

Group Chief Risk Officer's review



- Proactively managing our risks whilst keeping our focus on the execution of the Group's strategy

Managing Risk

2023 presented challenges across many of our markets, with sustained high inflation levels from 2022 continuing to put pressure on the central banks to dampen rising prices through increases to interest rates. Increased levels of volatility were seen in early 2023 as several bank failures prompted fears of a global contagion. Despite having no material exposures to the failed banks, the Group took proactive steps to further strengthen our liquidity position and monitor for any signs of second order impacts. 2023 also saw a fundamental shift in global power dynamics, including with the BRICS expansion. Sovereign risks persisted across emerging markets in the Africa and Middle East region. In Asia, despite slower than expected economic growth in China, we saw positive signs of growth in the second half of the year. We continued to keep our focus on the challenges in the China real estate sector and any contagion risks. The Group has limited direct exposure in Ukraine and to the countries in the Middle East which are currently most impacted by conflict. However, we remained cognisant of the volatility and the potential second order market impacts, including those from elevated oil and commodity prices or supply chains disruption, which we continue to actively monitor through stress testing and portfolio reviews.

As we enter 2024, we stay vigilant and continue to review our exposure and limits across our portfolios to identify vulnerable industries and clients for closer monitoring.

Corporate, Commercial and Institutional Banking (CCIB)

Our CCIB credit portfolio remained resilient with overall good asset quality, as evidenced by our largely investment grade corporate portfolio (31 December 2023: 73 per cent, 31 December 2022: 76 per cent). We actively tracked geopolitical risks to enable us to act should the need materialise. In consideration of the macroeconomic challenges, additional reviews were conducted throughout 2023 across US regional Banks, Non-Bank Financial Institutions (NBFI), Leveraged Lending books, Global Commercial Real Estate (CRE) portfolio and select geographies. We closely monitored vulnerable sectors and identified clients that may face difficulties on account of increased interest rates, foreign exchange movements, commodity volatility or increased prices of essential goods. In China, the property market recovery remained slower than expected amidst government support measures and we continued to monitor our developers and sponsors portfolios through dedicated reviews.

Consumer, Private and Business Banking (CPBB)

The CPBB credit portfolio remained alert to the risks of the uncertain economic outlook but continued to demonstrate resilience. An increase in delinquency rates (Stage 2 provisions as at 31 December 2023: \$139 million, 31 December 2022: \$118 million) highlights the emerging pressure on customers' debt servicing capacity, as our customers continue to adapt to the prolonged higher interest rate environment. We continued to monitor potential secondary impacts of local challenges arising from heightened country risks across Bangladesh, Ghana, Kenya, Nigeria, Pakistan, and Sri Lanka, amongst others. There was no material impact on the CPBB portfolio due to the war in Ukraine and the conflict in the Middle East. For both our secured and unsecured consumer credit portfolios, we continued to monitor customer affordability across our key markets and dynamically adjusted origination criteria, portfolio management and collections strategies, as appropriate. We were mindful of the higher credit risk associated with increased lending to the mass market segment through our digital partnerships and digital banks and have tailored our lending criteria and portfolio management approach to the unique risks and customer behaviours observed in these segments.

Treasury Risk

Our liquidity and capital risks are managed to ensure a strong and resilient balance sheet that supports sustainable growth. We continued to enhance our Treasury Risk framework to incorporate the lessons from recent market events as well as horizon risks. Liquidity remained resilient across the Group and major legal entities. Group liquidity coverage ratio (LCR) is 145.4 per cent as at December 2023 (31 December 2022: 147 per cent) with a surplus to both Risk Appetite and regulatory requirements. Common Equity Tier 1 (CET1) ratio was 14.1 per cent as at December 2023 (31 December 2022: 14.0 per cent) while Leverage ratio was 4.7 per cent (31 December 2022: 4.8 per cent). In March 2023, we saw sharp moves in funding markets and customer behaviours triggering several bank failures in the US and Switzerland. This resulted in a heightened focus on Treasury risks including capital, liquidity, and interest rate risk on the banking book, with problems most acute in the US market and reverberating globally. We maintained a resilient liquidity position throughout the period and continued to focus on managing risks even as those event risks receded.

