</b>	<b>15,855,292</b>	<b>3,563,091</b>
Less: Allowance for impairment losses	(84,930)	-	(276,659)	-
<b>Net loans and advances</b>	<b>13,956,485</b>	<b>5,300,994</b>	<b>15,578,633</b>	<b>8,914,771</b>

The total impairment allowance for loans and advances is R84,930,000 (2016: R276,659,000) of which R51,832,000 (2016: R243,635,000) represents the individually impaired loans and the remaining amount of R33,098,000 (2016: R33,024,000) represents the portfolio impairment.

*Credit risk quality*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Branch.

Credit grading for loans and advances as at reporting date are as follows:

31 December	2017		2016	
	Loans and advances to customers ZAR'000	Loans and advances to banks ZAR'000	Loans and advances to customers ZAR'000	Loans and advances to banks ZAR'000
<b>Neither past due nor impaired</b>				
Grade 1	-	1,340	229,650	120,579
Grade 2	-	2,613,823	-	2,222,259
Grade 3	59,632	435	533,265	1,263
Grade 4	113,400	-	1,158,486	110
Grade 5	3,458,625	1,459,736	1,676,657	150,819
Grade 6	3,659,720	1,225,386	4,515,652	-
Grade 7	595,507	158	1,106,027	68,721
Grade 8	3,029,067	116	2,690,065	965,028
Grade 9	844,957	-	223,047	-
Grade 10	-	-	35,550	-
Grade 11	714,664	-	169,457	34,312
Grade 12	1,387,332	-	2,966,068	-
<b>Total</b>	<b>13,862,904</b>	<b>5,300,994</b>	<b>15,303,924</b>	<b>3,563,091</b>

Credit grades 1A to 12C are assigned to performing customers, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.



31 December	2017		2016	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
	ZAR'000	ZAR'000	ZAR'000	ZAR'000
<b>Impaired loans</b>				
Grade 13	16,965	-	-	-
Grade 14	161,546	-	551,368	-
<b>Total</b>	<b>178,511</b>	<b>-</b>	<b>551,368</b>	<b>-</b>

Past due comprises:

31 December	2017		2016	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
	ZAR'000	ZAR'000	ZAR'000	ZAR'000
Up to 30 days past due	11,446	-	-	-
31 – 60 days past due	28,743	-	-	-
61 – 90 days past due	-	-	-	-
91 – 120 days past due	-	-	-	-
121 – 150 days past due	-	-	-	-
More than 150 days past due	-	-	-	-
<b>Total</b>	<b>40,189</b>	<b>-</b>	<b>-</b>	<b>-</b>

Standard Chartered Bank's internal rating system aligned to Standard & Poor ratings.

Credit Grade	S & P Ratings, Banks	S & P Ratings, Corporates
1A	AAA,AA+	AAA
1B	AA,AA-	AA+
2A	A+	AA
2B	A	AA-
3A	A-	A+
3B	BBB+	A
4A	BBB+,BBB	A-
4B	BBB	BBB+
5A	BBB-	BBB
5B	BB+	BBB-
6A	BB+,BB	BB+
6B	BB	BB+
7A	BB,BB-	BB
7B	BB-	BB
8A	B+	BB-
8B	B+,B	BB-
9A	B	B+
9B	B,B-	B+
10A	B-	B
10B	B-,CCC	B
11A	CCC	B
11B	CCC	B-
11C	CCC	B-
12A	CCC	CCC
12B	CCC	CCC
12C	CCC	CCC

*Credit rating and measurement*

The Branch's credit grades in Corporate & Institutional Banking are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

*Credit mitigation*

The Branch holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair values are based on the value of collateral assessed at the time of borrowing, and generally is not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks.

The Branch's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Collateral for loans, guarantees, and letters of credit is usually in the form of cash, inventory or property.

Collateral is reported in accordance with our risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Where appropriate, collateral values are adjusted to reflect current market conditions, its probability of recovery and the period of time to realise the collateral in the event of possession. The collateral values reported are also adjusted for the effects of over-collateralisation.

