Standard Chartered

Johannesburg Branch

PILLAR 3
Basel III Public Disclosure Report

December 2014

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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 and retail 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 reflect the comprehensive income, changes in equity and cash flows for the year and the notes to the financial statements include 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 2014 amounted to R3,315,307,000. During the 2014 financial year there was no capital injection.

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 2014, 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 Group 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

The following is a statement of the financial position on 31 December 2014 and 2013:

Statement of financial position		
	2014	**2013**
	ZAR'000	**ZAR'000**
Assets		
Cash and cash equivalents	655,457	1,168,552
Derivative financial instruments held for risk management	1,086,386	1,474,540
Loans and advances to banks	5,014,280	7,322,910
Loans and advances to customers	11,888,299	10,247,164
Investment securities	12,460,410	10,618,626
Other assets	603,634	312,245
Property, plant and equipment	21,242	41,504
Goodwill and intangible assets	398,608	422,719
Deferred taxation asset	110,918	18,666
Total assets	**32,239,234**	**31,626,926**
Liabilities		
Derivative financial instruments held for risk management	1,081,957	1,470,374
Deposits by banks	8,939,380	7,431,613
Customer accounts	16,411,482	16,081,721
Accruals and other liabilities	834,595	895,428
Debt securities in issue	1,205,947	2,135,530
Total liabilities	**28,473,361**	**27,993,136**
Equity		
Endowment capital	3,315,307	3,315,307
Retained earnings	457,773	246,699
Fair value reserve	(7,816)	(108,034)
Non-distributable regulatory reserve	609	104,609
Total equity	3,765,873	3,558,581
Total liabilities and equity	**32,239,234**	**31,626,926**

Risk Management

Management of credit risk

Policies and procedures for managing credit risk are 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 retail and 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 in the table below:

31 December	2014	2013
	ZAR'000	ZAR'000
BBB- to BBB+	12,903,674	10,618,626
Gross	12,903,674	10,618,626

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 forborne 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	2014		2013	
	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	11,543,405	4,284,328	9,730,794	7,322,910
- *of the above, renegotiated loans*	2,472,575	-	95,785	-
Past due but not impaired	9,800	-	82,780	–
Individually impaired	599,800	-	691,523	–
Gross loans and advances	12,153,005	4,284,328	10,505,097	7,322,910
Less: Allowance for impairment losses	(264,706)	–	(257,933)	–
Net loans and advances	11,888,299	4,284,328	10,247,164	7,322,910

The total impairment allowance for loans and advances is R264,706,000 (2013: R257,933,000) of which R246,157,000 (2013: R226,880,000) represents the individually impaired loans and the remaining amount of R18,549,000 (2013: R31,053,000) represents the portfolio impairment. Further information with respect to the impairment allowance for loans and advances to banks and to customers is set out below.

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	2014		2013	
	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
Neither past due nor impaired				
Grade 1	–	2,982,025	665,336	4,752,657
Grade 2	1,799,818	97	–	214
Grade 3	215,355	60	4,773	–
Grade 4	281,298	1,157,822	433,239	54,727
Grade 5	1,275,555	51,426	414,599	1,621,195
Grade 6	2,721,246	92,898	1,584,972	893,044
Grade 7	820,909	–	742,303	–
Grade 8	3,039,121	–	414,237	763
Grade 9	736,897	–	810,249	–
Grade 10	244,440	–	346,947	–
Grade 11	408,766	–	435,942	310
Grade 12	–	–	3,878,197	–
Total	11,543,405	4,284,328	9,730,794	7,322,910

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	2014		2013	
	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
Impaired loans				
Grade 13	294,245	–	626,414	–
Grade 14	305,555	–	65,109	–
Total	599,800	–	691,523	–

Past due comprises:

31 December	2014		2013	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
			ZAR'000	ZAR'000
Up to 30 days past due	9,800	–	16,297	–
31 – 60 days past due	–	–	18,758	–
61 – 90 days past due	–	–	37,336	–
91 – 120 days past due	–	–	10,389	–
121 – 150 days past due	–	–	–	–
More than 150 days past due	–	–	–	–
Total	9,800	–	82,780	–

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 Clients 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. 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 default. The collateral values reported are also adjusted for the effects of over-collateralisation.

