THE STANDARD BANK OF SOUTH AFRICA LIMITED

(Incorporated with limited liability on 13 March 1962 under Registration Number in the Republic of South Africa)

as **Issuer**

ISSUER DISCLOSURE SCHEDULE RELATING TO THE STANDARD BANK OF SOUTH AFRICA LIMITED

*This is the Issuer Disclosure Schedule (“**The Issuer Disclosure Schedule**”) relating to The Standard Bank of South Africa Limited USD 1,000,000,000 Structured Note Programme (the “**Programme**”) applicable to all Notes issued under the Programme pursuant to the Programme Memorandum dated as of 10 September 2021 (the " **Programme Memorandum**").*

This Issuer Disclosure Schedule is dated as of 10 September 2021 contains all information pertaining to the description of the Issuer, including, but not limited to, its business, management, directors and corporate governance disclosure

Capitalised terms used in this Issuer Disclosure Schedule are defined in the section of the Programme headed "*Terms and Conditions of the Notes*", unless separately defined or clearly inappropriate from the context.

DESCRIPTION OF THE STANDARD BANK OF SOUTH AFRICA LIMITED

OVERVIEW

The Standard Bank of South Africa Limited ("**SBSA**") is the largest bank in South Africa (measured by assets) as at 31 December 2020. SBSA is a wholly-owned subsidiary of Standard Bank Group Limited ("**SBG**"). SBSA is a universal bank providing retail, corporate, commercial and investment banking services to individuals and companies across South Africa. SBSA considers itself to be both a strong domestic bank, and a cross-border bank, integrated within SBG's operations and business. SBSA plays a fundamental role in positioning the Standard Bank Group to capitalise on the pace of growth in African markets. SBSA is the head office for SBG's African focus and provides the springboard for SBG's strategy: the capacities developed by SBSA's South African operations provide the foundation of knowledge and experience required in markets in sub-Saharan Africa. As SBG's largest operating entity, SBSA provides balance sheet capacity on which to book deals executed in support of SBG's African strategy. All references herein to "**SBSA Group**" are to SBSA and its subsidiaries.

As at 31 December 2020, SBSA Group had total assets of R1,659,467 million (compared to R1,480,746 million as at 31 December 2019) and had loans and advances of R1,124,238 million for the year ended 31 December 2020 (compared to R1,026,242 million for the year ended 31 December 2019). As at 31 December 2020, SBSA Group had headline earnings of R4,728 million (compared to R16,646 million as at 31 December 2019) and had profit for the year attributable to the ordinary shareholder of R2,543 million (compared to R16,398 million for the year ended 31 December 2019).

Originally founded in 1862, SBSA was a member of Standard Chartered Bank group ("**Standard Chartered**") until 1987. Since that time, SBSA has focused on consolidating its position as the premier universal bank in South Africa, while its parent company, SBG, has an operational footprint in 20 African countries. SBG is a leading African integrated financial services group offering a full range of banking, investment, insurance and related services. SBG's vision is to be the leading financial services organisation in, for and across Africa by delivering exceptional client experiences and superior value.

SBG was listed on the Johannesburg Stock Exchange ("**JSE**"), operated by JSE Limited in 1970 and owns a controlling stake in the South African-listed, wealth management group, Liberty Holdings Limited. SBG operates as four business units: (1) Personal & Business Banking, (2) Corporate & Investment Banking, (3) Wealth and (4) Liberty. SBSA is the largest operating subsidiary by total assets and income within the SB Group and represents nearly all of SBG's South African operations in Personal & Business Banking, Wealth and Corporate & Investment Banking.

Until January 2021, SBSA operated through three principal business lines:

(1) Personal & Business Banking SA;

(2) Corporate & Investment Banking SA; and

(3) Wealth.

The consolidation of SBSA, cost of central functions and impact of the SBSA group's hedging activities is excluded from the above business lines and ringfenced in 'Other services'.

However, from January 2021, the SB Group and the SBSA Group is being reorganised into three client segments (Consumer & High Net Worth, Business & Commercial and Wholesale) each equally supported by its Client Solutions business, specialised Innovation capacity, and Engineering infrastructure. The discussion below is based on SBSA's principal operating segments for the year ended 31 December 2020. See "*Strategy*" for further information about the new operating model.

Personal & Business Banking SA provides banking and other financial services to individual customers and small-to-medium sized enterprises, in particular, mortgage lending, vehicle and asset finance, card products, transactional products, lending products and wealth products. SBSA also provides mobile phone and internet banking services. For the year ended 31 December 2020, Personal & Business Banking SA recorded profits attributable to the ordinary shareholder of R2,381 million, constituting 94 per cent. of SBSA Group's total profit for the year attributable to the ordinary shareholder (compared to R12,372 million and 75 per cent., respectively, for the year ended 31 December 2019). As at 31 December 2020, assets attributable to Personal & Business Banking SA constituted 38 per cent. of SBSA Group's total assets (41 per cent. as at 31 December 2019).

Corporate & Investment Banking SA provides corporate and investment banking services to governments, parastatals, large corporates, financial institutions and multinational corporates and includes global markets, transactional products and services, client coverage and investment banking. Corporate & Investment Banking SA contributed 29 per cent. of SBSA Group's profit for the year attributable to the ordinary shareholder for the year ended 31 December 2020 (compared to 32 per cent. for the year ended 31 December 2019) and constituted 61 per cent. of its total assets as at 31 December 2020 (compared to 58 per cent. as at 31 December 2019).

Wealth offers insurance, investment, and advisory capabilities to high net worth, retail, business and commercial and corporate clients.

Other services contributed negative 22 per cent. of SBSA Group's profit for the year attributable to the ordinary shareholder for the year ended 31 December 2020 (compared to negative 7 per cent. for the year ended 31 December 2019) and constituted 1 per cent. of its total assets as at 31 December 2020 (compared to 1 per cent. as at 31 December 2019).

SBSA is incorporated in South Africa as a limited liability company and operates under South African law. SBSA's registered address is 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg, PO Box 7725, Johannesburg 2000, South Africa (telephone number: + 27 11 636 9111).

HISTORY

SBSA is one of the oldest banks in South Africa having originally been incorporated in London as The Standard Bank of British South Africa Limited in 1862. The word "British" was dropped from SBSA's name in 1883. SBSA commenced operations in Port Elizabeth in 1863 and gradually expanded its geographic area of operation to include the whole of South Africa. In 1962, SBSA was formed and registered as a South African company, operating as a subsidiary of Standard Bank in London (subsequently to become Standard Chartered Bank plc).

SBSA is a wholly-owned subsidiary of SBG, formerly known as Standard Bank Investment Corporation Limited, which was established in 1969 as the holding company for SBSA. SBG continued as a member of Standard Chartered until 1987 when Standard Chartered plc sold its 39 per cent. ownership of SBG to Liberty Group Limited, transferring complete ownership of the holding company to local South African ownership.

CORPORATE STRUCTURE

The Group and relationship with SBSA

SBSA is both a strong domestic bank, which leverages the advantages of its size and scope, and a cross-border bank, fully integrated with SBG and its subsidiaries (together the "**Group**" or "**SB Group**").

SBG is the ultimate holding company of the SB Group, which is South Africa's largest banking group by assets. SBG is a leading African integrated financial services group offering a full range of banking, investment and insurance and related financial services. SBG's strategic focus is on Africa, and SBG currently operates in 20 countries in sub-Saharan Africa.

The Group's competitive positioning as an African banking group which operates in a number of African countries and a strong resources focus gives Corporate & Investment Banking SA access to revenue opportunities beyond the borders of South Africa. It also provides commercial opportunities, experience, expertise, and intellectual capital from other SBG entities to Corporate & Investment Banking SA which both enhances the offering to clients and enables SBSA to better manage risk.

Investors should note that SBG is not a guarantor of, and will not guarantee, any Notes issued by SBSA under the Programme. Investors sole recourse in respect of any Notes issued by SBSA is to SBSA.

STRATEGY

SBSA is the main operating entity of SBG, and its largest subsidiary, contributing 66 per cent. of the Group's assets, 64 per cent. of net interest income, 54 per cent. of total income and 30 per cent. of total headline earnings. SBSA is a core element of SBG operations.

SBSA has adopted SBG's new organisational structure which has resulted in a change from the three business units (Personal and Business Banking, Corporate and Investment Banking and Wealth). From 1 January 2021, SBSA's business is comprised of Consumer and High Net Worth (formerly Personal and Business Banking), Business and Commercial Clients and Wholesale Clients (formerly Corporate and Investment Banking). Across these client segments, through Client Solutions, SBSA provides services to retail clients, small and mid-sized businesses and large corporate clients, ranging from everyday transactional needs to complex cross-border transactions. The majority of SBSA's income is earned from the Consumer and High Net Worth Segment.

SBSA's balance sheet is an important resource for the SB Group. Foreign currency transactions that are too large to be booked solely on the balance sheets of SB Group's Africa Regions subsidiaries, are funded by SBSA. This increases capital utilisation in South Africa. SBSA therefore is not directly comparable with some of its domestic competitors as it carries assets from entities outside South Africa on its balance sheet. Additionally, as a result of SBSA playing the role of SBG operating entity, it bears costs on its income statement that are attributable to SBG as well as related revenues where applicable.

There has been a concerted effort within SBSA in the last few years, to distinguish between activities pertaining to the SA franchise, and those relating to SBG. This includes a clear delineation of costs and revenues attributable to each, as well as the appointment of an SA leadership team who are responsible for the SA franchise within SBSA. This was augmented by an SBG-wide program, completed in 2020, to provide countries with more autonomy.

Aligned to SBG strategic focus areas, SBSA measures its value added across six value drivers, namely

- client focus;
- financial outcome;
- risk and conduct;
- operational efficiency;
- employee engagement; and
- social, economic and environmental impact.

The key elements of SBSA's strategy by segment are outlined below. This construct was instituted by SBSA on 1 January 2021, as such there is not yet any data to report in line with the new organisational structure.

Consumer and High Net Worth ("CHNM")

CHNW combines many of the capabilities of the former Personal and Business Banking (PBB) and Wealth units. CHNW aims to provide a single and complete connection with, and a personalised banking, insurance and asset management service for every client. CHNW offers banking and other financial services including transactional products, mortgage lending, card products, vehicle and asset finance, insurance and asset management.

CHNW's investments in digital systems and the upskilling of employees is enabling agile cross-functional client service teams to deliver innovative, cost effective and personalised solutions to all clients in this segment. This is underpinned by the ongoing transformation of the organisation and implementation of a culture to drive up client service and efficiency levels. The momentum achieved has begun to show in improved client satisfaction scores and new client acquisition across South Africa.

In 2020, digitally active customers increased by 15 per cent. to three million in South Africa and digital origination volumes increased substantially with 51 per cent. of personal lending, 31 per cent. of savings and investments and 37 per cent. of main market transactional accounts now originated digitally in South Africa. As a result of the shift to digital solutions, fewer customers use physical branches (physical volumes decreased by 45 per cent. in 2020). Services offered at branches are increasingly oriented toward solving complex problems while continuing to offer everyday banking products.

SBSA's convenient digital banking options include, amongst others, Instant Money, a digital wallet and money transfer platform, which reflected increased turnover of 5 per cent. relative to 2019. In 2020, the Instant Money offering was expanded across several retailers including supermarkets. SnapScan and Shyft offer users greater convenience and cheaper transaction rates than branch or ATM options and are safe and secure. SnapScan is a mobile payments application, providing South Africans with a convenient way to securely pay with their phones. Shyft is a smartphone application and debit card. Shyft allows SBSA customers to buy, send and store foreign currency (USD, EUR, GBP or AUD), directly from their mobile phone. Cardless cash deposits allow customers to deposit cash at an ATM without using an ATM card. Targeted remittance products enable affordable transfers across national borders.

The priorities for CHNW are to:

- deliver enhanced client segment and sector value propositions;
- improve clients' experience with personalised solutions delivered through the channels they choose, based on a deep understanding of their current needs and future ambitions;
- increase operational efficiency by ensuring that CHNW's technology is efficient, stable, robust and secure, and processes are automated and in the cloud;
- further grow and scale digital services and solutions; and
- empower our people to partner with clients to achieve their goals through well-embedded, agile ways of working and leveraging data to personalise client engagement and offerings.

Business and Commercial

Business Clients

SBSA's Business Clients segment includes the small business clients of the former PBB business unit.

There is significant focus within this business to shift from sales to servicing, and the segment has reorganised itself by simplifying structures in South Africa. There is also focus on deriving value from ecosystems which combine SBSA's own offerings with those of its partners, working with Commercial Clients and building sector capabilities, with significant progress already made in the Education and Healthcare sectors. Business Clients is investing significantly in digital capabilities to enable clients to complete most transactions online, as well as enhancing the bank's offering to them. Examples of digital capabilities that have been launched recently include SimplyBlu which is an eCommerce solution and Edge which is a service that empowers accountants of small businesses to act on their behalf when it comes to banking matters. In 2020, loans for businesses were digitised, improving the time to disperse loans from 32 days to one day for new clients and to three minutes for existing clients.

Commercial Clients

SBSA's Commercial Clients segment includes the mid-sized business clients of the former PBB business unit.

The segment has expertise in various sectors including agriculture and natural resources. The focus areas of this business are increased market share, growth in Trade Finance and cross-border revenues by linking Africa-China opportunities and deriving maximum value from the ecosystems which the business is a part of.

Wholesale Clients

SBSA's Wholesale Clients segment continues to lead and defend its franchise against intensifying competition through increased innovation and flexibility. SBSA aims to remain positioned and resourced to participate in the banking, finance, trading, transactional and investment needs, as well as meeting the advisory needs, of a wide range of multinational companies, local and regional businesses, financial institutions, governments and state-owned enterprises.

SBSA's client coverage model is the cornerstone of its strategy and defines how it offers value to clients. Under this model, each client is allocated a client coordinator who establishes a client service team with representatives across Wholesale Clients SA and other business units, as necessary, in order to develop a comprehensive understanding of its clients' needs and prospects and to provide them with integrated financial services solutions. SBSA continues to support the expansion of many corporate clients into African markets beyond South Africa.

SBSA continues to refine its processes to ensure a seamless experience for its clients, whilst mitigating risk and increasing efficiency. In 2020, SBSA's client satisfaction index remained consistent with 2019, at 8.3.

Client Solutions

The Client Solutions business will work with the three client segments to produce the Group's products and services as efficiently and cost-effectively as possible. Over the medium and longer term, Client Solutions will also offer solutions to third parties, creating new opportunities and new revenue streams.

In SBSA, the Client Solutions construct is comprised of Insurance, Investments, Vehicle and Asset Finance, Card and Payments, and Everyday Banking and Lending. These capabilities work in collaboration with the client segments in SBSA to serve clients across the value chain.

Innovation and Data

These are new capabilities that were introduced as part of the Group restructure which was implemented in January 2021. SBSA will leverage these capabilities to enhance client experience and operational excellence.

