Barclays Africa Group Limited

Interim risk management

for the reporting period ended 30 June 2014

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Forward-looking statements

Certain statements in this document are forward looking that relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of the Group. Words such as "anticipates"," estimates", "expects", "projects", "believes", "intends", "could" and similar expressions are typically indicative of a forward looking statement. These statements are not guarantees of the Group's future operating, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from these expressed or implied by such statements. The Group makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The Group undertakes no obligation to update the historical information or forward-looking statements in this document.

Overview

Risk management

Effective risk management and control are essential for sustainable and profitable growth.

The role of risk management is to Evaluate, Respond to and Monitor risks (the E-R-M process) that arise in the execution of the Group's strategy to become the 'Go-To' bank in Africa. It is essential that the Group's business growth plans are properly supported by an effective risk management infrastructure. The Group's risk culture is closely aligned to that of its business, whilst retaining independence in analysis and objective decision-making.

The Group has clear risk management objectives and a well-established risk strategy, delivered through its core risk management processes. The Group's approach to managing risk is contained in the Enterprise Risk Management Framework (ERMF) which was adopted in H1 2014. The ERMF defines the Group's risk management process and sets out the activities, tools, techniques and organisational arrangements so that material risks facing the Group can be better identified and managed. It also ensures that appropriate responses are in place to protect the Group and prevent detriment to its customers, colleagues or community, thereby enabling the Group to meets its goals and enhancing its ability to respond to new opportunities.

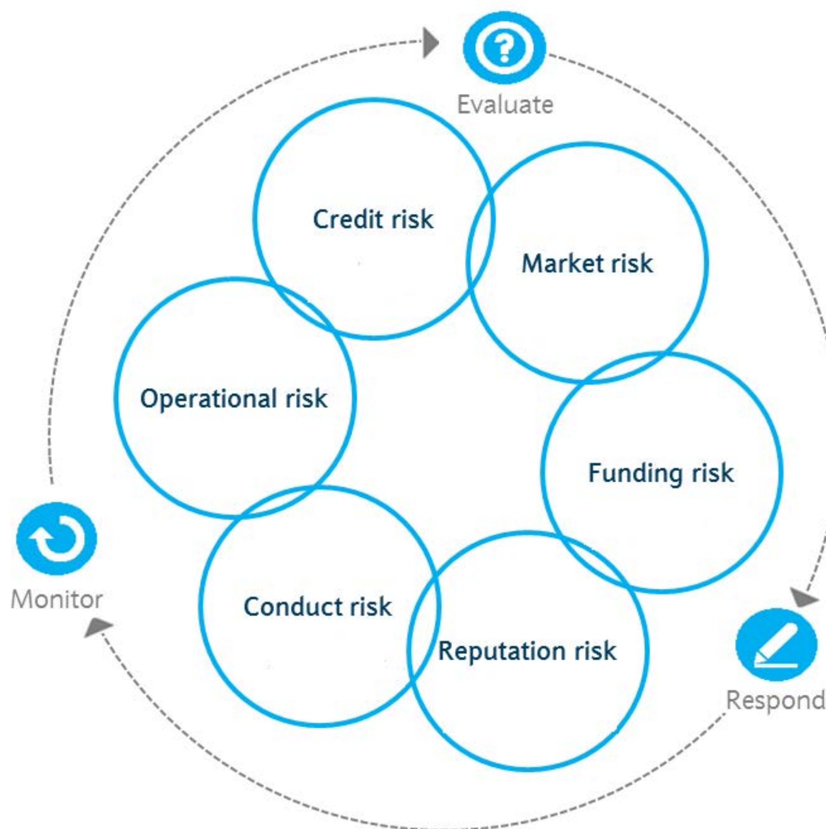
The ERMF includes those risks incurred by the Group that are foreseeable, continuous, and material enough to merit establishing specific group-wide control frameworks. These are known as Key Risks and are grouped into six Principal Risk categories. Conduct and reputation risks were reclassified as Principal Risks in H1 2014. For each risk, a control framework with supporting policies and standards outlines risk, control, and governance.

The three lines of defence have been defined in the ERMF, the scope of which has been extended to all businesses and functions. The framework creates the proper context for setting standards and establishing the right practices throughout the Group. The three lines of defence operating model enables the Group to assign risk management activities appropriately between those parties that:

- Own and take risk, and implement controls (first line);
- Oversee and challenge the first line, provide independent second line risk management activity and support controls (second line); and
- Provide assurance that the E-R-M process is fit for purpose, and that it is being carried out as intended (third line).

The framework enables businesses and functions to be organised along the three lines, thereby enhancing the E-R-M process by formalising independence and challenge, while still promoting collaboration and the flow of information between all areas.

Principal Risks



Risk management

H1 2014 review

The Group's overall performance continued to improve. Risk and capital measures remained within board-approved risk appetite. Key performance outcomes included:

- Loans and advances increased, driven by growth in Wholesale and certain Retail portfolios.
- Credit performance continued to improve across major portfolios. Both impairment charges and the impairment loss ratio reduced year-on-year due to better underlying portfolio performance.
- Against the backdrop of a challenging macro-economic environment, the Group increased overall coverage on both performing and non-performing loans.
- Market risk exposures were within the Group's risk appetite, despite volatile market conditions.
- The Group's operational risk losses reduced year-on-year, with fraud and transactional operations being the primary drivers of losses.
- The Group remained well capitalised above the minimum regulatory requirements and board approved target capital ranges.
- In addition to the Common Equity Tier 1 and Total Capital Adequacy ranges, the board approved target capital ranges for Tier 1.
- The Group's liquidity position remained healthy and well managed within key limits and metrics.

Future priorities

The Group will continue to focus on delivering effective and efficient risk management, while meeting regulatory requirements. The Group will continue to keep its customers and clients at the centre of what it does and strive to deliver sustainable returns above the cost of equity. The Group's specific risk management priorities for H2 2014 include:

- Achieve a uniform approach to managing risk across Africa.
- Embed the ERMF and the three lines of defence operating model.
- Continue to improve risk measurement models, and enhance risk-adjusted returns while reducing volatility in performance.
- Ensure performance is in line with risk appetite, and refine the risk appetite approach for insurance and country risk.
- Continue to strengthen controls and infrastructure, specifically in the areas of technology, financial crime, fraud and transactional operations.
- Build upon the recovery plan for the Group.
- Develop the approach to, and embed, management of Conduct risk.

Credit risk

The risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations.

Factors that influence this risk

Specific scenarios which could have an impact on credit risk in both the retail and wholesale portfolios include:

- Continuing weakness in the South African economy against a backdrop of prolonged strikes that could result in lower/loss of income for clients and customers, with negative implications for the wholesale (particularly business bank) and retail portfolios.
- The rand losing some of the gains it made earlier in 2014, due to the structured tapering of the US Federal Reserve Bank's quantitative easing programme and weak economic fundamentals in South Africa. This is threatening the inflation outlook which could lead to more restrictive monetary policy. Higher interest rates will adversely impact the credit quality of customers and counterparties, which, if coupled with a decline in collateral values, could lead to a reduction in recoverability.
- Increased tensions in Ukraine and the Middle East pose a material risk of higher oil and grain prices against the backdrop of a still fragile global economy. Should this materialise, the South African economy is likely to experience higher interest rates as the Reserve Bank attempts to maintain price stability and anchor inflation.
- Sub-Saharan African countries continue to be exposed to commodity price fluctuations, and currency weakness. This could lead to higher import bills and upward pressure on domestic prices, resulting in rising interest rates which would undermine GDP growth and increase sovereign risk.

How the Group manages this risk

- Define clear risk appetite thresholds and triggers using applicable stress test measures.
- Understand the Group's customer / client target market.
- Establish risk acceptance criteria.
- Undertake sound credit origination, monitoring and account management.
- Ensure appropriate risk infrastructure and controls.

Risk management

Wholesale credit risk

H1 2014 review

	30 June		31 December
	2014	2013	2013
	%	%	%
Growth in loans and advances	6.3	10.4	14.7
Risk weighted assets as a percentage of gross credit extended[1 2]	31,2	30,4	29,6
Non-performing loans as a percentage of gross loans and advances to customers	2,7	2,9	2,8
Non-performing loans coverage ratio	37,5	39,2	42,4
Impairment losses ratio	0,4	0,4	0,6

→ **Growth:** Annualized growth of loans and advances within the Group Wholesale portfolio was 6,3% for the six months to June 2014. This growth remains dominated by CIB, with loans and advances for CIB South Africa growing at 8,2% on an annualized basis for the six months to June 2014, compared with growth of less than 1% for the same period within the Business Bank portfolio.

- CIB now constitutes 71% of the South Africa Wholesale portfolio, and regional diversification is growing as new opportunities across Africa are explored. New business within South Africa has been buoyed by participation in new rounds of bidding for renewable energy transactions, as well as increased corporate activity across the mining, transportation and retail sectors.
- Business Bank loans and advances increased by less than 1% (annualized) in H1 2014, while the CPF portfolio decreased 4% over the same period. The overall credit quality of both Business Bank and CPF has improved consistently over the last 18 months, with a noticeable reduction in the impairment charge.
- The Wholesale portfolio outside South Africa has increased by 11% since December 2013 with a strong focus on building franchise value in each of the presence countries and providing a global product offering to multi-national corporates operating in these jurisdictions.

→ **Portfolio performance:** The risk profile of the South Africa Wholesale portfolio has continued to improve over H1 2014 as a result of a general improvement in financial results from a number of key counterparties and industries. Exceptions to this were the public sector, which was subjected to ratings downgrades during the first six months of the year, as well as the construction industry which continues to experience difficulties. Mining has also come under severe pressure largely as a result of the recent strike action.

→ **Impairments:** Focussed risk management interventions have continued to improve the impairment position across all major South African portfolios, with the YTD impairment charge for H1 at R336m (H1 2013: R364m).

- The CIB portfolio outside South Africa recorded a H1 impairment charge of R33m (up from R21m for H1 2013) following increases in impairment for a small number of single-name defaults in Zambia, Ghana and Kenya.

Future priorities

- Embed the 'Go-To' operating model for credit sanctioning across Africa, combining local knowledge with global and regional expertise.
- Continue to build on infrastructure, ensuring use of analytics/technology to manage credit risk.
- Maintain a well-considered approach to wholesale credit risk management and facilitate the business strategy through responsible lending within a comprehensive risk appetite framework.
- Refine stress testing and concentration risk methodologies to ensure all potential stresses are understood and quantified.
- Enhance management of sovereign and country transfer risk.

Notes

[1] Gross credit extended includes off balance sheet exposures as well as exposures to banks and sovereigns.
[2] The percentages only include portfolios subject to the IRB approaches.

Risk management

Retail credit risk

H1 2014 review

	30 June		31 December
	2014	2013	2013
	%	%	%
Growth in loans and advances	**2,9**	4,3	3,1
Risk weighted assets as a percentage of gross credit extended[1,2]	**36,1**	36,5	34,9
Non-performing loans as a percentage of gross loans and advances to customers	**5,6**	6,8	5,6
Non-performing loans coverage ratio	**44,5**	41,0	41,8
Impairment losses ratio	**1,6**	1,7	1,5

→ Growth: Underlying growth of 0,1% in the Home Loans portfolio was offset by continuing reduction in the Legal book, resulting in a net decrease of 2,1%. Both these components are positive developments. The VAF portfolio grew 7,3% over H1 2014 compared to a 0,2% contraction in the comparable reporting period. The overall growth of 20,8% in the Credit Card portfolio is attributable to a number of initiatives implemented in the Absa Card book as well as the inclusion of the Edcon portfolio. Portfolios outside South Africa grew 15% mostly due to positive performances in Kenya and Zambia.

→ Portfolio performance: Overall performance remains positive and stable. The quality of the Home Loans portfolio continued to improve, with flow into the legal book decreasing and legal recoveries increasing. Properties in Possession reduced from R250m to R43m over the period, down 83% from a year ago. The VAF portfolio performance continued to be stable as improvements were made in the dealer risk management process. Performance of the Credit Card portfolio is in line with expectations, with the increase in loan loss rates related to the age of the debt on the book, and reflecting the stress in the macroeconomic environment. In Personal Lending, performance remained stable despite the current economic environment.

→ Impairments: The impairment loss ratio improved from 1,7% to 1,6%, reflecting our enhanced collections capability in Home Loans and the improving quality of new business. The loss ratio decreased in Home Loans, increased in Credit Cards and remained stable in VAF and Personal Loans. The impairment loss ratio outside South Africa reduced from 2,6% to 1,9% mainly due to improved underlying performance in Ghana, Mozambique and Zambia.

→ Coverage: Both the NPL coverage and performing loan coverage continued to increase, to 44,5% and 1,0% respectively.

Future priorities

- Implement a Pan-African target operating model to manage retail credit risk.
- Continue to invest in models/analytics to improve the Group's risk profile, measurement and risk-adjusted returns, with a focus on unsecured lending.
- Respond effectively to the deteriorating macro-economic environment and potentially increasing interest rates in South Africa.
- Improve debt counselling and other rehabilitation programmes to ensure appropriate management of customers in financial difficulty.
- Continue to improve risk infrastructure, processes and controls.
- Enhance credit processes and controls.

Market risk

The risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads.

- Traded market risk: the risk of the Group being impacted due to changes in the level or volatility of positions in the Group's trading books, primarily in the Investment Bank.
- Non-traded market risk: the risk of being unable to hedge the interest rate risk in the banking book, primarily in the retail, business banking, and corporate portfolios.
- Insurance risk: the risk that future experiences relating to claims, expenses, policyholder behaviour and investment returns are different from the assumptions made when setting premiums or valuing policyholder liabilities.
- Pension risk: the risk that arises when an adverse movement between pension assets and liabilities results in a pension deficit.

