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Pillar 3 Disclosures - 31 December 2022

Standard Chartered Bank - Johannesburg Branch

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1.Introduction

1.1 Purpose and basis of preparation

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

This report presents the annual Pillar 3 disclosures of the Bank as at 31 December 2022 and should be read in conjunction with the SCB Group Annual Report and Accounts and Pillar 3 disclosures. Where appropriate, this document provides links to the Group reports for the year ended 31 December 2022 which can also be found directly at:

Annual Report –***standard-chartered-plc-full-year-2022-report.pdf (sc.com)***

Pillar 3 report – ***standard_chartered_plc_pillar3_full_year_2022_report.pdf (sc.com)***

The Pillar 3 disclosures comprise detailed information on the underlying drivers of Risk Weighted Assets (RWA), capital, leverage and liquidity ratios as at 31 December 2022 in accordance with Regulation 43 and the South African Banks Act 1990 (as amended).

The SCBJ quarterly disclosure requirements are published separately:

Quarterly Pillar 3 reports - ***Pillar-3-Disclosure_Q4_22_27_2.pdf***

The information presented in this Pillar 3 disclosure document is not required to be, and has not been, subjected to external audit. Ernst & Young Inc. has expressed a limited assurance conclusion on the Pillar 3 disclosures in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) issued by the International Auditing and Assurance Standards Board.

1.2 Bank management's responsibility statement

Bank management is responsible for the preparation and fair presentation of the annual financial statements of the Bank and the disclosure requirements in respect of Regulation 43 of the Regulations relating to Banks. The Pillar 3 disclosures document has been verified internally in accordance with the Bank's policies on disclosure and its financial reporting and governance processes.

During 2022, SCBJ approved the Pillar 3 disclosure policy which is aligned to the Pillar 3 disclosure requirements set out by the Basel Committee on Banking Supervision's (BCBS) revised Pillar 3 disclosure requirements, the Prudential Authority (PA) Directive 1 of 2019, issued in terms of section 6(6) of the Banks Act No.94 of 1990 and Regulation 43 of the regulations relating to Banks.

1.3 Highlights

- The Bank's capital, liquidity and leverage position is managed within the Bank's risk appetite.
- The Bank is sufficiently capitalised with a Common Equity Tier 1 (CET1) ratio of 20.44%, above the minimum regulatory requirement of 7.5%.
- The Bank is not highly leveraged and its leverage ratio of 8.33% is above the minimum regulatory leverage requirement of 4%.
- The Bank's liquidity is managed well above minimum regulatory requirement of 100%, the average LCR for the last quarter end was 243%.
- The Bank continues to manage its balance sheet proactively with a focus on the efficient management of RWA.

1.4 Key metrics for the Bank

The key prudential metrics (KM1) as at 31 December 2022, are disclosed in the quarterly 31 December 2022 Pillar 3 disclosure. No transitional arrangement has been applied with regards implementation of IFRS 9 for the impact of expected credit loss accounting on regulatory capital.

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1.5 Comparison of accounting balance sheet and exposure at default

The Regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. The following tables show in two steps how the accounting values in the regulatory balance sheet link to regulatory carrying values. Regulatory capital reconciles to the balance sheet as per Table 1 below as required for reconciliation of regulatory capital to balance sheet CC2.

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

	2022						
	Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	Subject to credit risk framework	Subject to counter-party credit risk framework	Subject to securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	ZAR'million						
Assets							
Cash and balances at central banks	2,191	2,191	2,191	-	-	-	-
Derivative financial instruments	1,879	1,879	-	1,879	-	1,879	-
Loans and advances	15,847	15,752	13,710	2,042	-	-	-
Investment securities	19,108	19,252	19,252	-	-	-	-
Other assets	1,030	958	958	-	-	-	-
Current tax assets	-	134	-	-	-	-	-
Goodwill and intangible assets	349	349	-	-	-	-	349
Property, plant and equipment	45	45	45	-	-	-	-
Deferred tax assets	143	155	-	-	-	-	155
Total assets	40,592	40,715	36,156	3,921	-	1,879	504
Liabilities							
Deposits	32,860	32,650	-	-	-	-	32,650
Repurchase agreements and other similar secured Borrowing	418	418	-	-	-	-	418
Derivative financial instruments	1,827	1,827	-	1,827	-	1,827	1,827
Debt securities in issue		-	-	-	-	-	-
Other liabilities	710	821	-	-	-	-	821
Current tax liabilities	4	120	-	-	-	-	120
Provisions for liabilities and charges	3	119	-	-	-	-	119
Total liabilities	35,822	35,955	-	1,827	-	1,827	35,955
Equity							
Share capital and share premium account	4,054	4,054	-	-	-	-	-
Other reserves	(42)	(66)	-	-	-	-	-
Retained earnings	758	772	-	-	-	-	-
Total equity	4,770	4,760	-	-	-	-	-
Total equity and liabilities	40,592	40,715	-	1,827	-	1,827	35,955

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

The table below shows the effect of regulatory adjustments required to derive the Bank's EAD for the purposes of calculating its credit risk capital requirements.

	2022		
	Subject to Credit risk framework	Subject to CCR framework	Subject to Securitisation framework
	ZAR'million		
Total assets amount under regulatory scope of consolidation	36,156	3,921	-
Derivatives netting benefit	-	(12)	-
Differences due to consideration of collateral	-	(1,998)	-
Differences due to off-balance sheet amounts recognised in regulatory exposures	26,555	-	-
Other	1,499	2,042	-
Regulatory exposure at default pre credit risk mitigation	64,210	3,953	-

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

	2022							
	Equity	Interest Rates	FX	Credit	Commodities	Total	Total Trading	Total Banking
	ZAR'million							
Close-out uncertainty; of which:	-	34.13	0.03	0.64	-	34.79	2.05	32.74
Mid-market value	-	33.79	0.01	0.64	-	34.44	1.70	32.74
Close-out cost	-	0.34	0.02	-	-	0.35	0.35	-
Concentration	-	-	-	-	-	-	-	-
Early Termination	-	-	-	-	-	-	-	-
Model Risk	-	-	-	-	-	-	-	-
Operational risk	-	3.41	-	0.07	-	3.48	0.21	3.27
Investing and Funding costs	-	-	-	-	-	0.01	0.01	-
Unearned Credit Spreads						0.64	0.64	
Future Administrative cost						-	-	
Others	-	-	-	-	-	-	-	-
Total	-	37.54	0.03	0.71	-	38.92	2.91	36.01

The CRR provisions on prudential valuation require banks to quantify several valuation uncertainties pertaining to the valuation of assets and liabilities recorded at fair value for accounting purposes. The amounts by which the resulting PVA exceed any associated Fair Value Adjustments are referred to as the Additional Valuation Adjustments (AVAs) and their aggregate is deducted from CET1 capital. AVAs arise from uncertainties related to market prices, close-out costs, model risk, unearned credit spreads, investing and funding costs, concentrated positions, future administrative costs, early terminations, and operational risks.