Loans granted to customers of Corporate & Institutional Banking are mainly unsecured. However, collateral held against loans and advances granted to Corporate & Institutional Banking customers amounts to R5,624,778,000 (2016: R6,719,888,000). This includes neither impaired nor past due loans and advances.

Collateral is analysed below:

	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired
	ZAR'000	ZAR'000	ZAR'000	ZAR'000
<i>As at December 2017</i>				
Corporate & Institutional Banking				
Amount outstanding	14,041,415	13,822,715	40,189	178,511
Collateral	5,624,778	5,585,349	39,429	-

Total	Neither past due nor individually	Past due but not individually	Individually impaired
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		impaired	impaired	
	ZAR'000	ZAR'000	ZAR'000	ZAR'000
<i>As at December 2016</i>				
Corporate & Institutional Banking				
Amount outstanding	16,010,954	15,458,681	-	552,273
Collateral	6,719,888	6,583,568	-	136,320

*Concentration of credit risk*

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by industry and type of customer in relation to the Branch's investments, loans and advances, commitments to extend credit and guarantees issued. The Branch considers the credit risk exposure on cash and cash equivalents to be low as the main component of this instrument is the Restricted Balance with the Reserve Bank of South Africa and a large portion of the remainder of the balance relates to intergroup balances. Similarly the credit risk exposure on derivative financial instruments is low as all derivative transactions are booked back to back with Standard Chartered Bank PLC.

On balance sheet

Total on balance sheet economic sector credit risk concentrations are presented in the table below:

	2017		2016	
	ZAR'000	%	ZAR'000	%
Corporate & Institutional Banking:				
Automobiles & Components	20,193	0.1	5,000	0.0
Building Products, Construction & Engineering	172,787	1.2	405,588	2.6
Commercial & Professional Services	388,250	2.8	50,000	0.3
Consumer Durables & Apparel	1,266,248	9.0	1,991,092	12.6
Consumer Services	19	0.0	0	0.0
Energy	516,242	3.7	548,000	3.5
Financial and Holding Companies	680,942	4.8	0	0.0
Financial Institutions	186,370	1.3	169,798	1.1
Food, Beverage & Tobacco	2,548,268	18.1	2,265,023	14.3
Household & Personal Products	61,743	0.4	16,245	0.1
Media	280,969	2.0	0	0.0
Metals & Mining	4,317,650	30.7	5,299,386	33.4
Other Capital Goods	300,962	2.1	201,031	1.3
Other Materials	716,763	5.1	65,680	0.4
Pharmaceuticals, Biotechnology & Life Sciences	28,000	0.2	95,420	0.6
Technology Hardware & Equipment	920,804	6.6	994,016	6.3
Telecommunication Services	218,750	1.6	0	0.0
Trading Companies & Distributors	130,547	0.9	912,217	5.8
Transportation	950,421	6.8	2,570,322	16.2
Utilities	335,487	2.4	266,474	1.7
<b>Corporate &amp; Institutional Banking</b>	<b>14,041,415</b>	<b>100</b>	<b>15,855,292</b>	<b>100</b>

The amounts reflected in the table above represents the maximum credit exposure that would have been recognised at the reporting date if counterparties had failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairments of loans and advances.

#### *Settlement risk*

The Bank's activities may give rise, at the time of settlement of transactions and trades, to settlement risk, which is the risk of loss due to the failure of the Branch or its counterparties to honour its obligations to deliver cash, securities or other assets as contractually agreed.

#### **Liquidity Risk**

Liquidity risk arises in the general funding of the Branch's activities and in the management of positions. It includes both the risk of being unable to fund liabilities at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. Liquidity management is directed towards ensuring that all the Branch's operations can meet

their funding needs, whether this is to replace existing funding as it matures, or is withdrawn, or to satisfy the demands of customers for additional borrowings.

#### *Management of liquidity risk*

The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation.

The Branch has to further comply with the liquidity requirements set by the South African Reserve Bank which monitors compliance with local regulatory limits on a regular basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the group assets and liabilities committee (GALCO). A summary report, including any exceptions and remedial action taken, is submitted regularly to the assets and liabilities committee (ALCO).