Factors that influence this risk

Specific areas where market risk could result in significantly lower revenues and adversely affect the Group's results in future years include:

- Reduced client activity and decreased market liquidity, as the Group's corporate and investment business model is focused on client intermediation.
- Significant unexpected capital outflows that could arise due to a decline in demand for African and other emerging market local currency government bonds.
- Changes in the composition of the Group's balance sheet affecting structural risk, which if not adequately identified and managed, could lead to increased levels of exposure to interest rate and exchange rate volatility of the Group's earnings.
- Inadequate product pricing, prudent reserving and inappropriate reinsurance strategies in the management of insurance claims.

Notes

[1] Gross credit extended includes off balance sheet exposures as well as exposures to banks and sovereigns.
[2] The percentages only include portfolios subject to the internal ratings-based approaches.

Risk management

How the Group manages this risk

- Ensure risk is managed within the Group's appetite by monitoring risk against the limit and appetite framework.
- Ensure a high degree of net interest margin stability in the Group's banking books.
- Understand risk sensitivity and volatility, leverage stress testing and empirical analytics. Use appropriate models to measure risk.
- Underwrite risks that are well diversified in terms of types of risk and the level of insured benefits. Develop strategies to reduce earnings volatility and increase potential profits under good claims experience conditions.
- Reduce exposures to insurance business lines where the risk-adjusted returns are low, and increase exposures to more attractive business lines to improve the risk-return outlook. Monitor and continuously reassess the inherent quality and risk profile of the insurance business book.
- Ensure pension risk is managed within outlined principles, objectives and governance, as well as country specific regulations.
- The Group retains additional capital reserves which target a 99,6% level of confidence that policyholder obligations will be met during severe economic and demographic experience scenarios (insurance is quantified at a lower level than the Group level). The Group's adequacy of reserves, premiums and retained capital is regularly reviewed, in preparation for the coming Solvency Assessment and Management (SAM) legislation (which targets an adequacy level of 99,5%).

H1 2014 review

	30 June		31 December
	2014	2013	2013
Average traded market risk – daily value at risk (DVaR) (Rm)[1]	**26,5**	24,4	24,7
Traded market risk regulatory capital (RC) (at 10% of RWAs)[2] (Rm)	**1 753**	1 321	1 630
Banking book AEaR for a 2% interest rate shock (% of Group net interest income)	**< 5%**	< 6%	< 7%
Short-term loss ratio	**72,2**	71,6	72,2
Life new business margin	**7,3**	7,4	7,6

→ **Traded market risk:** The Group's trading exposures were carefully managed to ensure efficient use of trading capital with returns above return hurdles. All exposures were managed within risk appetite. Trading revenues in South Africa were supported by a strong client franchise despite some challenging market conditions and subdued trading activity. The trading business continued to focus on sustainable client flow and facilitation and the careful management of risk across the Group. This was supported by further strengthening of the control environment and the implementation of the Group's trading platform in two additional entities, namely Barclays Bank Tanzania and Barclays Bank Uganda.

→ **Non-traded market risk:** The Group remained positively exposed to further increases in interest rates in South Africa after the impact of hedging. The Group continues to be exposed to prime-JIBAR basis risk in South Africa, arising from the funding of predominantly prime-linked assets with liabilities that are primarily JIBAR-linked after hedging. Similar basis risks exist across the Rest of Africa business. The rate outlook across the Region remained extremely diverse with countries such as Ghana, Kenya and Zambia likely to experience tighter monetary policy in light of the emanating inflationary pressures and the prevalent twin deficit backdrops. Limited derivative markets make the hedging of interest rate risk more challenging, and balance sheet structuring is therefore used as a key risk mitigant. Regulatory action taken in some of the countries to protect local currency from material depreciation has added to market volatility and impacted short term interbank liquidity and funding rates.

→ **Insurance risk:** The Group continued to pursue diversified growth between life insurance and short term insurance exposures both inside and outside South Africa. The economic capital assessments for the constituent risks and overall insurance risk remained within approved levels. An improved valuation methodology for long term life insurance liabilities resulted in a lower mismatch risk between assets and liabilities. The insurance entities remained solvent as there was sufficient capital retention maintained above the regulatory minimum capital requirements. The short term insurance underwriting risk profile of the business clusters remained within the anticipated 1 in 7 year volatility bands.

→ **Pension risk:** The Group provides pension plans and benefits in the 11 African countries where the Group has a footprint. The South African pension arrangement, the Absa Pension Fund, remained the largest fund.

Future priorities

- Continue to focus on lower traded market liquidity, sensitivity to historically low traded market volatility and enhancement of the value-at-risk model.
- Respond to regulatory and capital change, specifically preparing for the adoption of Basel IV and participating in quantitative impact studies for the Fundamental Review of the Trading Book, while continuing to make efficient use of capital.
- Continue to build trading capacity and controls in the Region with the launch of integrated valuation and risk technology.
- Continue to reduce margin volatility through the Group's structural hedge programme in South Africa.
- Enhance risk appetite for the life and non-life insurance entities.
- Embed the principles of Own Risk and Solvency Assessment (ORSA) into the operations and governance of insurance entities to improve the Group's risk management policies, controls and processes.

Notes
[1] DVaR for outside South Africa is based on a historical simulation model that uses sensitivity-based inputs rather than full revaluation as is done for South Africa.
[2] At 9,5% of RWAs for 2014.

Risk management

Funding risk

The risk that the Group is unable to achieve its business plans as a result of:

- **Capital risk:** the risk that the Group is unable to maintain adequate levels of capital which could lead to an inability to support business activity; a failure to meet regulatory requirements; and/or changes to credit ratings, which could also result in increased costs or reduced capacity to raise funding.
- **Liquidity risk:** the risk that the Group is unable to meet obligations as they fall due.
- **Structural risk:** the risk arising from the impact of interest rate and foreign exchange movements on the balance sheet and income statement.

Factors that influence this risk

- Regulatory change and structural reform of the financial sector is under constant review and development internationally.
- Structural risk is affected by changes in the composition of the Group's balance sheet and income statement, which could lead to increased levels of exposure to interest rate and exchange rate volatility if not adequately identified and managed.

How the Group manages this risk

The Group manages funding risk by adhering to its Board's approved funding risk appetite and by maximising shareholder value through optimisation of capital, funding and structural components.

Capital risk

Effective capital planning and management ensures that the Group has sufficient and appropriate capital resources to support the Group's risk appetite, business activities, credit rating and regulatory requirements. The capital management process includes:

- Meeting regulatory capital ratios required by regulators and the target ranges approved by the board.
- Maintaining an adequate level of capital resources prudently in excess of economic capital requirements.
- Optimising returns through capital and balance sheet management.

H1 2014 review

		30 June		31 December
		2014	2013	2013
Group[1]	**Board target range %**	**%**	%	%
Common Equity Tier 1 capital adequacy ratio	**9,5 – 11,0**	**11,8**	12,5	12,1
Return on average risk weighted assets		**2,14**	2,04	2,18
Return on average economic capital		**20,5**	20,9	21,0
Return on equity		**16,1**	14,3	15,5

- → The Group's cost of equity increased to 13,5% from 13,0% with effect from January 2014.
- → Risk-weighted assets increased by 6% to R595bn (R560bn: 31 December 2013) mainly due to increased regulatory requirements, the prevailing economic environment, and balance sheet growth. This was partly offset by capital management initiatives. The increase in risk weighted assets resulted in the decrease in return on average risk weighted assets.
- → The Group is capitalised above the minimum regulatory and board-approved capital target ranges.

Future priorities

- Ensure all entities remain adequately capitalised above the minimum regulatory requirements, within board-approved target capital ranges and in line with the board-approved risk appetite.
- Optimise the capital mix.
- Enhance regulatory and economic capital management, and capital allocation.
- Maintain Basel III requirements and consider capital issuances out of the Group as well as the Group's subsidiaries.
- Keep abreast of regulatory and capital changes (Basel IV).
- Continued optimisation of risk-weighted assets.

Notes

[1] The 30 June 2013 comparatives are based on Absa Group while 31 December 2013 and June 2014 disclosures are based on the Group.

Risk management

Liquidity risk

The liquidity risk management process includes:

- Management of the overall funding position, including construction of the funding plan.
- Liquidity risk monitoring.
- Intra-day liquidity risk management.
- Contingency liquidity planning.
- Regulatory compliance.

The Group expects to maintain a healthy liquidity position throughout 2014 which will enable it to support its growth targets.

H1 2014 review

	30 June		31 December
	2014	2013	2013
The Group sources of liquidity (Rm)	**180 700**	159 212	153 871
High quality liquid assets	**90 514**	80 666	81 974
Statutory liquid assets and cash reserves (South Africa)	**49 183**	49 152	49 915
Surplus liquid assets (South Africa)	**41 331**	31 514	32 059
Other liquid assets (outside South Africa)	**25 672**	27 080	31 697
Other sources of liquidity	**64 514**	51 466	40 200
Long term funding ratio (%)	**23,0**	25,6	24,3
Loan-to-deposit ratio (%)	**87,4**	86,2	88,3

→ The Group will continue to maintain a surplus liquid assets buffer ahead of the timeframes required by the Basel III liquidity rules and expects to comfortably meet the 60% Liquidity Coverage Ratio (LCR) minimum requirement, when it becomes effective on 1 January 2015. Work continues on the Net Stable Funding Ratio (NSFR) and is being monitored during an observation period running until 1 January 2018 when the NSFR is due to become a reporting requirement.

→ The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of liquidity are reviewed regularly to maintain a wide diversity of provider, product and term. The Group's liquidity risk position remained healthy and well managed within key limits and metrics. The long-term funding ratio reduced by 2,6% to 23% with the inclusion of the Barclays Africa entities. These entities are predominantly deposit-led banks and whilst these deposits are very stable they are generally of a short term contractual nature.

Future priorities

- Ensure that the Group's funding position continues to be managed in line with the board-approved liquidity risk appetite.
- Maintain adequate liquidity buffers to ensure that the Group is able to meet the liquidity coverage ratio requirements in the appropriate timeframe.
- Continue to grow and diversify the funding base.
- Balance the above against the long-term impact on the cost of funding for the Group.

Risk management

Structural risk

Structural risk exposures continue to be identified and managed within well-defined risk limits. The qualification criteria relating to structural exposures are well defined and tested, and structural risk management approaches continue to follow strict internal governance processes.

H1 2014 review

	30 June		31 December
	2014	2013	2013
Percentage of capital and liabilities deemed structural for hedging purposes[1] (%)	**14**	14	15
Structural hedging impact on net interest margins (bps)	**21**	25	25
Structural hedging impact on net interest income[1] (Rm)	**792**	882	1 592

- → Exchange rate and interest rate volatility over the reporting period re-emphasised the importance of structural risk management. The structural hedging programme in South Africa continued to play an important role in reducing margin volatility during the interest rate cycle, thereby reducing structural risk.
- → After the formation of the Group, additional risk was introduced through interest rate and exchange rate exposures to the rest of Africa. The Group has enhanced risk identification and measurement approaches in the region. Due to the absence of fully developed derivative markets in most of the countries, balance sheet structuring approaches are often used as a key structural risk management tool.

Future priorities

- Ensure that structural risks across the Group continue to be managed in line with the Group's risk appetite.
- Continue to manage structural interest rate risks in South Africa in accordance with the structural interest rate hedging programme.
- Enhance the approach outside South Africa to optimise further balance sheet structures in line with risk appetite and return objectives.

Operational risk

Operational risk arises when there is direct and indirect loss resulting from human factors, inadequate or failed internal processes systems or external events. The Group actively seeks to minimise the impact of losses suffered, both in the normal course of business (expected losses) and in extreme events (unexpected losses), to improve effective management of the Group, and strengthen its brand and external reputation.

Factors that influence this risk

- The scale and type of fraud, both internal and external.
- Increasing and changing regulatory requirements affecting the internal control environment.
- The extent, nature and management of change in the organisation, including the type and scale of growth.
- The rate of technological evolution and progress.

How the Group manages this risk

The Group has developed and embedded an Operational Risk Management Framework which is designed to deliver on the key operational risk management strategies and objectives. The consistent implementation and application of the Operational Risk Management Framework ultimately enables the Group to:

- Embed a culture of risk awareness across the businesses.
- Improve risk governance and oversight at an executive level.
- Strengthen risk practices.
- Enhance the control environment by standardising processes and using automated solutions where relevant.
- Invest in infrastructure and systems to support the measurement of operational risk.
- Implement remedial actions should the risk profile not be at an acceptable level.

H1 2014 review

	30 June		31 December
	2014	2013	2013
	%	%	%
Total losses as a % of gross income	**0,6**	1,2	1,1

Notes

[1] Structural interest rate risk hedging is only conducted in respect of the South Africa business.

Risk management

Total operational risk losses for H1 2014 were within the Group's appetite and lower than H1 2013. Incidents relating to fraud and transaction processing remained the largest contributors, accounting for 46% and 42% of total losses respectively. No significant risk events of the scale reported in the previous period occurred during current the reporting period.