The Risk function remains actively engaged in providing independent review and challenge to internal and regulatory stress tests and recovery and resolution capabilities.



Further details on Risk Management for our Principal Risk Types can be found in [page 314](#)



Further details on Climate Risk can be found in [page 298](#)

Risk Performance Summary

Asset quality is resilient. The percentage of investment-grade corporate net exposure remained high at 73 per cent (31 December 2022: 76 per cent). Exposure to our top 20 corporate clients as a percentage of Tier 1 capital decreased to 62 per cent (31 December 2022: 65 per cent), mainly driven by reduction in Transaction Banking exposures. However, the Group remained vigilant of persistent challenging conditions in some markets and sectors. In 2023, we saw a \$0.5 billion increase in Early Alerts exposure (31 December 2023: \$5.5 billion, 31 December 2022: \$5.0 billion), driven by inflows relating to a select number of clients including sovereign-related exposures, partially offset by transfers to Purely Precautionary, regularisations, exposure reductions and outflows to Credit grades 12-14. Credit grade 12 balances increased to \$2.2 billion (31 December 2022: \$1.6 billion) due to sovereign and client downgrades, partially offset by outflows to non-performing loans.

Key indicators

	2023	2022
Group total business ¹	292.1	316.1
Stage 1 loans (\$ billion)	273.7	295.2
Stage 2 loans (\$ billion)	11.2	13.0
Stage 3 loans, credit-impaired (\$ billion)	7.2	7.9
Stage 3 cover ratio	60%	57%
Stage 3 cover ratio (including collateral)	76%	76%
Corporate, Commercial & Institutional Banking		
Investment grade corporate net exposures as a percentage of total corporate net exposures	73%	76%
Loans and advances maturing in one year or less as a percentage of total loans and advances to customers ³	68%	68%
Early Alert portfolio net exposures (\$ billion)	5.5	5.0
Credit grade 12 balances (\$ billion)	2.2	1.6
Aggregate top 20 corporate net exposures as a percentage of Tier 1 capital ²	62%	65%
Collateralisation of sub-investment grade net exposures maturing in more than one year	41%	53%
Consumer, Private & Business Banking		
Loan-to-value ratio of Consumer, Private & Business Banking mortgages	47.2%	44.7%

1 These numbers represent total gross loans and advances to customers

2 Excludes reverse repurchase agreements

3 The 2022 figure has been restated from 65 per cent to 68 per cent

The Group's credit impairment was a net charge of \$508 million (31 December 2022: \$836 million), a decrease of \$328 million. 2022 included overlays for sovereign downgrades and China commercial real estate, which was partly offset by a full release of COVID-19 overlays. Stage 3 was a charge of \$369 million (31 December 2022: \$430 million), and the reduction was driven by CCIB releases and lower impairment charges for our China commercial real estate clients. This reduction was offset by higher bankruptcy related write-offs in CPBB across Singapore, Hong Kong and Korea, and portfolio growth in digital partners.

Credit impairment

	2023			2022 ¹		
	Stage 1 & 2 \$million	Stage 3 \$million	Total \$million	Stage 1 & 2 \$million	Stage 3 \$million	Total \$million
Ongoing business portfolio						
Corporate, Commercial & Institutional Banking	11	112	123	148	277	425
Consumer, Private & Business Banking	129	225	354	151	111	262
Ventures	42	43	85	13	3	16
Central & other items	(44)	10	(34)	95	38	133
Credit impairment charge/(release)	138	390	528	407	429	836
Restructuring business portfolio	-	-	-	-	-	-
Others	1	(21)	(20)	(1)	1	-
Credit impairment charge/(release)	1	(21)	(20)	(1)	1	-
Total credit impairment charge/(release)	139	369	508	406	430	836

1 Underlying credit impairment has been restated for the removal of (i) exit markets and businesses in AME and (ii) Aviation Finance. No change in reported credit impairment



Further details of the risk performance for 2023 are set out in the full Risk review section (pages 232 to 343).