#### *Exposure to liquidity risk*

The key measure used by the Branch for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month.

The concentration of funding requirements at any one date or from any one source is managed continuously. A substantial proportion of the Branch's deposit base is made up of current and savings accounts and other short term customer deposits.

#### *Liquidity Coverage Ratio ("LCR")*

Banks have to comply with the LCR disclosure requirements as set out in Directive 6/2014 and 11/2014. The LCR was phased in at 80% on 1 January 2017 and increase by 10% per year to 100% in 2019.

The bank's LCR as at 31 December 2017 is set out as follows

	R 'million
High Quality Liquid Assets	R7,701
Net Cash flows	R5,218
Liquidity Coverage Ratio %	148%
Minimum Requirement	80%

The requirement of the LCR is to ensure that the Bank has adequate stock of unencumbered High Quality Liquid Assets to cover total net cash outflows over a 30 day period under a prescribed scenario.

High Quality Liquid Assets (HQLA) are divided in two categories. Category 1 comprising of cash, cash reserves, Treasury Bills and Government Bonds and Debentures can be included at 100% where

category two assets are limited to up to a maximum of 40% of their value. Category 2 includes certain government securities, public sector and corporate bonds. The SARB will also provide banks with a Committed Facility against 40% of approved assets that will qualify as HQLA.

Net cash outflow is the total expected cash outflow minus expected inflows over the following 30 days.

### **Market risk**

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Bank's exposure to market risk arises in support of its client activities, 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 broadly stable.

#### Management of market risk

The Corporate & Institutional Banking Risk Committee (CIBRC), under authority ultimately delegated by the Group Risk Committee (GRC), acts as the prime risk governance body for market risk. GRC delegates limit authority to the Global Head, Market & Traded Credit Risk (MTCR) who is responsible for the "market risk" risk type. Market & Traded Credit Risk (MTCR) is the independent control function established to monitor and control the Group's exposure to market risk. Market risk limits are applied as required by the Market Risk Limits Policy and related procedures documents. All businesses incurring market risk must do so in compliance with the Market Risk Limits Policy.

Market risk limits are reviewed by CIBRC to ensure they are consistent with financial budgets and any changes in the business operations. MTCR co-ordinates the limit review process: typically, the main limit review is concluded at CIBRC in the first two months of the year coincident with the budget cycle; an additional, light touch review is performed at midyear, ordinarily to accommodate business changes that have occurred in H1.

The Country Risk Committee (CRC) provides adequate oversight of local market risk exposures.

#### *Value at risk (VAR)*

The Branch measures the risk of losses arising as a result of potential adverse movements in interest and exchange rates.

VaR is a statistical measure of the potential loss on a portfolio for a given holding period at a determined confidence level. It captures the effects of correlation & diversification across a range of instruments.

It expresses the 'maximum' amount the Branch might lose, but only to a certain level of confidence. The Branch measures VaR at 97.5% confidence level, 1 day holding period.

The Branch calculates VaR using Historic Simulation methodology using a rolling 260 days of market data. The data is used to simulate possible future P/Ls and depending on the model's confidence interval, the  $n^{\text{th}}$  worst loss is taken as VaR. Since the Branch measures VaR at 97.5% confidence level, 1 day holding period, the Branches' VaR is therefore the 7<sup>th</sup> worst loss.

In addition to the close supervision of trading activities by senior management, there are limits on the size of positions and concentrations of instruments as well as stress testing for all currencies.

The Branch regularly runs stress tests to identify any exposure to plausible events that may not be highlighted by other measures.

Value at risk summary for 2017 and 2016

	12 Months to 31 December 2017			12 Months to 31 December 2016		
	Average ZAR'000	High ZAR'000	Low ZAR'000	Average ZAR'000	High ZAR'000	Low ZAR'000
Interest rate risk (ALM Book)	3,593	8,006	1,416	8,953	12,328	6,022
Currency risk	845	1,878	337	459	1,370	38
<b>Total</b>	<b>4,438</b>	<b>9,884</b>	<b>1,753</b>	<b>9,412</b>	<b>13,698</b>	<b>6,060</b>

#### *Interest rate risk*

The Branch's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times and/or in differing amounts. In the case of floating rate assets and liabilities the Branch is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices. Asset-liability risk management activities are conducted in the context of the Branch's sensitivity to interest rate changes. The tables below indicate the effective average interest rates at the reporting date and the periods in which financial assets and liabilities reprice respectively.