- → **Technology Risk:** Technology stability remained a challenge in H1 2014, specifically within our payments environment although the Group made good progress in addressing issues relating to unsupported infrastructure and systems.
- → **Regulatory and Financial Crime Risk:** There was increased focus by the Group, to improve overall regulatory controls, particularly those related to know your client, anti-money laundering, and the National Credit Act. A R10m Regulatory fine, issued by the SARB, originated from an administrative sanction outcome (FICA - Section 45C). Various Financial Institutions in South Africa received a similar fine during this period. The Group has agreed a remediation plan with the SARB.
- → **Fraud Risk:** Plastic fraud losses remain the key driver behind overall fraud losses, but these have improved and stabilised across all card portfolios.
- → **Financial Reporting, Transaction Operations and Payments:** the Group is actively remediating an issue within the Card business relating to reconciling payment and settlement transactions. This is an industry-wide issue affecting multiple parties to the payments system. The issue is managed via a group-level control remediation project plan

Future priorities

- **Technology Risk:** Continue to invest in systems to improve and maintain technology resilience. There is a need to consolidate and simplify platforms across the continent, and, where relevant, replacing legacy systems.
- **Regulatory and Financial Crime Risk:** Continued focus on the management of regulatory risk in step with recent and planned regulatory changes across Africa. Financial Crime compliance will be strengthened through investment in technology and refining the customer on-boarding and monitoring processes.
- **Fraud Risk:** Improve the Group's fraud capability with a focus on the Digital Banking and Wealth, Investment Management and Insurance businesses.
- **Product Risk:** Monitoring and managing risks associated with the expansion of the businesses across Africa, specifically within the Group's Corporate, Life Insurance and Digital businesses.

Conduct risk

Conduct risk is the risk that detriment is caused to customers, clients, counterparties or Barclays and its employees because of inappropriate judgement in the execution of the Group's business activities.

Proactive management of conduct risk is a key part of the Group's journey to building trust, improving customer loyalty and building a sustainable business.

Factors that influence this risk

- Culture and behaviour of the employees of the organisation.
- Technological evolution impacting approaches to transaction services.
- Increasing and changing regulatory requirements.

How the Group manages this risk

- Implementing a framework and risk practices in businesses which includes frequent performance of material risk assessments, use of risk and performance indicators, management of risk events, and reporting key conduct risks to executive committees and boards.
- Continuous engagement with regulators and industry bodies to identify forthcoming regulatory change, assess and address the impact on customers and the financial industry.
- On-going monitoring and combined assurance of effectiveness of the framework and risk management practices.

H1 2014 review

The Group's approach to conduct risk required the identification of risk across the Group. The key themes were:

- Impact on customers consequent to remediation activities related to financial crime legislation (i.e., anti-money laundering).
- Continued levels of regulatory change, resulting in increased expectations and enhanced requirements that impact on customer experience.
- Increasing use of digital and mobile channels that involve a high level of complexity of technology, with potential customer impact.

Future priorities

- Values/Culture – focusing on and measuring how the Group delivers on its stakeholder commitments.
- Ensure that clients and customers are at the centre of all decisions.
- Embed material risk assessments and forward looking conduct risk reporting across the organisation.
- Enhance controls and key performance indicators to track and manage conduct risk continually.

Risk management

Reputation risk

Reputation risk is the risk of damage to the Group's brands, arising from association, action or inaction which is perceived by stakeholders to be inappropriate or unethical.

Factors that influence this risk

Reputation risk may arise from a number of factors, including:

- Failure to act in good faith and in accordance with the Group's values and code of conduct.
- Failure (real or perceived) to comply with the law or regulation, or association (real or implied) with illegal activity.
- Failure to respond to new norms or comply with existing (explicit or implicit) norms timeously.
- Association with controversial clients, business decisions, sectors, governments, or countries.

How the Group manages this risk

The Group does not consider the management of reputation risk to be the sole responsibility of one owner. Due to the far-reaching negative impact of reputation risk, the Group has designated it as a Principal Risk.

Reputation risk is managed by:

- Evaluating the potential reputation risk to the Group's brand prior to making a commercial decision and ensuring on-going monitoring of the risk once a commitment has been made.
- Actively engaging in the identification, management and monitoring of reputation risks in order to implement and improve the reputation risk management processes and controls.
- Identifying and escalating material reputation risks for appropriate review.
- Ongoing review through scenario planning, business continuity and crisis management to mitigate the operational impact of commercial decisions on clients and customers.

H1 2014 review

The Group's approach to reputation risk is guided by key themes, which include:

- The effects of limited and/or uncoordinated stakeholder engagement.
- Policy shifts and changing dynamics between the Group, customers and clients, as well as policymakers and regulators as a result of increased pressure on local governments to deliver on socio-economic reform pledges.
- Greater shareholder scrutiny of the Group's values, internal policies, business decisions and operations.

Over the course of H1 2014, the Group managed a number of reputation risks:

- Following a strategic review, the Community Investment team exited a number of existing programmes and declined several high profile funding requests given their non-alignment to the approved strategy, and/or governance and compliance issues.
- The Group took the decision to cease financial support to political parties. Political parties and Government were engaged, prior and subsequent to the elections in South Africa. The suspension of the programme has not had an immediate and quantifiable negative impact on the Group's existing business with the government.
- The Group managed reputation risk associated with both internal and external fraud by ensuring a transparent and appropriate level of communication with customers.

Future priorities

- Provide regular training and material to ensure business units and functions are aware of the Framework requirements, risk definitions and escalation procedures.
- Embed a culture of horizon scanning to capture emerging reputation risks across the Group.
- Maintain a robust awareness and understanding of drivers of political and policy changes across the continent.

Basis of preparation

Basis of preparation

Risk disclosure

The purpose of this document is to comply with Basel Pillar 3 disclosure requirements regulated by section 43 of the South African Bank's Act and represent a holistic view of the Group's risks. The information in this report is unaudited.

Scope of consolidation

Disclosure in this report is presented on a consolidated basis for the Group. The new Group is called Barclays Africa Group Limited (the Group) (The Group). The consolidation is similar to that used for reporting to the South African Reserve Bank (SARB), and for subsidiary reporting to Absa Bank Limited (the Bank) and Barclays Africa Group Limited.

Where a different treatment is applied for regulatory reporting compared to statutory reporting, the following approach is followed:

Entity	Statutory accounting treatment	Basel III regulatory treatment
Subsidiaries engaged in insurance activities. (Absa Financial Services Limited)	Consolidated	Excluded from the calculation of the capital adequacy ratio.
Associates, joint ventures and participation in businesses those are financial in nature.	Equity-accounted	Deducted from qualifying capital or proportionately consolidated.
Associates, joint ventures and participation in businesses that are not financial in nature.	Equity-accounted	Included in equity investment risk capital.

Changes to comparative numbers

Prior period figures were restated where appropriate. Where changes to numbers and disclosures are noted in this report it will be due to the following:

Prior period figures restated

- The Group's statutory accounts (annual financial statements) were restated and therefore all financial ratios and disclosures in this report will align to those disclosures.
- Continued improvement on disclosures in terms of Regulation 43 as well as value adding disclosure to the readers of this report.

New disclosure with no effect on prior period numbers

- Regulatory approved changes in approach in accordance with Basel III, implementation 1 January 2013.
- Newly acquired capital management disclosure in terms of Directive 8 /2013 was issued on 7 June 2013 by the SARB.
- Disclosure of the Group entities in current reporting period

Policy, validation and sign-off

This report is in line with policy, and was validated and approved through the appropriate governance channels. All data submissions are attested to by the risk directors. Review and challenge were performed centrally within Group risk to ensure that the disclosures are a fair representation of the risk profile.

Credit risk

Basel measurement elected

This document discloses the Group's assets in terms of exposures and capital requirements. For purposes of this document, credit exposure is defined as the modelled amount at risk in the event of a default (before any recoveries) or through the decline in value of an asset. This approach takes account of contractual commitments related to undrawn amounts. In contrast, an asset in the Group's statement of financial position is reported as a drawn balance only. This is one of the reasons why exposure values in this report will differ from asset values as reported in the annual financial statements.

Where this document discloses credit exposure or capital requirements, the Group has followed the scope and application of the Pillar 1 capital adequacy calculations (unless otherwise stated). Where figures for impairment or losses are disclosed within this document, the Group has followed the IFRS definitions used in the annual financial statements.

The Group applies both the standardised (TSA) and advance internal ratings-based (AIRB) approaches to various portfolios to calculate Regulatory Capital (RC) requirements, as illustrated in the table below:

Basis of preparation

Approaches	Standardised	AIRB
Reporting of balances	– African operations – Edcon book	– South Africa retail portfolios – South Africa corporate portfolios (including specialised lending portfolios) – Public sector entities – Local government – Municipalities – Sovereign, banks and securities firms – Statutory reserve and liquid asset portfolio
Assessment applied	– Standard risk weight percentage as prescribed in the regulations relating to banks	– Automated application and behavioural scoring based on statistical models – Statistical, structural and expert based models either developed internally or based on the service of external vendors

Standardised approach

The Group's African operations as well as the Edcon portfolio are subject to the standardised approach. For capital calculation purposes, these exposures are multiplied by the standard risk-weight percentages as set out in the Banks Act of South Africa.

Advanced internal ratings-based approach

To assess credit risk under this approach, the Group analyses this risk in terms of its common components of probability of default (PD), exposure at default (EAD) and loss given default (LGD), modelled on an exposure specific basis in the case of wholesale exposures and on a pooled level in the case of retail exposures.

These risk components are then used in the calculation of a number of aggregate risk measures such as expected loss (EL), Regulatory Capital (RC) and Economic Capital (EC). Under the AIRB approach, the Group's own measures of PD, EAD and LGD can be used.

The assessment of credit risk relies heavily on quantitative models and tools developed internally. These are supplemented by vendor solutions in a number of areas.

Credit models are classified by materiality, based on a combination of measures aimed at assessing the value at stake (VAS) for us. The VAS measure used for a specific model is determined by its relevance to the respective portfolio and the risk it is intended to assess.

All models are subject to an initial validation and approved by the appropriate governance forums. High materiality models require Absa Bank Models Committee (MC) approval. Models are monitored on an ongoing basis and validated, at least annually, by an independent validation unit in the Group's risk department. The monitoring information and validation results are regularly reported to and discussed at the appropriate governance forums.

Securitisation

The Group applies the IRB approach in the assessment of the Group's securitisation exposure for RC purposes and use Fitch, Moody's and Standard and Poor's as external credit assessment institutions (ECAI).

Equity investment

Equity investment risk is monitored monthly in terms of regulatory and EC requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, and mandate and scale limits framework.

The Group has adopted the market-based simple risk weight approach to calculate RWAs and RC for equity risk in the banking book.

According to this approach, the Group applies a 300% risk weight to listed exposures and 400% to unlisted exposures, for investments in non-financial entities, and investments in financial entities with a shareholding percentage of less than 10%. Amended Basel regulations effective January 2012 prescribe a scaling factor of 1.06. Consequently, RWAs are calculated using weightings of 318% and 424% for listed and unlisted equity investments respectively. For those investments for which the bank owns between 10% and 20% of the issued common share capital of a financial entity, a 250% risk weight is applied. For those investments not in the common share capital of financial entities, as well as any investments in financial entities (in common and non-common share capital) with a shareholding percentage of more than 20%, a capital deduction is applied.

Economic capital for equity investment risk in the banking book is based on investment type and portfolio risk modelling, and varies from 35,2% to 100%.

Basis of preparation

Applicable accounting policies

Retail and wholesale portfolios

Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition of the asset, and where these events had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. To determine if a loss event has occurred, historical economic information similar to the current economic climate, overall customer risk profile, payment record and the realisable value of any collateral, are taken into consideration.

The replacement of IAS 39 with IFRS 9 Financial Instruments (IFRS 9) will have a significant impact on Banks' financial statements, the biggest impact being the calculation of impairments. IFRS 9 will replace the current incurred loss model with the requirement to calculate expected losses.

Securitisation

At the start of a securitisation transaction, assets are sold to the securitisation vehicle at par value and no gains or losses are recognised. The transactions are treated as sales (rather than financing) and for financial reporting purposes the respective vehicles are consolidated at a Group level.

Any retained interest in the securitisation vehicle is valued on the basis of the respective asset's performance. Key valuation assumptions for retained interests of this nature include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or unobservable. Where the Group acts as a service provider, normal impairment policies are applied and retained tranches are ultimately written off once sufficient capital losses accumulate.

Equity investment risk

IAS 39 requires all equity investments to be measured at fair value. Accounting policies relating to subsidiaries and investments in associates and joint ventures are discussed separately in note 63 of the Group's annual financial statements.

The fair value of equity investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, include discounted cash flow analysis, enterprise value comparisons with similar companies and price-earnings comparisons.

Listed and unlisted investments are either designated at fair value through profit or loss or as available-for-sale. Investments in entities that form part of the Group's venture capital and similar activities have been designated at fair value through profit or loss. The designation has been made in accordance with IAS 39 Financial instruments Recognition and Measurements, based on the scope exclusion that is provided in IFRS 11: Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures (IAS 28). The relevant accounting policies for equity investments are discussed in note 1.7 of the Group's annual financial statements.

Market risk

Basel measurement elected

Traded market risk

The Group's traded market risk minimum RC requirement comprises of two elements:

- Trading book positions where the market risk is measured under an internal VaR model approved by the SARB. The capital requirement is calculated based on the internal model with a 10-day holding period at a 99% confidence level and other regulatory 60-day averaging and capital multiplier specifications. This approach currently applies to close to 100% of the Group's general position risk across interest rate, foreign exchange, commodity, equity and traded credit products.
- For trading book positions that have not yet met the SARB or the Group's internal conditions for inclusion within the approved internal model, the capital requirement is calculated using standardised regulatory rules. This approach currently applies to the Group's issuer-specific risk exposures, any instruments traded for which internal model approach approval has not yet been obtained (South Africa), as well as general market risk for all the regions.

