

# Interest Rate Risk In The Banking Book (IRRBB) Policy

<b>Version No</b>	3.1
<b>Document Type</b>	Policy
<b>Parent Document</b>	Enterprise Risk Management Framework
<b>Parent Framework</b>	Treasury
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<b>Business Scope</b>	All Businesses
<b>Function Role</b>	All Functions
<b>Geography Scope</b>	GLOBAL
<b>Approval Date</b>	01/09/2023
<b>Effective Date</b>	05/09/2023
<b>Next Review Date</b>	02/09/2025

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## Version Control Table

Name	Changes made	Materiality	Approved by	Version number	Approval Date	Effective Date
Isil Vedia Kilic	Migration to Inline format- Non Material Change(No change to document content)	Non-Material	Jason Pierpoint Forrester	3.1	01/09/2023	05/09/2023

The full version history is included at the end of the document.

## 1. PURPOSE AND SCOPE

This policy sets out the overall risk management approach for Interest Rate Risk in the Banking Book ("IRRBB"). The risk management approach addresses the Prudential Regulation Authority's ("PRA") guidelines for IRRBB set out in chapter 9 of the Internal Capital Adequacy Assessment ("ICAA") section of the PRA Rulebook and the IRRBB section of Supervisory Statement 31/15.

The Bank is exposed to a potential reduction in its future earnings or economic value following an adverse movement in interest rates; this represents an economic and commercial risk to the Bank and its capital adequacy, and is the subject of regulatory requirements.

This policy prescribes high-level principles for identifying, measuring, monitoring and managing this risk on the Group's behalf arising from exposures in the Banking Book.

This policy is applicable to Group and countries, with more detail set out in the IRRBB Standards.

Local regulatory requirements set by national authorities other than the PRA are out of scope. The Country Chief Executive Officer ("CEO") retains responsibility for meeting local regulations as stated in the Treasury Risk Type Framework ("RTF").

The Group's approach to managing IRRBB is to:

- Identify, capture, measure and monitor all material contractual and behavioural IRRBB risks, transferring these to Treasury Markets for central management within appetite, limits, triggers or flags (where applicable).
- Provide senior management and committees with insights on current and forward looking IRRBB exposures, including risk metrics and commentary around the likely trajectory in rates, the resulting impact on the Bank's Net Interest Income ('NII'), and any actions available to GALCO/ ALCO to position the balance sheet accordingly.
- Stabilise the Bank's NII through the interest rate cycle and position the balance sheet in response to emerging NII risks and opportunities.

There are additional pieces of work underway that have the potential to significantly impact this policy, i.e. Structural Hedging.

- The Group has recently increased its focus on Structural Hedging, beginning initially with equity balances. This program is being expanded to cover client balances, which will have an impact on how IRRBB is identified, measured, monitored and managed in both Treasury and the Business. Client balances will be subject to a model output to which expert judgement will be applied where required. Key considerations as part of this approach will include determining the appropriate behavioural term of the interest rate risk generated by different businesses and the hedging capacity generated by the same or other businesses. Economic life extension of stable rate insensitive CASA and Equity balances has been approved in the IRRBB standards for major Group entities, providing an appropriate notional amount and behavioural term for structural hedging.

## 2. MANDATORY POLICY STATEMENTS

### 2.1. Identification and Measurement

- a) Treasury Liquidity must, at least on an annual basis, review regulation relevant to IRRBB to identify Group policy requirements.
- b) Treasury Liquidity must propose to the Treasury CRO the Group requirements and methodologies informed by regulation to identify and measure IRRBB; measurement must be articulated in terms of the IRRBB sensitivity metrics and thresholds detailed in the IRRBB Standards. Methodologies and associated models must be developed and monitored in accordance with the Model Risk Policy.

- c) Treasury Liquidity must propose to the Treasury CRO appropriate Group Risk Appetite metrics and thresholds in accordance with the Risk Appetite Policy. There is no requirement per this policy for risk appetite to be cascaded to country level.
- d) Treasury Liquidity must periodically (at least annually) review Risk Appetite metrics and thresholds with regards to capital adequacy and business requirements in accordance with the Risk Appetite policy.
- e) Country CEOs must ensure through the Group's annual corporate planning process (including any subsequent revisions thereof), that the IRRBB impacts of business plans are identified, and that the business plans are developed in accordance with Risk Appetite and related thresholds.
- f) Treasury Liquidity Country must ensure that Group requirements and methodologies for identifying and measuring IRRBB have been implemented in accordance with the IRRBB Standards.

## 2.2. Monitoring

- a) The Group Treasurer must manage the risk in accordance with the Risk Appetite metrics, thresholds and Management Action Triggers ("MATs") as set out in GALCO terms of reference.
- b) Country CEOs must manage the risk in accordance with the Risk Appetite metrics, thresholds and MATs as set out in Country ALCO terms of reference.
- c) Group Treasurer at Group level and Country CEOs at country level must ensure that where Risk Appetite thresholds are breached, exposures are brought back within thresholds within the agreed timeline, unless temporary increases have been granted.
- d) Treasury Liquidity must escalate any breach of Risk Appetite and MAT thresholds as well as any material risks and issues at Group and Country level to the Treasury CRO.
- e) Any data or report classified as a priority report must adhere to the Group's Data Quality Management Framework.