The effective average interest rates for principal financial assets and liabilities averaged as follows:

	2017 (%)	2016 (%)
Investment securities	8.90	7.75
Loans and advances	6.02	8.27
Deposits from banks	2.36	1.96
Customer accounts	4.41	4.59

#### *Currency risk*

The Branch is exposed to currency risk through transactions in foreign currencies. The Branch's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss.

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Branch ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

#### **Operational risk management**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all the Branch's operations and is faced by all business entities.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management of the Branch.

Operational risks are managed within a policy framework set by the Standard Chartered Group through the Group Risk Committee in London. The policy sets minimum standards and requires the Branch to identify and address potential and actual operational risks on a continuing basis. The Group Head of Risk and selected members of the senior Group's management team, receive regular updates on all critical operational risk issues. A summary report is also presented periodically to the Group's Audit and Risk Committee. The implementation of operational risk policy is subject to regular audit and underpins corporate governance. The Group Operational Risk department is primarily responsible for ensuring that policies encompass all operational risk exposures and that best practice is migrated.

### **Interest Rate Risk in the Banking Book ("IRRBB")**

Interest rate risk in the banking book is a result of the change in interest rates and mismatch in repricing of non-trading products that includes the taking of deposits and extending of loans as well as the impact on the investment securities and other non-trading treasury products.

The Principle Head, Treasury Markets South Africa manages the IRRBB. ALCO receives a detailed analysis of the repricing gap and monitors the interest rate risk limit that is part of the global ALM VAR market risk limits. In addition to the global limits the branch's interest rate risk is measured and monitored on a daily basis.



The impact of a 2% parallel interest rate shock on net interest income as at 31 December 2017 was:

	R'000
Interest rate increase	-61
Interest rate decrease	61

## Capital Management

The Branch's lead regulator, the South African Reserve Bank (SARB) sets and monitors capital requirements for the Branch as a whole.

In implementing current capital requirements the SARB requires the Branch to maintain a prescribed ratio of total capital to total risk-weighted assets. The Branch calculates requirements for market risk in its trading portfolios based upon its VaR models and uses prescribed risk ratings as the basis for risk weightings for credit risk.

The Branch's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid up capital, retained earnings, other reserves and comprehensive income after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying tier 2 capital instruments issued, collective impairment allowances and other regulatory adjustments.

Various limits are applied to elements of the capital base. Qualifying Tier 2 capital cannot exceed primary capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book. Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