Loans granted to customers of Corporate and Institutional Clients are mainly unsecured. However, R202,402,311 (2013: R304,552,000) is held as collateral in the form of a mortgage interest over property for mortgage loans of R93,053,055 (2013: R112,280,769) and on loans and advances granted to Corporate & Institutional Clients customers amounting to R7,415,972,000 (2013: R8,120,866,912). 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
As at December 2014				
Retail Clients				
Amount outstanding	93,053	70,754	9,800	12,499
Collateral	202,402	160,937	26,185	15,280
Corporate & Institutional Clients				
Amount outstanding	12,059,952	11,472,651	–	587,301
Collateral	7,415,972	7,144,337	–	271,635

	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired
	ZAR'000	ZAR'000	ZAR'000	ZAR'000
As at December 2013				
Retail Clients				
Amount outstanding	112,281	88,911	9,247	14,123
Collateral	304,552	265,212	22,190	17,150
Corporate & Institutional Clients				
Amount outstanding	17,715,726	16,964,793	73,533	677,400
Collateral	8,412,312	8,120,867	30,000	261,445

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 PLC.

On balance sheet

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

	2014		2013	
	ZAR'000	%	ZAR'000	%
Automobiles & Components	185,013	1.5	–	–
Building Products, Construction & Engineering	339,998	2.8	231,832	2.2
Commercial & Professional Services	5,415	0.0	4,839	0.0
Consumer Durables & Apparel	2,580,949	21.2	1,187,093	11.3
Other mortgages	93,053	0.8	112,281	1.07
Energy	925,600	7.6	945,405	9.0
Financial and Holding Companies	–	–	1,333,820	12.7
Financial Institutions	338,650	2.8	43,677	0.4
Food, Beverage & Tobacco	1,673,334	13.8	1,880,466	17.9
Media	191,157	1.6	–	–
Metals & Mining	4,570,840	37.6	3,761,288	35.8
Other Capital Goods	164,990	1.4	165,918	1.6
Other Materials	25,013	0.2	138,147	1.3
Pharmaceuticals, Biotechnology & Life Sciences	38,784	0.3	52,000	0.5
Trading Companies & Distributors	407,080	3.3	207,486	2.0
Transportation	170,036	1.4	48,992	0.5
Utilities	443,093	3.6	391,853	3.7
Corporate & Institutional Clients	12,153,005	100	10,505,098	100

The amounts reflected in the table above represent 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 counter parties 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 60% on 1 January 2015 and increase by 10% per year to 100% in 2019.

The bank's LCR as at 31 December 2014 is set out as follows

	R'million
High Quality Liquid Assets	R8,783
Net Cashflows	R6,835
Liquidity Coverage Ratio %	128%
Minimum Requirement	60%

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 into two categories. Category 1 comprising of cash, cash reserves, Treasury Bills and Government Bonds and Debentures which can be included at 100% where category 2 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 risk to the Branch's earnings and capital due to changes in market risk factors. Market Risk Factors are the independent variables, such as the term structure of interest rates (i.e. the yield curve), spot exchange rates, and their volatilities, that affect the value of a trading position and portfolio.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk. The Branch faces two main risks in this category: Price and liquidity risk.

Management of market risk

All businesses in the Standard Chartered Group operate within market risk management policies that are set by the Group Risk Committee. Limits have been set to control the Branch's exposure to movements in prices and volatilities arising from trading, lending, deposit taking and investment decisions.

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 nth worst loss is taken as VaR. Since the Branch measures VaR at 97.5% confidence level, 1 day holding period, the Branch's VaR is therefore the 7th 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 2014 and 2013

	12 Months to 31 December 2014			12 Months to 31 December 2013		
	Average ZAR'000	High ZAR'000	Low ZAR'000	Average ZAR'000	High ZAR'000	Low ZAR'000
Interest rate risk (ALM Book)	386.73	583.00	232.43	327	487	104
Currency risk	12.81	51.00	2.00	10	26	0.2
Total	399.54	634.00	234.43	337	513	104

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:

	2014 (%)	2013 (%)
Investment securities	6.97	5.24
Loans and advances	6.6	5.24
Deposits from banks	1.9	3.51
Customer accounts	3.67	4.82
Debt securities in issue	6.3	6.13

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, ALM South Africa manages the IRRBB and reports to the Head of Financial Markets South and Southern Africa. 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 2014 was:

	R'000
Interest rate increase	**-1,075**
Interest rate decrease	**1,075**

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:

Standard Chartered PLC Board

Audit Committee	Board Risk Committee	Board Value and Conduct Committee	Remuneration Committee	Governance and Nomination Committee	Board Financial Crime Risk Committee
Oversight and review of financial, audit and internal control issues	Oversight and review of fundamental risks including credit, market, capital, liquidity, operational, country cross-border and pension risk	Oversight and review of brand positioning, conduct, treating customers fairly, reputational risk, ethics and sustainability issues	Oversight and review of remuneration, share plans and other incentives	Oversight and review of Board and executive succession, overall Board effectiveness and governance issues	Oversight and review of all financial crime compliance matters

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:

	2014 ZAR'000	2013 ZAR'000
Key management personnel remuneration		
Salary	18,709	17,038
Cash bonus	10,317	7,857
Total	29,026	24,895

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.