The client segments already have data capabilities embedded within them, and the SBG Innovation and Data capability will aim to complement this capability within SBSA.

Investing in digital

The partnerships with both Microsoft and Amazon Web Services have contributed to the acceleration of the development and adoption of the Cloud in South Africa. Cloud execution is central to enabling SBSA to become a truly digital financial services business. To this end, 80 per cent. of the workloads that were planned to be migrated to cloud in 2020 were delivered successfully. With the rest of SBG, SBSA will leverage the partnership with Salesforce to build partnerships with vendors and service providers to co-create customized solutions for its clients. They will also enable the Group's clients to use the Standard Bank Group platform to create solutions for themselves, and to do so in partnership with the Group and its service providers and vendors.

Build excellence through engaged and committed people

The workplace experience of SBSA's employees continues to be at the core of everything we do, driven by the personal needs and aspirations of existing and prospective employees, technological advancements and broader societal and economic trends. SBSA continues to shape a workforce to respond to changing client needs.

In 2020, the challenge to lead differently and ensure an attractive culture for SBSA's employees, became even more critical. The safety, and mental and physical wellness of SBSA's employees became paramount and new virtual ways of working and learning were introduced. The massive acceleration of digital transformation, the virtual workplace, shifting and changing client expectations, and the socio and economic impact on people is shaping the employee experience in SBSA in a deliberate way.

SBSA continues to invest in its people for current and future skills. SBSA introduced a Learning Experience Platform which provides all employees with a single point of access to all its paid-for digital content libraries as well as all open on-line content available on the internet. Using machine learning, the solution continuously analyses employees' skillsets to personalise development pathways based on their unique interests, skills, role and learning goals.

Learning can easily be shared across the organisation and employees can actively follow one another, truly engaging on topics and/or skills of interest. Overall staff turnover decreased significantly to 6.4 per cent. in 2020 from 12.2 per cent. in 2019. The 2020 eNPS for SBSA increased to +48 in 2020 from +14 (2019).

Prioritise transformation of our workforce

People are the critical success factor in SBSA's efforts to maintain excellent client service and SBSA continues to focus on attracting and retaining quality employees, who are appropriately resourced, developed and empowered to fulfil the commitments made to clients. SBSA has intensified its focus on transformation and diversity, including introducing a Transformation Policy in 2020. This policy guides the way transformation related activities are performed to ensure that the SBSA workforce is representative of the racial demographic of South Africa.

Social and Economic Impact

SBSA's focus is to leverage its business activities to drive growth, while at the same time making a positive impact on society, the economy and the environment. SBSA's selected impact areas align to its core business and are informed by the needs of South Africa's people, businesses and economy, as well as the UN SDGs, the African Union's Agenda 2063, South Africa's National Development Plan and its Nationally Determined Contribution to the Paris Agreement.

Developing sustainable finance solutions, including green and social bonds, impact investing and ESG linked products and services, to drive sustainable and inclusive economic development in South Africa is a key priority for the group, and received substantial attention from the board and executive management during the year. SBSA is progressively managing and shaping its portfolio in a manner that is consistent with achieving a low-carbon and climate-resilient economy needed to limit global warming to below 2 degrees, by supporting a just transition away from non-renewable energy sources.

SBSA's work to find and implement innovative solutions to address the economic, social and environmental challenges in our markets, and to help our clients and employees achieve growth, prosperity and fulfilment, enables SBSA to contribute to advancements and earn the trust of its stakeholders.

COMPETITIVE STRENGTHS

SBSA believes that it has the following competitive strengths:

Market position in key products

SBSA offers a wide range of retail, wealth, commercial and investment banking products and is one of the four major South African banks. According to the SARB BA 900 Filings as at 31 December 2020, in the 5 product categories tracked by the SARB, SBSA held a market share of 34.5 per cent. of mortgage lending at 31 December 2020 (compared to 33.9 per cent. as at 31 December 2019), 19.2 per cent. of vehicle and asset finance at 31 December 2020 (compared to 18.7 per cent. as at 31 December 2019), 25.3 per cent. of card debtors at 31 December 2020 (compared to 25.1 per cent. as at 31 December 2019), 21.5 per cent. of other loans and advances as at 31 December 2020 (compared to 21.5 per cent. as at 31 December 2019) and 23.1 per cent. of deposits at 31 December 2020 (compared to 22.6 per cent. as at 31 December 2019). According to the SARB BA 900 Filings as at 31 December 2020, SBSA's market share in mortgage loans and corporate priced deposits are the largest of the four major South African banks.

A universal financial services company with a strong franchise, a modern digital core and diverse revenue sources

SBSA’s franchise strength is underpinned by its strong brand, the calibre of its employees and a fit-for-purpose physical distribution network and digital platforms. SBSA is able to generate revenue from sources that are well-diversified across clients, sectors, product groups and geographies, which provides protection in times of volatility. These include generating net interest income from its lending portfolio, fees and trading profits from corporate advisory services, foreign exchange and derivatives, stock and bond trading, brokerage reserve and transactional services.

Robust capital and liquidity position

SBSA’s strong and liquid balance sheet provides flexibility to manage uncertainty, change, innovation and growth. SBSA has access to diverse and sophisticated liquidity sources for senior funding and capital requirements.

Experienced management team

SBSA's senior management has experience both at SBSA and at other institutions throughout the banking industry. SBSA's position in the market has allowed it to attract top managers from across the industry, both domestically and abroad. Managers are dedicated to the goals of the institution. A compensation structure that includes both short and long-term incentive plans assists in retaining key managers and leads to continuity in business operations.

Position within Standard Bank Group

SBSA is both a strong domestic bank, which leverages the advantages of its size and scope, and a cross-border bank, fully integrated with the rest of the Group.

The Group's competitive positioning as an African bank which operates in a number of African countries and strong resources-focus gives Corporate & Investment Banking SA access to revenue opportunities beyond the borders of South Africa. It also provides commercial opportunities, experience, expertise, and intellectual capital from other Group entities to Corporate & Investment Banking SA which both enhances the offering to clients and enables SBSA to better manage risk.

Appetite to invest and partner

SBSA has the resources and appetite to expand on its own as well as through partnerships and alliances, particularly with businesses specialising in digital financial services and digital networks and communications providers.

BUSINESS OF SBSA

Introduction

SBSA is a universal bank providing retail, corporate, commercial and investment banking services to individuals and companies across South Africa. SBSA has a broad franchise and is active in almost all banking markets in South Africa.

Until January 2021, SBSA's principal business units were Personal & Business Banking SA, Corporate & Investment Banking SA and Wealth. A central support area (Other services) provided support functions to the two principal divisions, as well as advisory services. However, from January 2021, the SB Group and the SBSA Group is being reorganised into three client segments (Consumer & High Net Worth, Business & Commercial and Wholesale) each equally supported by its Client Solutions business, specialised Innovation capacity, and Engineering infrastructure. The discussion below is based on SBSA's principal operating segments for the year ended 31 December 2020. See "*Strategy*" for further information about the new operating model.

As at 31 December 2020, the SBSA Group's total assets amounted to R1,659,467 million (compared to R1,480,746 million as at 31 December 2019), an increase of 12 per cent. For the year ended 31 December 2020, SBSA Group's profit for the year attributable to the ordinary shareholder decreased by 84 per cent. to R2,543 million from R16,398 million for the year ended 31 December 2019.

For the year ended 31 December 2020, SBSA Group's total income decreased by 7 per cent. to R66,510 million, driven by a 5 per cent. decrease in net interest income largely driven by negative endowment impact of R3.0 billion as a result of lower average interest rates compared to 2019. This was partly offset by volume growth as a result of a good average balance sheet growth across products in both PBB SA and CIB SA. Overall non-interest revenue decreased by 10 per cent. to R27,038 million for the year ended 31 December 2020 (compared to R29,922 million for the year ended 31 December 2019). Net fee and commission revenue decreased marginally to R18,937 million for the year ended 31 December 2020 (compared to R20,991 million for the year ended 31 December 2019), mainly due to the decline in transactional activity which was severely impacted by lock down restrictions imposed in response to curb the surge of Covid-19. SBSA noted a significant decline in ATM and branch transaction volumes of 20% and 44% respectively during 2020. However, its digital capabilities continue to yield positive outcomes with digital transactional volumes increasing by 30% and mobile banking transactional volumes increasing by 44%. This was partly offset by higher upfront, arrangement and commitment fees earned in investment banking, and brokerage fees earned in the cash equities business linked to increased share trading volumes by institutional and retail clients. Trading revenue for the year ended 31 December 2020 marginally decreased by 3 per cent., driven by a very strong performance in the first half of 2020, but this momentum slowed in the second half of 2020 as the economy opened up and volatility decreased. Equities and credit derivatives trading activities declined as client flows slowed on the back of adverse market sentiment. SBSA experienced strong gains from foreign exchange and interest rates trading volumes as a result of increased market volatility, particularly in the first half of the year. Other revenue for the year ended 31 December 2020 declined by 22 per cent. compared to the previous financial year, largely driven by equity investments write down, lower fleet end-of-contract profits and decreased short-term fleet rentals. SBSA saw higher insurance-related income linked to higher gross written premium from higher cover and premium products. Other gains and losses on financial instruments increased by 5 per cent. as a result of mark-to-market gains on treasury bill instruments measured at fair value as well as growth of the portfolio. This income benefited from surplus liquidity placement as demand for lending decreased.

Credit impairment charges for the year ended 31 December 2020 at R17.1 billion were 3.0 times higher compared to 2019 and the credit loss ratio increased by 91 bps to 148 bps, largely driven by elevated distress experienced across both the personal and corporate lending portfolios due to the impact of Covid-19 on consumer and business confidence. Delayed collections were also in evidence as a result of constraints in the collections environment and disruptions noted in the legal environment related to the closure of the courts during the lockdown period. This resulted in delays in foreclosure processes in the mortgage and vehicle and assets portfolios. Additionally, forward-looking provisions were raised for expected future credit losses given the weakened economic outlook.

Operating expenses decreased by 2% to R41.9 billion relative to 2019, with staff costs lower by 5% and other operating expenses higher by 2% due to sustained costs efforts. Staff costs were 5% lower mainly due to reduced incentive accruals aligned to business performance coupled with savings from the prior year’s branch reconfiguration. Other operating expenses were 2% higher compared to 2019 mainly driven by increased IT spend to enhance SBSA's client proposition of offering digitally enabled integrated financial solutions. As result of the impact of Covid-19, SBSA accelerated the deployment of tools and capabilities to enable its employees to work remotely. SBSA benefited from savings from business travel and conference costs due to restrictions on such activities during the Covid-19 lockdown.

The following table shows selected ratios for SBSA Group as at, and for the years ended, 31 December 2020 and 31 December 2019:

	31 December	
	2020	**2019**
	(Rm)	*(Rm)*
Income statement		
Total income	66,510	71,503
Headline earnings	4,728	16,646
Profit for the year attributable to ordinary shareholders	2,543	16,398
Statement of financial position		
Gross loans and advances	1,164,934	1,054,048
Total assets	1,659,467	1,480,746
Total liabilities	1,553,243	1,374,029
Financial performance		
Gross carrying amount of stage 3 loans and advances		
Total gross carrying amount of default exposures	61,918	38,107
Total impairment charges for loans and advances[1]	16,779	5,962
Total Stage 1 and 2 credit impairment charge	3,613	306
Total Stage 3 credit impairment charge	13,166	5,656
	(%)	*(%)*
Credit loss ratio on loans and advances	1.48	0.57
Stage 3 exposures ratio	5.3	3.6
Return on equity	4.8	16.9
Loans - to- deposit ratio	85.2	86.6
**Cost -to - income ratio	63.4	60.2

[1] Includes post write-off recoveries and modification gains and losses.

The following table shows the contribution of the different divisions within SBSA Group to its major financial indicators as at, and for the years ended, 31 December 2020 and 31 December 2019:

	Personal & Business Banking SA*		**Corporate & Investment Banking SA***		**Other Services***	
	31 December		**31 December**		**31 December**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	(Rm)		*(Rm)*		*(Rm)*	
Total assets	623,580	602,044	1,019,220	866,061	16,667	12,641
Profit for the year attributable to the ordinary shareholder	2,381	12,372	727	5,258	(565)	(1,232)

Personal & Business Banking SA

SBSA Group's Personal & Business Banking SA business unit offers individual customers and small and medium enterprises a wide range of banking, investment and other financial services in South Africa. Products offered include mortgage lending, vehicle and asset finance, lending products, card products to individuals and small and medium sized businesses, transactional products, as well as wealth and bancassurance products.

At 31 December 2020, it operated 540 branches and loan centres and 4,444 ATMs and ANAs (Automated Notes Acceptors) across South Africa. It also provides mobile phone and internet banking services which are an important part of providing convenient access to banking and related products.

For the year ended 31 December 2020, Personal & Business Banking SA recorded profit for the year attributable to ordinary shareholders of R2,381 million, a decrease of 80.8 per cent. compared to the year ended 31 December 2019. Net interest income of R31,051 million for the year ended 31 December 2020 constituted 63.7 per cent. of the division's total income (compared to R32,489 million and 61.8 per cent. for the year ended 31 December 2019), Non-interest revenue for the year ended 31 December 2020 amounted to R17,698 million, a decrease of 11.6 per cent. compared to the year ended 31 December 2019, mainly due to the decline in transactional activity severely impacted by lock down restrictions imposed in response to curb the surge of Covid-19. SBSA experienced a significant decline in ATM and branch transaction volumes of 20% and 44% respectively during 2020. Credit impairment charges for the year ended 31 December 2020 amounted to R13,956 million, an increase of 177.0 per cent. compared to the year ended 31 December 2019, largely driven by elevated distress experienced across both the personal and corporate lending portfolios due to the impact of Covid-19 on consumer and business confidence. Total operating expenses for the year ended 31 December 2020 amounted to R30,012 million, a decrease of 0.9 per cent.