Total traded market risk minimum capital requirement increased by 33% or R432 million compared to the previous reporting period and increased by 8% or R123 million compared to the full 2013 financial year.

Basis of preparation

	30 June		31 December
	2014	2013	2013
	%	%	%
Internal model based approach	**1 080**	922	1 184
Value at risk	**412**	340	527
Stressed value at risk	**668**	582	657
Standardised approach	**673**	399	446
Interest rate risk	**559**	315	349
Equity risk	**75**	84	74
Foreign exchange risk	**39**	0	23
Total traded market risk capital requirement[1]	**1 753**	1 321	1 630

Liquidity risk

South African banks have been monitoring and reporting their Basel III positions on both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) since January 2013 in preparation for the introduction of the LCR minimum regulatory standard of 60% as from 1 January 2015. During January 2014 the Basel Committee on Banking Supervision (BCBS) published a document outlining the market disclosure standards for the LCR which the SARB have adopted as the standard disclosure requirement.

Work continues on the NSFR. Banks are currently monitoring and reporting their NSFR positions through an observation period running until end 2017. The NSFR is due to become a binding requirement from 1 January 2018. In January 2014, the BCBS published a consultative paper for comment by 11 April 2014 on proposed revisions to the NSFR standards. The South African banking industry collectively supplied the BCBS with commentary and the banking industry is awaiting finalisation of the revisions to the NSFR from the BCBS.

Operational risk

Basel measurement elected

The Group applies the advanced measurement approach (AMA) for the majority of the Group's South African entities to calculate RC requirements for operational risk. This is subject to the relevant Regulatory Capital floor. The Basic Indicator Approach (BIA) or The Standardised Approach (TSA) is applied for the remaining entities not included in the AMA, namely:

- joint ventures and non-controlling interests where the Group is unable to dictate the implementation of the operational risk framework (ORF) or capital methodology; and
- cross-border legal entities where local or South African regulatory policy/requirements do not permit the use of the AMA model.

Notes
[1] At 9,5% of RWAs for 2014.

Capital management

Capital management

Key points

- The Group's strong capital adequacy position was maintained above the board approved target ranges.
- Strong focus on RWA management.
- In addition to the 2014 board approved Common Equity Tier 1 and Total Capital Adequacy target capital ranges, the board further approved Tier 1 target capital ranges.
- R1.7 billion call of the AB07 bond qualifying as Tier 2 on 7 March 2014.
- Recovery plan in place detailing potential options available to restore capital, liquidity and balance sheet positions during times of stress.

Key performance indicators

Group[1]	30 June		31 December
	2014 %	2013 %	2013 %
Common Equity Tier 1 capital adequacy ratio[2]	**11,8**	12,5	**12,1**
Return on average risk-weighted assets[3]	**2,14**	2,04	**2,18**
Return on average economic capital	**20,5**	20,9	**21,0**
Cost of equity[4]	**13,5**	13,0	**13,0**

Absa Bank Limited	30 June		31 December
	2014 %	2013 %	2013 %
Common Equity Tier 1 capital adequacy ratio[2]	**10,1**	12,2	**11,0**
Return on average risk-weighted assets	**1,91**	1,93	**1,98**

Strategy

The Group's capital management objectives are to:

- Maximise shareholder value by optimising the level and mix of capital resources and the utilisation of those resources.
- Meet capital ratios required by regulators and the target ranges approved by the board.
- Maintain an adequate level of capital resources for both regulatory capital and economic capital requirements.
- To increase business and legal entity accountability for the use of capital and, where relevant, the use of capital per client or portfolio.
- Assess, manage and efficiently implement regulatory changes to optimise capital usage.
- Maintain a strong credit rating.

Internal capital adequacy assessment process (ICAAP)

The efficient use of capital resources is fundamental to ensure the enhancement of shareholder value. Capital risk is considered a key risk, forming part of the funding principal risk, and thus receives the requisite focus required for a risk of this nature. Capital management is an integral part of decision making within the Group and is considered to be proportional to the nature, scale and complexity of the activities of the Group. The capital management process in the Group encompasses the capital management function of all regulated entities within the Group. The ICAAP reflects the level of capital required to be held against identified material risks the Group is or may become exposed to.

The board approved ICAAP is used to inform senior management of the on-going assessment of the Group's risks, how the risks are mitigated and how much current and future capital is considered necessary taking into account mitigating factors. The ICAAP is used to ensure that the board's risk appetite and minimum capital ratios can be maintained over the period of the medium term plan, having been subjected to suitably severe stress and scenario analyses. Expected capital supply on both a regulatory and economic basis is compared to current and future capital needs. The ICAAP and its underlying components form an integral part of decision-making and business processes. The Group has embedded risk and capital management tools, processes and activities across clusters to actively align management behaviour to strategy.

The ICAAP articulates the Group's strategy and is used to ensure that the minimum capital ratios and board approved target ranges can be maintained over a medium-term period, having been subjected to stress and scenario analyses. Stress testing is conducted on a regular basis[1] to identify market condition changes that could adversely impact the Group. Management actions are identified to mitigate risks on a timely basis.

Notes

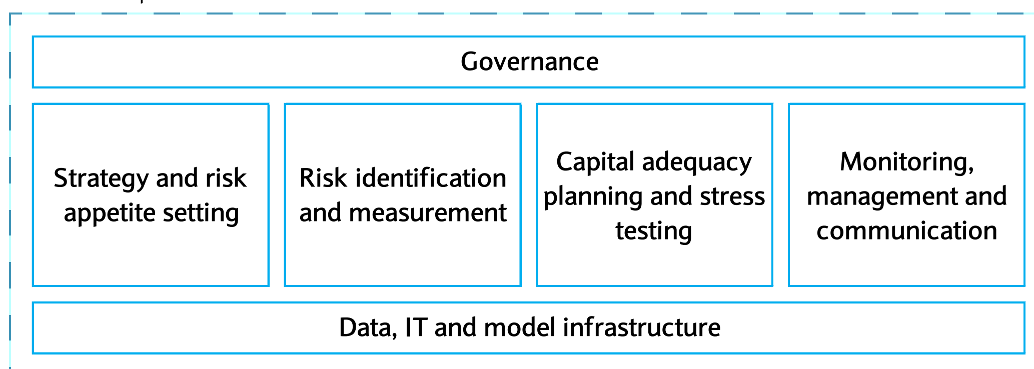
[1] The 30 June 2013 comparatives are based on Absa Group while 31 December 2013 and June 2014 disclosures are based on THE GROUP.
[2] Reported ratios include unappropriated profits.
[3] The December 2013 pro forma historical risk-weighted assets of the Group are restated for purpose of RoRWAs of Barclays Africa Limited as if they had always been a part of the Group's RWAs. This does not alter any submissions made to the SARB.
[4] The average CoE is based on the capital asset pricing model (CAPM).

Capital management

Furthermore, the ICAAP framework ensures that internal systems, controls and management information are in place to enable the board and senior management to track changes in the economic environment, which may require adjustments to the business strategy to remain within the risk appetite on an ongoing basis. Decisions on the allocation of capital resources, which is an integral part of the ICAAP and capital management process, are based on a number of factors including return on risk weighted assets.

While the ICAAP is intended to align with regulatory requirements under Pillar 1 and Pillar 2 of the regulatory framework, the main guiding principle in designing the ICAAP has been suitability for capital management and other internal applications. The Group considers the Group's ICAAP to be in line with international practice and the Group is of the opinion that it addresses the core banking principles of Pillar 2.

The building blocks of the Group's ICAAP are as follows:



These processes are conducted in an environment with established governance practices and oversight and are supported by adequate data, technology expertise and model infrastructure.

From an ICAAP perspective, stress testing represents the link between risk management and capital management. As a result of better risk management practices and global events, stress testing has become fundamental in assessing appropriate levels of capital to ensure that the Group can absorb stress events in order to protect its depositors and other stakeholders.

The results from the most recently conducted stress and scenario testing and budgeting process confirm that the Group's capital levels and capital buffers, both current and forecast (both regulatory capital and the Group's internal capital assessment, economic capital), remain appropriate. The Group believes that it is strongly capitalised relative to its strategy, risk appetite, risk profile, business activities and the macro-economic environments in which it operates.

In addition, the Basel III leverage ratio is monitored on an ongoing basis. It is a non-risk sensitive ratio used to restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy. Capital, leverage and balance sheet management is a key focus area of the Group.

Recovery plan

The Group has a board approved recovery plan in place which was developed in line with SARB guidance to ensure that regulatory requirements are met. The Group Recovery Plan includes a formalised process for the implementation of the plan and the approvals and notifications required if invoked during times of stress.

Capital transferability

The Group's capital policy stipulates that capital held in the Group's entities in excess of board approved target ranges should be repatriated in the form of dividends and/or capital repatriation, subject to local regulatory requirements, exchange controls and strategic management decisions.

Apart from the aforesaid, the Group is not aware of any material impediments to the prompt transfer of capital resources or repayment of intra-group liabilities when due.

Future priorities

The Group's strategic focus is to maintain an optimal mix of high quality capital while continuing to generate sufficient capital to support profitable asset growth and the active management of the business portfolio. As in the current reporting period, RWA management and capital allocation remain key focus areas for the Group.

[1] In addition to the annual stress testing performed as part of the budgeting process, ad hoc stress testing is conducted during the year. Stress testing may also be required should macroeconomic variables change.

Capital management

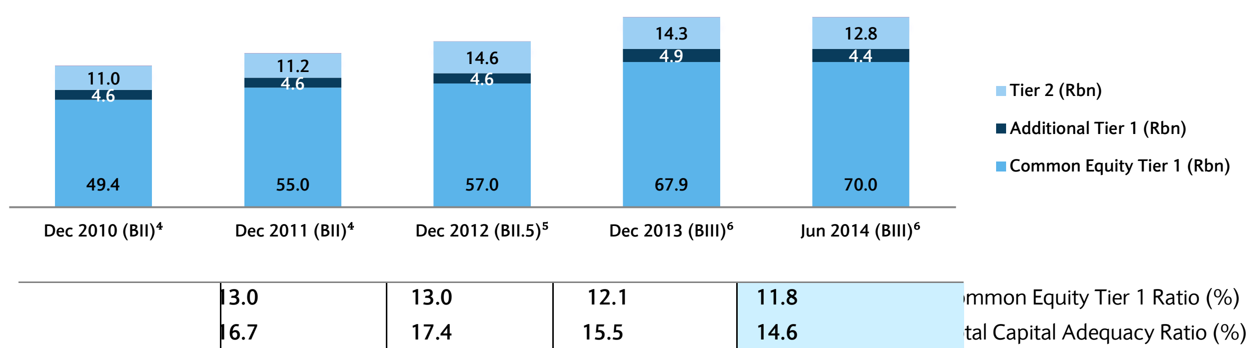
Statutory capital adequacy

The board sets Group and Bank target capital ranges. The Group and its regulated entities (including insurance entities) remain adequately capitalised above minimum capital requirements as at the reporting date. The Group's target capital ranges for the current reporting period were set by considering the following:

- risk appetite;
- the preference of rating agencies for permanent capital;
- stressed scenarios;
- Basel III amendments including capital conservation buffer, and peer analysis.

Group[1]	30 June 2014	30 June 2013	31 December 2013	2014 Board target ranges %	2014 Minimum regulatory capital requirements %
Capital adequacy ratios (%)[2]					
Common Equity Tier 1	**11,8**	12,5	12,1	**9,5 - 11,0**	**5,5**
Tier 1	**12,5**	13,5	13,0	**10,5 - 12,0**	**7,0**
Total	**14,6**	16,6	15,5	**12,5 - 14,0**	**10,0**
Capital supply and demand for the reporting period (Rm)					
Net generated equity[3]	**(109)**	(531)	(1 901)		
Qualifying capital	**87 172**	75 822	87 070		
Total RWA	**595 053**	457 480	560 933		

Group capital adequacy



	13.0	13.0	12.1	11.8	mmon Equity Tier 1 Ratio (%)
	16.7	17.4	15.5	14.6	tal Capital Adequacy Ratio (%)

Notes

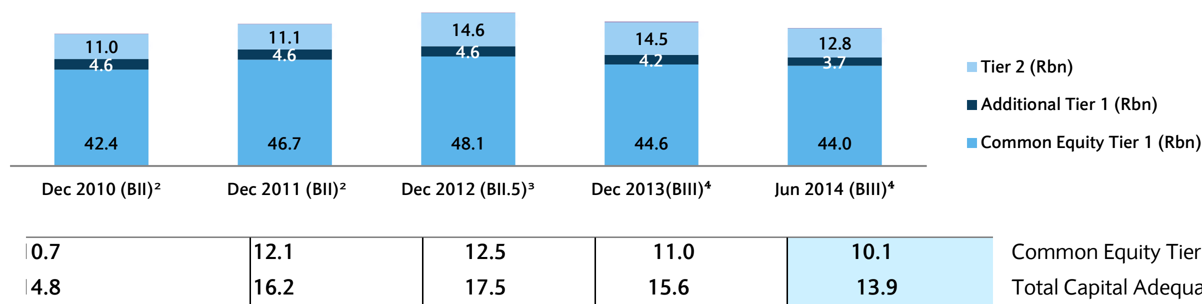
[1] The 31 December 2012 comparatives are based on Absa Group while 31 December 2013 and June 2014 disclosures are based on THE GROUP.
[2] Reported ratios include unappropriated profits.
[3] Net generated equity for the December 2013 comparatives is adjusted for ordinary dividends paid, the special dividend, growth in RWA as well as for the increase in equity under the Barclays Africa acquisition.
[4] BII: Basel II.
[5] BII.5: Basel II.5.
[6] BIII: Basel III.