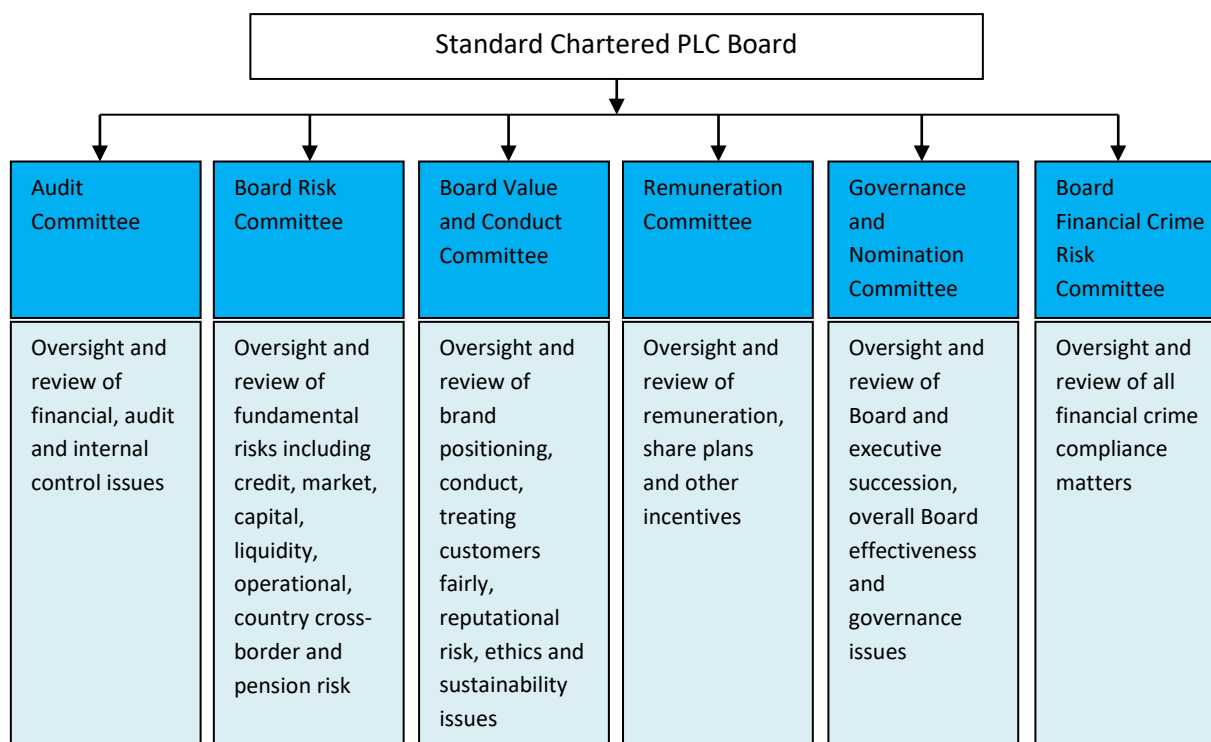
The Branch has complied with all externally imposed capital requirements throughout the period.

Refer to Annexure B for the detail composition of capital disclosure

Refer to Annexure C for the Main Features Disclosure Template

## Remuneration

Standard Chartered Johannesburg is governed by the Standard Chartered PLC Governance Structure as follows:



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.

### Design of remuneration structure:

The Bank's remuneration is directly linked to the Standard Chartered PLC design and operation structure and frequency of review.

### Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The following table sets out the detail of remuneration paid to key management:

	2017 ZAR'000	2016 ZAR'000
<b>Key management personnel remuneration</b>		
Salary	39,253	31,768
Cash bonus	10,924	7,672
<b>Total</b>	<b>50,177</b>	<b>39,440</b>

The total charge for share based awards in respect of key management personnel amounted to R3, 040, 336 (2016: R1, 411,691)

Retirement benefits:

The Branch facilitates payment of employees' provident fund contributions to a privately administered provident fund. The Branch has no further payment obligations once the contributions have been paid.

Obligations for contributions to defined contribution plans are recognised as an expense in the profit or loss when they are due in respect of service rendered before the end of the reporting period.

Share-based compensation:

The Group operates a number of share based payment schemes for its employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the date of grant to the vesting date. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

Cash-settled awards are revalued at each reporting date and a liability recognised on the statement of financial position for all unpaid amounts, with any changes in fair value charged or credited to personnel expenses in profit or loss until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative change incurred up to the date of forfeiture is credited to profit or loss.

Link between remuneration and performance

Share based payments consist of the following schemes:

*2011 Standard Chartered Share Plan (the 2011 Plan)*

Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment.

## Standard Chartered Bank, Johannesburg Branch

Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance ensuring there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite."

### *Performance Shares*

Performance shares are subject to a combination of three performance measures: Total shareholder Return (TSR), earnings per share (EPS) growth and return on risk-weighted assets (RoRWA). The weighting between the three elements is split equally, one third of the award depending on each measure, assessed independently. The valuation method is set out in the Annual Financial Statements

### *All Employee Sharesave Plan (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave):*

"Under the Sharesave plans, employees have the choice of opening a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The remaining life of the 2004 Sharesave plans is less than one year and no further awards will be granted under these plans."

