
Standard Chartered Bank
Johannesburg Branch
Pillar 3 Disclosures
30 June 2019



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1 Introduction

1.1 Purpose and basis of preparation

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

This report presents the annual Pillar 3 disclosures of the Branch as at 30 June 2020 and should be read in conjunction with the Group’s Annual Report and Accounts and Pillar 3 disclosures.

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 2019 in accordance with Regulation 43 and Section 6(6) of the South African Banks Act 94 of 1990 (as amended) (“the Act”).

1.2 Branch management’s responsibility statement

Branch management is responsible for the preparation and fair presentation of the annual financial statements of the Branch, comprising the statement of financial position at 30 June 2020, and 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 Branch’s policies on disclosure and its financial reporting and governance processes.

1.3 Key metrics for the Branch

The key prudential metrics (KM1) as at 30 June 2020 is disclosed in the Quarterly 30 June 2020 Pillar 3 disclosure.

1.4 Overview of risk management

The overview of risk management (OV1) as at 30 June 2020 is disclosed in the Quarterly 30 June 2020 Pillar 3 disclosure.

1.5 Risk management

The management of risk is a key component of the Branch’s business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as country, traded, capital and liquidity, operational, reputational, compliance, conduct, information and cyber security and financial crime risks that are inherent in our strategy, product range and geographical coverage.

In the Risk management approach section of the 2019 Annual Report and Accounts we describe our approach and strategy for managing risk. We discuss our risk management practices, monitoring and mitigation, and governance in relation to our main activities and significant risks. The Branch is exposed to 10 key risks:

- Credit risk (refer to section Credit risk on pages 53 to 62 of the 2019 Annual Financial Statements)
- Country risk (refer to section Country risk on page 70 of the 2019 Annual Financial Statements)
- Traded risk (refer to section Traded risk on pages 62 to 64 of the 2019 Annual Financial Statements)
- Capital and liquidity risk (refer to section Capital and liquidity risk on pages 64 to 70 of the 2019 Annual Financial Statements)
- Operational risk (refer to section Operational risk on pages 71 to 72 of the 2019 Annual Financial Statements)
- Reputational risk (refer to section Reputational risk on page 70 to 71 of the 2019 Annual Financial Statements)
- Compliance risk (refer to section Compliance risk on pages 72 to 73 of the 2019 Annual Financial Statements)
- Conduct risk (refer to section Conduct risk on pages 73 to 75 of the 2019 Annual Financial Statements)
- Information and cyber security risk (refer to section Information and cyber security risk on pages 76 to 77 of the 2019 Annual Financial Statements)
- Financial crime risk (refer to section Financial crime risk on pages 75 to 76 of the 2019 Annual Financial Statements)

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2 Capital

2.1 Capital management

The Risk management approach section of the 2019 Annual Report and Accounts sets out our approach to capital management (refer to section Capital and liquidity risk on pages 64 to 70 of the 2019 Annual Financial Statements)

2.2 Capital resources

All capital instruments included in the capital base meet the requirements set out in the CRR for their respective tier of capital.

For regulatory purposes, capital is categorised into two tiers, depending on the degree of permanence and loss-absorbency exhibited. These are Tier 1 and Tier 2 capital. The regulatory capital reconciles to the Annual Report and Accounts.

2.3 Leverage ratio

The Branch is currently subject to a minimum leverage ratio of 4 per cent. The Branch's current leverage ratio of 8.62 per cent is well above the current minimum requirement. The quantitative disclosure for 30 June 2020 **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 30 June 2020.

2.4 Capital requirements

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

The tables that presents the Branch's RWA and capital requirements (calculated as 11.5 per cent of RWA) is included in the Quarterly Pillar 3 report for 30 June 2020.

The branch does not have any credit exposures that attract countercyclical capital buffer.

Table 1: Composition of regulatory capital (CC1)

	30-Jun-20
	ZAR'million
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	4,054
Of which: Share premium accounts	-
Retained earnings	348
Accumulated other comprehensive income (and other reserves)	138
Non-controlling interests (amount allowed in consolidated CET1)	-
Independently reviewed interim and year-end profits/(loss)	270
Foreseeable dividends net of scrip	-
Common Equity Tier 1 capital before regulatory adjustments	4,270
Common Equity Tier 1 capital: regulatory adjustments	
Additional value adjustments	-
Intangible assets	(355)
Deferred tax assets that rely on future profitability	-
Fair value reserves related to gains or losses on cash flow hedges	-
Negative amounts resulting from the calculation of expected loss amounts	-
Gains or losses on liabilities at fair value resulting from changes in own credit	-
Defined-benefit pension fund assets	-
Fair value gains and losses from own credit risk related to derivative liabilities	-
Exposure amounts which could qualify for risk weight of 1250%	-
Of which: securitisation positions	-
Of which: free deliveries	-
Total regulatory adjustments to Common Equity Tier 1 capital	(355)