Capital management

Statutory capital adequacy

Absa Bank Limited	30 June 2014	30 June 2013	31 December 2013	Board target ranges %	2014 Minimum regulatory capital requirements %
Capital adequacy ratios (%)[1]					
Common Equity Tier 1	**10,1**	12,2	11,0	**9,0 - 10,5**	**5,5**
Tier 1	**10,9**	13,2	12,0	**10,0 - 11,5**	**7,0**
Total	**13,9**	16,8	15,6	**12,0 - 13,5**	**10,0**
Capital supply and demand for the reporting period (Rm)					
Net generated equity	**(1 058)**	247	(3 830)		
Qualifying capital	**60 494**	67 463	63 292		
Total RWA	**434 103**	402 141	406 010		

Absa Bank Limited capital adequacy



Dec 2010	Dec 2011	Dec 2012	Dec 2013	Jun 2014	
0.7	12.1	12.5	11.0	10.1	Common Equity Tier 1 Ratio (%)
4.8	16.2	17.5	15.6	13.9	Total Capital Adequacy Ratio (%)

Statutory capital adequacy

RWAs are determined by applying the following methods per risk type:

- Advanced Internal Ratings-Based approach (AIRB) for the South African credit portfolio.
- Standardised Approach (SA) for credit risk in the Edcon portfolio as well as in the Group's subsidiaries outside South Africa,
- Advanced Measurement Approach (AMA) for operational risk for the majority of the Group's South African entities and the basic indicator approach (BIA) or the standardised approach (TSA) for the remaining entities,
- In respect of traded market risk, Internal Models Approach (IMA) for general position risk, and standardised approach for issuer-specific risk,
- Internal Ratings-Based (IRB) approach-market-based simple risk-weighted method for equity investment risk in the banking book.

Notes
[1] Reported ratios include unappropriated profits.
[2] BII: Basel II.
[3] BII.5: Basel II.5.
[4] BIII: Basel III.

Capital management

Operations	Regulator	30 June 2014 Total qualifying capital Rm	30 June 2014 Tier 1 ratio %	30 June 2014 Total capital adequacy %	30 June 2013 Total qualifying capital Rm	30 June 2013 Tier 1 ratio %	30 June 2013 Total capital adequacy %	31 December 2013 Total qualifying capital Rm	31 December 2013 Tier 1 ratio %	31 December 2013 Total capital adequacy %	2014 Total target capital adequacy ratio Regulatory minimum %	2014 Total target capital adequacy ratio Board Target %
Local entities (South Africa)												
Group[1]	SARB											
Including unappropriated profits		87 172	12,5	14,6	75 822	13,5	16,6	87 070	13	15,5		**12,5-14,0**
Excluding unappropriated profits		80 712	11,4	13,5	66 193	11,4	14,5	76 014	11	13,5	**10,0**	
Absa Bank	SARB											
Including unappropriated profits		60 494	10,9	13,9	67 463	13,2	16,8	63 292	12	15,6		**12,0-13,5**
Excluding unappropriated profits		56 715	10,1	13,1	62 874	12	15,6	57 890	10,7	14,3	**10,0**	
Foreign banking entities												
Barclays Bank of Mozambique[2,3]	Banco de Mozambique	308	7,7	7,8	716	20,5	28,3	471	11,0	11,0	**8,0**	**15,0**
Barclays Bank of Botswana[2]	Bank of Botswana	1 764	17,0	20,1	1 472	17,7	19,2	1 496	18,1	19,4	**15,0**	**16,0**
Barclays Bank of Ghana[2]	Bank of Ghana	1 008	11,0	14,6	1 978	23,0	29,2	1 765	15,1	23,6	**10,0**	**12,0**
Barclays Bank of Kenya[2]	Central Bank of Kenya	3 955	15,3	15,7	3 353	20,9	22,6	4 473	21,6	22,5	**12,0**	**14,5**
Barclays Bank of Mauritius[2]	Bank of Mauritius	3 923	16,4	17,1	3 560	19,2	19,9	3 921	15,3	15,9	**10,0**	**11,0**
National Bank of Commerce[2]	Bank of Tanzania	1 089	13,9	17,1	967	15,0	15,0	908	14,8	14,8	**12,0**	**13,5**
Barclays Bank of Tanzania[2]	Bank of Tanzania	309	14,2	14,2	317	13,4	13,4	345	15,7	15,7	**12,0**	**14,0**
Barclays Bank of Uganda[2]	Bank of Uganda	964	25,7	29,5	744	23,1	28,6	696	23,2	28,3	**12,0**	**14,0**
Barclays Bank of Seychelles[2]	Bank of Seychelles	616	26,6	30,2	598	27,3	31,3	683	26,7	34,1	**12,0**	**14,0**
Barclays Bank of Zambia[2]	Bank of Zambia	1 015	14,4	14,6	1 033	15,4	16,3	1 089	14,5	15,3	**10,0**	**12,0**
Insurance entities												
Absa Life Limited	FSB[4]	1 247	n/a	2.8xCAR[4]	1 183	n/a	3.0xCAR[4]	1 424	n/a	3.5xCAR[4]	**1,0xCAR[4]**	**2.0xCAR[4]**
Absa Insurance Company Limited	FSB[3]	1 418	n/a	55.99%xNWP[5,6]	1 633	n/a	61.4%xNWP[5,6]	1 536	n/a	61.7%xNWP[5,6]	**28.08%xNWP[5,6]**	**45%xNWP[5,6]**
Absa idirect Limited	FSB[3]	141	n/a	46.61%xNWP[4,5]	142	n/a	78.5%xNWP[5,7]	134	n/a	48.5%xNWP[5,6]	**23,69%xNWP[5,6]**	**45%xNWP[5,6]**

Notes

[1] The 30 June 2013 comparatives are based on Absa Group whilst 31 December 2013 and 30 June 2014 disclosures are based on THE GROUP.

[2] In country regulatory capital requirements.

[3] Barclays Bank Mozambique is in the process of being recapitalised which will be concluded during September 2014.

[4] Financial Services Board.

[5] Capital adequacy requirement (CAR): Actuarial calculation of value at risk on insurance liabilities. 2,0 times (2013: 2,0 times) being the required capital level determined by Absa Life Limited.

[6] NWP: Net Written Premiums.

[7] 45% (2013: 45%) of NWP, being the required capital level determined by Absa Insurance Company Limited and Absa idirect Limited.

Capital management

Group		30 June				31 December
		2014		2013		2013
	RWAs	Minimum required capital[1,2]	RWAs	Minimum required capital[1,2]	RWAs	Minimum required capital[1,2]
	Rm	Rm	Rm	Rm	Rm	Rm
Basel measurement approach						
Credit risk	455 467	45 547	338 075	32 117	423 771	40 258
Portfolios subject to the AIRB approach	324 096	32 410	296 027	28 123	305 850	29 056
Portfolios subject to the standardised approach	118 667	11 867	23 552	2 237	103 606	9 843
Securitisation	866	86	845	80	1 005	95
Counterparty credit risk	11 838	1 184	17 651	1 677	13 310	1 264
Equity investment risk						
Market-based approach (simple risk-weight approach)	14 871	1 487	22 081	2 098	14 624	1 389
Market risk	17 535	1 753	13 907	1 321	17 079	1 623
Standardised approach	6 732	673	4 204	399	4 616	439
IMA	10 803	1 080	9 703	922	12 463	1 184
Operational risk	82 015	8 202	63 035	5 988	79 235	7 527
BIA	4 236	424	3 998	380	4 236	402
TSA	19 932	1 993	3 695	351	17 152	1 629
AMA	57 847	5 785	55 342	5 257	57 847	5 495
Non-customer assets	25 165	2 516	20 382	1 937	26 224	2 491
	595 053	59 505	457 480	43 461	560 933	53 288
Pillar 1 requirement (8%)		47 604		36 599		44 874
Pillar 2a requirement[3]		11 901		6 862		8 414

Notes

[1] The regulatory minimum required capital is 10% as at 30 June 2014 (9,5%:30 June and 31 December 2013).
[2] The regulatory minimum Common Equity Tier 1 requirement is 5,5% as at 30 June 2014 (4,5%:30 June and 31 December 2013).
[3] The Pillar 2a requirement is 2% as at 30 June 2014 (1,5%: 30 June and 31 December 2013).

Capital management

Absa Bank Limited	30 June 2014 RWAs Rm	30 June 2014 Minimum required Capital[1,2] Rm	30 June 2013 RWAs Rm	30 June 2013 Minimum required Capital[1,2] Rm	31 December 2013 RWAs Rm	31 December 2013 Minimum required capital[1,2] Rm
Basel measurement approach						
Credit risk	336 463	33 646	304 899	28 965	310 426	29 490
Portfolios subject to the AIRB approach	305 769	30 577	283 675	26 949	286 496	27 217
Portfolios subject to the standardised approach	18 130	1 813	9 273	881	9 754	927
Securitisation	866	86	845	80	1 005	95
Counterparty credit risk	11 698	1 170	11 106	1 055	13 171	1 251
Equity investment risk						
Market-based approach (simple risk-weight approach)	9 219	922	15 242	1 448	9 648	917
Market risk	15 752	1 575	13 852	1 316	16 163	1 535
Standardised approach	4 949	495	4 149	394	3 700	351
IMA	10 803	1 080	9 703	922	12 463	1 184
Operational risk	59 302	5 930	55 785	5 300	57 431	5 456
BIA	3 052	305	2 932	279	3 052	290
AMA	56 250	5 625	52 853	5 021	54 379	5 166
Non-customer assets	13 367	1 337	12 363	1 174	12 342	1 173
	434 103	43 410	402 141	38 203	406 010	38 571
Pillar 1 requirement (8%)		34 728		32 171		32 481
Pillar 2a requirement[3]		8 682		6 032		6 090

Notes

[1] The regulatory minimum required capital is 10% as at 30 June 2014 (9,5%:30 June and 31 December 2013).

[2] The regulatory minimum Common Equity Tier 1 requirement is 5.5% as at 30 June 2014 (4,5%:30 June and 31 December 2013).

[3] The Pillar 2a requirement is 2% as at 30 June 2014 (1,5%: 30 June and 31 December 2013).

Capital management

Capital adequacy

The Group's total qualifying capital supply for the reporting period increased by R0.1bn compared to 31 December 2013 (December 2012 to 2013: 11.3bn).

	Group			Absa Bank Limited		
	30 June		31 December	30 June		31 December
	2014	2013	2013	2014	2013	2013
Movements in qualifying capital	Rm	Rm	Rm	Rm	Rm	Rm
Balance at the beginning of the reporting period (excluding unappropriated profits)	**76 014**	76 298	68 652	**57 890**	64 154	64 154
Share capital, premium and reserves	**5 830**	1 849	9 783	**523**	1 704	(3 609)
Non-controlling interest	**83**	(884)	(113)	**-**	-	-
Regulatory changes in Additional Tier 1	**(439)**	(17)	1 267	**(465)**	(464)	(464)
Tier 2 subordinated debt issued	**-**	-	-	**-**	-	-
Tier 2 subordinated debt matured	**(1 725)**	(1 886)	(1 886)	**(1 725)**	(1 886)	(1 886)
Regulatory changes in Tier 2	**158**	(548)	(418)	**-**	-	-
General allowances for impairment losses on loans and advances: Standardised Approached - SA	**27**	118	324	**41**	131	198
Regulatory deductions	**764**	(1 091)	(1 595)	**451**	(765)	(506)
Balance at the end of the reporting period (excluding unappropriated profits)	**80 712**	66 193	76 014	**56 715**	62 874	57 887
Add: unappropriated profits	**6 460**	9 629	11 056	**3 779**	4 589	5 402
Qualifying capital including unappropriated profit	**87,172**	75 822	87 070	**60 494**	67 463	63 289

Capital management

Breakdown of qualifying capital

	30 June				31 December	
	2014		2013		2013	
Group	Rm	%[1]	Rm	%[1]	Rm	%[1]
Common Equity Tier 1	**63 506**	**10,7**	47 682	10,4	56 829	10,1
Ordinary share capital	**1 694**	**0,3**	1 435	0,3	1 694	0,3
Ordinary share premium	**4 508**	**0,7**	4 467	1,0	4 474	0,8
Reserves[2,3]	**61 199**	**10,3**	47 735	10,4	55 403	9,9
Non-controlling interest[2]	**2 183**	**0,4**	383	0,1	2 100	0,3
Deductions [2]	**(6 078)**	**(1,0)**	(6 338)	(1,4)	(6 842)	(1,2)
Goodwill	**(759)**	**(0,1)**	(554)	(0,1)	(760)	(0,1)
Financial and insurance entities not consolidated	**(597)**	**(0,1)**	(558)	(0,1)	(664)	(0,1)
Amount by which expected loss exceeds eligible provisions	**(1 672)**	**(0,3)**	(2 558)	(0,6)	(2 120)	(0,4)
Other deductions	**(3 050)**	**(0,5)**	(2 668)	(0,6)	(3 298)	(0,6)
Additional Tier 1 capital	**4 416**	**0,7**	4 627	1,0	4 855	0,9
Tier 1 capital	**67 922**	**11,4**	52 309	11,4	61 684	11,0
Tier 2 capital	**12 790**	**2,1**	13 884	3,1	14 330	2,5
Instruments recognised as Tier 2 capital	**12 350**	**2,0**	13 677	3,0	13 917	2,4
General allowance for impairment losses on loans and advances – standardised approach	**440**	**0,1**	207	0,1	413	0,1
Total qualifying capital (excluding unappropriated profits)	**80 712**	**13,5**	66 193	14,5	76 014	13,5
Qualifying capital (including unappropriated profits)						
Tier 1 capital	**74 382**	**12,5**	61 938	13,5	72 740	13,0
Common Equity Tier 1 (excluding unappropriated profits)	**63 506**	**10,7**	47 682	10,4	56 829	10,1
Unappropriated profits	**6 460**	**1,1**	9 629	2,1	11 056	2,0
Additional Tier 1	**4 416**	**0,7**	4 627	1,0	4 855	0,9
Tier 2 capital	**12 790**	**2,1**	13 884	3,1	14 330	2,5
Total qualifying capital (including unappropriated profits)	**87 172**	**14,6**	75 822	16,6	87 070	15,5

Notes

[1] Percentage of capital to RWAs.