An update on our risk management approach

Our Enterprise Risk Management Framework (ERMF) outlines how we manage risk across the Group, as well as at branch and subsidiary level¹. It gives us the structure to manage existing risks effectively in line with our Group Risk Appetite, as well as allowing for holistic risk identification. The ERMF also sets out the roles and responsibilities and the minimum governance requirements for the management of Principal Risks.

In revisions made in the ERMF in 2023, effective 1 January 2024, the concepts of Integrated Risk Types (IRTs) and IRT Owner roles were discontinued. Oversight on existing IRTs, i.e. Climate Risk, Digital Asset and Third Party Risk, is achieved through the Risk Type Frameworks (RTFs) and dedicated policies. The subject matter experts, as the policy owners for these risks, provide overall governance and ensure a holistic view of how risks are monitored and managed across the Principal Risk Types (PRTs).

Principal Risk Types

PRTs are risks inherent in our strategy and business model. These are formally defined in our ERMF, which provides a structure for monitoring and controlling these risks through the Risk Appetite Statement. We will not compromise compliance with our Risk Appetite in order to pursue revenue growth or higher returns.

The table below provides an overview of the Group's PRTs and their corresponding risk appetite statements.

Risk Types	Risk Appetite Statement
Credit Risk	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors.
Traded Risk	The Group should control its financial markets and activities to ensure that market and counterparty credit risk losses do not cause material damage to the Group's franchise.
Treasury Risk	The Group should maintain sufficient capital, liquidity and funding to support its operations, and an interest rate profile ensuring that the reductions in earnings or value from movements in interest rates impacting banking book items does not cause material damage to the Group's franchise. In addition, the Group should ensure its Pension plans are adequately funded.
Operational and Technology Risk	The Group aims to control operational and technology risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise.
Financial Crime Risk	The Group has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Compliance Risk	The Group has no appetite for breaches in laws and regulations related to regulatory non-compliance; recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Information and Cyber Security Risk	The Group aims to mitigate and control ICS risks to ensure that incidents do not cause the Bank material harm, business disruption, financial loss or reputational damage – recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Reputational and Sustainability Risk	The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed with the appropriate level of management and governance oversight. This includes a potential failure to uphold responsible business conduct in striving to do no significant environmental and social harm.
Model Risk	The Group has no appetite for material adverse implications arising from misuse of models or errors in the development or implementation of models; whilst accepting some model uncertainty.

In addition to the PRTs, the Group has defined the following Risk Appetite statement for Climate Risk: "The Group aims to measure and manage financial and non-financial risks arising from climate change, and reduce emissions related to our own activities and those related to the financing of clients in alignment with the Paris Agreement."

¹ The Group's Enterprise Risk Management Framework and system of internal control applies only to wholly controlled subsidiaries of the Group, and not to Associates, Joint Ventures or Structured Entities of the Group.



Further details on our Risk Management Approach can be found on [page 314](#).

Topical and Emerging Risks (TERs)

Emerging Risks refer to unpredictable and uncontrollable outcomes from certain events which may have the potential to adversely impact our business. Topical Risks refer to themes that may have emerged but are still evolving rapidly.

As part of our continuous risk identification process, we have updated the Group's TERs from those disclosed in the 2022 Annual Report and 2023 Half-Year Report; these remain applicable, with nuances in their evolution noted where pertinent. Below is a summary of the TERs, and the mitigating actions we are taking based on our current knowledge and assumptions. This reflects the latest internal assessment as performed by senior management.