The following table presents a summary of Personal & Business Banking SA's main performance indicators for the years ended 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	(Rm)	
Net interest income	31,051	32,489
**Non-interest revenue	17,698	20,031
Total income	**48,749**	**52,520**
Credit impairment charges	(13,956)	(5,039)
Net income before operating expenses	**34,793**	**47,481**
Operating expenses	**(30,012)**	**(30,283)**
Staff costs	(8,241)	(10,144)
**Other operating expenses	(21,771)	(20,139)
Net income before capital items and equity accounted earnings	**4,781**	**17,198**
Share of (losses)/profits from associates and joint ventures	(40)	37
Non-trading and capital related items	(354)	(73)
Net income/(loss) before indirect taxation	**4,387**	**17,162**
Indirect taxation	(249)	(345)
Profit/(loss) before direct taxation	**4,138**	**16,817**
Direct taxation	(836)	(4,281)
Attributable to non-controlling interest	(5)	(4)
Attributable to other equity instrument holders	(916)	(160)
Profit for the year attributable to ordinary shareholders	**2,381**	**12,372**
Headline earnings	**2,635**	**12,427**
Gross loans and advances	**630,095**	**595,041**
Total assets	**623,580**	**602,044**
Total liabilities	**567,713**	**545,960**

The following table presents selected ratios for Personal & Business Banking SA's for the years ended 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	(%)	
Credit loss ratio	2.35	0.88
Stage 3 Exposures	8.3	5.6

The following table presents the stage 3 exposures ratios for Personal & Business Banking SA's products for the years ended 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	(%)	
Stage 3 Exposures ratios:		
Mortgage loans	8.2	5.5
Vehicle and asset finance	7.8	4.4
Card debtors	5.9	4.3
Other loans and advances	9.5	7.5

Mortgage loans

Mortgage lending provides residential accommodation loans to individual customers. Gross mortgage loans increased 5.9 per cent. for the year ended 31 December 2020 to R378,124 million (compared to R357,182 million for the year ended 31 December 2019), constituting 60.0 per cent. of loans and advances by the Personal & Business Banking SA business unit in both 2020 and 2019.

The performance of the mortgage loans portfolio declined as a result of distress experienced due to the impact of Covid-19 on consumer and business confidence, resulting in an increase in the credit loss ratio to 1.16 per cent. for the year ended 31 December 2020 (compared to 0.20 per cent. for the year ended 31 December 2019), whilst credit impairment charges amounted to R4,132 million for the year ended 31 December 2020 (compared to R711 million for the year ended 31 December 2019). For the financial year ended 31 December 2020, R31,048 million of gross mortgage loans (8.2 per cent. of gross mortgage loans) are categorised as Stage 3 (compared to R19,477 million and 5.5 per cent. of gross mortgage loans for the financial year ended 31 December 2019).

Vehicle and asset finance

Vehicle and asset finance provides finance to retail market customers, finances vehicles and equipment to the business market and fleet solutions. As at 31 December 2020, gross loans and advances in vehicle and asset finance amounted to R89,481 million (compared to R84,948 million as at 31 December 2019), an increase of 5.3 per cent. The credit loss ratio for vehicle and asset finance increased to 2.86 per cent. for the year ended 31 December 2020 from 0.99 per cent. for the year ended 31 December 2019.

Card debtors

SBSA provides credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring). The credit card product has been an important aspect of SBSA's strategic focus on the emerging middle-class consumer segment in South Africa. SBSA has developed sophisticated origination methods using internal and external data to identify existing and potential customers with suitable risk profiles for credit extension.

For the year ended 31 December 2020, SBSA's credit card debtors increased by 1.7 per cent. to R34,592 million (compared to R34,010 million for the year ended 31 December 2019). The credit loss ratio for gross card debtors increased to 6.46 per cent. as at 31 December 2020, from 2.96 per cent. as at 31 December 2019 largely due to the impact of Covid-19 on consumer and business confidence.

Transactional products

Transactional products provides a comprehensive suite of transactional, savings, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and electronic channels such as ATMs, internet banking, mobile banking, telephone banking and branches.

Lending products

Lending products offers lending products to retail and business markets. The business markets lending offerings constitute a comprehensive suite of lending products, structured working capital finance and commercial property finance solutions.

Wealth (including bancassurance) products

The Wealth offering includes short-and long-term insurance products, comprising simple embedded products (including homeowners' insurance, funeral cover, household contents and vehicle insurance, accident and health insurance, and loan protection plans sold in conjunction with related banking products) as well as complex insurance products (including life, disability and investment policies sold by qualified intermediaries). The financial solutions offered include financial planning and modelling, integrated fiduciary services (including will drafting and custody services), trust, other tailored banking and wealth management solutions to private high net worth individuals to meet their domestic and international needs.

Corporate & Investment Banking SA

The Corporate & Investment Banking SA business unit comprises four main product groupings, namely: Global Markets, Transactional Products and Services, Investment Banking and Client Coverage.

Corporate & Investment Banking SA offers a wide range of corporate and investment banking services including global markets, banking and trade finance, investment banking and advisory services. This business unit's clients include governments, parastatals, larger corporates, financial institutions and multinational corporates in South Africa and sub-Saharan Africa.

Corporate & Investment Banking SA's profit for the year attributable to the ordinary shareholder decreased by 86.2 per cent. from R5,258 million for the year ended 31 December 2019 to R727 million for the year ended 31 December 2020. Non-interest revenue decreased by 6.4 per cent. during 2020 impacted highly by the impact of Covid-19. Credit impairment charges increased by 358.2 per cent. during 2020 as a result of the impact of Covid-19 on consumer and business confidence. Operating expenses decreased by 1.2 per cent. to R13,089 million for the year ended 31 December 2020.

The value of the total gross loans and advances amounted to R533,604 million as at 31 December 2020 (compared to R458,846 million as at 31 December 2019), which represents 45.9 per cent. of SBSA's total gross loans and advances as at 31 December 2020 (compared to 43.5 per cent. of SBSA's total gross loans and advances as at 31 December 2019).

Global Markets

Global Markets comprises trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities.

Transactional Products and Services

Transactional products and services comprise a comprehensive suite of cash management, international trade finance, working capital and investor services solutions.

Investment Banking

Investment banking comprises a full suite of advisory and financing solutions, from term lending to structured and specialised products across equity and debt capital markets.

Client Coverage

Client Coverage provides in-depth sector expertise to develop relevant client solutions and foster client relationships.

The table below presents a summary of the CIB SA division's main performance indicators for the years ended 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	(Rm)	
Net interest income	9,223	10,413
Non-interest revenue	9,383	10,024
Total income	**18,606**	**20,437**
Credit impairment charges	(3,139)	(685)
Net income after credit impairment charges	**15,467**	**19,752**
Revenue sharing agreements[1]	(434)	(614)
Operating expenses	**(13,089)**	**(13,252)**
Staff costs	(4,318)	(4,507)
Other operating expenses	(8,771)	(8,745)
Net income before capital items and equity accounted earnings	**1,944**	**5,886**
Share of (losses)/profits from associates and joint ventures	66	2
Non-trading and capital related items	(2,488)	(189)
Net income/(loss) before indirect taxation	**(478)**	**5,699**
Indirect taxation	(156)	(141)
Profit/(loss) before direct taxation	**(634)**	**5,558**
Direct taxation	1,573	(71)
Attributable to non-controlling interest	—	—
Attributable to other equity instrument holders	(212)	(229)
Profit for the year attributable to ordinary shareholders	**727**	**5,258**
Headline earnings	**2,519**	**5,403**
Gross loans and advances	**533,604**	**458,846**
Total assets	**1,019,220**	**866,061**
Total liabilities	**970,350**	**814,392**

[1]Revenue sharing agreements are agreements that allow for the sharing of income with other SBG companies

The following table presents selected ratios for CIB SA for the years ended 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	(%)	
Credit loss ratio	0.52	0.2
Stage 3 exposure ratio	1.8	1.0

The following table presents selected financial information for Corporate & Investment Banking SA's products for the years ended 31 December 2020 and 31 December 2020.

	31 December	
	2020	**2019**
Stage 3 Exposure ratios (%):		
Corporate and sovereign lending	2.6	1.2
Bank lending		
Credit loss ratios (%):		
Corporate and sovereign lending	0.71	0.25
Bank lending		0.010
Gross loans and advances (Rm):		
Corporate and Sovereign Lending	366,124	372,103
Bank Lending	167,480	86,743

LOAN PORTFOLIO

Introduction

The SBSA Group extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances to individuals are mostly in the form of mortgages, vehicle and asset finance, card lending and overdrafts. A significant portion of SBSA's advances to commercial and corporate borrowers consist of advances made to companies engaged in manufacturing, finance and service industries.

As at 31 December 2020, SBSA Group's total loans and advances to customers amounted to R1,164,934 million (compared to R1,054,048 million as at 31 December 2019), an increase of 10.5 per cent.

Expected credit losses on loans and advances amounted to R40,696 million for the year ended 31 December 2020, an increase of 46 per cent. from the year ended 31 December 2019.

Loan portfolio by category of loans and advances

The following table sets out the composition of SBSA's advances by category of loan or advance as at 31 December 2020 and 31 December 2019.

	31 December	
	2020	2019
	(Rm)	
Loans and advances measured at fair value	**1,235**	**161**
Net loans and advances measured at amortised cost	**1,123,003**	**1,026,081**
Gross loans and advances measured at amortised cost	**1,163,699**	**1,053,887**
Mortgage loans	378,124	357,182
Vehicle and asset finance	89,481	84,948
Card debtors	34,592	34,010
Corporate and sovereign lending	366,124	372,103
Bank lending	167,480	86,743
Other loans and advances	127,898	118,901
Expected credit losses	**(40,696)**	**(27,806)**
Net loans and advances	**1,124,238**	**1,026,242**
Comprising: Gross loans and advances	1,164,934	1,054,048
Less: Expected credit losses	(40,696)	(27,806)

Loan portfolio by industry sector

The following table sets out the composition of SBSA's advances by industry sector as at 31 December 2020 and 31 December 2019.

	31 December	
	2020	2019
	(Rm)	
Segmental analysis – industry		
Agriculture	24,174	26,106
Construction	10,079	8,574
Electricity	21,724	22,540
Finance, real estate and other business services	379,796	304,214
Individuals[1]	515,315	485,896
Manufacturing	55,207	55,897
Mining	21,850	29,539
Transport	43,249	37,359
Wholesale	52,032	57,474
Other services	41,508	26,449
Gross loans and advances	**1,164,934**	**1,054,048**

1 Includes mortgages.

Geographical concentration of loans

The following table sets out the distribution of SBSA's loans and advances by geographic area where the loans are recorded as at 31 December 2020 and 31 December 2019.

	31 December	
	2020	2019
Segmental analysis by geographic area	(Rm)	
South Africa	899,485	891,100
Sub-Saharan Africa	152,034	81,544
Other countries	113,415	81,404
Gross loans and advances	**1,164,934**	**1,054,048**

Credit impairments for loan and advances

The tables below present a reconciliation of the credit impairments for loans and advances for the years ended 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	Rm	
Opening Expected Credit Losses ("ECL") - 1 January	27,806	29,268
Net ECL raised and released	17,282	6,898
Impaired accounts written off	(6,690)	(11,017)
Exchange and other movements	2,298	2,657
Closing ECL - 31 December	**40,696**	**27,806**
Comprising:		
Stage 1 ECL	4,593	3,946*
Stage 2 ECL	8,651	5,893*
Stage 3 ECL	27,452	17,967
	40,696	**27,806**

The table below sets out a segmental analysis of stage 3 loans and advances by industry as at 31 December 2020 and 31 December 2019.

	31 December	
	2020	**2019**
	(Rm)	
Segmental analysis of specific impairments by industry		
Agriculture	413	858
Construction	1,135	833
Electricity	526	61
Finance, real estate and other business services	2,339	1,430
Individuals	19,148	13,121
Manufacturing	639	697
Mining	45	109
Transport	1,089	211
Wholesale	1,216	481
Other services	902	166
	27,452	**17,967**

Credit portfolio characteristics and metrics

Maximum exposure to credit risk

Debt financial assets at amortised cost and fair value through other comprehensive income as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using SBSA's master rating scale. SBSA uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes). Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of SBSA's master rating scale. These ratings are mapped to probability of default **("PDs")** by means of calibration formulae that use historical default rates and other data from the applicable Personal & Business Banking SA portfolios. SBSA distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

SBSA's definition of default has been aligned to its internal credit risk management definitions and approaches. While the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel III definition) as occurring at the earlier of:

- where, in SBSA's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

SBSA does not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of the borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- disappearance of active market due to financial difficulties;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

GOVERNANCE

SBSA's governance framework is derived from SBG's governance framework, which in turn is based on principles in the King Report on Corporate Governance for South Africa (King IV). This governance framework enables the board of directors of SBSA (the "**SBSA Board**") to balance its role of providing risk oversight and strategic counsel with ensuring adherence to regulatory requirements and risk tolerance. The SBSA Board is ultimately responsible for governance. The chairman is an independent non-executive and the roles of chairman and chief executive are separate. The board composition is both qualitatively and quantitatively balanced in terms of skills, demographics, gender, nationality, experience and tenure. There is a clear division of responsibilities ensuring that no one director has unfettered powers in the decision-making process.

The board has delegated certain functions to its committees in line with its governance framework. This enables the board to allocate sufficient time to all matters within its sphere, including execution of strategy and forward-looking agenda items. Each committee has a mandate, which the SBSA Board reviews at least once a year. Mandates for each committee set out its role, responsibilities, scope of authority, composition, terms of reference and procedures. The SBSA Board's committees include the directors' affairs committee; audit committee; risk and capital management committee; and SBSA large exposure credit committee. The SBSA Board monitors oversight over compliance through its board committees. The board has delegated the management of the day-to-day business and affairs of SBSA to the Chief Executive. The executive committee assists the chief executive, subject to statutory parameters and matters reserved for the SBSA Board.

Board of Directors

As at 17 August 2021, the SBSA Board comprised of 18 directors, 12 of whom are independent non-executive directors, 3 of whom are non-executive directors and 3 of whom are executive directors.

The members of the SBSA Board as at the date of the Programme Memorandum are listed below:

Name	Title	Year Joined SBSA Board
Thulani Gcabashe	Chairman and Independent, non-executive director	2003
Xueqing Guan	Non-executive director	2020
Jacko Maree	Independent, non-executive director	2016
Paul Cook	Independent, non-executive director	2021
Maureen Erasmus	Independent, non-executive director	2019
Geraldine Fraser-Moleketi	Independent, non-executive director	2016
Trix Kennealy	Lead Independent, non-executive director	2016
Nomgando Matyumza	Independent, non-executive director	2016
Kgomotso Moroka	Non-executive director	2003
Nonkululeko Nyembezi	Independent, non-executive director	2020
Martin Oduor – Otieno	Independent, non-executive director	2016
Atedo Peterside	Independent, non-executive director	2014
Myles Ruck	Independent, non-executive director	2006
John Vice	Independent, non-executive director	2016
Lubin Wang	Non-executive director	2017
Lungisa Fuzile	Chief executive	2018
Sim Tshabalala	Executive director	2008
Arno Daehnke	Executive director	2016

Changes to the SBSA's Board

For the year under review, one new independent non-executive director, Paul Langabi Hogan Cook was appointed to the SBSA Board on 22 February 2021. André Parker, an independent non-executive director, retired from the SBSA Board on 26 May 2021.The business address of the members of the SBSA Board is SBSA's registered address, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001, PO Box 7725, Johannesburg 2000, South Africa.