"A new sharesave scheme, the Standard Chartered 2013 Sharesave Plan was approved by Shareholders at the AGM in May 2013 and new sharesave invitations were made under this plan in September 2013. The remaining life of the 2013 Sharesave Plan is nine years."

Refer to the detail disclosure of Standard Chartered Bank PLC in;  
<http://investors.sc.com/en/showresults.cfm>

## Annexure A – Wholesale portfolio

Loans and advances to customers	2017		2016
	ZAR'000	%	ZAR'000
<b>Wholesale banking:</b>			
Corporate & Institutional Banking:			
Automobiles & Components	20,193	0.1%	5,000
Building Products, Construction & Engineering	172,787	1.2%	405,588
Commercial & Professional Services	388,250	2.8%	50,000
Consumer Durables & Apparel	1,266,248	9.0%	1,991,092
Consumer Services	19	0.0%	0
Energy	516,242	3.7%	548,000
Financial and Holding Companies	680,942	4.8%	0
Financial Institutions	186,370	1.3%	169,798
Food, Beverage & Tobacco	2,548,268	18.1%	2,265,023
Household & Personal Products	61,743	0.4%	16,245
Media	280,969	2.0%	0
Metals & Mining	4,317,650	30.7%	5,299,386
Other Capital Goods	300,962	2.1%	201,031
Other Materials	716,763	5.1%	65,680
Pharmaceuticals, Biotechnology & Life Sciences	28,000	0.2%	95,420
Technology Hardware & Equipment	920,804	6.6%	994,016
Telecommunication Services	218,750	1.6%	0
Trading Companies & Distributors	130,547	0.9%	912,217
Transportation	950,421	6.8%	2,570,322
Utilities	335,487	2.4%	266,474
<b>Total</b>	<b>14,041,415</b>		<b>15,855,292</b>
<b>Total gross loans and advances to customers</b>	<b>14,041,415</b>	<b>100%</b>	<b>15,855,292</b>
Less:			
Specific impairment	-51,832		-243,635
Portfolio impairment losses	-33,098		-33,024
<b>Total net loans and advances</b>	<b>13,956,485</b>		<b>15,578,633</b>

**Annexure B – Capital Disclosure**

Composition of capital disclosure Standard Chartered Bank – Johannesburg Reporting period ended 31 December 2017					
		2016		2017	
	Amount subject to Basel III		Amount subject to Pre-Basel III treatment		Amount subject to Pre-Basel III treatment
		Rm	Rm	Rm	Rm
Common Equity Tier 1 capital: instruments and reserves					
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	3,343		3,343	
2	Retained earnings	271		414	
3	Accumulated other comprehensive income (and other reserves)	7		38	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) Public sector capital injections grandfathered until 1 January 2018	0		0	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		0		0
6	Common Equity Tier 1 capital before regulatory adjustments	3,621		3,795	
Common Equity Tier 1 capital: regulatory adjustments					
7	Prudential valuation adjustments	0	0	0	0
8	Goodwill (net of related tax liability)	158	0	158	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	229	0	188	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0	0	0
11	Cash-flow hedge reserve	0	0	0	0
12	Shortfall of provisions to expected losses	148	0	274	0
13	Securitisation gain on sale	0	0	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0	0	0
15	Defined-benefit pension fund net assets	0	0	0	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0	0	0
17	Reciprocal cross-holdings in common equity	0	0	0	0
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0	0	0

Standard Chartered Bank, Johannesburg Branch

19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	0	0	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0	0	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	0	0	0
22	Amount exceeding the 15% threshold	0	0	0	0
23	of which: significant investments in the common stock of financials	0	0	0	0
24	of which: mortgage servicing rights	0	0	0	0
25	of which: deferred tax assets arising from temporary differences	0	0	0	0
26	National specific regulatory adjustments	0	0	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0		0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0		0	
	OF WHICH	0		0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0		0	
28	Total regulatory adjustment to Common equity Tier 1	535		620	
29	Common Equity Tier 1 capital (CET1)	3,086		3,175	
Additional Tier 1 capital: instruments					
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0		0	
31	of which: classified as equity under applicable accounting standards	0		0	
32	of which: classified as liabilities under applicable accounting standards	0		0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0		0	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	0		0	
35	of which: instruments issued by subsidiaries subject to phase out	0		0	
36	Additional Tier 1 capital before regulatory adjustments	0		0	
Additional Tier 1 capital: regulatory adjustments					
37	Investments in own Additional Tier 1 instruments	0	0	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0	0	0
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than	0	0	0	0