[2] The Basel III changes include additional qualifying reserves (mainly foreign currency reserve and available-for-sale reserve); adjustments relating to surplus capital attributable to the shareholders of non-controlling interest, additional Tier 1 and Tier 2 capital; the phasing-out of additional Tier 1 and Tier 2 capital instruments; and changes in regulatory deductions.

[3] Reserves exclude unappropriated profits.

Capital management

Breakdown of qualifying capital

Absa Bank Limited	30 June 2014 Rm	30 June 2014 %[1]	30 June 2013 Rm	30 June 2013 %[1]	31 December 2013 Rm	31 December 2013 %[1]
Common Equity Tier 1	**40 208**	**9,3**	44 285	11,0	39 234	9,7
Ordinary share capital	**303**	**0,1**	303	0,1	303	0,1
Ordinary share premium	**14 465**	**3,3**	12 465	3,1	13 465	3,3
Reserves[2,3]	**29 574**	**6,8**	36 363	9,0	30 050	7,4
Deductions[3]	**(4 134)**	**(0,9)**	(4 846)	(1,2)	(4 584)	(1,1)
Amount by which expected loss exceeds eligible provisions	**(2 063)**	**(0,4)**	(2 718)	(0,7)	(2 326)	(0,6)
Other deductions	**(2 071)**	**(0,5)**	(2 128)	(0,5)	(2 258)	(0,5)
Additional Tier 1 capital	**3 715**	**0,8**	4 180	1,0	4 180	1,0
Tier 1 capital	**43 923**	**10,1**	48 465	12,0	43 414	10,7
Tier 2 capital	**12 792**	**3,0**	14 409	3,6	14 476	3,6
Instruments recognised as Tier 2 capital	**12 500**	**2,9**	14 225	3,5	14 225	3,5
General allowance for impairment losses on loans and advances – standardised approach	**292**	**0,1**	184	0,1	251	0,1
Total qualifying capital (excluding unappropriated profits)	**56 715**	**13,1**	62 874	15,6	57 890	14,3
Qualifying capital (including unappropriated profits)						
Tier 1 capital	**47 702**	**10,9**	53 054	13,2	48 816	12,0
Common Equity Tier 1 (excluding unappropriated profits)	**40 208**	**9,3**	44 285	11,0	39 234	9,7
Unappropriated profits	**3 779**	**0,8**	4 589	1,2	5 402	1,3
Additional Tier 1	**3 715**	**0,8**	4 180	1,0	4 180	1,0
Tier 2 capital	**12 792**	**3,0**	14 409	3,6	14 476	3,6
Total qualifying capital (including unappropriated profits)	**60 494**	**13,9**	67 463	16,8	63 292	15,6

Notes

[1] Percentage of capital to RWAs.

[2] Reserves exclude unappropriated profits.

[3] The Basel III changes include additional qualifying reserves; adjustments relating to surplus capital attributable to the shareholders of non-controlling interest, additional Tier 1 and Tier 2 capital; the phasing-out of Additional Tier 1 and Tier 2 capital instruments; and changes in regulatory deductions.

Capital management

Economic capital adequacy

The economic capital (EC) framework covers not only Basel III Pillar 1 risks but also additional economic risks not covered at all, or inadequately covered in Pillar 1, such as interest rate risk in the banking book.

The total average EC required is determined by the risk assessment models and considering the Group's estimated portfolio effects if compared with the available financial resources (EC supply) to evaluate EC utilisation. The Group targets an EC supply versus EC demand of a minimum cover of 1,11 times.

Aside from its application in capital management, EC is a key component of Group level and business unit level applications such as capital management, stakeholder communication, risk-adjusted performance measurement, pricing and structuring. Following the introduction of Basel III, greater emphasis is placed on regulatory demand and supply.

Economic capital and equity

Group			30 June						31 December
			2014			2013			2013
Total qualifying capital	Shareholders equity Rm	Economic capital Rm	Tier 1 regulatory capital Rm	Shareholders equity Rm	Economic capital Rm	Tier 1 regulatory capital Rm	Shareholders equity Rm	Economic capital Rm	Tier 1 regulatory capital Rm
Ordinary share capital and share premium	6 202	6 202	6 202	5 902	5 902	5 902	6 168	6 168	6 168
Preference share capital and share premium	-	4 644	4 416	-	4 644	4 627	–	4 644	4 855
Retained earnings	66 814	66 814	63 519	58 922	58 922	55 344	64 701	64 701	61 182
Other reserves	5 413	5 062	4 140	2 860	2 140	2 020	6 448	5 844	5 277
Non-controlling interest		3 209	2 183	-	-	383	–	3 240	2 100
Expected loss adjustment	-	-	(1 672)	-	-	(2 558)	–	–	(2 120)
Other deductions	-	(3 168)	(4 406)	-	(2 571)	(3 780)	–	(3 141)	(4 722)
	78 429	82 763	74 382	67 684	69 037	61 938	77 317	81 456	72 740
Average capital for the reporting period	77 873	82 109	73 561	65 878	66 668	61 466	77 206	73 549	67 256

Group[1]		30 June			31 December
		2014		2013	2013
Capital demand - closing balance	Risk-weighted assets Rm	Economic capital[1] Rm	Risk-weighted assets Rm	Economic capital[2] Rm	Risk-weighted assets Rm	Economic capital[2] Rm
Credit risk	455 467	41 602	338 075	31 623	423 771	40 311
- RBB	307 188	30 229	223 906	22 748	290 182	29 494
- CIB	141 544	11 240	97 214	8 705	123 878	10 668
- Other	6 735	133	16 955	170	9 711	149
Equity investment risk	14 871	2 365	22 081	2 883	14 624	2 952
Market risk	17 535	4 176	13 907	1 905	17 079	3 286
Operational risk	82 015	5 532	63 035	4 398	79 235	4 865
Non-customer assets	25 165	6 656	20 382	5 392	26 224	5 893
	595 053	60 331	457 480	46 201	560 933	57 307

Notes

[1] Represent the average required economic capital (EC) (demand).

Capital management

Economic capital resources

The resources available to meet EC requirements are calculated as the average available shareholders' equity after adjustments including preference shares. The Group's EC calculations form the basis of its internal risk view used in the ICAAP. Funds available for EC are impacted by a number of factors that have arisen from the application of IFRS.

EC supply includes:

- ordinary shareholders' equity;
- retained earnings, whether appropriated or not; and
- non-redeemable, non-cumulative preference shares.

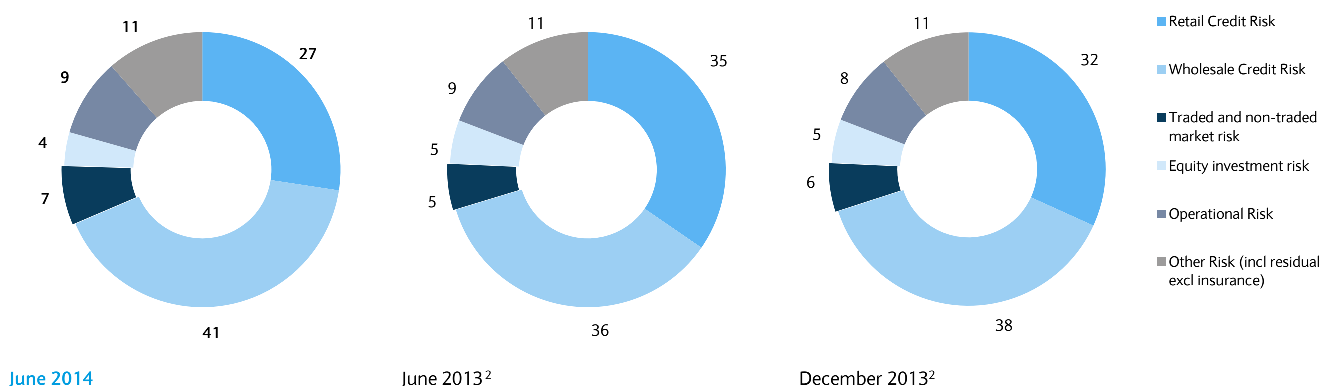
The following are excluded from EC available financial resources:

- Cash flow hedging reserve: to the extent the Group undertakes the hedging of future cash flows, shareholders' equity will include gains and losses that will be offset against the gain or loss on the hedged item when it is recognised in the statement of comprehensive income at the conclusion of the hedged transaction. Given the future offset of such gains and losses, they are excluded from shareholders' equity when calculating EC.
- Other perpetual debt, preference shares and subordinated debt.

The following are deducted from EC supply:

- goodwill; and
- intangible assets.

Economic capital demand[1] (%)



June 2014 | June 2013[2] | December 2013[2]

Capital Risk

Translation foreign exchange risk

Translational foreign exchange risk arises from capital resources (including investments in subsidiaries and branches, intangible assets, non-controlling interests, deductions from capital and debt capital instruments) and RWAs being denominated in foreign currencies. Changes in foreign exchange rates result in changes in the rand equivalent value of foreign currency denominated capital resources and RWAs.

The Group's investments in foreign currency subsidiaries and branches create capital resources denominated in foreign currencies. Changes in the rand value of investments resulting from foreign currency movements are captured in the currency translation reserve, which was excluded from qualifying capital resources under the SARB's Basel II.5 rules and now form part of Common Equity Tier 1 under Basel III.

To minimise volatility of capital ratios caused by foreign exchange rate movements, the Group aims to maintain an appropriate foreign currency capital structure by maintaining the ratio of foreign currency Common Equity Tier 1, Tier 1 and total capital resources to foreign currency RWAs in line with the Group's capital risks. This is primarily achieved by subsidiaries issuing capital or holding retained earnings in local currencies or through the Group issuing debt capital in foreign currency.

Translational foreign currency risk can be mitigated through derivatives or borrowings in the same currency as the functional currency involved, designated as net investment hedges, or through economic hedges. Translational hedging considerations include exchange control regulations, the strategic nature of the investment, materiality of the risk, prevailing foreign exchange rates, market liquidity, cost of hedging and the impact on capital ratios. Based on these considerations, no foreign currency net investment hedges were in place for the current reporting period. Translational foreign exchange risk is monitored regularly to consider the need for mitigating actions towards minimising material fluctuations.

Notes
[1] Excludes insurance due to the difference in the confidence level resulting from insurance regulation.
[2] Restated to provide a THE GROUP view.

Capital management

Credit ratings

Credit ratings	March 2014 Moody's Absa Bank Limited	July 2014 Fitch ratings Absa Bank Limited	Fitch ratings Barclays Africa Group Limited
National			
Short-term	Prime-1.za	F1+ (zaf)	F1+ (zaf)
Long-term	Aa2.za	AAA (zaf)	AAA (zaf)
Outlook	-	Stable	Stable
Local currency			
Short-term	Prime-2	-	-
Long-term	A3	A-	A-
Outlook	Negative	Stable	Stable
Foreign currency			
Short-term	Prime-2	F2	F2
Long-term	Baa1	A-	A-
Outlook	Negative	Negative	Negative
Bank's financial strength	C-	-	-
Baseline credit assessment	Baa1	-	-
Viability rating	-	bbb	bbb
Outlook	Stable	-	-
Support	-	1	1

Risk management strategy

Risk management strategy

The Group's approach to risk management

The 'Go-To' risk management process is a structured, practical set of three steps – Evaluate, Respond and Monitor (the E-R-M process) – that enables management to identify and assess risks, determine the appropriate risk response, and then monitor the effectiveness of the risk response and any changes to the risk profile. The analysis is used to promote an efficient and effective approach to risk management.

This three step risk management process:

- Can be applied to every objective at every level in the Bank, both top-down or bottom-up;
- Is embedded into the business decision making process;
- Guides our response to changes in the external or internal environment in which existing activities are conducted; and
- Involves all staff and all three lines of defence.