Abridged curriculum vitae of the board members follows:

CHAIRMAN AND DEPUTY CHAIRMAN

Thulani Gcabashe / 63 *Chairman and independent non-executive director, Standard Bank Group (SBG) and The Standard Bank of South Africa (SBSA)* *Appointed:* 1 July 2003, appointed chairman 28 May 2015	**Qualifications**: > BA (Botswana and Swaziland) > Master's degree in urban and regional planning (Ball State University, US)	**External directorships**: > Built Environmental Africa Capital (chairman) and related entities > African Olive Trading 160 > Lightsource (Pty) Ltd **Previous roles**: > chairman of Imperial Holdings > chief executive officer (CEO) of Eskom between 2000 and 2007	**Committees**: DAC (chairman) GRCMC REMCO GSEC LEC
Jacko Maree / 65 *Deputy chairman, SBG and independent non-executive director, SBG and SBSA* *Appointed:* 21 November 2016	**Qualifications**: > BCom (University of Stellenbosch) > BA and MA (politics and economics) (Oxford) > PMD (Harvard)	**Appointments held within the Group:** > Liberty Holdings (chairman) > Liberty Group (chairman) **External directorships**: > Phembani Group **Other governing body and professional positions held**: > China Investment Corporation – International advisory council > Special Envoy on Investments to RSA **Previous roles**: > chief executive officer (CEO) of the group for more than 13 years > senior banker focusing on key client relationships	**Committees**: GMAC (chairman) GRCMC REMCO GSEC LEC
Dr Xueqing Guan / 57 *Deputy chairman, SBG and non-executive director,*	**Qualifications:** >Doctorate in economics (Southwestern University of Finance	**Current role:** > Board secretary of ICBC	**Committees**: DAC GTIC GRCMC

SBG and SBSA *Appointed:* 1 August 2020	and Economics, China)	**Previous roles:** > General manager of corporate strategy and investor relations department of ICBC > Head of Sichuan branch, ICBC	
Trix Kennealy / 62 *Lead independent director SBG and independent non-executive director SBSA* *Appointed*: 21 November 2016	**Qualifications**: > BCom (University of Pretoria) > BCom (Hons) (University of Johannesburg)	**External directorships**: > Sasol **Previous roles**: > chief financial officer of the South African Revenue Service > chief operating officer of ABSA corporate and business bank	**Committees**: GAC (chairman) GRCMC REMCO (chairman) DAC
Sim Tshabalala / 53 *Group CEO, SBG and executive director, SBSA* *Appointed:* 1 June 2008 (SBSA) 7 March 2013 (SBG)	**Qualifications**: > BA, LLB (Rhodes University) > LLM (University of Notre Dame, USA) > HDip Tax (University of the Witwatersrand) > AMP (Harvard)	**Appointments held within the Group:** > Stanbic Africa Holdings Limited > Liberty Holdings > Liberty Group > Tutuwa Community Holdings **Other governing body and professional positions held**: > Institute of International Finance > International Monetary Conference > Palaeontological Scientific Trust	**Committees**: GTIC GSEC GMAC LEC
Arno Daehnke / 53 *Chief finance and value management officer, SBG and executive director, SBSA* *Appointed*: 1 May 2016	**Qualifications**: > BSc, MSc (University of Cape Town) > PhD (Vienna University of Technology) > MBA (Milpark Business School) > AMP (Wharton)	**Appointments held within the Group:** > Stanbic Africa Holdings **Previous roles**: > head of the group's treasury and capital management function	**Committees**: GTIC GMAC LEC
Paul Cook / 40 *Independent non-executive director,*	**Qualifications**: >PhD in physics (California Institute of	**External directorships**: > Co-founder and managing	**Committees**: GTIC GMAC

SBG and SBSA *Appointed*: 22 February 2021	Technology) >Bachelor of science with honours (University of Witwatersrand	director of Silvertree Holdings > CEO of Faithful to Nature **Previous roles**: >Managing director, Ringier Africa Deals Group	GSEC
Maureen Erasmus / 60 *Independent non-executive director, SBG and SBSA* *Appointed*: 12 July 2019	**Qualifications**: > BCom (University of Cape Town)	**External directorships**: > Credit Suisse (UK) > Mizuho International Plc > PSI Global Healthcare > Vanguard Asset Management > Vanguard Investments (UK) **Other governing body and professional positions held**: > African Leadership Institute **Previous roles**: > UK partner, Bain & Company	**Committees**: GAC GRCMC REMCO
Geraldine Fraser-Moleketi / 60 *Independent non-executive director, SBG and SBSA* *Appointed*: 21 November 2016	**Qualifications**: > Master's degree in public administration (University of Pretoria) > PhD(Honoris Causa) (Nelson Mandela University) > Fellow of the Institute of Politics (Harvard)	**External directorships**: > Exxaro Resources > Tiger Brands (chairman) **Other governing body and professional positions held**: > UN economic and social council, committee of experts of public administration (chairman) > Nelson Mandela University (chancellor) > Mapungubwe Institute for Strategic Reflection > Government Technical Advisory Centre Winter School Advisory Panel **Previous roles**: > special envoy on gender at African Development Bank Côte d'Ivoire	**Committees**: DAC GRCMC GSEC

		> director of the UN development programme's global democratic governance group > minister of Welfare and Population Development from 1996 to 1999, and Public Service and Administration from 1999 to 2008 > ISID Advisory Board McGill University Canada	
Nomgando Matyumza / 58 *Independent non-executive director, SBG and SBSA* *Appointed*: 21 November 2016	**Qualifications**: > BCompt (Hons) (University of Transkei) > LLB (University of Natal) > CA (SA)	**External directorships**: > Sasol > Volkswagen of South Africa **Previous roles**: > deputy CEO at Transnet Pipelines > non-executive director on the boards of Cadiz, Transnet SOC, Ithala Development Finance Corporation, WBHO and Hulamin	**Committees**: GRCMC REMCO GAC DAC
Kgomotso Moroka / 66 *Non-executive director, SBG and SBSA* *Appointed*: 1 July 2003	**Qualifications**: > BProc (University of the North) > LLB (University of the Witwatersrand)	**External directorships**: > Kalagadi Manganese > Temetayo (chairman) > Multichoice Group and Multichoice South Africa Holdings > Netcare **Other governing body and professional positions held**: > member of the Johannesburg Society of Advocates **Previous roles**: > Non-executive director of South African Breweries > Acting judge in the Witwatersrand Local Division > Trustee of the Nelson Mandela	**Committees**: GSEC (chairman) DAC GRCMC

		Children's Fund and Apartheid Museum >Chairman of Royal Bafokeng Platinum	
Nonkululeko Nyembezi / 61 *Independent non-executive director, SBG and SBSA* *Appointed*: 1 January 2020	**Qualifications**: > BSc (Hons) (University of Manchester) > MSc (electrical engineering) (California Institute of Technology) > MBA (Open University Business School, UK)	**External directorships**: > JSE Limited > Anglo American Plc > Macsteel Service Centres South Africa (Pty) Limited **Previous roles**: > CEO of ArcelorMittal South Africa and CEO and executive director of Ichor Coal N.V > chairman of Alexander Forbes Group Holdings > non-executive director of Old Mutual	**Committees**: GRCMC GTIC SALE
Martin Oduor-Otieno / 64 *Independent non-executive director, SBG and SBSA* *Appointed*: 1 January 2016	**Qualifications**: > BCom (University of Nairobi) > CPA (Kenya) > Executive MBA (ESAMI/Maastricht Business School) > Honorary Doctor of Business Leadership (KCA University) > AMP (Harvard), > Fellow at the Institute of Bankers (Kenya)	**External directorships**: > GA Life Insurance Company > East African Breweries **Other governing body and professional positions held**: > SOS Children's Villages International > Member of the Africa Executive Coaching Council (AECC) **Previous roles**: > CEO of the Kenya Commercial Bank Group > partner at Deloitte East Africa	**Committees**: GAC GSEC
Atedo Peterside CON / 65 *Independent non-executive director,*	**Qualifications**: > BSc (economics) (The City University, London)	**External directorships**: > Anap Holdings Ltd (chairman) > Anap Business Jets Ltd (chairman)	**Committees**: GAC DAC

SBG and SBSA *Appointed*: 22 August 2014	> MSc (economics) (London School of Economics and Political Science) > Owner/President Management Programme (Harvard)	**Other governing body and professional positions held**: > Endeavor High Impact Entrepreneurship (chairman) **Previous roles**: > founder and chief executive of the then IBTC > chairman of Stanbic IBTC Bank Plc and Cadbury Nigeria Plc > non-executive director of Flour Mills of Nigeria Plc, Unilever Nigeria Plc and Nigerian Breweries Plc	GTIC REMCO
Myles Ruck / 65 *Independent non-executive director, SBG and SBSA* *Appointed*: 15 August 2006 (SBSA) 18 January 2002 (SBG)	**Qualifications**: > BBusSc (University of Cape Town) > PMD (Harvard)	**Appointments held within the Group:** > Stanbic Bank Ghana **Previous roles**: > Deputy CEO of SBG > CEO of the Liberty Group > Chairman of ICBC Argentina > NED of The Bidvest Group Limited	**Committees**: GRCMC (chairman) LEC (chairman) DAC
John Vice / 68 *Independent non-executive director, SBG and SBSA* *Appointed*: 21 November 2016	**Qualifications**: > BCom CTA (University of Natal) > CA (SA)	**External directorships**: > Anglo American Platinum **Previous roles**: > senior partner at KPMG Inc. where he headed the firm's audit practice, IT audit and IT consulting departments > member of the board of Zurich Insurance South Africa Limited	**Committees**: GTIC (chairman) GAC GRCMC

Lubin Wang / 47 *Non-executive director, SBG and SBSA* *Appointed*: 1 June 2017	**Qualifications**: > Bachelor's degree in corporate finance (Fudan University) > Master's degree in accounting and finance (London School of Economics and Political Science)	**Appointments held within the Group:** > ICBC Standard Bank Plc; **Other governing body and professional positions held**: > chief representative officer of ICBC African representative office **Previous roles**: > executive committee member, deputy head of finance, head of IT and strategic sourcing in ICBC (Argentina) > core member of the transitional committee of the acquisition project of Standard Bank Argentina	**Committees**: DAC GRCMC GTIC *alternate to Xueqing Guan
Lungisa Fuzile / 54 *Chief Executive SBSA* *Appointed*: 2018	**Qualifications**: > MCom (Natal), AMP (Harvard)	**Appointments held within the Group:** > The Standard Bank Tutuwa Community Foundation **Other governing body and professional positions held**: > Business Leadership South Africa > The Banking Association of South Africa **Previous roles**: > Director general – National Treasury.	**Committees**: LEC GSEC

Key:

DAC – Directors' affairs committee	**GAC** – Group audit committee	**GRCMC** – Group risk and capital management committee	**Remco** – Group remuneration committee	**GMAC** – Group model approval committee	**LEC** – SBSA large exposure credit committee

GTIC – Group technology and information committee	**GSEC** – Group social and ethics committee

Conflicts of Interest

All of the directors of SBSA, with the exception of Lungisa Fuzile, are also directors or prescribed officers of SBG and they therefore also owe duties in that capacity to SBG as well as to SBSA. Since the directors of SBSA are also directors of SBG, it is unlikely but possible that decisions made by the directors which are in the best interests of SBG and/or the Group taken as a whole may not in every case be in the best interests of SBSA.

In addition, Myles Ruck, Arno Daehnke, Jacko Maree and Sim Tshabalala serve as directors of subsidiaries of SBG other than SBSA. These directors therefore also owe duties in that capacity to those companies as well as to SBSA. It is possible that the duties which these persons owe to those companies may potentially conflict with their duties to SBSA.

SBSA engages in transactions with some of entities in the Group, including transactions in the ordinary course of business.

SBSA's approach to managing compliance risk, including identifying and managing conflicts of interest, is proactive and premised on internationally-accepted principles of risk management. Its compliance risk management is a core risk management function and is overseen by the Group chief compliance officer. SBSA's compliance framework is based on the principles of effective compliance risk management as outlined in the Banks Act and recommendations from international policy-making bodies. SBSA is also subject to, and complies with, the applicable requirements of the Companies Act relating to potential conflicts of interest. These requirements include, amongst other things, an obligation on directors to file with the Group company secretary a list of all of their directorships and to declare the nature of any conflict of interest before the relevant matter is considered by the SBSA Board.

In addition, any director with a personal financial interest in any matter presented for consideration by the SBSA Board has to comply with section 75 of the Companies Act which provides, among others, that if a director of a company has a personal financial interest in respect of a matter to be considered at a meeting of the SBSA Board or knows that a related person has a financial interest in the matter, the director must disclose the interest and its general nature before the matter is considered and must not take part in the consideration of the matter. Such director is recused from the meeting.

Directors disclose their outside business interests as a standing agenda item at each meeting. Directors do not participate in the meeting when the board considers any matters in which they may be conflicted and are excused from the meeting. In compliance with the provisions of the Companies Act, the group secretary maintains a register of directors' interests, which is tabled at the board meeting and any changes are submitted to the board as they occur.

EMPLOYEES

For the year ended 31 December 2020, the SBSA Group had 29,581 employees (compared to 29,578 employees for the year ended 31 December 2019). For the year ended 31 December 2020, approximately 52.7 per cent. of SBSA's employees worked in the Personal & Business Banking SA segment of SBSA (compared to 57.2 per cent. for the year ended on 31 December 2019) whereas 8.8 per cent. worked in the Corporate & Investment Banking SA segment during the same period (compared to 8.6 per cent. for the year ended on 31 December 2019); the remaining 38.5 per cent. of employees worked in the central and other services segment within SBSA (compared to 34.2 per cent. for the year ended on 31 December 2019).

A significant number of SBSA Group’s non-managerial employees are represented by trade unions. SBSA Group has not experienced any significant strikes or work stoppages in recent years.

SBSA Group has developed employment policies to meet the needs of its different business segments in the locations in which they operate, embodying principles of equal opportunity. SBSA has a statement of business standards with which it expects its employees to comply, it encourages involvement of employees in the performance of the business in which they are employed and aims to achieve a sense of shared commitment.

COMPETITION

Competitors

As at 31 December 2020, there were 13 locally controlled banks, 4 foreign controlled banks, 3 mutual banks, 13 local branches of foreign banks and 29 foreign banks with approved representative offices in South Africa. According to the SARB BA 900 report for 31 December 2020, the banking sector in South Africa had total assets of R6.6 trillion as at 31 December 2020. SBSA's principal competitors are ABSA Bank Limited, FirstRand Bank Limited, and Nedbank Limited. Apart from SBSA, these represent the largest banks in South Africa. The following table sets out total assets and capital and reserve for each as at 31 December 2020.

	Total assets	**Capital and reserves**
	(Rm)	
ABSA Bank Limited	1,280,677	92,539
FirstRand Bank Limited	1,424,611	99,026
Nedbank Limited	1,130,611	73,384
The Standard Bank of South Africa Limited	1,578,032	96,919

Source: BA 900 filings – SARB, 31 December 2020

SBSA operates in a highly competitive environment. The economic pressures experienced in developed economies have caused banks based in those jurisdictions to seek out growth opportunities within South Africa. As banks in developed economies are often able to benefit from lower costs of funding, this has resulted in greater competition for SBSA within South Africa and other emerging markets.