1.6 Financial Performance

Table 1 LI1 outlines the financial position as at 31 December 2022. The net profit after tax for the period ending 31 December 2022 reported a profit of ZAR426m (million).

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2. Capital

2.1 Capital management

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

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of the Bank's business activities, whilst ensuring minimum regulatory capital requirements are met.

The Bank's capital planning is dynamic and regularly refreshed to reflect the business forecasts as they evolve during each year. The strategy-setting and planning is presented to the Country Management Team (CMT) on an annual basis with regular updates on the financial outlook and performance to ensure the capital adequacy is aligned with the business plan. The capital plan takes the following into account:

- Current regulatory capital requirements and the Bank's assessment of on-going regulatory expectation; and
- Demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses.

The Enterprise Risk Management Framework (ERMF) outlined in the 2022 SCB Group Annual Report sets out our approach to capital management under Treasury Risk pages 306 to 307.

2.2 Capital resources

For regulatory purposes, capital is categorised into two tiers, depending on the degree of permanence and loss-absorbency exhibited. The regulatory capital reconciles to the capital per the Bank's annual financial statements. Tier 1 capital comprises of permanent share capital, profit and loss and other eligible reserves after the deduction of certain regulatory adjustments. Tier 2 comprises the post deferred tax general allowance for credit impairment.

2.3 Leverage ratio

The Bank is currently subject to a minimum leverage ratio of 4%. The Bank's current leverage ratio of 8.33% is well above the current regulatory minimum requirement. The quantitative disclosures for 31 December 2022 LR1 Summary comparison of accounting assets compared to leverage ratio exposure and LR2 Leverage ratio common disclosure templates are included in the quarterly Pillar 3 report for 31 December 2022.

2.4 Capital requirements

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

The tables that present the Bank's RWA and capital requirement key metrics KM1 (calculated as 11.5% of RWA) are included in the quarterly Pillar 3 report for 31 December 2022. The table that shows the overview of risk management as at 31 December 2022 is included in the quarterly Pillar 3 report for 31 December 2022.

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Table 4: Composition of regulatory capital (CC1)

	2022
	Transitional position
	ZAR'million
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related	**4,054**
Retained earnings	96
Accumulated other comprehensive income (and other reserves)	(66)
Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	4,084
Common Equity Tier 1 capital: regulatory adjustments	-
Prudent valuation adjustments	(39)
Goodwill (net of related tax liability)	(158)
Other intangibles other than mortgage servicing rights (net of related tax liability)	(191)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of	-
Cash flow hedge reserve	-
Shortfall of provisions to expected losses	-
Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework25)	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Defined benefit pension fund net assets	-
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
Reciprocal cross-holdings in common equity	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory	-
Significant investments in the common stock of banking, financial and insurance entities that are outside the	-
Mortgage servicing rights (amount above 10% threshold)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
Amount exceeding the 15% threshold	-
Of which: significant investments in the common stock of financials	-
Of which: mortgage servicing rights	-
Of which: deferred tax assets arising from temporary differences	-
National specific regulatory adjustments	-
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover	-
Total regulatory adjustments to Common Equity Tier 1	(388)
Common Equity Tier 1 capital (CET1)	**3,696**
Additional Tier 1 capital: instruments	
Directly issued qualifying additional Tier 1 instruments plus related stock surplus	-
Of which: classified as equity under applicable accounting standards	-
Of which: classified as liabilities under applicable accounting standards	-
Directly issued capital instruments subject to phase-out from additional Tier 1	-
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by	-
Of which: instruments issued by subsidiaries subject to phase-out	-
Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	
Investments in own additional Tier 1 instruments	-
Reciprocal cross-holdings in additional Tier 1 instruments	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory	-
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of	-
National specific regulatory adjustments	-
Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-
Total regulatory adjustments to additional Tier 1 capital	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	**3,696**

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Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase-out from Tier 2	-
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held	-
Of which: instruments issued by subsidiaries subject to phase-out	-
Provisions	33
Tier 2 capital before regulatory adjustments	**33**
Tier 2 capital: regulatory adjustments	
Investments in own Tier 2 instruments	-
Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-
Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside	-
Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of	-
Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that	-
National specific regulatory adjustments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	33
Total regulatory capital (TC = T1 + T2)	3,729
Total risk-weighted assets	18,079
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk-weighted assets)	20.44%
Tier 1 (as a percentage of risk-weighted assets)	20.44%
Total capital (as a percentage of risk-weighted assets)	20.63%
Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus	2.50%
Of which: capital conservation buffer requirement	2.50%
Of which: bank-specific countercyclical buffer requirement	-
Of which: higher loss absorbency requirement	-
Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum	12.56%
National minima (if different from Basel III)	
National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	7.50%
National Tier 1 minimum ratio (if different from Basel III minimum)	9.25%
National total capital minimum ratio (if different from Basel III minimum)	11.50%
Amounts below the thresholds for deduction (before risk weighting)	
Non-significant investments in the capital and other TLAC liabilities of other financial entities	-
Significant investments in the common stock of financial entities	-
Mortgage servicing rights (net of related tax liability)	-
Deferred tax assets arising from temporary differences (net of related tax liability)	155
Applicable caps on the inclusion of provisions in Tier 2	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to	33
Cap on inclusion of provisions in Tier 2 under standardised approach	167
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan	-
Current cap on CET1 instruments subject to phase-out arrangements	-
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
Current cap on AT1 instruments subject to phase-out arrangements	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
Current cap on T2 instruments subject to phase-out arrangements	-
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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3. Risk Management

3.1 Enterprise Risk Management Framework

Effective risk management is central to the financial and operational management of the Bank. The Bank adds value to clients and the community by taking and managing appropriate levels of risk, which in turn generates returns for shareholders.

The Enterprise Risk Management Framework (ERMF) enables the Bank to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. The ERMF, is designed with the explicit goal of improving the Bank's risk management. The Bank maintains an inventory of the Principal Risk Types and risk sub-types that are inherent to the strategy and business model; and emerging risks that include near-term as well as longer-term uncertainties.

These changes were effective at Group level from March 2022 and were adopted in the Bank ERMF County Addendum during 2022. SCB Group's outline of the ERMF is detailed in Risk Management section in the 2022 SCB Group Annual Report on page 295 to 300.

Risk culture

The Bank's risk culture provides guiding principles for the behaviours expected from our people when managing risk. The risk culture encourages the following behaviours and outcomes:

- An enterprise-level ability to identify and assess current and future risks, openly discuss these and take prompt actions;
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks;
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner; and
- Everyone to be accountable for their decisions and feel safe in using their judgement to make these considered decisions.