The following three-step process in terms of the Group's risk management approach is employed as follows:

Risk management process	
Evaluate	– Clearly identifying the objective or objectives being assessed. – Identifying the events or circumstances that could cause a delay or failure to meet the objective(s) in full, including the external environment (e.g. economy, competitive landscape), internal environment (people, process, infrastructure), and touch points between the Group and its customers, suppliers, regulators, and other stakeholders. – Using appropriate tools for identifying risks such as interviews, surveys, self-assessments, workshops, audit findings, industry benchmarking, review of prior loss events, critical path analysis, and challenging assumptions and dependencies by developing contrarian positions. – Examining the root causes of identified events and circumstances, the underlying sources of risk, and the cause and effect relationships. – Taking into account the nature and materiality of the objective(s). – Calibrating and measuring the risks in terms of impact, probability, and speed of onset e.g. could the risk become apparent quickly and without prior indication, or does it happen over time and provide the opportunity to respond as it evolves. Use of models must adhere to set principles. – Investigating the relationships and interactions between risks, compounding effects, correlations and concentrations, and aggregated levels. – Where possible, assessing risks on the basis of inherent and residual risk. – Ranking risks and taking an overall portfolio view of the risks to determine priorities.
Respond	– Complying with all relevant laws and regulations. – Focus on the priority risks first. – Recognising that risk mitigation involves resource allocation: actions such as designing, implementing and operating controls should achieve the required level of effectiveness at an appropriate cost. – Looking for a single response that may mitigate more than one risk, and extend or replicate existing controls if appropriate. – Embedding controls into the business activity/process as far as possible. – Considering any unintended consequences e.g. mitigating actions taken to control one risk could introduce other risks or undermine existing controls. – Considering the implications of control failures, and whether secondary or latent controls should be deployed to mitigate risk of control failure in the case of material risks. – Controls must adhere to set principles.
Monitor	– Focusing on progress towards objectives, using Key Performance Indicators (KPIs) to identify those objectives which require further attention. – Examining the current and evolving risk profile and risk trends, use Key Risk Indicators (KRIs) to examine changes in the risk environment; maintain watch for new risks that might impact objectives (e.g. horizon scanning and use of scenario analysis); and monitor changes in risk materiality, frequency and impact, and the appropriateness of existing responses. New risk evaluations should be initiated if necessary. – Ensuring that risks are being maintained within risk appetite, and that risk appetite remains appropriate as circumstances and objectives evolve. – Checking that controls are functioning as intended and remain fit-for-purpose: track performance using Key Control Indicators (KCIs), monitor first line activities to ensure operating within mandates, ensure the policies are routinely updated and that standards have been implemented, and that appropriate resources are being deployed. Monitoring includes Conformance and Assurance testing. – Where a risk event materialises: assessing root causes; identifying possible control failures; identifying potential behavioural failures; considering whether better knowledge would have improved decision making; and identifying what lessons could be learned for future assessments and management of risks. Control issues must be assigned clear ownership and timelines for resolution. – KPIs, KRIs and KCIs must adhere to set principles.

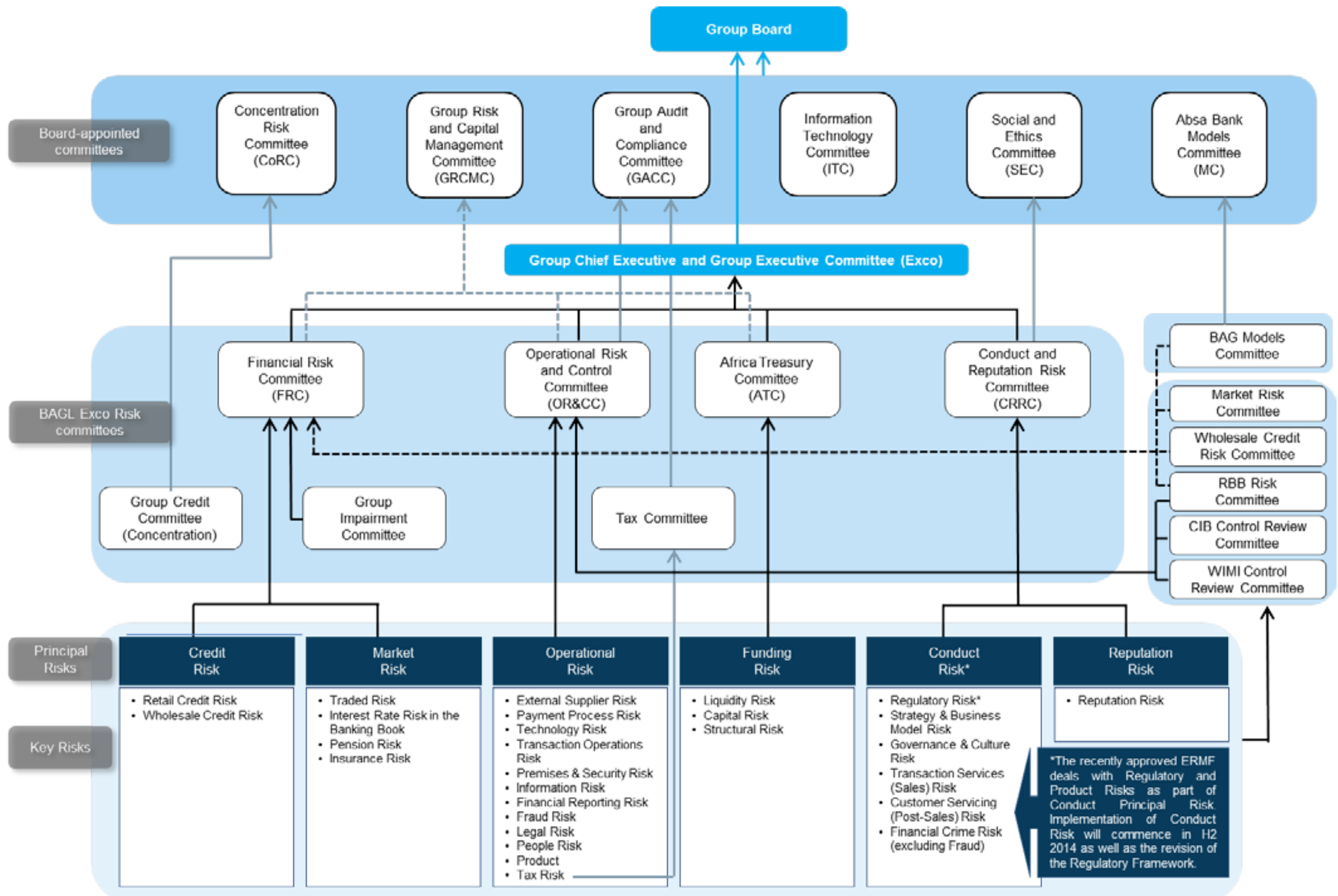
Risk management strategy

Risk oversight

For the reporting period, the board is satisfied that the Group's risk and capital management processes operated effectively, that the Group's business activities have been managed within the board approved risk appetite, and are adequately capitalised to support the execution of the Group's strategy.

The Group Chief Executive (GCE) grants authority and responsibility to the Group Chief Risk Officer (GCRO) to ensure the principal risks are properly managed under appropriate control frameworks and to advise on risk appetite and the Group's risk profile.

Risk governance structure



The Group Risk and Capital Management Committee (GRCMC)

The GRCMC assists the board in fulfilling its responsibilities in managing risk and complying with the relevant requirements of the Banks Act. The GRCMC determines and recommends the Group's risk appetite to the board and then reviews and monitors the risk profile against the risk appetite. The GRCMC also approves control frameworks for various principal risks, assists in determining capital and liquidity target ranges and monitors capital and liquidity levels.

The GRCMC meets on a quarterly basis. GRCMC meetings during the reporting period were attended by the GCE, Deputy GCE, Group Financial Director, GCRO, Head of Compliance and Regulatory Affairs and the Group Treasurer. Internal and external auditors also attended the meetings in accordance with governance processes.

The meetings were convened under the mandate contained in the terms of reference of the GRCMC, and in accordance with applicable regulations. The GRCMC was provided with required representations and information by management at each meeting, which enabled the committee to review and monitor the various risks properly and, in so doing, comply effectively with its mandate. Adequate training is conducted annually to ensure members effectively discharge their duties.

The Chairman of the GRCMC is a member of the Group Audit and Compliance Committee (GACC) and attended all meetings of the GACC. He met with the GCRO and executive management on a regular basis and reported to the board after each committee meeting.

Risk management strategy

Core activities of the Group Risk and Capital Management Committee

During the reporting period, the GRCMC's activities and key decisions included:

- recommending the Group's risk appetite to the board for approval and monitoring the actual risk profile against the board approved appetite;
- assisting the board in executing its duties with respect to risk and capital management as required by the Banks Act;
- monitoring risk profiles, including emerging risks, and reporting findings to the board;
- monitoring the level of available capital, both current and projected, and reporting to the board on the adequacy of available capital relative to the Group's emerging risk profile;
- assessing the Group's risk management approach and practices in light of the global financial crisis;
- liaising with the GACC to ensure appropriate oversight of key controls and, in turn, considering and acting on concerns raised by the GACC;
- oversight of risk matters relating to information technology (IT);
- ensuring the appropriate disclosure of risk and capital management statuses and activities;
- setting the liquidity risk appetite and monitoring the liquidity position over the reporting period; and
- undertaking a number of deep dives on key areas of focus, including impairments, to assess underlying risks further.

The GRCMC is satisfied that the risk management processes and systems provide comprehensive and adequate oversight over risk exposure. The GRCMC is satisfied that management was able to respond effectively to, and manage, the risks that arose during the reporting period.

The Group Audit and Compliance Committee (GACC)

The GACC assists the board with regard to reporting financial information, selecting and properly applying accounting principles and policies, monitoring the Group's internal control systems and various compliance-related matters. Other aspects for which the GACC is responsible include business continuity and the management and governance of the Group's relationship with the external auditors.

Risk management related activities of the Group Audit and Compliance Committee

The GACC performs the following activities in terms of risk management:

- dealing with any matters referred to it by the GRCMC; and
- ensuring that internal and external assurance providers and management apply the combined assurance model.

The Enterprise Risk Management Framework (ERMF)

The board approved ERMF sets out the scope of the risks facing the Group and creates clear ownership and accountability for risks. The ERMF replaced the Principal Risks policy during Q2 2014 and covers the six principal risks (as discussed earlier) as well as the 27 key risks (as detailed in the table to follow).

The GCRO appoints a Principal Risk Officer (PRO) for each principal risk. Within each principal risk there are individual key risks for which the GCRO appoints a Key Risk Officer (KRO). Group PROs are responsible for ensuring that appropriate risk control frameworks exist for each key risk and for ensuring the appropriate reporting of those risks.

KROs are responsible for designing, recording and communicating their risk control frameworks. They also monitor the management of the key risk exposures in accordance with the framework, using the three steps – Evaluate, Respond and Monitor (the E-R-M process) – that enable management to identify and assess those risks, determine the appropriate risk response, and then monitor the effectiveness of the risk response and any changes to the risk profile. The analysis is used to promote an efficient and effective approach to risk management.

The E-R-M process:

- Can be applied to every objective at every level in the Bank, both top-down or bottom-up;
- Is embedded into the business decision making process;
- Guides our response to changes in the external or internal environment in which existing activities are conducted; and
- Involves all staff and all three lines of defence

The changes from the previous Principal Risk Policy to the current ERMF includes:

- The simplification of the governance model, risk processes and policy model.
- Introduction of common language to ensure consistency throughout the organisation regarding risk classification and management.
- Endorsement of two new Principal Risks (conduct and reputation).
- Articulation of the roles of Group/Business Unit Chief Executive Officers, Chief Risk Officers and Principal/Key Risk Officers from a Risk Management and Oversight perspective.
- Provision of explicit clarity on the three lines of defence model.

Risk management strategy

The ERMF is currently being implemented within the Group and includes the following Principal and Key Risks.

Principal risk	Key risks	Group Exco risk committees
Credit risk	– Retail credit risk – Wholesale credit risk[1]	– Retail Credit Risk Committee (RCRC) – Wholesale Credit Risk Committee (WCRMC)
Market risk	– Traded risk – Interest rate risk in the banking book[2] – Pension risk[2] – Insurance risk	– Africa Market Risk Committee (AMRC)
Operational risk	– External supplier risk – Payment process risk – Technology risk – Transaction operations risk – Premises and security risk – Information risk – Financial reporting risk – Fraud risk – Legal risk – People risk – Tax risk	– Operational Risk & Control Committee, which replaced the Governance and Control Committee on 6 March 2014 (note: tax risk exposure is monitored via the Tax Risk Committee)
Funding risk	– Liquidity risk – Capital management – Structural risk	– Africa Treasury Committee (ATC) • Africa Treasury Technical Committee
Conduct risk[3]	– Regulatory Authorisations and Permissions risk – Product/Service Design risk – Strategy & Business Model risk – Governance & Culture risk – Transaction Services (Sales) risk – Customer Servicing (Post-Sales) risk – Financial Crime risk (excluding Fraud)	– Conduct and Reputational Risk Committee
Reputation risk	– Reputation risk	– Conduct and Reputational Risk Committee

Risk appetite

Risk appetite and stress testing are key components of the Group's management of risk and are embedded as part of the strategic planning processes. The risk appetite statement describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. It defines the integrated approach to business, risk and capital management and supports the achievement of strategic objectives. The Group's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the business risk profile associated with each business area's plans. The risk appetite statement is approved annually by the Board under recommendation from the GRCMC and is monitored on an ongoing basis.

Stress testing

Stress testing is a key focus during the Group's strategic planning processes. Stress testing occurs throughout the Bank and assists in ensuring that the Group's medium-term plan has sufficient flexibility to remain appropriate over a multi-year time horizon during times of stress. Through the use of stress testing and scenario analyses, the Group is able to assess the performance of the Group's portfolios in the anticipated economic environment and evaluate the impact of adverse economic conditions on the Group's portfolios. Stress testing also assists in understanding core assumptions in its capital plans and informs the setting of capital buffers. Stress test results inform setting of mandate and scale limits.

Stress testing and scenario analyses are central to the monitoring of significant and emerging risks, helping to understand the sensitivities of the core assumptions in the Group's capital plans to the adverse effect of extreme but plausible events. Stress testing allows the Group to formulate the Group's response and mitigate risk in advance of conditions exhibiting the stresses identified in the scenarios.