CAPITAL ADEQUACY

SBSA's capital management function is designed to ensure that regulatory requirements are met at all times and that SBSA is capitalised in line with its risk appetite and target ranges, both of which are approved by the SBSA Board. It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of SBSA's budget and forecasting process.

The PA adopted the Basel III framework, subject to certain phase-in provisions as provided by the Basel Committee for Banking Supervision ("**BCBS**") from 1 January 2013. From 1 January 2019 the requirements that were subject to phase-in provisions have been fully implemented.

In response to pressures on banks' capital supply brought about by the COVID-19 pandemic, the PA has implemented measures under Directive D2/2020, issued in terms of section 6(6) of the Banks Act to reduce the currently specified minimum requirement of capital and reserve funds to be maintained by banks in South Africa, through a temporary relaxation of the pillar 2A capital requirement., in order to provide temporary capital relief to enable banks to counter economic risks to individual banks as well the financial system as a whole.

It is the PA's intention to reinstate the minimum pillar 2A capital requirement from 1 January 2022. However, further guidance issued by the PA in February 2021 allows for the resumption of distributions to ordinary shareholders, provided that the benefits of temporary regulatory relief measures provided by the PA in 2020 are not utilised for making these distributions.

Considering the temporary removal of the pillar 2A capital requirement, the South African minimum Basel III capital requirements are 8.0% for CET I, 10.0% for tier I and 13.0% for total capital adequacy (8.5%, 10.8% and 14.0% respectively prior to the reduction of pillar 2A requirements). These minimums exclude the countercyclical buffer, which for the time being has not been announced as a requirement for South Africa, and confidential bank-specific pillar 2B capital requirements but include the maximum potential domestic systemically important bank ("D-SIB") requirement of 2.5%. South African banks were required to disclose their D-SIB capital requirements from 1 September 2020. SBSA's D-SIB buffer requirement amounts to 2.0% of which 1% is required to be held in CET I.

SBSA adopted IFRS 9 **-** Financial Instruments ("**IFRS 9**") from 1 January 2018. SBSA elected to adopt a three-year transition period, amortised on a straight-line basis, as provided by the SARB Directive 5/2017. IFRS 9 had a small impact on the SBSA's total capital adequacy due to the add-back to Tier II capital that is permitted for provisions that exceed the regulatory expected loss. The volatility that arose from the add-back due to the adoption of IFRS 9 is monitored on an ongoing basis.

The Basel III post-crisis reform proposals and the potential requirements for loss absorbing and recapitalisation capacity of systemically important banks may impact capital levels going forward. In South Africa, the implementation date for the more significant Basel III post crisis reform proposals has been set for 1 January 2023 with transitional arrangements for the phasing-in of the aggregate output floor from 1 January 2023 to 1 January 2027. The Basel III post-crisis reform proposals provide for areas of national discretion and SBSA is, through relevant industry bodies, engaging the Prudential Authority (PA) on the South African implementation of the proposals.

SBSA manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders, and ensure regulatory compliance. The main regulatory requirements to be complied with are those specified in the Banks Act No. 71 of 2008 and related regulations, which are aligned with Basel III.

Regulatory capital adequacy is measured through three risk-based ratios, namely common equity tier 1, tier 1 and total capital adequacy ratios which are calculated on the following basis:

- Common equity tier 1: ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total RWA.
- Tier 1: common equity tier 1 and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual, non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier 1 capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013.
- Total capital adequacy: tier 1 plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

RWA are calculated in terms of the Banks Act and related regulations, which are aligned with Basel III.

The SARB adopted the leverage framework that was issued by the BCBS in January 2014 with formal disclosure requirements commencing from 1 January 2015. The non risk-based leverage measure is designed to complement the Basel III risk-based capital framework. SBSA's leverage ratio inclusive of unappropriated profit was 5.4 per cent. as at 31 December 2020 (compared to 5.9 per cent. as at 31 December 2019), in excess of the SARB minimum requirement of 4 per cent.

The following table sets out SBSA's Tier 1 and Tier 2 capital excluding unappropriated profit for the years ended 31 December 2020 and 31 December 2019, on a Basel III basis.

Basel III qualifying capital excluding unappropriated profits

	31 December	
	2020	**2019**
	(Rm)	
IFRS ordinary shareholders' equity	49,313	45,248
Retained earnings	48,241	55,086
Other reserves	798	841
Less: regulatory adjustments	(10,934)	(12,588)
Goodwill	(42)	(42)
Other intangible assets	(10,511)	(13,561)
Deferred tax assets	(551)	(1)
Other adjustments including IFRS 9 phase-in	170	1,016
Less: regulatory exclusions (unappropriated profits)	(3,742)	(9,912)
CET I capital	83,676	78,675
Qualifying other equity instruments	6,944	5,475
Tier I capital	90,620	84,150
Qualifying Tier II subordinated debt	21,569	20,431
General allowance for credit impairments	2,418	852
Less: regulatory adjustments - investment in Tier II instruments in other	(2,538)	(2,557)

Tier II capital	21,449	18,726
Total regulatory capital	**112,069**	**102,876**

Basel III risk-weighted assets and associated capital requirements

	RWA		Minimum capital requirements[1]
	2020	2019	2020
	(Rm)		*(Rm)*
Credit risk (excluding counterparty credit risk (CCR))	**525,139**	**482,537**	**65,642**
Of which: standardised approach[2]	37,393	45,673	4,674
Of which: internal rating-based (IRB) approach	487,746	436,864	60,968
CCR	**40,290**	**25,430**	**5,036**
Of which: standardised approach for CCR	1,845	11,370	231
Of which: IRB approach	22,162	14,060	2,770
Of which: credit valuation adjustments	16,283	9,093	2,035
Equity positions in banking book under market-based approach	**3,189**	**2,327**	**399**
Securitisation exposures in banking book	**704**	**463**	**88**
Of which: IRB approach	491	463	61
Of which: IRB supervisory formula approach	213		27
Market risk	**41,537**	**46,770**	**5,192**
Of which: standardised approach	25,685	32,182	3,211
Of which: internal model approach (IMA)	15,852	14,588	1,981
Operational risk	**97,069**	**99,434**	**12,134**
Of which: standardised approach	16,000	22,705	2,000
Of which: advanced measurement approach (AMA)	81,069	76,729	10,134
Amounts below the thresholds for deduction (subject to 250% risk weight)	14,881	12,610	1,860
Total	**722,809**	**669,571**	**90,351**

[1] Measured at 12.0% (2019: 11.5%) and excludes any bank-specific capital requirements. Pillar 2A buffer requirements have been temporarily removed in response to the Covid-19 pandemic. SBSA’s D-SIB buffer requirement, which is required to be disclosed from 1 September 2020 amounts to 1.5%, of which 1.0% is required to be held in CET I. There is currently no requirement for the countercyclical buffer add-on in South Africa or in other jurisdictions in which we have significant exposures.

[2] Portfolios on the standardised approach relate to portfolios for which application to adopt the internal model approach has not been submitted, or for which application has been submitted but approval has not been granted.

The following tables detail SBSA's capital adequacy ratios for the years ended 31 December 2020 and 31 December 2019 on a Basel III basis including phased-in and fully loaded post IFRS 9 implementation.

Capital Adequacy Ratios (Phased-in)

	SARB minimum regulatory requirement[3]	Internal target ratios[1,2]	**Including unappropriated profits**		**Excluding unappropriated profits**	
			2020	2019	2020	2019
	%	%	%	%	%	%
Total capital adequacy ratio	12.5	>14.0	16.0	16.8	15.5	15.4
Tier I capital adequacy ratio	10.0	>11.0	13.1	14.0	12.5	12.6
CET I capital adequacy ratio	8.0	10.0-11.5	12.1	13.2	11.6	11.7

Capital Adequacy Ratios (Fully Loaded)[4]

	SARB minimum regulatory requirement[3]	Internal target ratios[1,2]	**Including unappropriated profits**		**Excluding unappropriated profits**	
			2020	2019	2020	2019
	%	%	%	%	%	%
Total capital adequacy ratio	12.5	>14.0	16.0	16.8	15.5	15.4
Tier I capital adequacy ratio	10.0	>11.0	13.0	13.8	12.4	12.4
CET I capital adequacy ratio	8.0	10.0-11.5	12.0	13.0	11.5	11.5

[1] Including unappropriated profits.

[2] Recalibration in line with the temporary removal of Pillar 2A buffer requirement by the Prudential Authority.

[3] Excluding confidential bank specific requirements. Pillar 2A buffer requirements temporarily removed in response to the Covid-19 pandemic.

[4] Capital ratios based on the inclusion of the full IFRS 9 transactional impact.

Source: This information has been extracted from Annexure G of the SBG 2020 Risk and Capital Management Report

BASEL III

Banks in South Africa adopted Basel III with effect from 1 January 2013. Basel III aims to enhance financial stability globally by increasing the quality and level of capital to be held by banks, extending the risk framework coverage, by introducing new liquidity ratios and also a non-risk based leverage ratio. The Bank Supervision Department of the SARB (now referred to as the Prudential Authority ("**PA**")) commenced with its implementation from 1 January 2013 by way of the Regulations Relating to Banks, and Banks in South Africa have thus adopted the Basel III accord. The SB Group has approval from the PA to use the advanced internal ratings-based ("**AIRB**") approach for its credit portfolios in SBSA. For internal management purposes, the SB Group utilises AIRB measures and principles wherever possible. Further, the SB Group has approval from the PA to adopt the market-based approach for certain equity portfolios in SBSA and has approval for using the advanced measurement approach ("**AMA**") operational risk framework. Furthermore, the SB Group also has approval from the PA to use the "internal models approach" for most trading product groups and across most market risk types for SBSA.

In Basel III, the BCBS introduced significant changes to the Basel II framework, including, amongst others:

Capital

The quality, consistency and transparency of the capital base levels are increased. In the new framework, the regulatory deductions should mainly be applied to the common equity component of the capital base. Further, to be eligible as Tier I and Tier II capital, instruments need to meet more stringent requirements than were applied under Basel II.

The Basel III framework introduces a capital conservation buffer of 2.5 per cent. on top of these minimum thresholds. If a bank does not meet this buffer, constraints will be imposed on SBSA's capital distribution, such as dividends. Also, in periods of excess growth, banks will be required to hold an additional countercyclical buffer of up to 2.5 per cent. in order to avoid facing restrictions.

Leverage Ratio

The BCBS has also proposed a requirement that effective from 1 January 2018 the risk-sensitive capital framework be supplemented with a non-risk based measure, the leverage ratio (the "**Leverage Ratio**"). The Leverage Ratio is calculated as the Tier I capital divided by the exposure (being on and off-balance sheet exposures, with certain adjustments for selected items such as derivatives). It is proposed that the final calibration of the Leverage Ratio and any further definition amendments will be implemented by 2023 in South Africa.

Liquidity

Another key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thereby reducing the risk of spillover from the financial sector to the real economy.

The BCBS has developed two new quantitative liquidity standards as part of the Basel III framework; namely the LCR (being phased-in from 1 January 2015) and the Net Stable Funding Ratio ("**NSFR**") (effective 1 January 2018). The LCR's objective is to measure SBSA's ability to manage short-term liquidity stress and ensure the appropriate holding of surplus qualifying liquid assets. The NSFR's objective is to measure the SBSA Group's long-term structural funding stability in order to address the structural liquidity mismatch inherent in banking operations. Both the LCR and NSFR calculations are subject to an observation period prior to implementation such that any unintended consequences can be identified.

The BCBS has also put a more stringent regulatory framework into place for the monitoring of intraday liquidity risk. Management of intraday liquidity risk forms a key element of a bank's overall liquidity risk management framework. The mandatory tools introduced by the BCBS are for monitoring purposes, and only international active banks will be required to apply them. National regulators will determine the extent to which the tools apply to banks that only operate domestically within their jurisdictions. Monthly reporting on the monitoring tools commenced on 1 January 2015.

Risk-Weighting (Finalised Basel III reforms)

On 7 December 2017 the BCBS published the Basel III finalised reforms for the calculation of RWA and a capital floor to be implemented on 1 January 2022. The date of implementation for these reforms was revised on the 27 March 2020 by the BCBS and has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the output floor has also been extended by one year to 1 January 2028. These reforms are the completion of work that the BCBS has been undertaking since 2012 to address inefficiencies that emerged from the financial crisis in 2008 and impacts both standardised and advanced internal models.

Reducing variation in the internal rating based ("IRB") approach for credit risk

The revised IRB framework constrains the use of the AIRB approach which allows banks to estimate the probability of default ("**PD**"), loss given default ("**LGD**"), exposure at default ("**EAD**") and maturity of an exposure for low default asset classes. These include exposures to large and mid-sized corporates, banks and other financial institutions, securities firms and public-sector entities. The relevant SB Group legal entities will now have to use the foundation IRB ("**FIRB**") approach for these exposures. The FIRB approach is more conservative as it applies fixed values to the LGD and EAD parameters. In addition, all IRB approaches are being removed for exposures to equities.

For the remaining asset classes, the revised IRB framework also introduces minimum "floor" values for bank-estimated IRB parameters that are used as inputs to the calculation of RWA. These include PD floors for both the FIRB and AIRB approaches, and LGD and EAD floors for the AIRB approach. The Committee agreed on various additional enhancements to the IRB approaches to further reduce unwarranted RWA variability, including providing greater specification of the practices that banks may use to estimate their model parameters.

Given the enhancements to the IRB framework and the introduction of an aggregate output floor, the BCBS has removed the 1.06 scaling factor that is currently applied to RWAs determined by the IRB approach to credit risk.

Standardised approach for credit risk

The revisions to the standardised approach for credit risk, enhances the regulatory framework by improving its granularity and risk sensitivity. It provides a more granular approach for unrated exposures to banks and corporates and a recalibration of risk weighting for rated exposures, a more risk-sensitive approach for real estate exposures based on their loan to value, separate treatment for covered bonds; specialised lending; and exposures to SME’s, a more granular risk weight treatment for subordinated debt and equity exposures, and a recalibration of credit conversion factors for off balance sheet exposures.

CVA *risk capital charge*

The initial phase of Basel III reforms introduced a capital charge for potential mark-to-market losses of derivative instruments as a result of the deterioration in the creditworthiness of a counterparty.

The final reforms introduce two new approaches for the calculation of the CVA risk capital charge which are a basic approach (full version including CVA hedges, or reduced version) and a standardised approach based on the fundamental review of the trading book market risk standardised approach with minimum requirements sensitivity calculations. The changes also include a €100 billion threshold for a simplified treatment (double counterparty credit risk capital requirement) and new eligibility requirements for CVA hedges.