It is acknowledged that banking inherently involves risk-taking and undesired outcomes will occur from time to time; however, such experiences offer opportunities to learn and formalise improvements. Managers are expected to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic risk management

The Bank approaches strategic risk management as follows:

- By conducting an impact analysis on the risk profile from growth plans, strategic initiatives and business model vulnerabilities, with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised as part of the strategy review process;
- By confirming that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Country Risk Committee (CRC) consideration as part of the strategy review process.
- By validating the Corporate Plan against the approved or proposed Risk Appetite Statement to CRC. The CMT approves the strategy review and the five-year Corporate Plan with a confirmation from the Chief Risk Officer (CRO) that it is aligned with the ERMF and the Group Risk Appetite Statement where projections allow.
- Country Risk management approach and Country Risk reviews are used to ensure the country limits and exposures are reasonable and in line with Group strategy, country strategy, and the operating environment, considering the identified risks.

The Risk Function

The Risk function is responsible for the sustainability of the business through good management across the Bank by providing oversight and challenge, thereby ensuring that business is conducted in line with regulatory expectations. The CRO oversees the Risk function, which is separate and independent from the origination, trading, and sales functions of the business.

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The Risk function is responsible for:

- Maintaining the ERMF Country Addendum (ERMF CA), ensuring that it remains relevant and appropriate to the Bank's business activities, and is effectively communicated and implemented across the Bank, and administering related governance and reporting processes;
- Upholding the overall integrity of the Bank's risk and return decisions to ensure that risks are properly assessed, that these decisions are made transparently on the basis of the proper assessment, and that risks are controlled in accordance with standards and the Bank's Risk Appetite; and
- Overseeing and challenging the management of Principal Risk Types and Integrated Risk Types under the ERMF.

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

The Risk function supports the Group's commitment to be "Here for good" by building a sustainable framework that places regulatory and compliance standards and a culture of appropriate conduct at the forefront of the Bank's agenda, in a manner proportionate to the nature, scale and complexity of the Bank's business.

Conduct, Financial Crime and Compliance (CFCC) under the leadership of the Head of CFCC, works alongside the Risk function within the framework of the ERMF to deliver a unified second line of defence.

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Three lines of defence model

Roles and responsibilities for risk management are defined under a three lines of defence model. Each line of defence has a specific set of responsibilities for risk management and control as shown in the table below.

Lines of Defence	Definition	Key responsibilities include
First	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks.	• Propose the risks required to undertake revenue-generating activities. • Identify, assess, monitor and escalate risks and issues to the second line and senior management and promote a healthy risk culture and good conduct. • Validate and self-assess compliance to RTFs and policies, confirm the quality of validation, and provide evidence-based affirmation to the second line. • Manage risks within Risk Appetite, set and execute remediation plans and ensure laws and regulations are being complied with. • Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the second line.
Second	The control functions independent of the First Line that provides oversight and challenge of risk management to provide confidence to the Chief Risk Officer (CRO) senior management, Country Risk Committee (CRC) and the Country Management Team (CMT).	• Identify, monitor and escalate risks and issues to the CRO, senior management and the CRC and promote a healthy risk culture and good conduct. • Oversee and challenge first line risk-taking activities and review first line risk proposals. • Propose Risk Appetite to the CRC, monitor and report adherence to Risk Appetite and intervene to curtail business if it is not in line with existing or adjusted Risk Appetite, there is material non-compliance with policy requirements or when operational controls do not effectively manage risk. • Set risk data aggregation, risk reporting and data quality requirements. • Ensure that there are appropriate controls to comply with applicable laws and regulations, and escalate significant non-compliance matters to senior management and the appropriate committees.
Third	The Internal Audit function provides independent assurance on the effectiveness of controls that support first line's risk management of business activities, and the processes maintained by the second line.	• Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes. • Independently assess the adequacy of the design of controls and their operating effectiveness.

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Risk appetite and profile

We recognise the following constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- Risk capacity is the maximum level of risk the Bank can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies; and
- Risk appetite is approved by the CRC. It is the maximum amount and type of risk the Bank is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed risk capacity.

The CRC has approved a Risk Appetite Statement which is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and their associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Bank. The Risk Appetite is reviewed at least on an annual basis to ensure that it is fit for purpose and aligned with strategy, and focus is given to emerging or new risks. The Risk Appetite Statement is supplemented by an overarching statement outlining the Bank's Risk Appetite principles.

Risk appetite principles

The Risk Appetite for the Bank is defined in accordance with risk management principles that inform our overall approach to risk management and our risk culture. We follow the highest ethical standards and ensure a fair outcome for our clients, as well as facilitating the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health, as well as manage our Reputational Risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Risk Appetite Statement

The Bank will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. Risk Appetite is supplemented by risk control tools such as granular level limits, policies, standards and other operational control parameters that are used to keep the risk profile within the Bank's approved Risk Appetite. The Bank's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the CRC, including the status of breaches and remediation plans where applicable.

The CRC, the Country Financial Crime Risk Committee (CFCRC), the Country Non-Financial Risk Committee (CNFRC) and the Asset and Liability Committee (ALCO) are responsible for ensuring that the risk profile for the Bank is managed in compliance with the Risk Appetite approved the CRC.

Risk identification and assessment

Identification and assessment of potentially adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication we use Principal Risk Types to classify our risk exposures. Nevertheless, we also recognise the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure, risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another.

There are also sources of risk that arise beyond our own operations such as the Bank's dependency on suppliers for the provision of services and technology. As the Bank remains accountable for risks arising from the actions of such third parties, failure to adequately monitor and manage these relationships could materially impact the Bank's ability to operate and could have an impact on our ability to continue to provide services that are material to the Bank.

To facilitate risk identification and assessment, the Bank maintains a dynamic risk-scanning process with inputs from the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives. The Bank maintains an inventory of the Principal Risk Types and risk sub-types that are inherent to the strategy and business model as well as Topical and Emerging Risks (TERs) that include near-term as well as longer-term uncertainties.

Near-term risks are those that are on the horizon and can be measured and mitigated to some extent, while uncertainties are longer-term matters that should be on the radar but are not yet fully measurable.

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The CRO and the CRC review regular reports on the risk profile for the Principal Risk Types, adherence to the approved Risk Appetite and the emerging risks and uncertainties. They use this information to escalate material developments in each risk event and make recommendations to the CRC and CMT on any potential changes to our Corporate Plan.