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Common Equity Tier 1 capital	3,916
Additional Tier 1 (AT1) capital: instruments	
Capital Instruments and the related share premium accounts	-
Of which: classified as equity under applicable accounting standards	-
Of which: classified as liabilities under applicable accounting standards	-
Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own Additional Tier 1 (AT1) instruments and subordinated loans	
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital	-
Tier 1 capital (T1 = CET1 + AT1)	3,916
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts	-
Qualifying items and the related share premium accounts subject to phase out from T2	-
Qualifying own funds instruments included in consolidated T2 issued by subsidiaries and held by third parties	-
Tier 2 capital before regulatory adjustments	-
Tier 2 capital: regulatory adjustments	
Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans	-
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 the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-
Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	230
Total capital (TC = T1 + T2)	4,145
Total risk-weighted assets	24,763
Capital ratios and buffers	
Common Equity Tier 1 capital (%)	15.8%
Tier 1 capital (%)	15.8%
Total capital (%)	16.7%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirement, plus systematic risk buffer, plus systematically important intuition buffer expressed as a percentage of risk exposure amount.) (%)	9.8%
Of which: capital conservation buffer requirement (%)	2.5%
Of which: countercyclical buffer requirement	-
Of which systematic risk buffer requirement	-
Of which: Global systematically important institution (G-SII) or Other Systematically important institution (O-SII) buffer	
Common Equity Tier 1 available to meet buffers (as percentage of risk exposure amount)	7.9%
Amounts below the thresholds for deduction (before risk weighting)	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-
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 application of cap)	-
Cap on inclusion of provisions in Tier 2 under standardised approach	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-

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3 Credit risk

3.1 Approach

Our approach to credit risk can be found in the Risk management approach section in the 2019 Annual Report and Accounts on Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group. Credit exposures arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. The Credit Risk Function, as a second line control function, performs independent 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.

Risk appetite is defined by the Group and approved by the Board. It is the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategies. Credit exposure limits are approved within a defined credit approval authority framework.

The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors. The Branch used the Advanced Internal Ratings Based (IRB) approach to calculate credit risk capital requirements until 29 February 2020. The Prudential Authority approved the transition of credit risk to the Standardised approach and it was applied from 1 March 2020.

Refer to Credit Risk (pages 53 to 62) in the 2019 Annual Financial Statements where we describe the main components of credit risk management, including our credit risk profile, credit risk measurement and policies set in line with risk appetite. This approach builds on the Group's risk management practices and is the result of a continuing investment in data warehouses and risk models.

Table 2: Credit quality of exposures by exposure class and instruments (CR1)

	30-Jun-20			Net values
	Carrying value of		Allowances /Impairments	
	Defaulted exposures	Non-defaulted exposures		
			ZAR'million	
Loans	1,808	21,979	584	21,395
Debt securities	-	13,134	-	13,134
Off-balance sheet exposures	261	31,724	-	31,724
Total	2,069	66,837	584	66,252

Table 3: Changes in stock of defaulted loans and debt (CR2)

	30-Jun-20
	Gross carrying value of defaulted exposures ZAR'million
Opening balance	686
Loans and debt securities that have defaulted or impaired since the last reporting period	994
Returned to non-defaulted status	-
Amounts written off	-
Other changes	25
Closing balance	1,705

3.2 Credit risk mitigation

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Our approach to credit risk mitigation can be found in the Risk management approach section of the 2019 Annual Financial Statements on page 55.

Table 4: Credit risk mitigation techniques – overview (CR3)

	30-Jun-20						
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees ZAR'million	Exposures secured by financial guarantees: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives: secured amount
Loans	23,787	423	423	-	-	-	-
Debt securities	13,134	-	-	-	-	-	-
Total	36,921	423	423	-	-	-	-
Of which defaulted	2,069	-	-	-	-	-	-

Table 5: Credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

Standardised Exposure Class	30-Jun-20					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance	Off-balance	On-balance	Off-balance	RWA	RWA density
	sheet	sheet	sheet	sheet	RWA	density %
Sovereigns and their central Banks	13,134	-	13,134	-	-	-
Non-central government public sector entities	480	-	480	-	467	2
Multilateral development banks	-	-	-	-	-	-
Banks	10,707	2,044	10,730	1,034	3,862	21
Securities firms	-	-	-	-	-	-
Corporates	10,757	29,679	9,820	4,451	14,388	77
Regulatory retail portfolios	-	-	-	-	-	-
Secured by residential property	34	-	34	-	15	0
Secured by commercial real estate	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	35,113	31,724	34,198	5,485	18,731	100

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Table 6: Standardised approach - exposures by asset classes and risk weights (CR5)

Standardised Exposure Class	Risk Weight									Total credit exposures amount (post CCF and post-CRM)	
	0%	10%	20%	35%	50%	75%	100%	150%	Others		
	ZAR'millions										
Sovereigns and their central Banks	13,134	-	-	-	-	-	-	-	-	-	13,134
Non-central government public sector entities	-	-	0	-	-	-	480	-	-	-	480
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Banks	7,229	-	881	-	2	-	3,587	65	-	-	11,764
Securities firms	-	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	318	-	156	-	13,797	-	-	-	14,271
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	34	-	-	-	-	-	34
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-
Total	20,364	-	1,199	-	192	-	17,864	65	-	-	39,684

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4 Traded risk

4.1 Market risk

Interest rate risk from non-trading book portfolios is transferred to local Treasury Markets desks under the supervision of Asset and Liability Committees. 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 Branch are:

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

The Branch has adopted the standardised approach for Market Risk.

Table 7: Market risk under standardised approach (MR1)

	30-Jun-20	
	Risk Weighted Assets ZARmillion	Regulatory capital requirement
Outright products		
Interest rate risk	3.1	0.4
Equity risk	-	-
Foreign exchange risk	4.8	0.5
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	7.9	0.9

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4.2 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 Group 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 multiple dimensions, and are set on PFE or other equivalent measures.

The Branch 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 Branch and the MTM owed by the Branch to the counterparty on the transactions covered by the netting agreement

Table 8: Analysis of counterparty credit risk (CCR) exposure by approach (CCR1)

	30-Jun-20					
	Replacement cost/current market value	Potential future exposure	EEPE	Multiplier	EAD post CRM	RWA
	ZAR'million	ZAR'million	ZAR'million	Value	ZAR'million	ZAR'million
SA-CCR	6,663	5,945		1.4	7,709	3,743
IMM (for derivatives and SFTs)			-	-	-	-
Financial collateral simple method (for SFTs)					-	-
Financial collateral comprehensive method (for SFTs)					-	-
VaR for SFTs					-	-
Total						3,743

Table 9: Credit valuation adjustment (CVA) capital charge (CCR2)

	30-Jun-20	
	Exposure Value	RWA
	ZAR'million	
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	2,416	2,453
Total subject to the CVA capital charge	2,416	2,453

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Table 10: Credit valuation adjustment (CVA) capital charge (CCR3)

	30-Jun-20												Of which unrated
	Risk Weight											Total	
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
	ZAR'million												
Standardised Exposure Class	-	-	-	-	-	-	-	-	-	-	-	-	-
Central governments or central banks	-	-	-	-	81	-	-	-	57	-	-	-	138
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	3,898	-	-	-	3	-	-	-	35	-	-	-	3,935
Corporates	-	-	-	-	-	-	-	-	3,636	-	-	-	3,636
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
Secured on real estate property	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-
Items belonging to regulatory high risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
Total													
Standardised	3,898	-	-	-	83	-	-	-	3,728	-	-	-	7,709

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5 Interest rate risk in the banking book

The Group 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 Capital and Liquidity Risk Type Framework, as a risk sub-type of Capital and Liquidity Risk.

The Board delegates the management of IRRBB to the Group Asset & Liability Committee (GALCO), which in turn mandates the Country ALCOs and the Group's Operational Balance Sheet Committee (OBSC) to monitor IRRBB as per the risk type framework.

IRRBB is managed at a country level by the Country ALCO, chaired by the Country CEO, and is independently monitored by Treasury Risk.

Interest rate risk from non-trading book portfolios is transferred to local Treasury Markets desks under the supervision of Country 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 Branch are:

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

Table 11: Exposures to interest rate risk in the Banking Book

	30-Jun-20
	ZARmillion
Exposure to interest rate risk in the Banking Book	
NII sensitivity ¹	
2% instantaneous increase in interest rates	(2)
2% instantaneous decline in interest rates	2
EVE sensitivity²	
2% instantaneous increase in interest rates	(332)
2% instantaneous decline in interest rates	332

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6 Operational Risk

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, and systems, human error, or from the impact of external events (including legal risk). Non-financial risks are managed through the Control Assessment Standards which are used to determine the design strength and reliability of the Group's processes. The Group aims to control operational risks to ensure that operational losses (financial or reputational), do not cause material damage to the Group's franchise. The Group and the Branch applies the Standardised Approach for measuring the capital requirements for operational risk. For risk-weighted assets and capital requirements resultant from operational risk, refer to table 20 on page 21 and to pages 239 of the 2019 Group Annual Report and Accounts.

Table 12: Operational Risk RWA

	30-Jun-20	
	ZAR'millions	
	RWA's	Capital Required
At 30 June	2,882	331

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7 Liquidity Risk

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

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

The Group develops policies to address material Liquidity risks. Metrics are set against Liquidity and Funding Risk to maintain the Branch'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 Branch 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 Net Stable Funding Ratio (NSFR) **LIQ2** and Liquidity Coverage Ratio **LIQ1** as at 30 June 2020 is included in the Quarterly 30 June 2020 Pillar 3 disclosure.

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8 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 Standard Chartered PLC design and operation structure and frequency of review.