The TER list is not exhaustive and there may be additional risks which could have an adverse effect on the Group. There are some horizon risks that, although not highly likely at present, could evolve into a threat in the future and we are therefore monitoring them. These include future pandemics and the world's preparedness for them, and other potential cross-border conflicts. Our mitigation approach for these risks may not eliminate them but demonstrates the Group's awareness and attempt to reduce or manage the risks. As certain risks develop and materialise over time, management will take appropriate steps to mitigate them based on their materiality on the Group.

Macroeconomic and geopolitical considerations

There is interconnectedness between risks due to the importance of US Dollar financing conditions for global markets, the global or concentrated nature of key supply chains for energy, food, semi-conductors and rare metals, and the direct influence of geopolitics on geoeconomics.

The Group is exposed to these risks directly through investments, infrastructure and staff, and also indirectly through its clients. Whilst the main impacts are financial, other ramifications may exist such as reputational, compliance or operational considerations.

Expanding array of global tensions and new geopolitical order

Global power dynamics have shifted, with different political and economic alliances beginning to create a multipolar power system. This has been accelerated by the war in Ukraine and conflicts in the Middle East. Whilst the Group has limited direct exposure to Russia, Ukraine or Israel, it may be impacted by second order effects on its clients and markets for agricultural commodities, oil or gas.

The positioning of 'middle powers' is complex and evolving, and could tip the geopolitical scales. The negotiating power of exporters of energy and other natural resources has expanded and can shape global markets, as they can use global divisions to raise their own profile. One such example is the envisaged expansion of BRICS to seek a counterweight to Western power axes.

US-China tensions remain, with protectionist measures imposed by both sides. Tariffs, embargos, sanctions, new taxes such as that on carbon, and restrictions on technology exports and investments, are being used to achieve goals beyond just economic. Further economic or political actions could escalate distrust and accelerate the decoupling of trade links, leading to increasingly inefficient production and inflation pressures.

Despite attempts to become more pragmatic, a number of potential flashpoints remain. A push by China to increase RMB trade and establish RMB as a secondary global reserve currency presents new business opportunities but also potential disruption to the balance of power.

With many elections due across the world in the next twelve months, there is uncertainty over the political direction of domestic and foreign policy. There is a risk of short-term political expediency taking precedence over long-term strategic decision making. The malicious use of AI-enabled disinformation could also cause disruption and undermine trust in the political process.

There is an ongoing threat of terrorism, with unpredictability exacerbated by the wider range of ideologies at play. Cyber warfare by state related actors could also be used to disrupt infrastructure or institutions in rival countries.

A more complex and less integrated global political and economic landscape has the potential to challenge cross border business models, but also provides new business opportunities.

Persistent high inflation and interest rates

Although rate cuts have been signalled by the Federal Reserve, global rates could remain elevated for longer. Structurally higher spending and continued supply disruptions increase the probability of inflation remaining sticky. During 2023, the International Monetary Fund (IMF) and World Trade Organisation lowered their initial forecasts for trade growth and increased that of inflation in 2024, suggesting that several economies will walk a fine line between recession and stagflation.

Concern for the credit environment spans both commercial and retail lending, with price inflation and the cliff effects of energy, mortgage and debt re-pricing ultimately leading to higher defaults. This is visible in bond markets with yields widening markedly and prone to high volatility.

Drives to de-risk supply chains combined with no obvious resolution to ongoing conflicts continue to disrupt supply chains. This complicates efforts to combat inflation as supply constrained markets dent the effectiveness of monetary policy.

Some sectors are particularly sensitive to high rates, notably commercial real estate, non-bank financial institutions (NBFI) and leveraged finance due to their reliance on the availability of cheap financing. Bank failures in Q1 2023 highlighted challenges in managing liquidity, credit, refinancing and market risks. They also raised questions of competence and confidence in the finance industry.

Economic slowdown in China

Whilst China's exit from COVID restrictions has had an overall positive impact, it has failed to deliver a sustained boost to the global economy as the country contends with strain in several sectors such as real estate. There has also been a change in the corporate operating environment, with reduced clarity on the economic outlook.