Operational risk

The BCBS has streamlined the operational risk framework. The AMAs for calculating operational risk capital requirements (which are based on banks' internal models) and the existing standardised approaches are replaced with a single risk-sensitive standardised approach to be used by all banks.

The new standardised approach for operational risk determines a bank's operational risk capital requirements based on two components comprising a measure of a bank's income and a measure of historical losses experienced by the bank. Conceptually, it assumes that operational risk increases at an increasing rate with a bank's income and banks which have experienced greater operational risk losses historically are assumed to be more likely to experience operational risk losses in the future.

Output floor

The Basel III reforms replace the existing Basel II floor with a floor based on the revised Basel III standardised approaches. Consistent with the original floor, the revised floor places a limit on the regulatory capital benefits that a bank using internal models can derive relative to the standardised approaches. In effect, the output floor provides a risk-based backstop that limits the extent to which banks can lower their capital requirements relative to the standardised approaches.

This helps to maintain a level playing field between banks using internal models and those on the standardised approaches. It also supports the credibility of banks' risk-weighted calculations and improves comparability via the related disclosures.

Under the revised output floor, banks' risk-weighted assets must be calculated as the higher of

a. total RWA calculated using the approaches that the bank has supervisory approval to use in accordance with the Basel capital framework (including both standardised and internal model-based approaches); and

b. 72.5 per cent. of the total risk-weighted assets calculated using only the standardised approaches.

The date of implementation for the output floor was revised on the 27 March 2020 by the BCBS and has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the output floor has also been extended by one year to 1 January 2028. The PA is still to align its proposed date of implementation for the output floor from 1 January 2022 to the BCBS revised date of 1 January 2023, and accordingly the transitional arrangements for the output floor.

Risk-Weighting (Other Basel III reforms)

Counterparty Credit Risk

The BCBS has finalised the rules for the standardised approach for counterparty credit risk ("**SA-CCR**"). The new framework was to be implemented in South Africa by 1 April 2021 but this has now been delayed by the PA to a date still to be announced. SA-CCR will be used to calculate the counterparty credit risk exposure associated with over-the-counter ("**OTC**") derivatives, exchanges traded derivatives and long settlement transactions. The new SA-CCR is more risk sensitive than previously, limits the need for discretion by national authorities, minimises the use of banks' internal estimates and avoids undue complexity.

Securitisation Framework

The BCBS has finalised changes to the Basel securitisation framework. The new framework was to be implemented in South Africa by 1 April 2021 but this has now been delayed by the PA to a date still to be announced. The new framework provides a revised set of approaches for determining the regulatory capital requirements in relation to securitisation exposures with the following aims: reducing mechanistic reliance on external ratings; increasing risk weights for highly rated securitisation exposures; reducing risk weights for low-rated securitisation exposures; reducing cliff effects (where small changes in the quality of an underlying pool of securitised exposures quickly leads to significant increases in capital requirements); and making the framework more risk-sensitive.

Fundamental Review of the Trading Book

Some initial measures to improve market risk were introduced by Basel 2.5. The BCBS recognised that these incremental changes to the market risk framework were only temporary, and that further measures were required to improve trading book capital requirements. The Fundamental Review of the Trading Book was published on 14 January 2016. The framework was thereafter revised on the 14 January 2019 to address issues that the Basel Committee identified in the course of monitoring the implementation and impact of the framework. The proposed implementation date for South Africa is 1 January 2023.

Large Exposure Framework

The BCBS published the final standard that sets out a supervisory framework for measuring and controlling large exposures on the 15 April 2014. The proposed implementation date for South Africa was to be 1 April 2021 but the PA is currently considering a new implementation date. The large exposure framework protects banks from significant losses caused by the sudden default of an individual counterparty or a group of connected counterparties. The framework was designed so that the maximum possible loss a bank could incur if such a default were to occur would not endanger the bank's survival as a going concern. In cases where the bank's counterparty is another bank, large exposure limits will directly contribute towards the reduction of system-wide contagion risk. Large Exposure is defined as an exposure that is equal to or above 10 per cent. of a bank’s eligible capital base. Eligible capital base is defined as Tier 1 capital as defined under the Basel III framework. The sum of all the exposure values of a bank to a single counterparty or to a group of connected counterparties should not be higher than 25 per cent. of the bank’s available eligible Tier 1 capital base. A tighter limit of 15 per cent. of Tier 1 capital will apply to inter-GSIBs exposures, the local regulator may apply this limit to inter-DSIBs exposures. A limit of 15% of Tier 1 capital may also be applied by the local regulator for exposures between a smaller bank and a G-SIB.

Interest Rate Risk in the Banking Book ("IRRBB")

Arising from the Fundamental Review of the Trading Book, the Bank of International Settlement appointed a team to evaluate and refine the existing Pillar 2 treatment for spread risk in the banking book. In April 2016 the BCBS issued standards for IRRBB (the "**revised Standards**"). The revised Standards revise the BCBS' 2004 "Principles for the management and supervision of interest rate risk", which set out supervisory expectations for banks' identification, measurement, monitoring and control of IRRBB as well as its supervision. The revised Standards also introduced a strengthened Pillar 2 approach. The newly revised Standards for IRRBB cover the enhanced requirements over 12 principles. Nine principles are directed to banks including identification of IRRBB, sound methodologies, risk appetite and limits, internal reporting, external disclosures, data, controls and model risk management. Three principles are directed to supervisors and focus on review of soundness of banks' IRRBB management, collaboration among supervisors and identification of outlier banks.

The proposed implementation date for South Africa is 1 June 2022.

Systemically important financial institutions ("SIFIs")

The guidance developed by the BCBS and the Financial Stability Board form the basis for the requirements of domestic systemically important banks in South Africa. South African banks have developed their recovery plans in line with global standards. The specific "domestic systemically important" bank capital requirements have been applied to the relevant banks from 1 January 2016.

Recovery plans focus on plausible management or recovery actions that can be taken to reduce risk and conserve capital during times of severe stress. Resolution plans are typically developed by the supervisor with the objective of ensuring that SIFIs are resolvable and will not become a burden to tax-payers.

Although the Basel III phase-in approach affords SBSA a period of time before full compliance is required, SBSA maintains a strong focus on achieving these liquidity and capital requirements within the specified timelines. Specific areas of focus include optimising capital and liquidity allocation between product lines, trading desks, industry sectors and legal entities such that financial resources can be allocated in a manner that enhances the overall group economic profit and return on equity, embedding risk-adjusted performance measurement into the performance measurement and reporting processes of the SB Group; and ensuring that the SB Group is adequately positioned to respond to changing regulatory rules under Basel III.

PROPERTY

As at 31 December 2020, SBSA Group held freehold title (net book value) to land and property of R2,969 million (compared to R2,994 million as at 31 December 2019).

INSURANCE

SBSA has a comprehensive insurance programme with cover for bankers' bond, computer crime, professional indemnity, directors' and officers' liability, assets and liabilities. An annual benchmarking review of policy wording, covers and limits ensures that the level of risk mitigation is adequate in relation to SBSA's risk profile.

All insurance cover is placed at SBG level to maximize on economies of scale and to ensure all business units are included.

INFORMATION TECHNOLOGY

With the significant impact of the digital revolution, consumers and businesses are being forced to change the way they interact. Technology is central to SBSA's ability to adapt to a changing world and create sustainable long-term value for SBSA's stakeholders. SBSA regards technology as a strategic asset which supports, sustains and enables growth and operational excellence.

SBSA's technology strategy is aligned to, and a key enabler of SBSA's and the Group's strategic vision. The key elements of SBSA's technology strategy are focused on embedding a client-centric culture which is aimed at ensuring that SBSA's systems are "always on" (available to our customers) and secure (through managing the risk of unauthorised security breaches), systems adopt a universal financial services organisation view, enable the digital transformation of SBSA, drive the simplification of SBSA's systems, and in having the right, engaged employees to deliver on the strategy.

Management believes that SBSA's overall technology stability is currently acceptable with significant volumes noted across SBSA's digital offerings. This includes a 29% increase in volumes processing approximately 183 million transactions per month and a 45% year on year decrease in material system stability incidents in South Africa.

Technology governance functions provide oversight of technology within the Group to ensure that technology contributes to creating sustainable value both in the short and long term. The SBG Board is responsible for ensuring that prudent and reasonable steps have been taken regarding technology governance. The Group technology committee is an SBG Board committee with responsibility for ensuring the implementation of the technology governance framework across Group. The committee has the authority to review and provide guidance on matters related to the SBSA's technology strategy, budget, operations, policies and controls, SBSA's assessment of risks associated with technology, including disaster recovery, business continuity and technology security, as well as oversight of significant technology investments and expenditure.

The committee is chaired by an independent SBG Board member, who is also a member of the Group risk and capital management committee. The chief information officers of each business unit within SBSA are accountable to their chief executives as well as to the Group chief information officer to ensure that the technology strategy is aligned and integrated with the business strategies.

REGULATION

General regulatory requirements

SBSA is subject to the Banks Act and is supervised by the Financial Conglomerate Supervision Department.

SBSA holds a full banking licence granted by the SARB. It is an authorised dealer in foreign exchange in terms of the Exchange Control Regulations of the SARB.

Please see the heading titled "*The impact of any future change in law or regulation on the Issuers' business is uncertain*" on page 20 of the document titled *"Risk Factor and Other Disclosures Schedule relating to The Standard Bank of South Africa Limited USD 1,000,000,000 Structured Note Programme Risk Factors"* available on the website of the Issuer at https://reporting.standardbank.com/debt-investors/debt-securities/debt-securities/.

Anti-money laundering regulatory requirements

SBSA is committed to and supports global efforts to combat ML and TF. Consequently, SBSA has implemented the Group Money Laundering Control Policy, and approved standards and procedures to ensure compliance with its legislative obligations in respect of AML and CFT requirements. Meeting ML and TF control requirements imposes significant obligations in terms of client identification and verification, record keeping, staff training and the detection and reporting of suspicious and unusual transactions. Minimum standards are implemented throughout SBSA, while particular emphasis is placed on implementing bespoke ML/TF controls which are designed to mitigate the risks identified in country and business risk assessments. SBSA continues to enhance and automate its ML and TF detection measures, and has a dedicated AML surveillance team that is responsible for receiving, evaluating and reporting suspicious or unusual transactions and activities to the appropriate authorities. This team has taken the approach of full co-operation with law enforcement agencies from an information sharing perspective, while still ensuring that it operates within the parameters defined by legislation.

Anti-bribery and corruption requirements

ABC policies are implemented across SBSA. SBSA is committed to the highest level of ethical behaviour, and has a zero-tolerance approach towards bribery and corruption. SBSA has designed and implemented an anti-bribery management system to ensure compliance with ABC laws. These laws include, but are not limited to, the South African Prevention and Combating of Corrupt Activities Act No.12 of 2004, the UK Bribery Act and the U.S. Foreign Corrupt Practices Act.

SBSA has developed and implemented an ABC compliance programme which is aligned with global best practice (in particular the ABC guidance that has been issued by the Organisation for Economic Co-operation and Development). Programme activities include periodically providing inputs to the Group ABC risk assessment process, and implementing updates to the ABC policy.

Furthermore, all SBSA staff are required to complete ABC general awareness training annually. Regular reviews of the effectiveness of the ABC programme are conducted in the form of a combined assurance approach to monitoring activities.

RISK MANAGEMENT

SBSA’s approach to risk management is designed to ensure consistent and effective management of risk and provide for appropriate accountability and oversight. Risk management is enterprise wide, applying to all entity levels and is a crucial element in the execution of the strategy.

SBSA’s risk universe represents the risks that are core to its financial services business. SBSA organises these risks into strategic, non-financial and financial risk categories.

The risk universe is managed through the lifecycle from identification to reporting. SBSA’s assessment process includes rigorous quantification of risks under normal and stressed conditions up to, and including, recovery and resolution.

Risk exposures are managed through different techniques and are monitored against a risk appetite that supports the Group's strategy.

Risk information is subject to strong data and reporting controls. It is integrated into all business reporting and governance structures. SBSA’s governance structure enables oversight and accountability through appropriately mandated board and management committees.

This is all underpinned by a control environment defined in the SBG and SBSA risk governance and management standards and policies.

SBSA'S RISK MANAGEMENT SYSTEM

SBSA operates under the SBG enterprise risk management ("**ERM**") governance framework with SBSA-specific policies to address SBSA-specific business and regulatory requirements. SBSA's chief risk officer is accountable to the SBSA Board and SBSA's regulators. SBSA's chief risk officer is also the chief risk officer for SBG and is therefore also accountable to the SBG Board and SBG regulators.

SBSA's approach to risk management follows the SBG ERM governance framework under which it operates.

Risk governance committees

Board sub-committees responsible for the oversight of risk management comprise the RCMC and the AC. The technology and information committee, the model approval committee, the remuneration committee and the social and ethics committee are sub-committees of SBG, but consider matters related to SBSA as part of their mandates.

Executive management oversight for all risk types has been delegated by the SB Group leadership council to the GROC, which, in turn, assists the RCMC to fulfil its mandate. As is the case with the RCMC, the GROC calls for and evaluates in-depth investigations and reports based on its assessment of the risk profile and external factors. The GROC is chaired by the chief risk office and delegates authority to various sub-committees which deal with specific risk types or oversight activities. Matters are escalated to the GROC, based on materiality, through reports or feedback from the sub-committee chairman.

Governance documents

The SBG ERM governance framework is approved by the RCMC. It informs the specific risk type standards, frameworks and policies which are approved by executive committees and the relevant board subcommittee. The critical steps for risk management are defined to ensure common practices across SBSA.

Business line and legal entity policies are aligned to the governance documents and are applied within their governance structures.

The three lines of defence

SBSA uses the three lines of defence governance model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.

The first line of defence is made up of the management of business lines and legal entities. The first line proactively identifies, assesses and measures applicable risk scenarios in order to arrive at risk appetite decisions. They manage day-to-day transaction- and portfolio-level risk decisions within the risk appetite and implement mitigation controls to reduce the adverse impact of taking risks in pursuit of strategic objectives. Effective first line risk management responsibilities include:

- defining the risk and control culture, and risk appetite;
- identifying and assessing risks and emerging threats;
- designing and implementing appropriate controls;
- balancing risk and return with every business decision;
- allocating capital optimally for maximum returns;
- performing self-assessments on the control environment;
- escalating material events that breach risk appetite through the governance structure; and
- ensuring appropriate risk disclosure to shareholders and regulators.

The second line of defence directs the definition of the enterprise-wide risk management programme. The second line of defence facilitates execution of risk lifecycle activities and provide expert advice, guidance and support to the first line of defence management team. Together with the SBSA Board they have oversight of the implementation and effective execution of risk and returns decisions within the set risk appetite and target strategy. Effective second line risk management responsibilities include:

- defining the risk and capital management framework and policies;
- facilitating risk management activities through the process lifecycle;
- facilitating the capital requirements calculations for all applicable risk types;
- challenging management's day-to-day risk decisions;
- monitoring and providing expert advice on emerging threats;
- monitoring that risk decisions are being taken in line with the risk culture and appetite, and reporting breaches;
- managing the interface with regulators regarding industry policy advocacy and risk and compliance matters;
- compiling risk disclosures as per regulatory requirements;
- reviewing compliance with risk standards; and
- performing independent reviews on specific risk and control areas.

The third line of defence is SBG Internal Audit ("**IA**"). IA provide independent and objective assurance to the board and senior management on the adequacy and effectiveness of the control environment and the risk management programme. IA has an independent reporting line to the Board to assist in discharging their risk oversight responsibilities. Effective third line risk management responsibilities include:

- providing assurance through a risk-based audit plan that assesses and reports on the quality of controls and risk management practices; and

- periodically reviewing the design adequacy of the risk management framework, the level of compliance with policies and standards, and the completeness and reliability of the risk assessment and reporting process.

All three levels report to the SBSA Board, either directly or through the RCMC and AC. The SBSA Board discharges its oversight responsibilities for risk management through independent assurance activities performed by second and third line. The SBSA Board has the following mandate:

- ensuring that the appropriate tone for risk is set by executive management; and
- ensuring that the risk and capital management is effective, including the SBSA Group's:
    - risk, compliance, treasury and capital management, and IA processes;
    - risk appetite; and
    - capital adequacy to support strategy execution.

Risk culture

SBSA leverages the three lines of defence model to build and maintain a strong risk culture. SBG values and ethics are embedded in SBSA's policies, and through compliance training and whistle-blowing programmes.

SBSA promotes and rewards responsible risk taking that results in sustainable growth. Each business is responsible for monitoring behaviour that is contrary to the SBG ethos and taking disciplinary action in line with the SBG conduct risk management standards. Inappropriate risk decisions are monitored as part of performance management and escalated to REMCO.

Risk reporting

Risk exposures are reported on a regular basis to the board and senior management through the governance committees. Risk reports are compiled at business unit level and are aggregated to the enterprise level for escalation through the governance structures based on materiality.

Risk management reports comply with standards set out by BCBS239.

Group insurance programme

The SBG insurance programme is designed to protect against loss resulting from SBSA's business activities. It is used as a strategic risk transfer mechanism and serves to mitigate operational risk by transferring residual insurable risks to conventional insurance markets. This cover is reviewed annually.

The principal insurance policies in place are the group crime and professional indemnity, cyber, and group directors' and officers' liability policies. In addition, SBSA has fixed assets and liabilities coverage for its office premises and business contents, third-party liability for visitors to its premises, and employer's liability. The business travel policy provides cover for staff when travelling on behalf of SBSA.

Risk appetite

The key to long-term sustainable growth and profitability lies in the strong link between SBSA's risk appetite and its strategy, and the desired balance between risk and return.

Portfolio management is performed at a group level across and within business units, risk types and legal entities to ensure that existing and emerging exposure concentrations in countries, sectors, obligors and other risk areas are effectively managed. Risk appetite guides strategic and operational management decisions and is reviewed annually. SBSA's level one risk appetite statements are:

- Capital position: SBSA aims to have a strong capital adequacy position measured by regulatory and economic capital adequacy ratios. SBSA manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance.

- Funding and liquidity management: SBSA maintains a prudent approach to liquidity management in accordance with applicable laws and regulations. The competitive environment in which each banking subsidiary operates is also taken into account. Each banking subsidiary must manage liquidity on a self-sufficient basis.

- Earnings volatility: SBSA aims to have sustainable and well diversified earning streams in order to minimise earnings volatility through business cycles.

- Reputation: SBSA has no appetite for compromising its legitimacy or for knowingly engaging in any business, activity or relationship which could result in foreseeable damage to SBSA's reputation or its sustainability.

- Conduct: SBSA has no appetite for unfair client outcomes arising from inappropriate judgement and conduct in the execution of business activities, or wilful breaches of regulatory requirements. SBSA strives to meet clients' expectations for efficient and fair engagements by doing the right business the right way, thereby upholding the trust of our stakeholders.

Level two risk appetite is cascaded into risk types. Level three risk appetite consists of risk type based limits.

The primary management level governance committee overseeing risk appetite is the SBG portfolio risk management committee.

Stress testing

Stress testing activities are undertaken during the assessment phase to determine the risk appetite at a SBG level. This is forwarded to business units, risk types and legal entities levels. SBSA tests risk scenarios to support normal stress conditions up to severe stress scenarios to inform recovery plans. Stress testing supports a number of business processes including:

- strategic planning and financial budgeting;

- informing the setting of risk appetite and portfolio management

- the internal capital adequacy assessment process, including capital planning and management and the setting of capital buffers;

- liquidity planning and management;
- identifying and proactively mitigating risks through actions such as reviewing and changing limits, limiting exposures and hedging;
- facilitating the development of risk mitigation or contingency plans, including recovery and resolution planning, across a range of stressed conditions; and
- supporting communication with internal and external stakeholders including industry-wide stress tests performed by the regulator.

SBSA may be exposed to a diverse array of risks as a result of the environment in which it operates. The programme covers various levels of stress testing from business as usual type scenarios to moderate, severe and extreme scenarios.

SBSA's stress testing programme uses one or a combination of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to address stress testing for different purposes. The programme of work includes various forms of stress testing.

The primary management level governance committee overseeing stress testing is the ALCO.

Recovery and resolution planning

The recovery plan identifies management actions which can be adopted during periods of severe stress to ensure SBSA's survival and the sustainability of the economy within which it operates. Should these actions prove to be inadequate, the resolution plan sets out the approach for unwinding in an orderly manner and minimising the impact on depositors and taxpayers.

STRATEGIC RISKS

Strategy position risk

These risks refer to strategic choices like value proposition, product, consumer segment and channel that result in unexpected variability of earnings and other business value drivers:

- Unexpected changes in the intensity or nature of competition within the financial services industry like aggressive action from competitors in the form of new entrants, price wars, technology innovation and substitute products.
- Adverse and unexpected changes in the external stakeholder sentiments. This includes changes in the company’s reputation in the public opinion of consumers, media, analysts, politicians, rating agencies, regulator and investors.
- Unexpected changes in partnerships, joint ventures or subsidiaries and failed strategic relationships.

Strategy execution risk

These risks refer to strategy implementation failures where management execution capability and operational decisions do not meet the strategic objectives, and this includes:

- Failed execution of strategic direction or strategic initiatives.

- Changes in the business environment of foreign countries, government attitude towards foreign companies, change of tariffs and the rules that make doing business for foreign companies difficult.
- Unexpected changes in the third-party’s environment, including change of production or service capacity and quality, business failure, change of costs and reputation.
- Corporate governance practices not functioning as designed and expected.
- Unanticipated changes in laws and regulations that may cause the business value to change from expectations.

Reputation Risk

Reputation is defined as what stakeholders, including staff, clients, investors, counterparties, regulators, policymakers, and society at large, believe about SBSA. Analysts, journalists, academics and opinion leaders also determine SBSA's reputation. SBSA's reputation can be harmed by an actual or perceived failure to fulfil the expectations of stakeholders due to a specific incident or from repeated breaches of trust.

Damage to SBSA's reputation can adversely affect its ability to maintain existing business, generate new business relationships, access capital, enter new markets, and secure regulatory licences.

Approach to managing strategic risks

The transition from business risk management to a more holistic strategic risk management began in 2020. The risk type and ownership has been defined.

New and existing threats to SBSA's strategy are monitored on an ongoing basis. On a reactive basis, SBSA's crisis management processes are designed to minimise the impact of disruptive events or developments that could endanger its strategy or damage its reputation. Crisis management teams are in place both at executive and business line level. This includes ensuring that SBSA's perspective is fairly represented in the media.

Attention is given to leveraging opportunities to proactively improve SBSA's reputation among influential stakeholders through external stakeholder engagements, advocacy, sponsorships and corporate social initiatives.

NON-FINANCIAL RISKS

Non-financial risk is defined as the risk of loss suffered as a result of the inadequacy of, or a failure in, internal processes, people and/or systems or from external events.

SBSA manages non-financial risk under the umbrella of operational risk. SBSA’s approach adopts fit-for-purpose risk practices, well-established governance processes which are supported by a comprehensive escalation and reporting processes that assist line management to understand and manage their risk profile within risk appetite.

SBSA’s non-financial risk management function forms part of the second line of defence, is an independent team and reports to the Group Chief Risk and Corporate Affairs Officer.

Non-financial risk subtypes are managed and overseen by specialist functions. These subtypes include:

- cyber risk;
- model risk;
- tax risk;
- financial accounting risk;
- legal risk;
- physical assets risk;
- environmental, social and governance risk;
- technology risk;
- information risk;
- third-party risk;
- people risk;
- business resilience risk;
- compliance risk;
- transaction processing risk
- conduct risk; and
- financial crime risk.

The primary management level governance committee overseeing operational risk is the Operational Risk Committee which is a subcommittee of ROC. The primary governance document is the integrated operational risk governance framework. Non-financial risk subtypes report to various governance committees and have governance documents applicable to each risk subtype.

FINANCIAL RISKS

Credit Risk

Credit risk is the risk of loss arising out of failure of obligors to meet their financial or contractual obligations when due.

SBSA's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivatives and securities financing contracts entered into with customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework, but ultimate approval authority rests with the equity risk committee.

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk across the group, from an individual facility level through to an aggregate portfolio level;
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions;
- monitoring SBSA's credit risk exposure relative to approved limits; and
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

SBSA's credit governance process relies on both individual responsibility and collective oversight, supported by comprehensive and independent reporting. This approach balances strong corporate oversight with participation by the senior executives of SBSA and its business units in all significant risk matters.

Credit risk is governed in accordance with the SBG comprehensive ERM framework as defined and detailed in the SBG credit risk governance standard and the model risk governance framework.

Credit risk is managed through the CIB and PBB credit governance committees, the SBG Equity Risk Committee and the intragroup exposure committee. These governance committees are key components of the credit risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly. Their mandates include responsibility for credit concentration risk decision-making and delegation thereof within defined parameters, to credit officers and subcommittees embedded in SBSA.

Maximum exposure to credit risk

Debt financial assets at amortised cost and fair value through other comprehensive income as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the Group's master rating scale. Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of the Group's master rating scale. The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table below. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable PBB portfolios. The Group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or

- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group has not rebutted IFRS 9's 90 DPD rebuttable presumption and therefore exposures which are overdue for more than 90 days are considered to be in default.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);

- a breach of contract, such as default or delinquency in interest and/or principal payments;

- disappearance of active market due to financial difficulties;

- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or

- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

Please refer to the tables set out on pages 162 to 165 of SBSA's 2020 annual report with regard to SBSA's maximum exposure to credit risk by credit quality as at 31 December 2020 and 31 December 2019.

Collateral

Please refer to the tables set out on pages 167 to 168 of SBSA's 2020 annual report for details of the financial effect that collateral has on SBSA's maximum exposure to credit risk as at 31 December 2020 and 31 December 2019.

Collateral includes:

- financial securities that have a tradable market such as shares and other securities;

- physical items such as property, plant and equipment; and

- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the SBSA Group collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. In the retail portfolio 58% (2019: 61%) is fully collateralised.

The R472 million (2019: R384 million) of retail accounts that lie within the 0% to 50% range of collateral coverage mainly comprise accounts which are either in default or legal. The total average collateral coverage for all retail mortgage exposures in the 50% to 100% collateral coverage category is 99% (2019: 95%).

Of the Group's total exposure, 44% (2019: 50%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

The Group does not currently trade commodities that could give rise to physical commodity inventory or collateral exposure with the exception of precious metals. In the normal course of its precious metal trading operations the group does not hold allocated physical metal; however, this may occur from time-to-time. Where this does occur, appropriate risk and business approval is required to ensure that the minimum requirements are satisfied, including but not limited to approval of risk limits and insurance cover.

COUNTRY RISK

Country risk, also referred to as cross-border transfer risk, is the uncertainty of whether obligors, (including the relevant sovereign, and including the obligations of bank branches and subsidiaries in a country) will be able to fulfil its obligations to SBSA given political or economic conditions in the host country.

All countries to which the SBSA is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of SBSA's network of operations, country visits and external information sources. These ratings are also a key input into SBSA's credit rating models.

The model inputs are continuously updated to reflect economic and political changes in countries. The model outputs are internal risk grades that are calibrated to a jurisdiction risk grade from aaa to d, as well as sovereign risk grade and transfer and convertibility risk grade ("**SB**") from SB01 to SB25. Countries with sovereign/jurisdiction risk ratings weaker than SB07/a, referred to as medium- and high-risk countries, are subject to more detailed analysis and monitoring.

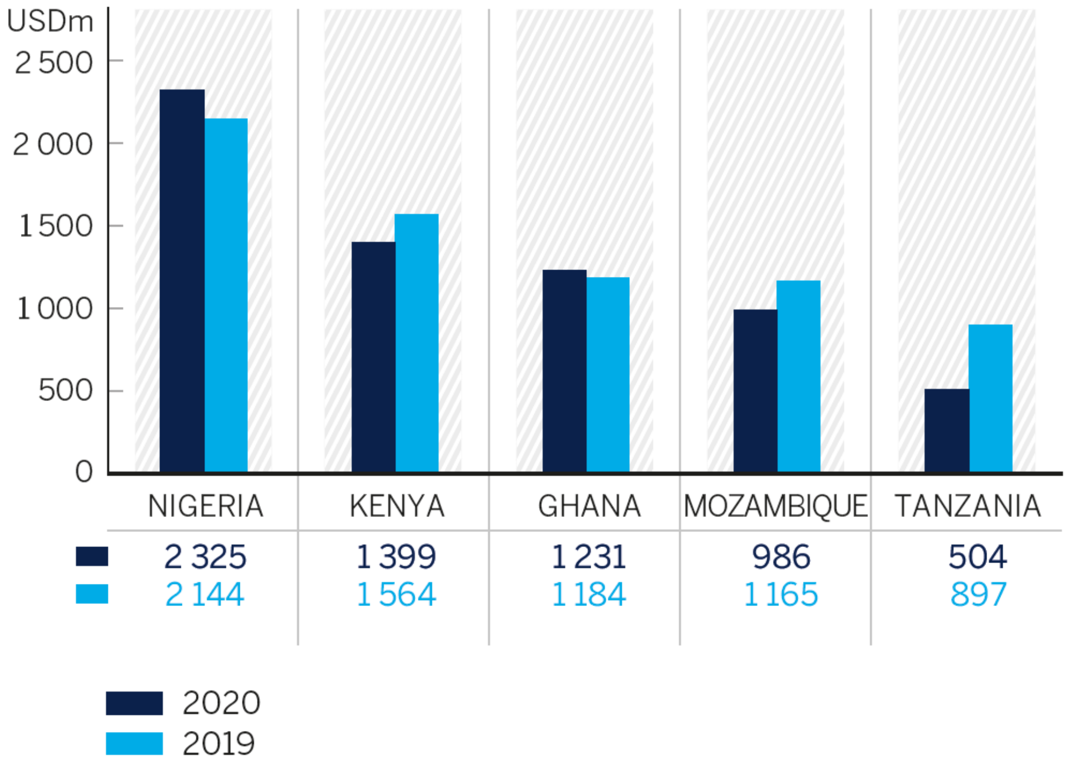
Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance;
- co-financing with multilateral institutions; and
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

The primary management level governance committee overseeing this risk type is the SBSA Group's Country Risk Management Committee. The principal governance documents are the country risk governance standard.

The risk distribution of cross-border country risk exposures is weighted towards European, Asian and North American low-risk countries, as well as sub-Saharan African medium- and high-risk countries.

The following graph shows SBSA's exposure to the top five medium- and high-risk countries for the 2020 and 2019. These exposures are in line with SBG's growth strategy, which focused on Africa.



FUNDING AND LIQUIDITY RISK

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

The nature of banking and trading gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide SBSA with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

SBSA manages liquidity in accordance with applicable regulations and within the SBG risk appetite framework. The liquidity risk governance standard supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met under both normal and stressed conditions and that regulatory minimum requirements are met at all times. This is achieved through a combination of maintaining adequate liquidity buffers, to ensure that cash flow requirements can be met, and ensuring that SBSA's balance sheet is structurally sound and supportive of our strategy. Liquidity risk is managed on a consistent basis across SBSA. Managing liquidity risk ensures that SBSA has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The primary management level governance committee overseeing liquidity risk is ALCO, which is chaired by the financial director. The principal governance documents are the liquidity risk governance standard and model risk governance framework.

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies.

Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant events. They address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on SBSA's funding profiles and liquidity positions. The crisis impact is typically measured over a 30 calendar-day period as this is considered the most crucial time horizon for a liquidity event. This measurement period is also consistent with the Basel III LCR requirements.

Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to SBSA's ability to maintain sufficient liquidity under adverse conditions.

Internal stress testing metrics are supplemented with the regulatory Basel III LCR to monitor SBSA's ability to survive severe stress scenarios.

Total contingent liquidity

Portfolios of highly marketable liquid instruments to meet regulatory and internal stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO-defined limits on the basis of diversification and liquidity.

The table that follows provides a breakdown of SBSA's liquid and marketable securities as at 31 December 2020 and 31 December 2019. Eligible Basel III HQLA are defined according to the BCBS January 2013 LCR and liquidity risk monitoring tools framework. Managed liquidity represents unencumbered marketable securities other than eligible Basel III LCR HQLA (excluding trading assets) which would be able to provide significant sources of liquidity in a stress scenario.

TOTAL CONTINGENT LIQUIDITY

	2020 Rbn	2019 Rbn
Eligible LCR HQLA[1]	**227.8**	210.7
Notes and coins	**8.5**	9.5
Balances with central	**25.5**	23.5
Government bonds and	**158.3**	133.9
Other eligible assets	**35.5**	43.8
Managed liquidity	**130.7**	63.7
Total contingent liquidity	**358.5**	274.4
Total contingent liquidity of funding-related	**26.7**	22.8

1 Eligible LCR HQLA are defined according to the BCBS and liquidity risk monitoring framework.

Structural liquidity requirements

Net stable funding ratio

The Basel III NSFR became effective on 1 January 2018 with the objective to promote funding stability and resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The ASF is defined as the portion of capital and liabilities expected to be reliable over the one-year time horizon considered by the NSFR. The Required amount of Stable Funding ("**RSF**") is a function of the liquidity characteristics and residual maturities of the various assets (including off-balance sheet exposures) held by the bank. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank's funding sources would erode its liquidity position, increase its risk of failure and potentially lead to broader systemic risk.

Maturity analysis of financial liabilities by contractual maturity

The following table analyses cash flows on a contractual, undiscounted basis based on the earliest date on which SBSA can be required to pay (except for trading liabilities and derivative liabilities, which are presented as redeemable on demand) and will, therefore, not agree directly to the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows.

Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities, together with trading liabilities, are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time.

The table also includes contractual cash flows with respect to off-balance sheet items. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand Rm	Maturing within one	Maturing between one to six	Maturing between six to 12	Maturing after 12 months	Total Rm
2020						
Financial liabilities						
Derivative financial	**112,138**	**212**	**171**	**201**	**53**	**112,775**
Instruments settled on a	**86,333**	**215**	**16**	**152**	**49**	**86,765**
Instruments settled on a	**25,805**	**(3)**	**155**	**49**	**4**	**26,010**
Trading liabilities	**75,231**					**75,231**
Deposits from customers	**868,314**	**62,920**	**144,895**	**54,966**	**206,789**	**1,337,884**
Subordinated debt		**18**	**2,276**	**675**	**23,626**	**26,595**
Other[1]		**10,227**		**1,225**	**3,009**	**14,461**
Total	**1,055,683**	**73,377**	**147,342**	**57,067**	**233,477**	**1,566,946**
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	**9,679**					**9,679**
Guarantees	**46,508**					**46,508**
Irrevocable unutilised	**109,353**					**109,353**
Total	**165,540**					**165,540**
2019						
Financial liabilities						
Derivative financial	65,710	6	182	165	308	66,371
Instruments settled on a	39,150	6	70	109	264	39,599
Instruments settled on a	26,560		112	56	44	26,772
Trading liabilities	77,647					77,647
Deposits from customers	676,638	312,682	5,864	10,483	219,122	1,224,789
Subordinated debt		785	1,665	5,268	17,310	25,028
Other		9,325		6,213	17,616	13,459
Total	819,995	322,798	7,711	22,129	254,356	1,407,294
Unrecognised financial liabilities						
Letters of credit and bankers' acceptances	9,067					9,067
Guarantees	40,341					40,341
Irrevocable unutilised	86,870					86,870
Total	136,278					136,278

1 The group and company have, as permitted by IFRS 16, elected not to restate its comparative annual financial statements. Comparability will therefore not be achieved as the comparative annual financial information has been prepared on an IAS 17 basis. Refer to page 51 of the SBSA 2020 Audited Financial Statements for more detail on the adoption of IFRS 16.

Funding activities

Funding markets are evaluated on an ongoing basis to ensure appropriate SBSA's funding strategies are executed depending on the market, competitive and regulatory environment. SBSA employs a diversified funding strategy, sourcing liquidity in both the domestic and offshore markets, and incorporates a coordinated approach to accessing loan and debt capital markets across the group.

Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as loan and debt capital markets. Total funding-related liabilities increased from R1 206 billion as at 31 December 2019 to R1 341 billion as at 31 December 2020.

The following table sets out SBSA's funding-related liabilities composition as at 31 December 2020 and 31 December 2019.

FUNDING-RELATED LIABILITIES COMPOSITION[1]

	2020 Rbn	2019 Rbn
Corporate funding	**306**	275
Retail deposits[2]	**295**	254
Institutional funding	**353**	317
Interbank funding	**134**	137
Government and parastatals	**134**	89
Senior debt	**58**	62
Term loan funding	**39**	34
Subordinated debt issued	**22**	21
Other liabilities to the public		7
Total funding-related liabilities	**1,341**	1,206

1 Composition aligned to Basel III liquidity classifications.

2 Comprises individual and small business customers.

MARKET RISK

Market risk is the risk of a change in the market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The governance management level committee overseeing market risk is the Group ALCO. The principal governance documents are the market risk governance standard and the model risk governance framework.

Trading book market risk

When group is mentioned within market risk it refers to the Standard Bank of South Africa group.

The Group's policy is that all trading activities are undertaken within the Group's global markets' operations.

The market risk functions are independent of the bank's trading operations and are overseen by the market risk committee which is accountable to the relevant legal entity ALCOs. ALCOs have a reporting line into group ALCO, a subcommittee of GROC.

All VaR and SVaR limits require prior approval from the respective entity ALCOs. The market risk functions have the authority to set these limits at a lower level. Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard.

Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to bring exposures back in line with approved market risk appetite, with such breaches being reported to management and entity ALCOs.

VaR and SVaR

The Group uses the historical VaR and SVaR approach to quantify market risk under normal and stressed conditions.

For risk management purposes VaR is based on 251 days of unweighted recent historical data updated at least monthly, a holding period of one day and a confidence level of 95 per cent. The historical VaR results are calculated in four steps:

- calculate 250 daily market price movements based on 251 days' historical data. Absolute movements are used for interest rates and volatility movements; relative for spot, equities, credit spreads, and commodity prices;
- calculate hypothetical daily profit or loss for each day using these daily market price movements;
- aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days; and
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on 251-day period of financial stress which is reviewed quarterly and assumes a 10 day holding period and a worst case loss.

The ten -day period is based on the average expected time to reduce positions. The period of stress for SBSA is currently the 2008/2009 financial crisis while, for other markets, more recent stress periods are used where the group has received internal model approval, the market risk regulatory capital requirements is based on VaR and SVaR, both of which use a confidence level of 99 per cent. and a ten-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or the risk offsets in one day. This will usually not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully; and
- the use of a 95 per cent. confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intra-day exposures. VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the SBSA Group's own account. In general, SBSA's trading desks have run increased levels of market risk throughout the year for all asset classes when compared to 2019 aggregate normal VaR, and aggregate SVaR.

TRADING BOOK NORMAL VAR ANALYSIS BY MARKET VARIABLE

	Normal VaR			
	Maximum[1]	**Minimum[1]**	**Average**	**Closing**
	(*Rm*)	(*Rm*)	(*Rm*)	(*Rm*)
2020				
Commodities risk	**2**		**1**	**1**
Foreign exchange risk	**20**	**5**	**14**	**16**
Equity position risk	**17**	**3**	**9**	**14**
Debt securities	**59**	**14**	**29**	**58**
Diversification benefits[2]			**(22)**	**(37)**
Aggregate	**54**	**20**	**32**	**51**
2019				
Commodities risk	3	0.3	1	1
Foreign exchange risk	23	7	12	14
Equity position risk	18	4	8	11
Debt securities	23	11	17	18
Diversification benefits[2]			(8)	(20)
Aggregate	51	17	30	24

1 The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual

market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.

2 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole trading portfolio.

Trading book issuer risk

Equity and credit issuer risk is assumed in the trading book by virtue of normal trading activity and is managed according to the SBSA's market risk governance standard. These exposures arise from, among others, trading in equities, debt securities issued by corporate and government entities as well as trading credit derivative transactions with other banks and corporate clients.

The credit spread and equity issuer risk is incorporated into the daily price movements used to compute VaR and SVaR, as mentioned above for issuer risk and transactions that incorporate material counterparty value adjustment and debit value adjustments.

The VaR models used for credit spread and equity issuer risk are only intended to capture the risk presented by historical day-to-day market movements, and therefore do not take into account instantaneous or jump to default risk. Issuer risk is incorporated in the standardised approach interest rate risk charge. Excluding local currency government debt held by each legal entity, the largest issuer exposure was R11.8bn (2019: R13.5bn).

Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical, hypothetical and Monte Carlo simulations. Daily losses experienced during the year ended 31 December 2020 did not exceed the maximum tolerable losses as represented by SBSA's stress scenario limits.

Backtesting

SBSA backtests its VaR models to verify the predictive ability of the VaR calculations and to ensure the appropriateness of the models within the inherent limitations of VaR.

Backtesting compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR. In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments. Regulators categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation. A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period at 99 per cent. VaR. All of the SBSA's approved models were assigned green status by the SARB for the year ended 31 December 2020. Nineteen exceptions occurred in 2020 (2019: two) for 95 per cent. VaR and four exceptions (2019: zero) for 99 per cent. VaR.

Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop loss triggers price validation and balance sheet substantiation.

Interest rate risk in the banking book

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

SBSA’s approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the SBSA operates. SBSA’s treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO.

Measurement

The analytical techniques used to quantify interest rate risk in the banking book include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Equity risk in the banking book

Equity risk is defined as the risk of loss arising from a decline in the value of equity or an equity-type instrument held on the banking book, whether caused by deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Equity risk relates to all transactions and investments subject to approval by the SBSA ERC, in terms of that committee’s mandate, and includes debt, quasi-debt and other instruments that are considered to be of an equity nature.

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in SBSA's subsidiaries, associates and joint ventures deployed in delivering SBSA's business and service offerings unless the group financial director and SBSA CRO deem such investments to be subject to the consideration and approval by the group ERC.

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction in fair value	Fair value	10% increase in fair value
	(*Rm*)	(*Rm*)	(*Rm*)
2020			
Equity securities listed and unlisted	2,035	2,261	2,487
Listed		25	
Unlisted		2,236	
Impact on profit and loss	(159)		159
Impact on equity	(67)		67
2019			
Equity securities listed and unlisted	2,794	3,104	3,414
Listed		70	
Unlisted		3,034	
Impact on profit and loss	(218)		218
Impact on equity	(92)		92

Foreign currency risk

SBSA's primary non-trading related exposures to foreign currency risk arise as a result of the translation effect of the SBSA's net assets in foreign operations, intragroup foreign-denominated debt and foreign-denominated financial assets and liabilities.

The SBSA foreign currency management committee, a subcommittee of the group capital management committee, manages the risk according to existing legislation, South African exchange control regulations and accounting parameters. It takes into account naturally offsetting risk positions and manages the SBSA Group’s residual risk by means of forward exchange contracts, currency swaps and option contracts.

Gains or losses on derivatives that have been designated as cash flow hedging relationships in terms of IFRS are reported directly in OCI, with all other gains and losses on derivatives being reported in profit or loss.

Foreign currency risk sensitivity analysis

The table that follows reflects the expected financial impact, in rand equivalent, resulting from a 10 per cent. shock to foreign currency risk exposures, against ZAR. The sensitivity analysis is based on net open foreign currency exposures arising from foreign-denominated financial assets and liabilities inclusive of derivative financial instruments, cash balances, and accruals, but excluding net assets in foreign operations. The sensitivity analysis reflects the sensitivity of profit or loss on SBSA's foreign denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis.

FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS[1]

		USD	Euro	GBP	Naira	Other	Total
2020							
Total net long/(short) position	*(Rm)*	**371**	**63**	**5**	**1**	**211**	**651**
Sensitivity (ZAR depreciation)	*(%)*	**10**	**10**	**10**	**10**	**10**	
Impact on profit or loss[2]	*(Rm)*	**37**	**6**	**1**	**0**	**21**	**65**
2019							
Total net long/(short) position	*(Rm)*	197	96	49	1	(1)	342
Sensitivity (ZAR depreciation)	*(%)*	10	10	10	10	10	
Impact on profit or loss	*(Rm)*	20	10	5	0	0	35

1 Before tax.

2 A 10% appreciation in ZAR will have an equal and opposite impact on profit or loss to the amounts disclosed above.

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