Stress testing

The objective of stress testing is to support the Bank in assessing that it:

- Does not have a portfolio with excessive risk concentration that could produce unacceptably high losses under severe but plausible scenarios;
- Has sufficient financial resources to withstand severe but plausible scenarios;
- Has the financial flexibility to respond to extreme but plausible scenarios; and
- Understands the key business model risks and considers what kind of event might crystallise those risks – even if extreme with a low likelihood of occurring – and identifies as required, actions to mitigate the likelihood or impact as required.

Enterprise stress tests include Capital and Liquidity Adequacy Stress Tests, including in the context of capital adequacy, recovery planning, and stress tests that assess scenarios where the business model becomes unviable, such as reverse stress tests. The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) which incorporates sufficiently robust stress-testing to ensure that qualifying capital and reserve funds are maintained at levels adequate to continuously support the nature and extent of the Bank's relevant risk exposures.

Principal Risk Types

Principal Risk Types are risks that are inherent in our strategy and business model and have been formally defined in the Group's ERMF and in the ERMF CA. These risks are managed through distinct Risk Type Frameworks (RTFs) which are approved by the Group Chief Risk Officer and the RTF Country Addenda (RTF CA) which are approved by the respective country risk committees.

The Principal Risk Types and associated Risk Appetite Statements are approved by the CRC.

The Bank currently recognises Climate Risk, Digital Asset Risk and Third-Party Risk as Integrated Risk Types. Climate Risk is defined as the potential for financial loss and non-financial detriments arising from climate change and society's response to it. In future reviews the Bank will consider if existing Principal Risk Types or incremental risks should be treated as Integrated Risk Types.

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The table below shows the Bank's current Principal Risk Types.

Principle Risk Types	How these are managed
Credit risk	The Bank manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
Traded risk	The Bank should control its trading portfolio and activities to ensure that Traded Risk losses (financial or reputational) do not cause material damage to the Group's franchise
Treasury risk	The Bank should maintain sufficient capital, liquidity and funding to support its operations, and an interest rate profile ensuring that the reductions in earnings or value from movements in interest rates impacting banking book items does not cause material damage to the Group's franchise
Operational & Technology risk	The Bank aims to control Operational & Technology Risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
Information cyber security risk	The Bank has zero appetite for very high ICS residual risks and low appetite for High ICS residual risks which result in loss of services, data or funds. The Bank will implement an effective ICS control environment and proactively identify and respond to emerging ICS threats in order to limit ICS incidents impacting the Group's franchise
Compliance risk	The Bank has no appetite for breaches in laws and regulations related to regulatory non-compliance; recognising that whilst incidents are unwanted, they cannot be entirely avoided
Financial crime risk	The Bank has no appetite for breaches in laws and regulations related to financial crime, recognising that while incidents are unwanted, they cannot be entirely avoided
Model risk	The Bank has no appetite for material adverse implications arising from misuse of models or errors in the development or implementation of models, while accepting model uncertainty
Reputational and Sustainability risk	The Bank aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight. This includes a potential failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm.
Integrated Risk Types	How these are managed
Climate Risk	The Group aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients, in alignment with the Paris Agreement
Digital Asset Risk	This IRT is currently supported by Risk Appetite metrics embedded within relevant Principal Risk Types
Third-Party Risk	This IRT is currently supported by Risk Appetite metrics embedded within relevant Principal Risk Types

* Country Risk and Conduct risk are overarching risk types that are managed in the ERMF.

3.2 Management and governance structure

Overview

The CMT has ultimate responsibility for risk management and is supported by the four executive-level committees. CMT endorses the ERMF based on the recommendation from the CRC, which also recommends the Risk Appetite Statement for all Principal Risk Types.

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Country level risk committee governance structure

Country Risk Committee

The CRC, which derives its authority from the Group, is responsible for ensuring the effective management of risk throughout the Bank in support of the Bank's strategy. The CRO chairs the CRC, whose members are drawn principally from the Bank's Management Team. In addition to approving the ERMF CA as well as the Risk Appetite Statement for all Principal Risk Types, the Committee oversees the effective implementation of the ERMF and ERMF CA across the Bank, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees.

Country Risk Committee sub-committees

The CNFRC, chaired by the CEO governs the non-financial PRTs across clients, products and functions. The non-financial PRTs in scope are Operational & Technology Risk, Compliance Risk, Conduct and Information and Cyber Security Risk. The Committee also reviews the adequacy of the internal control systems across all PRTs.

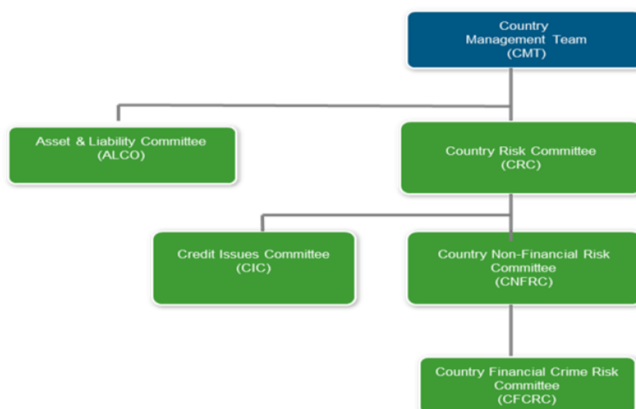
The Country Financial Crime Risk Committee (CFCRC), chaired by the CEO governs the Financial Crime RTF across the Bank. The committee ensures that the Financial Crime risk profile is managed within approved Risk Appetite and policies. The Committee is also responsible for recommending the Financial Crime Risk Appetite Statement and Risk Appetite metrics to the CRC.

Asset and Liability committee

The ALCO is chaired by the CEO. Its members are drawn principally from the Management Team. The Committee is responsible for determining the Bank's approach to balance sheet strategy and recovery planning. The Committee is also responsible for ensuring that, in executing the Bank's strategy, the Bank operates within internally approved Risk Appetite and external requirements relating to capital, loss-absorbing capacity, liquidity, leverage, Interest Rate Risk in the Banking Book, Banking Book Basis Risk and Structural Foreign Exchange Risk, as well as monitoring the structural impact decisions around sustainable finance, net zero and climate risk. The Committee is also responsible for ensuring that internal and external recovery planning requirements are met

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

Figure 1: Risk committee structure



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4. Credit risk

4.1 Approach

SCB Group's approach to credit risk can be found in the Risk management approach section in the 2022 SCB Group Annual Report on page 301 to 303.

Credit Risk

The Bank defines Credit Risk as the potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Bank.

Roles and responsibilities

The Credit RTF for the Group is set and owned by the Chief Risk Officer for Corporate, Commercial & Institutional Banking. The Credit Risk function is the second line control function responsible for independent review, challenge, monitoring and oversight of the Credit Risk management practices of the business and functions engaged in or supporting revenue-generating activities which constitute the first line of defence. In addition, they ensure that credit risks are properly assessed and transparent; and that credit decisions are controlled in accordance with the approved Risk Appetite, credit policies and standards.

Governance committee oversight

The CRC oversees the effective management of Credit Risk and appoints the Credit Issues Committee (CIC) to maintain effective oversight over the Early Alert (EA) portfolio including movements in and out of the EA portfolio and the Stressed Assets Group portfolio in CIC and escalate to CRC as appropriate. CIC and CRC are responsible for overseeing the Credit Risk profile of the Bank. The CRC is responsible for monitoring management information to evidence that the Bank's risk profile is within Risk Appetite. All credit exposure limits are approved within a defined credit approval authority framework approved by the GRC. Meetings for CIC and CRC are held regularly, and the committees monitor all material Credit Risk exposures, as well as key internal developments and external trends, and ensure that appropriate action is taken.

Decision-making authorities and delegation

The Credit Risk Type Frameworks are the formal mechanism which delegate Credit Risk authorities cascading from the Group Chief Risk Officer, as the Senior Manager of the Credit Risk Type, to individuals such as the business segments' Chief Risk Officers. Named individuals further delegate credit authorities to individual credit officers based on risk-adjusted scales by customer type or portfolio. Credit Risk authorities are reviewed at least annually to ensure that they remain appropriate. The individuals delegating Credit Risk authorities perform oversight by reviewing a sample of the business credit applications approved by the delegated credit officers on a monthly basis.

Monitoring

The Bank regularly monitors credit exposures, portfolio performance, and external trends that may impact risk management outcomes. Internal risk management reports presented to risk committees contain information on key political and economic trends and portfolio trends including delinquency and loan impairment performance.

Clients and portfolios are subjected to additional review when they display signs of actual or potential weakness; for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, or non-performance of an obligation within the stipulated period. Such accounts are subjected to a dedicated process overseen by the CIC where client account strategies and credit grades are re-evaluated. In addition, remedial actions including exposure reduction, security enhancement, or exiting the account could be undertaken, and certain accounts could also be transferred into the control of Stressed Assets Group1. Accounts managed by the Stressed Assets Group (SAG), which is the specialist recovery unit for CCIB that operates independently from the main business. Accounts managed by SAG are approved by Stressed Assets Risk, which is a second line function.

Any material in-country developments that may impact the sovereign ratings are monitored closely by the Country Risk team, which is part of SCB's global Enterprise Risk Management team. A Country Risk Early Warning system, a triage-based risk identification system was developed to categorise countries based on forward looking view of possible downgrade and expected incremental RWA impact of potential downgrade.

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

Credit Policies

Specific policies are in place for the management of Credit Risk. The Credit Policy for Corporate, Commercial & Institutional Banking sets the principles that must be followed for the end-to-end credit process including credit initiation, credit grading, credit assessment, structuring of product, credit risk mitigation, monitoring and control, and documentation. In addition, there are other policies integral to Credit Risk management such as those relating to Risk Appetite, Model Risk, stress testing, and impairment provisioning. The Bank also set out standards for the eligibility, enforceability and effectiveness of credit risk mitigation arrangements. Potential credit losses from a given account, client or portfolio are mitigated using a range of tools including collateral, netting agreements, credit insurance, credit derivatives and guarantees.

Risk mitigants are also carefully assessed for their market value, legal enforceability, correlation and counterparty risk of the protection provider. Collateral must be valued prior to drawdown and regularly thereafter as required to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. The Bank seeks to diversify its collateral holdings across asset classes and markets. Where guarantees, credit insurance, standby letters of credit or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor.

Stress testing

Stress testing is a forward-looking risk management tool that constitutes a key input into the identification, monitoring and mitigation of credit risk, as well as contributing to Risk Appetite calibration. Periodic stress tests are performed on the credit portfolio/segment to anticipate vulnerabilities from stressed conditions and initiate timely rightsizing and mitigation plans. Additionally, enterprise-wide stress tests are mandated by regulators to assess the ability of the Bank to continue to meet the capital requirements during a plausible, adverse shock to the business. These regulatory stress tests are conducted in line with the principles stated in the Enterprise Stress Testing Policy.

Stress tests for key portfolios are reviewed by the Credit Risk Type Framework Owners (or delegates) as part of portfolio oversight; and matters considered material to the Group are escalated to the respective regional risk committees.

4.2 Standardised Approach to Credit Risk

Since 1 April 2020, the Bank has used the Standardised Approach to calculate Credit Risk capital requirements in line with the approval from our relevant regulators. The Standardised Approach measures credit risk pursuant to fixed risk-weights and is the least sophisticated of the capital requirement calculation methodologies under Basel III.

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

The tables below include a breakdown of defaulted and non-defaulted exposure by exposure class. Exposure values presented in the tables are before the impact of Credit Conversion Factors (CCF) and Credit Risk Mitigants (CRM).

	2022					
	Gross carrying value of			Of which ECL accounting provisions for credit losses on SA exposures		
	Defaulted exposures	Non-defaulted exposures	Allowances/ Impairments	Allocated in Regulatory category specific	Allocated in regulatory category general	Net values
	ZAR'million					
Loans	1,247	21,417	885	880	5	21,779
Debt securities	-	18,945	25	-	25	18,920
Off-balance sheet exposures	-	26,555	4	-	4	26,551
Total	1,247	66,917	914	880	34	67,250

The decrease in the ECL over the reporting period relates primarily to the allocated regulatory general category as result of a Stage 2 to Stage 1 upgrade on a single client in the corporate portfolio.

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

	2022
	Gross carrying value of defaulted exposures
	ZAR'million
Opening balance	1,225
Loans and debt securities that have defaulted or impaired since the last reporting period	
Returned to non-defaulted status	-
Amounts written off	(41)
Other changes	63
Closing balance	1,247

The Bank applies SCB Group Accounting definition of default: Financial assets in default represent those that are at least 90 days past due in respect of principal or interest and/or where the assets are otherwise considered to be unlikely to pay, including those that are credit impaired.

4.3 Exposure values

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

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

	2022		
	Exposure	RWA	Capital
Standardised approach	ZAR'million		
South Africa	57,466	12,480	1,435
Other African countries	1,059	888	102
Europe	3,218	9	1
Asia	3,126	-	-
North America	3,294	-	-
South America	-	-	-
Other	1	-	-
As at 31 December 2022	68,164	13,377	1,538

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

	2022		
	Exposure	RWA	Capital
Standardised approach	ZAR'million		
Agriculture, hunting, forestry and fishing	482	356	41
Mining and quarrying	5,773	634	73
Manufacturing	11,554	4,539	522
Electricity, gas and water supply	924	108	12
Construction	461	21	2
Wholesale and retail trade, repair of specified items, hotels and restaurants	-	-	-
Transport, storage and communication	1,799	427	49
Financial intermediation and insurance	20,868	5,006	576
Real estate	133	133	15
Business services	5,170	1,963	226
Community, social and personal services	-	-	-
Private households	-	-	-
Other	21,000	190	22
As at 31 December 2022	68,164	13,377	1,538

Table 9: Exposure by maturity (CRB-C)

	2022			
	Exposure value			
	Less than 1 year	Between 1 to 5	Greater than 5 years	Total
Standardised approach	ZAR'million			
Corporate	32,124	2,720	2,474	37,318
Public sector entities	1	-	-	1
Sovereign (including central governments and central banks)	16,849	4,076	-	20,925
Banks	8,623	561	736	9,920
As at 31 December 2022	57,597	7,357	3,210	68,164

4.4 Problem Credit Management and Provisioning

Expected credit losses (ECL) are determined for all financial assets that are classified as amortised cost or fair value through other comprehensive income. ECL is computed as an unbiased, probability-weighted amount determined by evaluating a range of plausible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking. When determining forward looking expected credit losses, the Group also considers a set of critical global or country-specific macroeconomic variables that influence Credit Risk.

At the time of origination or purchase of a non-credit-impaired financial asset (stage 1), ECL represents cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is a significant increase in the credit risk of the asset (stage 2), in which case an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset. If there is observed objective evidence of credit impairment or default (stage 3), expected credit losses continue to be measured on a lifetime basis.

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The Bank's definition of default is aligned with the regulatory definition of default as set out in Regulation 67 of the Bank's Act 94/1990: Regulations relating to Banks, where a loan is considered credit-impaired where analysis and review indicate that full payment of either interest or principal, including timeliness of such payment, is questionable, or as soon as payment of interest or principal is 90 days overdue. Credit-impaired accounts are managed by Stressed Asset Group. Where appropriate, non-material credit-impaired accounts are co-managed with the business with oversight from Stressed Asset Risk.

Estimating the amount and timing of future recoveries involves significant judgement and considers the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market. The total amount of the Bank's impairment provision is inherently uncertain, being sensitive to changes in economic and credit conditions across the regions in which the Bank has exposure.

The SCB Group Accounting definition of past-due, default, restructured exposure and impaired exposures is outlined in the Glossary sections of Pillar 3 SCB Group Disclosures. Approaches and methods used for determining Expected Credit Losses is detailed in Note 8 of the 2022 SCB Annual Report on pages 361 to 365.

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

	2022		
	Gross credit exposure		
	Impaired	Not impaired	Total
	ZAR'million		
Advances and off-balance sheet exposures	-	-	-
Total	-	-	-

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

	2022		
	Defaulted advances	Write-offs	Specific impairments
Standardised approach	ZAR'million		
South Africa	942	-	880
Total	942	-	880
Agriculture, hunting, forestry and fishing	80	-	51
Manufacturing	90	-	73
Electricity, gas and water supply	696	-	607
Construction	76	-	69
Business services	-	-	80
Total	942	-	880

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

	2022		
	Gross credit exposure		
	Past due < 30 days	Past due > 30 days < 90 days	> Past due 90 days
	ZAR'million		
Corporate	-	396	771
SME	-	80	-
As at 31 December 2022	-	476	771

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4.5 Credit ratings under Standardised Approach

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

- Public Sector Entities (PSE);
- Central Government and Central Bank;
- Banks; and
- Corporate Entities.

4.6 Credit Risk Mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed considering issues such as legal certainty and enforceability, market valuation, correlation and credit risk of the guarantor. The presence of Credit Risk Mitigation (CRM) is not a substitute for the ability to pay, which is the primary consideration for any credit decision, but may influence credit limit sizing, for example eligible financial collateral taken under eligible master netting agreements supported by a legal opinion may be netted against exposures. Our approach to CRM can be found in the Risk management approach section of the 2022 SCB Group Annual Report on pages 222 to 224. The table below shows the unfunded credit protection held by the Bank, consisting of credit derivatives and guarantees, and funded credit protection, including financial collateral. Exposure class has been defined based on the guarantor of the exposure.

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

	2022						
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives: secured amount
	ZAR'million						
Loans	22,621	43	43	-	-	-	-
Debt securities	18,945	-	-	-	-	-	-
Total	41,566	43	43	-	-	-	-
Of which defaulted	1,247	-					

Decrease in defaulted exposure during current period resulted from recovery and restructure on existing defaulted exposure. Commercial surplus is deployed to debt securities while direct lending to clients (loans) remained flat on account of the difficult prevailing market conditions.

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

The table below presents exposure before and after the effect of CRM, including credit substitution and financial collateral, with a further split into on-balance sheet and off-balance sheet exposures. Off-balance sheet exposures are presented before and after the applications of standardised CCFs.

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	2022					
	Exposures before CCF and CRM[1]		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	RWA	RWA density
	ZAR'million					%
Standardised Exposure Class						
Sovereigns and their central Banks	18,945	-	18,945	-	-	-
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	7,061	1,120	7,061	471	275	2
Securities firms	-	-	-	-	-	-
Corporates	8,360	25,425	8,320	3,022	11,561	96
Regulatory retail portfolios	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Past-due loans	1,247	10	-	-	286	2
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	35,613	26,555	34,326	3,493	12,122	100

The change in the counterparty composition and exposures are aligned to underlying portfolio movement.

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

The following tables set out EAD and EAD after CRM associated with each risk weight as prescribed, including credit and counterparty credit risk regulatory risk weights based on the exposure classes applied to unrated exposures.

	2022									
	Risk Weight									
	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Standardised Exposure Class										
Sovereigns and their central Banks	18,945	-	-	-	-	-	-	-	-	18,945
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	6,864	-	483	-	14	-	171	-	-	7,532
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	2	-	303	-	10,485	552	-	11,342
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total	25,809	-	485	-	317	-	10,656	552	-	37,819

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5. Traded risk

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

5.1 Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market prices or rates. The Bank's exposure to market risk arises predominantly from the following two sources:

- Trading book: The Bank provides clients access to financial markets, facilitation of which entails the Bank taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking.

- Non-trading Book: The Treasury Markets desk is required to hold a liquid assets buffer, much of which is held in high-quality marketable debt securities. The Bank has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Bank is subject to structural foreign exchange risk which is reflected in reserves.

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

The primary categories of market risk for the Bank are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options; and
- Foreign exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options.

Trading book

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

Valuation framework

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

Management VaR

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

Stressed VaR

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

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Stress testing

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

The Bank applies the Standardised Approach to portfolios that attract market risk. Additional information on the market risk for SCB Group can be found in the Risk management approach section in the 2022 SCB Annual Report on pages 304 to 305.

Table 16: Market risk under standardised approach (MR1)

The minimum regulatory market risk capital requirements for the trading book are presented below for the Bank.

	2022	2021
	Risk Weighted Assets	
	ZAR'million	
Outright products		
Interest rate risk	2	2
Equity risk	-	-
Foreign exchange risk	6	11
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	8	13

Fixed Income and FX trading desk are included for regulatory capital purposes. Decrease in Net Open Position on USD currency over the reporting period.

5.2 Counterparty credit risk

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

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

CCR is managed within the overall credit risk appetite for corporate and financial institutions. CCR limits are set for individual counterparties, including central clearing counterparties, and for specific portfolios. Individual limits are calibrated to the credit grade and business model of the counterparties and are set on Potential Future Exposure (PFE). Portfolio limits are set to contain concentration risk across various dimensions not captured by the credit limits.

The Bank reduces its credit exposures to counterparties by entering into contractual netting agreements which result in a single amount owed by or to the counterparty. The amount is calculated by netting the Mark-To-Market (MTM) owed by the counterparty to the Bank and the counterparty on the transactions covered by the netting agreement.

Implementation of Standardised – Counterparty Credit Risk (SA-CCR) was effective 1 January 2021.

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Wrong way risk

Wrong-Way Risk (WWR) occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the MTM on a derivative or repo contract increases in favour of the Bank, the driver of this MTM change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements.

WWR mostly arises from FX transactions and financing transactions. The Bank employs various policies and procedures to ensure that WWR exposures are recognised upfront, monitored, and where required, contained by limits on country, tenor, collateral type and counterparty.

Exposure value calculation

Exposure calculation used for risk management is based on PFE. The PFE is mostly calculated from simulation models, and from PFE add-ons for the non-simulated products.

Derivatives exposures is calculated using the Standardised Approach for Counterparty Credit Risk (SA-CCR). For OTC derivatives individual transactions are measured using the sum of current replacement cost and potential future credit exposure adjusted for alpha factor as provided by the regulator. For SFTs supervisory volatility adjustments are applied to both collateral and exposure legs and the benefit of master netting agreements is taken into consideration.

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

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

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

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

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

Stress testing

Stress testing is an integral part of CCR management, complementing PFE or other portfolio limits. Localised (single factor), Global (multi factor) and Topical (multi factor) scenarios are regularly applied to the CCR portfolio to identify and quantify exposures that could become a concern for the Bank.

The stressed exposures are monitored monthly at regional and global counterparty credit risk exposure forums. The relevance and severity of the stress scenarios are periodically reviewed with cross functional stakeholders.

Credit valuation adjustments

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

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

The below table specifies the methods used by the Bank to calculate counterparty credit risk regulatory requirements.

	2022					
	Replacement cost/current market value	Potential future exposure	EEPE	Multiplier	EAD post CRM	RWA
	ZAR'million					
SA-CCR	1,383	1,441		1.4	3,954	1,241
IMM (for derivatives and SFTs)			-	-	-	-
Financial collateral simple method (for SFTs)					3	3
Financial collateral comprehensive method (for SFTs)					-	-
VaR for SFTs					-	-
Total						1,244

Table 18: Credit valuation adjustment capital charge (CCR2)

The table below demonstrates the risk-weighted exposure amounts to central counterparties by derivative types.

	2022	
	Exposure Value	RWA
Total portfolios subject to the Advanced Method	-	-
(i) VaR component (including the 3x multiplier)	-	-
(ii) Stressed VaR component (including the 3x multiplier)	-	-
All portfolios subject to the Standardised Method	1,005	552
Total subject to the CVA capital charge	1,005	552

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

The table depicts exposure after the effect of collateral associated with each risk weight.

	2022								
	Risk Weight								
	ZAR'million								
Regulatory portfolio	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Standardised Exposure Class									
Sovereigns	16	-	-	-	-	-	-	-	16
Non-central government public sector entities (PSE's)	-	-	2	-	-	-	-	-	2
Multilateral development banks (MDB's)	-	-	-	-	-	-	-	-	-
Banks	2,645	-	6	-	-	74	-	-	2,726
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	57	-	-	1,154	-	-	1,210
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	2,661	-	65	-	-	1,228	-	-	3,954

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

The table outlines the credit exposure on derivative transactions after considering the benefits from legally enforceable netting agreements and collateral held. Decrease due to deployment from cash surplus into sovereign debt exposures in the comparative period.

	2022					
	Collateral used in derivative transactions				Collateral used in SFT's	
	Fair value of collateral received		Fair value of posted collateral			
	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
	ZAR'million					
Cash - domestic currency	172	-	172	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	1,998	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	172	-	172	-	1,998	-

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Table 21: Credit derivatives exposures (CCR6)

CCR6 indicates the notional amounts of credit derivative transactions segregated between protection bought and sold within each product type. SCBJ has no credit derivative transitions as at 31 December 2022, prior disclosure included all derivative exposure in the CCR6 template.

Fair value changes are indicative of the underlying market conditions.

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

6. Interest rate risk in the banking book

Overview

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

Measurement of IRRBB

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

Methodology

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

Management and mitigation of IRRBB

The Bank uses Funds Transfer Pricing (FTP) to transfer re-pricing risk from the business to Treasury, including that arising from structural positions such as the investment of equity and non-maturity deposit balances. For non-maturity deposits, the assumed duration is dependent on the portion that can be considered stable and the degree to which these balances are considered price sensitive. The re-pricing risk transferred to Treasury is managed on an integrated basis with a securities portfolio maintained for liquidity and investment management purposes. Any basis risk that is not transferred and cannot be hedged by Treasury is reported and overseen at ALCO. Re-pricing risk arising within Treasury is managed using a combination of on-balance sheet and derivative hedges; derivative hedges are subject to Fair Value and Cash Flow Hedge accounting treatment where available. Treasury's interest rate risk positions and limits are independently monitored by the Risk function.

Additional details on IRRBB can be found in the 2022 SCB Group Pillar 3 Disclosures pages 101-102.

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

	2022	2021
	ZAR'million	
Exposure to interest rate risk in the Banking Book		
NII sensitivity		
2% instantaneous increase in interest rates	(6)	(5)
2% instantaneous decline in interest rates	6	5
EVE sensitivity		
2% instantaneous increase in interest rates	(521)	(467)
2% instantaneous decline in interest rates	521	467

7. Operational & Technology Risk

Technology risk has been made more prominent within the Operational Risk principal risk type, in order to meet the needs of the digital agenda of the Bank and further strengthen Technology risk management capabilities

The Bank defines Operational & Technology Risk as the potential for loss resulting from inadequate or failed internal processes, technology events, human error, or from the impact of external events (including legal risk). These risks are primarily mitigated through the application of an effective system of controls.

Risk Appetite Statement

The Bank aims to manage operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise.

Roles and responsibilities

The Operational and Technology Risk Type Framework (O&T RTF) sets the roles and responsibilities in respect of Operational Risk for the Bank, and is owned by the Global Head of Risk, Functions and Operational Risk (GHRFOR). This framework collectively defines the Bank's operational risk sub-types which have not been classified as PRTs and sets standards for the identification, control, monitoring and treatment of risk. These standards are applicable across all PRTs and non-PRTs. These risk sub-types relate to execution capability, governance, reporting and obligations, legal enforceability, and operational resilience (including client service, change management, people management, safety and security and technology risk).

The O&T RTF reinforces clear accountability for managing risk throughout the Bank and delegates second line of defence responsibilities to identified subject matter experts. For each risk sub-type, the expert sets policies and standards for the organisation to comply with, and provides guidance, oversight and challenge over the activities of the Bank. They ensure that key risk decisions are only taken by individuals with the requisite skills, judgement, and perspective to ensure that the Bank's risk-return objectives are met. The Head of Operational Risk is the RTF CA Owner for Operational & Technology Risk.

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Mitigation

The O&T RTF sets out the Bank's overall approach to the management of Operational & Technology Risk in line with the Bank's Operational & Technology Risk Appetite. This is supported by Risk and Control Self-Assessment Standards (RCSA) which define roles and responsibilities for the identification, control and monitoring of risks (applicable to all PRTs, risk sub-types and Integrated Risks).

The RCSA is used to determine the design strength and reliability of each process, and require:

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

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

Governance committee oversight

The CNFRC oversees the effective management of Operational & Technology Risk and oversees the Bank's Operational Risk profile The CNFRC has the authority to challenge, constrain and, if required, stop business activities where risks are not aligned with the Bank's Operational & Technology Risk Appetite.

Monitoring

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

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

The Bank applies the Standardised Approach for measuring the capital requirements for Operational Risk.

Stress testing

Stress testing and scenario analysis are used to assess capital requirements for Operational & Technology risks. This approach considers the impact of extreme but plausible scenarios on the Bank's Operational & Technology Risk profile and to test the robustness of controls.

The table below indicates the RWA and minimum capital required to be held for the Bank as 31 December 2022 based on the Standardised Approach.

Table 23: Operational Risk RWA and capital requirement

	2022		2021	
	RWA's	Capital Required	RWA's	Capital Required
	ZAR'million		ZAR'million	
Operational Risk	3,144	362	3,094	325

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8. Liquidity Risk

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

The Bank should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 90 days without recourse to extraordinary central bank support.

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

The Liquidity Coverage Ratio **LIQ1** as at 31 December 2022 is included in the quarterly 31 December 2022 Pillar 3 disclosure.

For information on the Group's Liquidity & Funding risk management practices and risk profile we refer to the Principal Risk and Risk Profile sections of the 2022 SCB Group Annual Report under Treasury Risk on pages 306 and 307 respectively.

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

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

Table 24 Net Stable funding Ratio (LIQ2)

	2022				
	Unweighted value by residual maturity				
	No maturity	<6 months	6 months to <1	year ≥1 year	Weighted Value
	ZAR'million				
Available stable funding (ASF) item					
Capital:	-	-	-	4,794	4,794
Regulatory capital	-	-	-	4,794	4,794
Other capital instruments	-	-	-	-	-
Retail deposits and deposits from small business customers:	-	-	-	-	-
Stable deposits	-	-	-	-	-
Less stable deposits	-	-	-	-	-
Wholesale funding:	-	-	-	-	-
Operational deposits	-	6,900	-	-	3,450
Other wholesale funding	-	22,229	-	-	8,701
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	-	-	-	-
NSFR derivative liabilities		-	-	-	-
All other liabilities and equity not included in the above categories	-	-	-	4,662	4,662
Total ASF	-				21,607
Required stable funding (RSF) item					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	953
Deposits held at other financial institutions for operational purposes	-	-	-	-	-

Performing loans and securities:	-	-	-	-	-
Performing loans to financial institutions secured by Level 1 HQLA	-	2,042	-	-	204
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	4,933	-	-	740
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs , of which:	-	5,725	120	207	2,045
With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit	-	-	-	-	-
Performing residential mortgages, of which:	-	-	-	-	-
With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	200	-	-	100
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	-	-	-	-
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR derivative assets	-	-	-	1,879	1,879
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	-	-	-	6,557	6,557
Off-balance sheet items		-	-	26,555	1,328
Total RSF					13,806
Net Stable Funding Ratio (%)					**157%**

Roles and responsibilities

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

Monitoring

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

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

Governance committee oversight

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

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

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Stress Testing

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

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

Recovery Planning

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

Mitigation

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

9. Remuneration

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

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

The qualitative and quantitative Pillar 3 remuneration disclosures for the 2022 performance year are set out on pages 184 to 217 of the Directors' remuneration report in the SCB Group Annual Report, and the SCB Group Pillar 3 report on pages 3. Information is provided on the key components of our remuneration approach and how we develop our approach. The definition of material risk takers is on page 212 of the SCB Group Annual Report.

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Table 25: Remuneration awarded during the financial year (REM1)

Remuneration amount ZAR'million		2022 Senior management	2022 Other material risk-takers
Fixed	Number of employees #	12	2
remuneration	Total fixed remuneration	38	7
	Of which: cash-based	38	7
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Variable remuneration	Number of employees#	12	2
	Total variable remuneration	30	3
	Of which: cash-based	23	2
	Of which: deferred	4	-
	Of which: shares or other share-linked instruments	7	1
	Of which: deferred	4	-
	Of which: other forms	-	-
	Of which: deferred	-	-
Total remuneration		68	10

Table 26: Special payments (REM2)

2022						
Special payments	**Guaranteed bonuses**		**Sign-on awards**		**Severance payments**	
	Number of employees	**Total amount ZAR'million**	**Number of employees**	**Total amount ZAR'million**	**Number of employees**	**Total amount ZAR'million**
Senior management	-	-	-	-	-	-
Other material risk-takers	-	-	-	-	-	-

Table 27: Deferred remuneration (REM3)

2022					
Deferred and retained remuneration	**Total amount of outstanding deferred remuneration**	**Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment**	**Total amount of amendment during the year due to ex post explicit adjustments**	**Total amount of amendment during the year due to ex post implicit adjustments**	**Total amount of deferred remuneration paid out in the financial year**
USD'million					
Senior management	-	-	-	-	-
Cash	0.27	-	-		0.11
Shares (value)	81,126	-	-	-	28,938
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	-	-	-	-	-
Cash	0.03	-	-	-	-
Shares (value)	11,317	-	-	-	384
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	**0.30**	**-**	**-**	**-**	**0.11**