Given China's importance to global trade a slowdown would have wider implications across the supply chain, especially for its trading partners, as well as to countries which rely on it for investment, such as those in Africa. However, opportunities arise from the diversification of intra-Asia trade and other global trade routes, and growth acceleration in South Asia, especially India.

Sovereign risk

Credit fundamentals have been eroding across both emerging and advanced economies due to persistently high interest rates, food and energy prices. Emerging markets will also be affected by weakness in local currencies versus the US Dollar and the resultant cost of refinancing existing debt, or availability of hard currency liquidity. Issues and challenges have already been observed across several of the Group's footprint markets, including the recent default of Ghana, political instability in Pakistan, high inflation in Turkey, economic turmoil in Sri Lanka, and coups in Africa.

For some countries there is a heightened risk of failure to manage social demands, which might culminate in increased political vulnerability. Furthermore, food security exacerbated by the influences of armed conflict and climate change, and energy security challenges have the potential to drive social unrest.

Debt moratoria and refinancing initiatives are complicated by larger number of financiers, with much financing done on a bilateral basis outside of the Paris Club. Whilst the Global Sovereign Debt Roundtable has made some progress on coordinating approaches between the Paris Club and other lenders their interests do not always match. This can lead to delays in negotiations on debt resolutions for developing nations.

Supply chain issues and material shortages

Demand and supply imbalances in global supply chains are increasingly becoming structural in nature and affect a wide range of commodities including food, energy, minerals and raw materials, plus targeted restrictions on certain industry sectors.

There is growing political awareness around the need for key component and resource security at national level. Countries are enacting rules to "de-risk" by reducing reliance on rivals or concentrated suppliers (for example semiconductors) and look to either re-industrialise or make use of near-shoring and friend-shoring production.

The growing need for minerals and rare earth metals to power green energy technologies could increase the geopolitical standing of the main refiners, such as China, Indonesia and some African nations. However, there are also environmental and social costs to rapidly increasing extraction. A desire to avoid dependence may slow down the move by some nations towards the transition.

How these risks are mitigated/next steps

- We remain vigilant in monitoring risk and assessing impacts from geopolitical and macroeconomic risks to portfolio concentrations.
- We conduct thematic stress tests and portfolio reviews at the Group, country, and business level, with regular reviews on vulnerable sectors, and undertake any necessary mitigating actions.
- We maintain a diversified portfolio across products and geographies, with specific risk appetite metrics to monitor concentrations.
- Increased scrutiny is applied when onboarding clients and in ensuring compliance with sanctions.
- Collateral and credit insurance are used to manage concentrations.
- We track the participation of our footprint countries in the G20's Common Framework Agreement and Debt Service Suspension Initiative for Debt Treatments and the associated exposure.
- Our NBFI exposure is closely monitored in terms of both limits, products and counterparties.

Regulatory considerations

Changing regulatory environment

Given notable bank failures in 2023 (and the response of resolution authorities to those failures), the regulatory framework for banks remains subject to continued change in addition to the implementation of Basel 3.1 in various jurisdictions. Additionally, the differing pace and scale of regulatory adoption between jurisdictions, along with increasing extraterritorial reach and prescriptiveness, can make it challenging for multinational groups to manage their business. Implementation timelines are a focus.

The scale of upcoming regulatory change in 2024 and 2025 is significant with major regime changes in capital and operational resilience due to take effect.

How these risks are mitigated/next steps

- We actively monitor regulatory developments, including those related to sustainable finance and ESG, and respond to consultations either bilaterally or through well-established industry bodies.

ESG considerations

ESG stakeholder expectations

Organisations across the corporate and financial sectors are setting ambitious sustainability goals and net zero targets with many embedding them in their business models. This has prompted increased attention from various stakeholders in ensuring that net zero targets are being met with credible action plans. Stakeholder scrutiny around greenwashing risk relating to ESG focused financial products, as well as companies' commitments, transpires in the various regulatory developments and early enforcement actions taken by several key regulators.

Fragmentation in the pace and scale of adoption of ESG regulations around the world remains, particularly around taxonomies and disclosure requirements, which may lead to unintended consequences including misallocation of capital, increased implementation costs and litigation risks.

The Group's net zero aspirations may be impacted by governments or corporates scaling back their sustainability targets, especially as economic conditions remain challenging, and budgets are constrained. There have been examples in developed nations, such as the UK revisiting its electric vehicle transition timeline. A slower transition from key clients may also weigh reputational pressure on the Group's roadmap.

Higher frequencies of extreme weather-related events such as wildfires, floods and famines may lead to physical climate risk and the cost of managing it becoming a heavier burden on global economies. This will be particularly impactful to developing markets. Alongside climate change, biodiversity loss, pollution, and depletion of key resources, such as water, pose incremental risks to food and health systems, energy security and contribute to the disruption of supply chains.

Human rights concerns are increasingly in focus, with the scope expanding beyond direct abuses to cover other areas such as technological advancement and supply chains.

How these risks are mitigated/next steps

- We update our environmental and social standards for providing financial services to clients every two years, with a new version scheduled for 2024.
- We focus on embedding our values through our Position Statements for sensitive sectors and a list of prohibited activities
- We integrate the management of greenwashing risks into our Reputational and Sustainability Risk Framework and policies
- 'Green', 'sustainable' and 'transition' labels for products and transactions reflect the criteria set out in the Group's Sustainable Finance frameworks, which are regularly reviewed. We obtain external verification on the Group's Sustainable Finance asset pool.
- We assess our clients and suppliers against various international human rights principles, as well as through our social safeguards and supplier charter.

+ Modern slavery statement:
<https://www.sc.com/modernslavery>

+ Human Rights Position Statement:
<https://www.sc.com/humanrights>

- Detailed portfolio reviews and stress tests are conducted to test resilience to climate-related risks and enhance modelling capabilities to understand the financial risks and opportunities from climate change.
- Work is underway to embed Climate Risk considerations across all relevant PRTs. This includes client-level Climate Risk assessments, including setting adequate mitigants or controls as part of decision making and portfolio management activities.

Technological considerations

Data and digital

The Group's digital footprint will expand as more services and products are digitised and made more accessible. Scale in operations and interactions with digital systems will further reduce the tolerance for errors and outages. The risk of data breaches is amplified by highly organised actors, with threats such as 'Ransomware as a Service' and affordable, sophisticated AI systems helping to facilitate attacks on organisations and individuals.

Data regulation continues to be fluid and fragmented. Geopolitical tensions have accelerated the implementation of data sovereignty laws, including data localisation requirements and cross-border access restrictions. These regulations often have an extraterritorial reach which could increase operating costs significantly, and also impact cross-border business models. Stakeholder expectations on data management have also increased, particularly relating to quality, integrity, record keeping, privacy, sovereignty, the ethical use of data and application of AI.

The sophistication and adoption of AI solutions are growing exponentially and will increase exposure to existing risks such as model, fraud, financial crime, compliance and Information and Cyber Security (ICS) risks. In response, regulation is accelerating, particularly around the ethical application of AI in decision-making, necessitating robust governance measures. The Group needs to ensure that it develops sufficient in-house subject matter expertise.

New business structures, channels and competition

Failure to harness new technologies and new business models would place banks at a competitive disadvantage. The continued exploration of partnerships, alliances, digital assets, generative AI and nascent technologies, such as quantum computing, provides both opportunities and unique challenges. This is increasingly important as digital assets and distributed ledger technology become progressively prevalent and interconnected with the financial ecosystem. Supply chains are becoming more complex, interconnected and digital. Highly extended enterprises expand opportunities available for malicious actors, with risk cascading further down supply chains beyond just direct and third party risks.

These innovations require specialist in-house expertise, new operating models and adapting risk frameworks to perform robust risk assessment and management of new threats. There is also growing regulatory attention in many of these areas. Balancing resilience and agility is essential given the global nature of new technologies alongside the maintenance of existing systems. It is imperative to establish clear ownership, frameworks, and oversight of the use of emerging technologies.

How these risks are mitigated/next steps

- We monitor emerging trends, opportunities and developments in technology as well as emerging business models that may have implications for the banking sector.
- We invest in our capabilities, to better prepare and protect ourselves against possible disruption and new risks.
- We track the evolving regulatory landscape affecting key areas such as data management, digital assets and AI, including country-specific requirements, and actively collaborate with regulators to support important initiatives.
- We have established enhanced governance for novel areas through the Digital Asset Risk Committee and Responsible AI Council, which considers emerging regulatory guidance.
- We manage data risks through our Compliance Risk Type Framework and information security risks through our ICS Risk Type Framework.
- We have developed a Group Data Strategy, to strengthen ownership of related data risks.
- We maintain a dedicated Data Compliance Policy with globally applicable standards. These standards undergo regular review to ensure alignment with evolving regulations and industry best practice.
- We maintain programmes to enhance our data risk management capabilities and controls, including compliance with BCBS239 requirements on effective risk data aggregation, with progress tracked at executive level risk governance committees
- The Group has implemented a 'defence-in-depth' ICS control environment strategy to protect, detect and respond to known and emerging ICS threats.
- New risks arising from partnerships, alliances, digital assets and generative technologies are identified through the New Initiatives Risk Assessment and Third Party Risk Management Policy and Standards.

Demographic considerations

Talent pools of the future

The expectations of the workforce, especially skilled workers, continue to evolve. The COVID pandemic accelerated changes on how people work, connect and collaborate, with expectations on hybrid working now a given. The focus is increasingly on 'what' work people do and 'how' they get to deliver it, which are becoming differentiators in the war for future talents. There is greater desire to seek meaning and personal fulfilment at work that is aligned to individual purpose.

These trends are even more distinct among Millennials and Generation Z who make up an increasing proportion of the global talent pool, and as digital natives possess the attributes and skills we seek to pursue our strategy.

To sustainably attract, grow and retain talent, we must continue to invest in and further strengthen our Employee Value Proposition (EVP) and our brand promise, here for good, through both firm-wide interventions as well as targeted action.

Demographic trends

Divergent demographic trends across developed and emerging markets create contrasting challenges. Developed markets' state budgets could be strained by ageing and shrinking populations, whilst political stances reduce the ability to fill skills gaps through immigration. Conversely emerging markets are experiencing fast-growing, younger workforces. Whilst it is an opportunity to develop talent, population growth will put pressure on key resources such as food, water, education and health, as well as government budgets.

Population displacement, whether as a result of climate events, lack of key resources, political issues or war, may increase the fragility of societal structures in vulnerable centres. Large scale movement could cause social unrest, as well as propagate disease transmission and accelerate the spread of future pandemics.

How these risks are mitigated/next steps

- Our culture and EVP work aims to address the emerging expectations of the diverse talent we seek. The Brand and Culture Dashboard monitors our diversity and inclusion, colleagues' perceptions of our EVP, and whether we are living our Valued Behaviours. Management teams discuss many of these metrics (including employee survey responses) to identify actions.
- We are undertaking a multi-year journey of developing future-skills amongst our colleagues by focusing on continuous learning, to balance appropriately between 'building' and 'inducting' skills into the Group.
- Our internal Talent Marketplace provides colleagues with opportunities to learn through experience by signing up for cross-functional (or even cross-geography) projects.
- Employees in 44 markets are on agreed flexible working arrangements. We continue to enhance support and resources to People Leaders and colleagues to help balance productivity, collaboration and wellbeing.
- Our Stands continue to be operationalised through our strategy, and help address the talent pool's increased expectations of us being purpose-led.



Sadia Ricke

Group Chief Risk Officer

23 February 2024