## 2.3. Risk Management

Treasury Liquidity must propose Group-level strategies and initiatives to manage structural interest rate risk to GALCO for approval and the country level implementation to Country ALCO for approval. Treasury Markets is responsible for the execution of the structural hedge strategy within the parameters approved by GALCO and Country ALCOs.

## 3. RESPONSIBLE ROLES FOR IMPLEMENTING THE MANDATORY POLICY STATEMENTS

Treasury Liquidity	<ul style="list-style-type: none"> <li>• Review IRRBB Regulations</li> <li>• Identify IRRBB Group policy requirements</li> <li>• Propose IRRBB Group methodologies and requirements</li> <li>• Propose IRRBB Group Risk Appetite limits and thresholds</li> <li>• Propose group level strategies for management of structural interest rate risk</li> </ul>
Treasury Liquidity Country	<ul style="list-style-type: none"> <li>• Must ensure that Group methodologies and requirements are implemented according to the standards</li> </ul>

Group Treasurer	<ul style="list-style-type: none"> <li>• Manages the risk in accordance with risk appetite and thresholds</li> <li>• Ensures that the risk exposures are brought back to tolerance levels once breached</li> </ul>
Country CEOs	<ul style="list-style-type: none"> <li>• Ensures that IRRBB impact of business plan is identified and that business plan is in accordance with Risk Appetite and related thresholds</li> <li>• Manages the risk in accordance with risk appetite and thresholds</li> <li>• Ensures that the risk exposures are brought back to tolerance levels once breached</li> </ul>
Treasury Markets	<ul style="list-style-type: none"> <li>• Execution of the structural hedge strategy within the parameters approved by GALCO and Country ALCOs.</li> </ul>
Treasury CRO	<ul style="list-style-type: none"> <li>• Review and challenge of IRRBB Group requirements and methodologies.</li> <li>• Review and challenge of first line's regulatory interpretations</li> <li>• Review and challenge proposed Risk Appetite metrics and thresholds and monitor compliance with Risk Appetite.</li> </ul>

## 4. POLICY RELATED AUTHORITIES

The principles in this policy must be complied with in full unless a dispensation has been granted.

All dispensations to this policy must be approved by the Document Owner and supported by the Regional Treasurer.

## 5. CONNECTED PROCESSES AND ACTIVITIES

The following key processes as per the Process Universe are impacted by the above policy requirements.

Treasury – Liquidity & IRRBB [Group]

- Requirements and policy implementation
- Limit setting and monitoring
- Reporting

## 6. POLICY EFFECTIVENESS REVIEW

The Global Head, Treasury Liquidity will monitor effectiveness of the policy through the following:

- Control monitoring results, including review results of Control Sample Testing (CSTs), Key Control Indicators (KCIIs), residual risk assessments and any applicable risk acceptances or root cause reviews for the processes connected to this policy. Control effectiveness review also includes operational risk events including losses and near-misses.
- Findings from third line and regulatory reviews including level of compliance with regulatory obligations, breaches and quality of the remediation.

- Compliance with Board approved risk appetite, effective cascading, risk appetite breaches and quality of the remediation.
- Volume and materiality of the dispensations and quality of the mitigation plans.

The Treasury CRO will affirm the effectiveness of this policy to the Global Head, ERM as set out in the Treasury RTF.

## 7. INTERCONNECTED POLICIES & STANDARDS

Policy Name	Risk Type/Risk subtype	Policy Owner	Area of connection
<u>Group Model Risk Policy</u>	Model Risk	Global Head, Model Risk Management	Models are subject to governance set out in policy
<u>Risk Appetite Policy</u>	Enterprise Risk Management Framework	Head, Strategic Risk Management and Governance	Board and MT level Risk Appetite metrics designed in accordance with policy

Standard Name	Risk Type / Risk sub-type	Standard Owner	Area of connection
<u>Funds Transfer Pricing ("FTP") Standard</u>	Treasury Risk	Head of FTP	Transferring Interest Rate to Treasury Markets

## 8. STANDARDS MAPPED TO THIS POLICY

Standard Name	Risk Type	Standard Owner	Standard Approver
<u>IRRBB Standards</u>	IRRBB	Head, IRRBB	Global Head, Treasury Liquidity
<u>Interest Rate Structural Hedging Standard</u>	IRRBB	Head, IRRBB	Global Head, Treasury Liquidity

## 9. Version Control Table

Name	Changes made	Approved by	Version number
<b>Andy Cadman</b>	First Version	Saleem Razvi	1.0
<b>Andy Cadman</b>	Annual Review	Saleem Razvi	1.1
<b>Andy Cadman</b>	Annual review – mandatory policy statements updated to align to RTF	Saleem Razvi	1.2
<b>Andy Cadman</b>	Annual review Update of policy ownership PRA regulation replaces EBA regulation in purpose and scope. Updated policy statements. Aligned to updated Treasury RTF	Dan Hodge	2.0
<b>Boris Vojnovic</b>	Updated the roles and responsibilities in line with the updated Treasury RTF	Jason Forrester	3.0