Standard Chartered Bank, Johannesburg Branch

	10% of the issued common share capital of the entity (amount above 10% threshold)				
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0	0	0
41	National specific regulatory adjustments	0		0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0		0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0		0	
	OF WHICH	0		0	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	2		0	
43	Total regulatory adjustments to Additional Tier 1 capital	2		0	
44	Additional Tier 1 capital (AT1)	0		0	
45	Tier 1 capital (T1 = CET1 + AT1)	3,086		3,175	
Tier 2 capital and provisions					
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0		0	
47	Directly issued capital instruments subject to phase out from Tier 2	0		0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	0		0	
49	of which: instruments issued by subsidiaries subject to phase out	0		0	
50	Provisions	0		0	
51	Tier 2 capital before regulatory adjustments	-2		0	
Tier 2 capital: regulatory adjustments					
52	Investments in own Tier 2 instruments	0	0	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0	0	0
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0	0	0
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0	0	0
56	National specific regulatory adjustments	0		0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	0	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0		0	
	OF WHICH	0		0	



Standard Chartered Bank, Johannesburg Branch

57	Total regulatory adjustments to Tier 2 capital	0		0
58	Tier 2 capital (T2)	0		0
59	Total capital (TC = T1 + T2)	3,086		3,175
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT			
	of which: Basel III amendments			
60	Total risk weighted assets	21,417		26,263
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.41		12.09
62	Tier 1 (as a percentage of risk weighted assets)	14.41		12.09
63	Total capital (as a percentage of risk weighted assets)	14.41		12.09
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	14.41		12.09
65	of which: capital conservation buffer requirement	0		0
66	of which: bank specific countercyclical buffer requirement	0		0
67	of which: G-SIB buffer requirement	0		0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	14.41		12.09
National minima (if different from Basel III)				
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	4.50		4.50
70	National Tier 1 minimum ratio (if different from Basel III minimum)	6.00		6.00
71	National total capital minimum ratio (if different from Basel III minimum)	8.00		8.00
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	0		0
73	Significant investments in the common stock of financials	0		0
74	Mortgage servicing rights (net of related tax liability)	0		0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0		0
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	0		0
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0		0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0		0
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0		0

Standard Chartered Bank, Johannesburg Branch

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)					
80	Current cap on CET1 instruments subject to phase out arrangements	0		0	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0		0	
82	Current cap on AT1 instruments subject to phase out arrangements	0		0	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0		0	
84	Current cap on T2 instruments subject to phase out arrangements	0		0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0		0	
	<b>Reconciliation requirements</b>				
	Paid in Capital	3,343		3,343	
	Retained earnings	571		866	
		3,914		4,209	
	Unappropriated profits	-300		-452	
		3,614		3,757	
	Other Reserves	-		-	
	Unrealised gains and losses on available for sale items	7		38	
		3,621		3,795	

## Annexure C – Main Features Disclosure

<b>Year ended: 2017-12-31 Disclosure template for main features of regulatory capital instruments</b>		
1	Issuer	NA
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	
<b>Regulatory Treatment</b>		
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	NA
6	Eligible at solo/group/group & solo	NA
7	Instrument type (types to be specified by each jurisdiction)	NA
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	NA
9	Par value of instrument	NA
10	Accounting classification (Shareholders Equity, Liability – Amortised cost, Liability – fair value option, Non-controlling interest in consolidated subsidiary)	Shareholders Equity
11	Original date of issuance	NA
12	Perpetual or dated	Perpetual
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
<b>Coupons / dividends</b>		
17	Fixed or floating dividend / coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA

Standard Chartered Bank, Johannesburg Branch

30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA