



Risk and capital
management report
**for the six months
ended 30 June 2017**

Standard Bank Group

Addendum – Disclosure of
interest rate risk in the banking book



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THIS ADDENDUM

The disclosures in this document relating to interest rate risk in the banking book (IRRBB) replace the disclosures provided in the Standard Bank Group's (group) risk and capital management report on pages 73-74 for the six months ended 30 June 2017.

This addendum covers the group's banking activities. All amounts are in rand millions unless otherwise stated. FY16 refers to the period ended 31 December 2016 and 1H17 refers to the period ended 30 June 2017.

DEFINITION

This risk results from the different repricing characteristics of banking book assets and liabilities.

IRRBB is further divided into the following sub-risk types:

- **repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities
- **yield curve risk:** shifts in the yield curve that have an adverse impact on the group's income or underlying economic value
- **basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/underlying basis and prime/Johannesburg Interbank Agreed Rate (JIBAR) basis
- **optionality risk:** options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract
- **endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-interest earning assets and interest rate insensitive liabilities such as non-interest paying liabilities and equity.

APPROACH TO MANAGING IRRBB

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.

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

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes into account 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.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecasted banking book earnings and the economic value of equity. The economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net exposure of non-rate sensitive liabilities and equity less non-rate sensitive assets.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Following meetings of the monetary policy committees, or notable market developments, the interest rate view is formulated through ALCO processes. Where permissible, hedge accounting (in terms of International Financial Reporting Standards) is adopted using derivatives designated as hedging instruments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets' portfolios.

Banking book interest rate exposure characteristics

The table below indicates the rand equivalent sensitivity of the group's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario resulting in asymmetric rate shocks in low-rate environments. Hedging transactions are taken into account while other variables are kept constant.

Assuming no management intervention, a downward 100 basis point parallel interest rate shock across all foreign currency yield curves and a downward 200 basis point parallel interest rate shock across rand yield curves would, based on the 30 June 2017 statement of financial position, decrease the forecast 12-month net interest income by R3.0 billion (31 December 2016: R2.9 billion).

INTEREST RATE SENSITIVITY ANALYSIS¹

		ZAR	USD	GBP	EUR	Other	Total
1H17							
Increase in basis points							
Sensitivity of annual net interest income	Rm	200	100	100	100	100	
Sensitivity of OCI	Rm	2 434	259	(19)	(24)	280	2 930
		3	(16)	(2)		(271)	(286)
Decrease in basis points							
Sensitivity of annual net interest income	Rm	200	100	100	100	100	
Sensitivity of OCI	Rm	(2 432)	(274)	5		(296)	(2 997)
		(3)	14	1		271	283
FY16							
Increase in basis points							
Sensitivity of annual net interest income	Rm	200	100	100	100	100	
Sensitivity of OCI	Rm	2 202	260	6	(29)	251	2 690
		11	(6)	(5)		(237)	(237)
Decrease in basis points							
Sensitivity of annual net interest income	Rm	200	100	100	100	100	
Sensitivity of OCI	Rm	(2 297)	(325)	(3)		(275)	(2 900)
		(11)	6	2		237	234

¹ Before tax.

Contact and other details

Standard Bank Group Limited

Registration No 1969/017128/06
Incorporated in the Republic
of South Africa

Head: Investor relations

Sarah Rivett-Carnac
Tel: +27 11 631 6897

Group financial director

Arno Daehnke
Tel: +27 11 636 3756

Group secretary

Zola Stephen
Tel: +27 11 631 9106

Registered address

9th Floor, Standard Bank Centre
5 Simmonds Street
Johannesburg 2001
PO Box 7725
Johannesburg 2000
Website: www.standardbank.com

Please direct all customer-related queries
and comments to:

Information@standardbank.co.za

Please direct all investor relations queries
and comments to:

InvestorRelations@standardbank.co.za

Refer to www.standardbank.com/
reporting for a list of definitions,
acronyms and abbreviations

Disclaimer

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