Standard Chartered

PILLAR 3 DISCLOSURES QUARTERLY

STATUTORY RETURN

31 December 2017

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1. BACKGROUND AND SCOPE

Purpose of Pillar III disclosures

Section 12 of the Basell II updated in January 2016, states the objectives for the banks to have Pillar III disclosures as outlined below;

Section 12.1
The Primary purpose of Pillar III is to supplement the minimum capital requirements (Pillar II) by introducing a set of disclosure requirements, which allow market participants to influence the level of capital, risk assessment processes, capital adequacy and remuneration practices of a bank

Section12.2
Improved transparency, underpinned by high quality and timely market disclosures, will enhance market discipline, efficiency and confidence. The key objective is, therefore, to provide a market driven incentive for a bank to conduct business in a safe and sound manner. A bank is, therefore, responsible, beyond the disclosure requirements set out in this Directive, for Conveying adequate information regarding its actual risk profile and how these risks relate to capital.

1.1 Summary and Approach

This document will put its focus on Pillar III disclosures for Standard Chartered Bank of Botswana for the Quarter ended 31 December 2017.

The focus will be disclosures for the capital structure, Capital Adequacy, Risk management Processes and Remuneration practices of Standard Chartered Bank of Botswana as per Pillar III scope.

2. REGULATORTY CAPITAL REQUIREMENTS

2.1 Capital Structure

The capital is classified as TIER 1 capital and TIER 2 capital.The Tier 1 consists of directly issued qualifying common share capital plus related stock surplus, retained earnings, accumulated other comprehensive income and Additional Tier 1 (AT1) capital being qualifying shares premiums, preference shares and all other instruments.Tier 2 capital includes surbodinated debt and general provisions.

STANDARD CHARTERED BANK REGULATORY CAPITAL STRUCTURE FOR THE QUARTER ENDED 31 December 2017:

Basel III Common Equity Tier I Disclosure Template

	Common Equity Tier I capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	179,273
2	Retained earnings	518,102
3	Accumulated other comprehensive income (and other reserves)	47,365
4	*Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)*	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	**Common Equity Tier I capital before regulatory adjustments**	744,740
	Common Equity Tier I capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	29,881
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	4 372
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	71,476
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
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)	-
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)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	-
28	**Total regulatory adjustments to Common equity Tier I**	**(105 729)**
29	**Common Equity Tier I capital (CET1 CAPITAL)**	**646,201**

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	Additional Tier I capital: instruments	
30	Directly issued qualifying Additional Tier I instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier I	-
34	Additional Tier I instruments (and CET1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier I capital before regulatory adjustments**	**-**
	Additional Tier I capital: regulatory adjustments	
37	Investments in own Additional Tier I instruments	
38	Reciprocal cross-holdings in Additional Tier I instruments	
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 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)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	
43	**Total regulatory adjustments to Additional Tier I capital**	
44	**Additional Tier I capital (AT1)**	
45	**Tier I capital (T1 = CET1 CAPITAL + AT1)**	
	Tier II capital: instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier II	
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	
51	**Tier II capital before regulatory adjustments**	
	Tier II capital: regulatory adjustments	
52	Investments in own Tier II instruments	389,000
53	Reciprocal cross-holdings in Tier II instruments	183,808
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).	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions).	-
56	National specific regulatory adjustments	34 ,563
57	**Total regulatory adjustments to Tier II capital**	**34,563**
58	**Tier II capital (T2)**	**607,371**
59	**Total capital (TC = T1 + T2)**	**1,246,382**
60	**Total risk-weighted assets**	**7,806,499**

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Capital ratios and buffers		
61	Common Equity Tier I (as a percentage of risk weighted assets)	8.2%
62	Tier I (as a percentage of risk-weighted assets)	8.2%
63	Total capital (as a percentage of risk weighted assets)	16.0%
64	Institution specific buffer requirement (minimum CET1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	-
65	of which: capital conservation buffer requirement	-
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68		-
	Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	
69	*National Common Equity Tier I minimum ratio (if different from Basel III minimum)*	-
70	*National Tier I minimum ratio (if different from Basel III minimum)*	-
71	*National total capital minimum ratio (if different from Basel III minimum)*	-
	Amounts below the thresholds for deduction (before risk-weighting	
72	*Non-significant investments in the capital of other financials*	-
73	*Significant investments in the common stock of financials*	-
74	*Mortgage servicing rights (net of related tax liability)*	-
75	*Deferred tax assets arising from temporary differences (net of related tax liability)*	-
Applicable caps on the inclusion of provisions in Tier II		
76	*Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)*	-
77	*Cap on inclusion of provisions in Tier II under standardised approach*	-
78	*Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)*	-
79	*Cap for inclusion of provisions in Tier II under internal ratings-based approach*	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)		
80	*Current cap on CET1 CAPITAL instruments subject to phase out arrangements*	-
81	*Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase out arrangements*	*183,808*
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

2.2 Capital Adequacy

2.2.1 Qualitative Disclosures

For the Quarter ended 31 December 2017, the bank's capital ratios were well above the minimum prudential ratios as outlined below;

Capital	Capital BWP	Minimum prudential Ratio(Regulatory)	Reported
Common Equity Tier 1 Capital (CET 1)	639,011	4.5%	8.2%
Tier 1 Capital	639,011	7.5%	8.2%
Tier 2 Capital	607,371	7.5%	8.2%
Total Unimpaired Capital (CAR)	1,246,382	15%	16.0%

2.2.2 Qualitative disclosures

Portfolio	Approach	Amount (P'000)
Credit Risk	Simple Approach	6,849,724
Market Risk	Standardised Approach	89,233
Operational Risk	Basic Indicator Approach	867,542
TOTAL		7,806,499

a) Capital requirements for Credit Risk

SCBB calculates Credit Risk RWA using the simple Approach as per the Basel II framework.The RWA is the addition of the totals of the On-balance Sheet and Off balance subject to various mitigants.

Porfolio Class	Exposure before CRMS	Risk-Weights of Original Counterparties	RWA
Claims on Sovereign or Central banks	3,364,689	0%	-
Claims on Domestic Banks	197,675	20%	39,535
Soverign credit risk assessement rating of AAA to AA-.	2,611,154	20%	522,231
Soverign credit risk assessement rating of A+ to A-	-	50%	-
Soverign credit risk assessement rating of BBB+ to BBB- or unrated.	340	100%	340
Soverign credit risk assessement rating of BB+ to B-	384	100%	384
Soverign credit risk assessement rating of below B-.	366	150%	549
Claims to corporate assigned a credit assessment of A+ to A-.	233,176	20%	46,635
Claims to corporate assigned a credit assessment of BBB+ or BB- or unrated corporate client.	1,347,178	100%	1,347,178
Retail exposures that fully comply with conditions set out in the Capital Directive	4,687,791	75%	3,515,843
Past due exposure where specific provision is more than 50% of the outstanding loan.	362,327	50%	181,163
Claims fully secured by residential mortgage property that fully comply with Capital Measurement and Capital Directive	946,326	35%	331,214
Other non -qualifying Residential mortgages	31,366	75%	23,535
Past due (qualifying mortgage loans) for more than 90 days and specific provision less than 20% of the loan	10,262	100%	10,262

Past due (qualifying mortgage loans) for more than 90 days and specific provision more than 20% of the loan	15,151	50%	7,576
Past due non - qualifying residential mortgages where specific provision is less than 20% of the loan	1,237	150%	1,856
Other non-qualifying Residential mortgage where specific provision is equal to or greater than 20% but less than 50% of the loan	1,213	100%	1,213
Cash (Pula), gold, coins, bullion, foreign notes & coins, statutory reserve with Bank of Botswana	967,275	0%	-
Other Assets (including bank premises, plant and equipment, other fixed assets and all other assets)	268,312	100%	268,312
Total on balance sheet Amount	**15,046,222**		**6,297,815**

OFF balance Sheet portfolio			
Certain transaction-related contigent items such as performance bonds, bid bonds,warrantees and stand by letters of credit related to particular transactions.	**Exposure**	**Risk Weights**	**RWA**
Other assets	1,103,818	50%	551,909
Total off balance sheet Amount	**1,103,818**		**551,909**
TOTAL RISK WEIGHTED ASSESTS as at 31 December 2017			**6,849,724**

b) Capital requirements for market risk

SCBB calculates the market risk using the Standardised Approach.A capital charge is computed for interest rate and foreign exchange risks in the trading book.The resultant is summed up and caliberated by a risk weight factor 6.7 .

RISK	Amount	Risk weighted Factor	RWA
Foreign exchange risk	6,276	6.7	42,049
Interest rate risk			
Specific risk	6,824	6.7	45,721
General risk	219	6.7	1,467
TOTAL MARKET RISK RWA	**13,318**		**89,233**

2.2 Capital Adequacy (continued)

c) Capital requirement for operational Risk

The bank has adopted the Basic Indicator Approach (BIA) In which the regulatory capital charge risk will be equal to 15% of the average of the previous three years bank's positive annual gross income. The three year average gross income is calculated on the basis of the last three 12 months monthly observations at the end of the financial year. Where audited financials are not available, submitted returns are used.

Period/ Year	Gross income	operational risk factor -denoted alpha (α)	Risk weight factor
1	856,833	15%	6.7
2	897,070	15%	6.7
3	835,723	15%	6.7
TOTAL	**2,589,677**		

Operational risk factor -denoted alpha (α)	15%
Aggregate Gross Income multiplied by α	388,452
No. of years with Positive Gross Income (n)	3
Operational Risk Capital Charge: BIA	129,484
Operational risk weight assets	**867,542**

2.3 EXPLANDED REGULATORY BALANCE SHEET

For the basis of consolidation for accounting purposes, unit 023 SCBB ,Unit 779 SC BWA Educational Trust (SCBET) and unit 727 SCB Insurance Agency are fully consolidated. For regulatory purposes only Unit 023, SCBB is considered.

Table 25 - Regulatory Balance Sheet Vs IFRS Balance Sheet.

	Balance sheet as in published financial statements (IFRS)	**Under regulatory scope of consolidation**
	As at period end 31 December 2017	**As at period end 31 December 2017**
Assets		
Cash and balances at central banks	969,846	967,275
Items in the course of collection from other banks	-	-
Trading portfolio assets	-	-
Financial assets designated at fair value	-	-
Derivative financial instruments	-	-
Loans and advances to banks	2,577,528	2,626,767
Loans and advances to customers	7,589,863	7,589,863
Reverse repurchase agreements and other similar secured lending	-	-
Available for sale financial investments	3,364,689	3,364,689
Current and deferred tax assets	72,884	71,476
Prepayments, accrued income and other assets	371,550	281,305

Investments in associates and joint ventures	-	-
Goodwill and intangible assets	34,253	34,253
Property, plant and equipment	64,430	64,430
Total assets	**15,045,043**	**15,000,058**
Liabilities		
Deposits from banks	1,108,372	1,068,406
Items in the course of collection due to other banks	-	
Customer accounts	12,245,757	12,245,757
Repurchase agreements and other similar secured Borrowing	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivative financial instruments	-	-
Debt securities in issue	-	-
Accruals, deferred income and other liabilities	208,670	196,771
Current and deferred tax liabilities	17,504	17,504
Subordinated liabilities	686,260	686,260
Provisions	-	-
Retirement benefit liabilities	-	-
Total liabilities	**14,266,563**	**14,214,698**
Shareholders' Equity		
Paid-in share capital	179,273	179,273
Retained earnings	599,207	606,087
Accumulated other comprehensive income	-	-
Total shareholders' equity	**778,480**	**785,360**

Table 26 Expanded Regulatory Balance Sheet

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
	As at period end 31 December 2017	**As at period end 31 December 2012017**	
Assets			
Cash and balances at central banks	967,275	967,275	
Items in the course of collection from other banks	-	-	
Trading portfolio assets	-	-	
Financial assets designated at fair value	-	-	
Derivative financial instruments	-	49,901	
Loans and advances to banks	2,626,767	2,626,767	
Loans and advances to customers	7,589,863	7,636,027	
Reverse repurchase agreements and other similar secured lending	-	-	

Available for sale financial investments	3,364,689	3,364,689	
Current and deferred tax assets	71,476	71,476	
Prepayments, accrued income and other assets	281,305	238,594	
Investments in associates and joint ventures	-	-	
Goodwill and intangible assets			
of which goodwill	34,253	29,881	A
of which other intangibles (excluding MSRs)	-	4,372	B
of which MSRs	-	-	C
Property, plant and equipment	64,430	64,430	
Total assets	**15,000,058**	**15,046,222**	
Liabilities			
Deposits from banks	1,068,406	1,068,406	
Items in the course of collection due to other banks	-	-	
Customer accounts	12,245,757	12,245,757	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	50,398	
Debt securities in issue	686,260	686,260	
Accruals, deferred income and other liabilities	196,771	146,375	
Current and deferred tax liabilities	17,504	17,504	
Of which DTLs related to goodwill	-	-	D
Of which DTLs related to intangible assets (excluding MSRs)	-	-	E
Of which DTLs related to MSRs	-	-	F
Subordinated liabilities	-	-	
Provisions	-	46,163	
Retirement benefit liabilities	-	-	
Total liabilities	**14,214,698**	**14,260,863**	
Shareholders' Equity			
Paid-in share capital	179,273	179,273	
of which amount eligible for CET1 CAPITAL	-	179,273	H
of which amount eligible for AT1	-	-	I
Retained earnings	606,087	518,102	
Accumulated other comprehensive income	-	87,984	
Total shareholders' equity	**785,360**	**785,360**	

Table 27 Extract of Basel III common disclosure template (with added column)

Common Equity Tier I capital: instruments and reserves			
		Component of regulatory capital reported by bank	Source based on Reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2.
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	179,273	H
2	Retained earnings	518,102	
3	Accumulated other comprehensive income (and other reserves)	47,365	
4	Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non- joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount) allowed in group CET1 CAPITAL)	-	
6	**Common Equity Tier I capital before regulatory adjustments**	**744,740**	
7	Prudential valuation adjustments	75,848	
8	Goodwill (net of related tax liability)	29,881	a-d

2.3.1 Main features of regulatory capital instruments

The bank has issued subordinated debt instruments as outlined in the table below.

1	Issuer	Standard Chartered Bank Botswana Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BWP BWNCD16JAN17 BW 000 000 0587 BW0000001023 BW 000 000 1106 BW 000 000 1114 900-023.005
3	Governing law(s) of the instrument	Botswana Law, English/EU Law
	Regulatory treatment	Senior and subordinated debt
4	Transitional Basel III rules	Not Applicable
5	Post-transitional Basel III rules	Not Applicable
6	Eligible at solo/group/group and solo	Group and solo
7	Instrument type (types to be specified by each jurisdiction)	Senior debt Subordinated Debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	572,808
9	Par value of instrument	703,253
10	Accounting classification	Senior and subordinated debt

11	Original date of issuance	6/30/2015, 12/20/2005, 5/12/2011, 6/27/2012, 6/27/2012, 7/29/2015
12	Perpetual or dated	Dated
13	Original maturity date	1/16/2017, 12/20/2020, 5/12/2021, 6/27/2022, 6/27/2022, 8/29/2025
14	Issuer call subject to prior supervisory approval	Non-callable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Coupon
17	Fixed or floating dividend/coupon	Fixed and Floating
18	Coupon rate and any related index	Floating Rate at 91 day BOBC plus a margin of 130 to 150 basis points per annum Fixed rate at 4% above the 91 day BOBC, 18.20% to 10.50%
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable

35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to subordinated notes
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable

3. RISK MANAGEMENT PROCESSES

3.1 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's loans and advances to customers and other banks and its investment in securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

(i) Corporate & Institutional Banking and Commercial Banking segments

In Corporate & Institutional Banking and Commercial Banking segments, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. Such accounts and portfolios are subject to a dedicated process with oversight involving the Senior Risk Officer and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit. Loans are considered impaired and non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue.

Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the recognition of an impairment provision, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. In Corporate & Institutional Banking and Commercial Banking segments, the portfolio impairment provision is set with reference to past experience using loss rates, and judgmental factors such as the economic environment and the trends in key portfolio indicators.

(ii) Retail Banking Segment

In the Retail Banking segment, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. Within the Retail Banking segments, an account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

The impairment assessment within the Retail Banking segment reflects the fact that the product portfolios (excluding Business Banking segment) consist of a large number of comparatively small exposures. As a result, much of the impairment assessment is initially done at an account level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to Expected Loss of a product. The Expected Loss is derived from internally calculated Probability of Default (PD) and a proxy Loss Given Default (LGD) data from Internal Ratings Based ("IRB") portfolios. The Bank exercises judgmental overlays and business cycle adjustments based on the macro-environment, portfolio loss severity, collections and recovery performance trends.

3. RISK MANAGEMENT PROCESSES

3.1 CREDIT RISK (continued)

The process used for recognising the impairment provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting. For unsecured products, individual provisions are recognised for the entire outstanding amount at 150 days past due. For all products, there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

The procedures for managing problem credits for the Business Banking sub segment of Retail Banking segment are similar to those adopted for Corporate & Institutional Banking and Commercial Banking segments described above.

Quatitative Disclosures

Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure.

Geographic distribution of exposures, broken down in significant areas by major types of credit exposure.

Risk type	Domestic	International	Total exposure
Claims on Domestic & Foreign Banks	191,133	2,612,244	2,803,377
Claims on Corporates	1,580,354		1,580,354
Claims Included in the Retail Portfolios	5,050,117		5,050,117
Claims Secured by Residential Mortgage Property	1,005,556		1,005,556
Total	7,827,160	2,612,244	10,439,404

Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

	Claims on retail & corporates	Claims on Domestic & Foreign Banks	Total exposure
Overdrafts	385,721		598,856
>0 to 6 months	655,130		992,187
>6 months to 12 months	60,955		115,232
>1 to 2 years	707,928		670,066
>2 to 3 years	439,778		619,536
>3 to 5 years	2,137,272		2,025,206
>5 to 7 years	2,180,082		1,678,331
>7 to 10 years	256,500		224,811
Overs 10 years	1,003,794		941,788
TOTAL	**7,827,160**	**2,612,244**	**10,439,404**

Amount of impaired loans and if available, past due loans provided; By major industry or counterparty type:

IMPAIRMENTS/PAST DUE	Total Value of Past Due Loans	Total Value of Non-Performing Loans
Public Non-Financial Corporations	113,619	30,923
Mining and Quarying	127,741	176
Manufacturing	263,441	263,441
Construction	17,902	9,024

Commercial real estate	262	1
Electricity	9,330	9,330
Water	2,221	2,221
Telecommunication and post	53	53
Transport and storage	7,458	4,283
Trade, restaurants and bars	21,052	17,212
Business services	12,651	12,650
Other community, social and personal services	270	269
Residential property (owner occupied)	50,464	26,390
Personal loans	48,821	33,723
Motor vehicle	1,621	683
Credit card loans	3,322	378
Other	542	528

Amount of impaired loans and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area.

Geographical	Past due	Non performing	Specific Allowance	General Allowance
International	-	-	-	-
Domestic	680,771	411,283	366,294	46,163
Totals	680,771	411,283	366,294	46,163

3.2 MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, equity prices and credit spreads (not relating to changes in the obligor/issuer's credit standing) will affect the Group's income or the value of its holding of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Exposure to market risks

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 8-day holding period.

The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following

An 8-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity

A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day

The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vise versa

3. RISK MANAGEMENT PROCESSES

3.2 MARKET RISK (continued)

RISK	Amount	Risk weighted Factor	RWA
Foreign exchange risk	6,276	6.7	42,049
Interest rate risk			
Specific risk	6,824	6.7	45,721
General risk	219	6.7	1,467
TOTAL MARKET RWA	**13,318**		**89,233**

3.3 OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, liquidity, interest rate and market risks such as those arising from legal and regulatory requirements and the requirement to observe generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The objective of the Group is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The responsibility is supported by the development of overall standards in the Group for the management of operational risks 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
- requirements 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
- risk mitigation, including insurance where this is effective

Compliance with operational risk policies and procedures is the responsibility of all managers. Country Operational Risk Committee (CORC) has the governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk

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

The bank uses the Basic Indicator Approach (BIA) for calculation of Operational Risk capital as outlined under the capital requirements for operational risk.

4. REMUNERATION PRACTICES AND PROCESSES.

4.1 OVERSEEING BODIES

The overseeing body for remuneration in SCBB is the Remuneration Committee (the "Committee") of the Group which is comprised of independent non-executive directors and is one of the six board level committees. The Committee reviews, and is responsible for, the principles, parameters and governance framework of the Group and its subsidiaries, as well as specifically managing executive compensation. It also has oversight of reward policies for all employees of the Group.

The Committee plays a key and independent role in the design and governance of remuneration across the Group. It has clear accountabilities on the approval of variable remuneration plans, highly remunerated hires and the treatment of employees identified as Material Risk Takers and/or high earners. The Committee analyses the Group's business strategy, culture, and values and their consideration in remuneration policies. Some examples of the Committee's activities are listed below:

Approval of year end variable remuneration:
The Committee approves the overall spend in relation to Group's annual variable remuneration awards, as well as reviewing the proposed variable remuneration for Executive Directors and other senior employees.
The Committee reviews the highest individual awards as well as variable remuneration for Material Risk Takers.

Approval of new hires with high remuneration packages:
- To ensure the appropriateness in relation to the level of remuneration offered to new hires, the Committee approves packages exceeding a total remuneration threshold of USD 3m (excluding buyouts).

Risk and Control Events:
- The Committee has oversight of the Group's risk and control process outcomes.
- The Committee considers material risk and control events in its review and approval of the overall variable remuneration spend, to ensure they have been appropriately accounted for, with input from the Group Chief Risk Officer and control functions as appropriate.

Directors' Remuneration Report
- The Committee has oversight of the Directors' Remuneration Report in the Group's Annual Report, which includes the Group's Pillar 3 disclosures.

The role of management and control functions
The Group Chief Executive, Group Chief Financial Officer, the Compliance Director and Group Chief Risk Officer review the ongoing appropriateness of remuneration policy, ensuring consistency with effective risk management and prevailing regulatory requirements, and the reviewing the design, structure and quantum of annual variable remuneration.

The Group P3 Risk and Control Committee ("GP3RCC") consists of the Compliance Director, Group Head of Compliance, Group Chief Risk Officer, and Global Head, Performance Reward & Conduct. Its key responsibilities are to review risk and control events to ensure that appropriate outcomes have been made in respect of variable remuneration (e.g. the application of in-year adjustment, malus and/or claw-back, as appropriate).

Independence of remuneration decisions for control function employees:
Control function roles (including Risk and Compliance) are classified as part of the Group's Global Functions. Performance and remuneration decisions for such roles are assessed independently from the Group's revenue-generating businesses.

4.2 REMUNERATION PROCESS

Fixed and variable remuneration elements
The Group's approach to performance, reward and benefits supports and drives our business strategy and reinforces its values. Reward practices motivate employees to focus on business and personal objectives and deliver and sustainable performance in line with the Group's values. The elements of the Group's remuneration are as follows:

<table>
<tr><th></th><th>Element</th><th>Operation</th></tr>
<tr><td rowspan="2">Fixed remuneration</td><td>Salary</td><td>Salaries reflect individuals' skills and experience and are reviewed annually against market information and in the context of the annual performance assessment and affordability.
Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness.</td></tr>
<tr><td>Pension & benefits</td><td>Benefits are provided, with the details depending on local market practice. Employees have access to country-specific, company-funded benefits such as pension schemes, private medical insurance, permanent health insurance, life insurance and cash allowances. The cost of providing the benefits is defined and controlled.
Employees who are relocated or spend a substantial portion of their time in more than one jurisdiction for business purposes may be provided with mobility benefits. If employees incur tax charges when travelling overseas in performance of their duties, these costs may be met by the Group</td></tr>
<tr><td>Variable remuneration</td><td>Variable remuneration</td><td>Variable remuneration rewards and incentivises the achievement of business and individual objectives as well as adherence to the Group's values.
The proportion of variable to fixed remuneration paid to employees is carefully monitored.
For Material Risk Takers, the deferral rate is a minimum of 40 per cent (for incentives of up to GBP 500,000) or 60 per cent (for incentives of GBP 500,000 or more).
For other employees, annual variable remuneration over a defined threshold is subject to a graduated level of deferral, as below:
<table>
<tr><th>Variable remuneration value (USD)</th><th>Deferral percentage</th></tr>
<tr><td><=100,000</td><td>0%</td></tr>
<tr><td>100,000 to 750,000</td><td>40%</td></tr>
<tr><td>>750,000</td><td>60% (flat rate applies to entire value)</td></tr>
</table>
Deferred variable remuneration is typically delivered 50% in shares and 50% in cash.
Variable remuneration is subject to the Group's claw-back policy, which enables the Group, in specified circumstances, to apply malus and claw-back to unvested and vested variable compensation.</td></tr>
</table>

4.2 REMUNERATION PROCESS (continued)

Variable remuneration and sustainable performance

The Group's variable remuneration is subject to approval by the Committee, based on a recommendation by management. When considering the Group's variable remuneration and its allocation between businesses and functions, the Committee considers performance and risk factors including (but not limited to):

- The Group's performance and capital position
- Shareholder returns and position in the market
- Regulatory expectations
- The risk and control environment and adjustments for material events / issues in the Group and/or specific business lines.

At an individual level, employees are assessed annually in relation to what they have achieved and how they have achieved it, based on the values and behaviours they have demonstrated. This assessment feeds into decision-making in relation to individual variable remuneration

Committee uses its judgement to establish the right balance between the financial performance of the Group and having a variable remuneration pool that attracts and retains talent that will drive the Group's new strategy. Furthermore, the Committee also carefully considered the risk, control and conduct environment of the Group and took into consideration the impact of the risk events that have adversely impacted the Group in 2016, as well as the current status of financial crime controls and related matters.

Risk and control events and variable remuneration
The Group has the ability to make adjustment in the calculation of the annual variable remuneration pool (ex-ante adjustment), as well as after variable remuneration has been allocated (ex-post adjustment), in order to appropriately account for risk, control and conduct events.

Variable remuneration funding and ex-ante adjustments:
- The risk adjusted reference point for the annual variable remuneration pool is initially calculated by applying an appropriate funding rate to the pre-incentives statutory profits, which are adjusted for certain charges.

Ex-post adjustment: the Group has the ability to apply ex-post risk adjustments through the following mechanisms:
- The funding of the Group's variable remuneration pool includes adjustments for material risk and control events. There is an automatic adjustment for events with a direct P&L impact,
- Discretionary adjustments for risk and control events may be also be made.
- In year adjustment of variable remuneration awards, where an employee has been determined as accountable for a risk, control and/or conduct issue or event.
- The forfeiture of unvested variable remuneration ("malus") and/or the retrieval of vested variable remuneration ("claw-back"). This is enforced through the Group's Claw-back Policy and Procedures, in relation to material risk and control events and as determined by the Committee and/or GP3RCC. The Group Claw-back Policy is applied to variable remuneration awards for up to 7 years post grant.

4.3 MATERIAL RISK TAKERS

The Group's Identification of Material Risk Takers ("MRTs") for Remuneration Purposes Policy was introduced in 2014 to comply with expanded rules for identifying key risk taking staff in accordance with the European Banking Authority's Regulatory Technical Standards and the remuneration rules of the Prudential Regulation Authority ("PRA) and the Financial Conduct Authority ("FCA").

In line with PRA and FCA regulation, the Group applies specific rules to variable compensation for MRTs:
- Variable remuneration is capped at two times fixed remuneration
- A minimum of 40 per cent of variable remuneration is deferred over a period of three years.
- 50 per cent of non-deferred variable remuneration is delivered in shares
- A minimum of deferred variable remuneration is delivered in shares
- Shares delivered are subject to the Group's holding requirements

The identification of MRTs is based on assessment in relation to both qualitative and quantitative criteria.

Qualitative criteria:
There are 15 qualitative criteria, which are based on role-based indicators such as the following:
- Seniority and managerial authority in the Group
- Ability to take market, credit and/or other types of risk
- Ability to authorise market, credit and/or other types of risk
- Ability to supervise or manage risk for the Group

The Group additionally assesses and, as applicable, identifies any employees that takes or authorises material risk and are not already identified by the qualitative criteria.

Quantitative criteria:
- Employees who have been awarded total remuneration of EUR 500,000 or more in the preceding financial year, or earned more than the lowest paid MRT, are captured

4.4 SUMMARY OF EMPLOYEE REMUNERATION

QUARTER ENDED 31 December 2017	AMOUNT
Number of Employees having received a variable renumeration on the quarter	Commission 176
Number and total of guaranteed bonuses awarded during the financial year	NIL
Number and total amount of sign-on bonus awards during the quarter	NIL
Number and total of severance payments during the quarter	P39,449,721.20
breakdown of renumeration: Variable	P1,817,680.19
Fixed and variable	P5,611,006.51

There were no deferred remuneration and retained remuneration exposed to ex post explicit and or implicit adjustment for the quarter ended **31 December 2017.**

4.5 Senior management compensation

Total value of remuneration awards for the current fiscal year	Unrestricted	Deferred
Fixed remuneration	939,866.90	-
• Cash-based	2,944,300.69	-
• Shares and share-linked instruments	-	-
• Other	319,369	-
Variable remuneration		
• Cash-based	306,043	-
• Shares and share-linked instruments	-	-
• Other	-	-