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 – Retail and wholesale portfolio

Loans and advances to customers	**2014**		**2013**
Consumer banking:			
Loans to individuals	-		-
Other mortgages	93,053	0.8	112,281
	93,053		**112,281**
Wholesale banking:			
Automobiles & Components	185,013	1.5	
Building Products, Construction & Engineering	339,998	2.8	231,832
Commercial & Professional Services	5,415	0.0	4,839
Consumer Durables & Apparel	2,580,949	21.2	1,187,093
Energy	925,600	7.6	945,405
Financial and Holding Companies	-	-	1,333,820
Financial Institutions	338,650	2.8	43,677
Food, Beverage & Tobacco	1,673,334	13.8	1,880,466
Media	191,157	1.6	-
Metals & Mining	4,570,840	37.6	3,761,288
Other Capital Goods	164,990	1.4	165,918
Other Materials	25,013	0.2	138,147
Pharmaceuticals, Biotechnology & Life Sciences	38,784	0.3	52,000
Trading Companies & Distributors	407,080	3.3	207,486
Transportation	170,036	1.4	48,992
Utilities	443,093	3.6	391,853
Total	**12,059,952**		**10,392,817**
Total gross loans and advances	**12,153,005**	**10000%**	**10,505,098**
less:			
Specific impairment	(246,157)		(266,880)
Portfolio impairment	(18,549)		(31,053)
Total net loans and advances	**11,888,300**		**12,235,727**

Annexure B – Capital Disclosure

Composition of capital disclosure
Standard Chartered Bank – Johannesburg
Reporting period ended 31 December 1014

		2013			2014	
	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	3,315			3,315	
2	Retained earnings	246			458	
3	Accumulated other comprehensive income (and other reserves)	-3			-8	
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			-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0	0			0
6	Common Equity Tier 1 capital before regulatory adjustments	3,558			3,765	
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)	266	0		241	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	4	0		0	0
11	Cash-flow hedge reserve	0	0		0	0
12	Shortfall of provisions to expected losses	581	0		631	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

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	1,009			1,030	
29	Common Equity Tier 1 capital (CET1)	2,549			2,735	
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

	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	0			0	
43	Total regulatory adjustments to Additional Tier 1 capital	0			0	
44	Additional Tier 1 capital (AT1)	0			0	
45	Tier 1 capital (T1 = CET1 + AT1)	2,549			2,735	
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	0			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	
OF WHICH: [INSERT NAME OF ADJUSTMENT]		0			0	
OF WHICH		0			0	

57	Total regulatory adjustments to Tier 2 capital	0			0	
58	Tier 2 capital (T2)	0			0	
59	Total capital (TC = T1 + T2)	2,549			2,735	
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT					
	of which: Basel III amendments					
60	Total risk weighted assets	16,334			17,058	
	Capital ratios					
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.60			16.04	
62	Tier 1 (as a percentage of risk weighted assets)	15.60			16.04	
63	Total capital (as a percentage of risk weighted assets)	15.60			16.04	
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)	15.60			16.04	
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)	16.60			16.04	
National minima (if different from Basel III)						
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	4.50			5.50	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	6.00			7.00	
71	National total capital minimum ratio (if different from Basel III minimum)	9.50			10.00	
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	

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	
	Reconciliation requirements					
	Paid in Capital	3,315			3,315	
	Retained earnings	246			542	
		3,561			3,857	
	Unappropriated profits	71			-84	
		3,632			3,773	
	Other Reserves (xxxx)	34			-	
	Unrealised gains and losses on available for sale items	-108			-8	
		3,558			3,765	

Annexure C – Main Features Disclosure

Year ended: 2014-12-31 Disclosure template for main features of regulatory capital instruments		
1	Issuer	NA
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement	NA
3	Governing law(s) of the instrument	
Regulatory Treatment		
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
Coupons / dividends		
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

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