Notes

[1] Equity investment risk is reported under wholesale credit risk.
[2] This is reported together with foreign exchange risk and asset management structural risk as non-traded market risk
[3] The implementation of Conduct Risk Key Risk Framework will commence in H2, 2014. Regulatory, Product Design and Financial Crime Risks is therefore still being managed, overseen and reported under Operational Risk

Risk management strategy

Actual market stresses, which occurred throughout the financial system in recent years, have been used to inform the Group's capital planning process and enhance the employed stress scenarios. In addition to the Group's internal stress testing exercises, other stress testing exercises are undertaken at the request of regulators using their prescribed assumptions, and by the regulators themselves. The Group takes into account the results of all such stress testing when assessing the Group's internal and regulatory capital requirements.

The Group Risk and Capital Management Committee (GRCMC) exercises governance oversight and approval authority over stress testing results.

Risk appetite key indicators and triggers

The Group aims to manage its risk profile in a forward-looking way. To support this, key indicators and triggers have been developed to act as early signals in the event that one of the scenarios or stress situations may materialise. The indicators include, *inter alia,* economic indices directly correlated with risk measures and financial indicators. The indicators and triggers are monitored routinely and considered by GRCMC.

Credit risk management

Credit risk is the risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to us. The Group actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk-adjusted returns in line with board approved risk appetite.

Strategy

The Group's credit risk objectives are:

- supporting the achievement of sustainable asset and revenue growth in line with the Group's risk appetite;
- simplifying risk management processes;
- investing in skills and experience;
- operating sound credit granting processes;
- monitoring credit diligently;
- using appropriate models to assist decision-making;
- improving forecasting and reducing variability;
- continually improving business support, collection and recovery processes; and
- optimising the control environment.

Approach to credit modelling / internal ratings

The principal objective of credit modelling is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to the total portfolio. Integral to this is the calculation of internal ratings that are used in numerous aspects of credit risk management and in the calculation of regulatory capital (RC) and economic capital (EC). The key building blocks of this process are:

- probability of default (PD);
- exposure at default (EAD);
- loss given default (LGD); and
- maturity.

These parameters are used in a variety of applications that measure credit risk across the entire portfolio and can be calculated to represent different aspects of the credit cycle:

- PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting either the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months.
- EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under current conditions.

These parameters can be used in different combinations for a wide range of credit risk measurement and management. Internal ratings are used for the following purposes:

- Credit approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and certain retail home loan portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- Credit grading: to provide a common measure of risk across the Group, wholesale credit grading employs a 21-point internal default grade scale, this is converted to a 26-point scale of default probabilities per SARB for regulatory reporting purposes.
- Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Risk appetite: measures of expected loss (EL) and the potential volatility of loss are used in the Group's risk appetite framework.
- Impairment calculation: under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), many of the collective impairment estimates incorporate the use of the Group's PD and LGD models, adjusted as necessary.
- Collections and recoveries: model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritised.

- EC calculations: most EC calculations use the same PD and EAD inputs as the RC process. The EC process also uses the same underlying LGD model outputs as used in RC calculations, but does not necessarily use the same economic downturn adjustment used in RC calculations.
- Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as business performance, risk appetite and consumption of EC. Model outputs are used as key indicators in these reports.

Retail portfolio

Ratings assigned across each retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter and used in decisions concerning underwriting, cheque account authorisations and assignment of accounts to risk grades used to calculate RC. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are grounded in historical experience, incorporating all relevant material and available data, information and methods. Both the historical observation periods and default definitions used are consistent with regulatory requirements.
- For each product, PDs are assigned at account level by calibrating the raw behavioural model scores/ratings to the observed long-run average default rate for each pool.
- For each product, EADs is assigned to each account based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are estimated for each product and assigned at account level, based on the LGD pool to which the account has been assigned. Calibration data on historically defaulted accounts includes observed EADs, recovery streams, cure and write-off rates. The models also make use of suitable risk drivers such as loan-to-value (LTV), which are updated monthly.
- The mortgage loan PD model was recalibrated and implemented in January 2013. Subsequently new policy requirements have come into effect and the mortgage Basel model suite has been redeveloped and taken through the appropriate internal governance process during H1 2014. The model suite has been submitted to the Reserve Bank for approval and in the interim the credit RWA for this portfolio has been aligned to the output of these new models. The remaining products are being redeveloped sequentially in terms of materiality.
- To ensure the effectiveness of the validation process, an independent review is performed annually.
- Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Wholesale portfolio

The rating process relies both on internally developed PD rating models and vendor provided solutions. While the rating and credit decision-making process in the retail portfolio is largely automated, this process in the wholesale portfolio relies on quantitative and qualitative assessments on a transactional level. Information used in the calculation of customer ratings includes:

- financial statements;
- projected cash flows;
- equity price information;
- external rating agency grades; and
- behavioural scorecards.

Internal LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process, while the EAD models aim to replicate the expected utilisation of a customer's facility should a default occur.

PD measures based on behavioural scores and equity prices are updated monthly for credit risk management and capital calculation purposes. Other PD models that rely on more static information are updated at least quarterly in a conventional environment or as and when circumstances warrant a review of the customer's credit standing.

To ensure the effectiveness of the validation process, an independent review is performed annually. Models are approved at the Wholesale Credit Risk Technical Committee. The most material models require approval by the MC.

Models are independently reviewed on an annual basis and when new models have been developed or changes occur to models. In addition, a process is in place to perform post model adjustments as needed or when management applies its discretion.

Assessment of credit risk

The assessment of credit risk relies heavily on quantitative models and tools which, to a large degree, have been developed internally and are supplemented by vendor solutions. The following sections provide an overview of the aforesaid concepts and their use in the assessment of credit risk across the Group's portfolios.

Risk management strategy

Probability of default

PD measures the likelihood of a customer defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all customers. The Group uses two types of PDs, namely:

- TTC PD and PIT PD

Both types of PDs are used extensively in the Group's decision-making processes and several types of rating approaches are employed.

For communication and comparison purposes, the Group's 21 default grades (DG), which is the internal master rating scale were mapped to the SARB 26 grade PD scale used for regulatory reporting purposes.

DG grading represents a TTC view of the distribution of the book at a specific point in time. An indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are set out below:

Default grade definitions

- DG 1 – 11: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BB rating and better.
- DG 12 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial stress exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

Exposure at default

The EAD denotes the total amount expected will be outstanding from a particular customer at the time of default. The Group calculates these estimates for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

EAD estimates incorporate both on- and off-statement of financial position exposures resulting in a capital requirement that incorporates existing exposures, as well as exposures contingent on counterparty's use of an available facility.

Loss given default

The third major risk component measures the loss expected on a particular credit facility in the event of default and therefore recognises credit risk mitigation, such as collateral or credit risk derivatives, may be employed. LGD estimates are calculated as a percentage of EAD using models based on internal and external loss data and the judgement of credit experts, and are primarily driven by the type and value of collateral held. The Group's LGD estimates is modified to distinguish between expected losses over the course of an economic cycle and loss estimates during periods of economic stress (downturn LGD).

Expected loss and capital requirements

The PD, EAD and LGD are components used in a variety of applications that measure credit risk across the entire portfolio. EL is a measurement of loss that enables the application of consistent credit risk measurement across all retail and wholesale credit exposures.

These estimates are also used in a range of applications including pricing, customer and portfolio strategy and performance measurement

IFRS disclosures

IFRS govern reporting practices of banks and, in part, overlap with the requirements of regulation 43 of the Banks Act (Pillar 3). IFRS 7 Financial Instruments disclosures prescribe disclosure requirements pertaining to financial instruments for accounting purposes and, as such, are based on a similar set of data used for Pillar 3 reporting purposes. The Group's IFRS risk reporting disclosure has moved out of this report in an effort to streamline the disclosure. Refer to the Group's annual financial statements to obtain this information.

Credit risk mitigation, collateral and other credit enhancements

The Group employs a number of techniques to mitigate credit risk, such as:

- Strengthening the Group's position as a lender in a range of transactions, from retail mortgage lending to large wholesale financing, and by structuring a security interest in a physical or financial asset (collateral);
- Netting of debtor and creditor balances under regulatory and internal policy, which requires a formal agreement with the customer to net the balances and a legal right to set-off (on- and off-statement of financial position); and
- Selective hedging through credit derivatives.

In certain circumstances, depending on the Group's assessment of a customer's financial capacity, financing may be granted on an unsecured basis.

Risk management strategy

Generally one or more forms of security are sought in the credit approval process. The use and approach to credit risk mitigation (CRM) varies by product type, portfolio, customer and business strategy. Minimum standards, as prescribed in the applicable policies and business processes, are applied across portfolios and cover:

- General requirements including acceptable risk mitigation types, and any conditions or restrictions applicable to these mitigants;
- The maximum LTV ratios, minimum haircuts or other volatility adjustments applicable to each type of mitigant, including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values;
- The means by which legal certainty is to be established, including required documentation and necessary steps required to establish legal rights;
- Acceptable methodologies for initial and any subsequent valuations of collateral and the frequency with which they are to be revalued;
- Actions to be taken in the event of the current value of mitigation falling below required levels;
- Management of the risk of correlation between changes in the credit risk of the customer and the value of CRM, for example, any situation where customer default materially impacts the value of a mitigant and applying a haircut or recovery value adjustment which reflects the potential correlation risk;
- Management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and/or lines of business that are characterised by a specific collateral type or structure; and
- Collateral management to ensure that CRM is legally effective and enforceable.

The Group's policies with respect to assessing, acquiring and managing collateral for capital calculation purposes are aligned with regulatory requirements. The Banks Act of South Africa and its regulations allow banks to adjust the risk weighting of exposures by taking account of collateral. Eligibility for recognition in the calculation of RC depends on whether the bank is using the foundation or advanced IRB approach.

The following types of collateral may be held against assets subject to credit risk and are consistent with accepted market practice:

Assets subject to credit risk	Type of collateral[1]
– Cash, cash balances and balances with central banks	**Guarantees, credit insurance and credit derivatives**
– Statutory liquid asset portfolio	– Government guarantees
– Loans and advances to banks	– Guarantees from shareholders and directors
– Trading portfolio assets	– Parental guarantees
– Hedging portfolio assets	– Personal and other company guarantees
– Other assets	– Surety ships
– Loans and advances to customers	– Bonds and guarantees
– Reinsurance assets	**Physical collateral**
– Investment securities	– Listed equities
	– RSA government bonds
	– Bonds over properties (commercial and residential)
	– Charges on properties
	– Property, equipment and vehicles
	– Shares
	–
	Cash collateral
	– Deposits from customers and cession of ring-fenced bank accounts with cash
	– Cash
	Other
	– Call options to holding companies
	– Cession of loan accounts
	– Debentures
	– Insurance policies
	– Life insurance policies
	– Listed equities
	– Netting agreements
	– Pledged securities
	– Put options from holding companies or other companies within the Group
	– Assignment of debtors

Notes

[1] This list is not exhaustive. There may be other forms of collateral that may be recognised.

Risk management strategy

Valuation of collateral

Performing book

Security taken as part of the credit decision process is valued according to the applicable credit policies at the time of credit approval and at relevant intervals thereafter. The Group uses a number of approaches for the revaluation of collateral, including physical inspection, statistical indexing and price volatility modelling.

Non-performing book

For the wholesale portfolio, collateral valuations are updated when an account enters the legal/recovery process to ensure an appropriate impairment allowance can be calculated. In the wholesale portfolios these valuations are reviewed regularly to ensure any impairments raised remain at an appropriate level, including potential gains in the valuation of marketable securities and other market-related instruments that may lead to a partial release of the impairment allowance. In the retail portfolio, collateral valuations are updated using statistical indexing, which is available monthly.

The collateral management process is focused on the efficient handling and processing of a large number of cases in the retail portfolio and the lower end of the corporate sector, therefore relying heavily on the Group's collateral and document management systems. For larger wholesale exposures and capital market transactions, collateral is managed jointly between the credit and legal functions as transactions and associated legal agreements are often bespoke in nature, in particular, where credit derivatives or customised netting agreements are used as a risk mitigant. All security structures and legal covenants are reviewed at least annually to ensure they remain fit for purpose and consistent with accepted market practice.

Types of guarantor and credit derivative counterparties

In the commercial, corporate and financial sector, reliance is often placed on a third party guarantor, which may be a parent company to the borrower, a major shareholder or a bank. Similarly, credit derivative transactions are often used to hedge specific parts of any single name risk in the wholesale portfolio. For these transactions, the most common counterparties or issuers are banks, non-bank financial institutions, large corporates, parastatals and governments. The creditworthiness of the guarantor or derivative counterparty/issuer is assessed as part of the credit approval process and the value of such a guarantee or derivative contract is adjusted accordingly for the purpose of calculating internal LGD estimates. For RC purposes, risk mitigants are incorporated in PD, EAD or LGD, depending on the type of mitigant.

Use of netting agreements, International Swaps and Derivatives Association master agreements and collateral support annexures

In line with international market practice, the Group endeavours to use netting agreements wherever possible. The Group primarily employs International Swaps and Derivatives Association (ISDA) master agreements as well as collateral support annexures (CSAs) that provide standardised and commonly accepted processes for managing collateral and margin calls over the lifetime of the transaction. CSAs may create an obligation on the Group unrelated to the underlying instruments in the event of a credit downgrade. Only a small number of the Group's agreements make use of such a tiered structure and an instantaneous downgrade by one rating grade from the current AA-rating (Standard and Poor's and Fitch) would not trigger such clauses and create a requirement to post additional collateral.

Counterparty credit risk

Counterparty credit exposure arises from the risk that parties are unable to meet their payment obligations under certain financial contracts, such as derivatives and securities financing transactions (e.g. repurchase agreements). Unlike credit risk, counterparty credit risk implies the bilateral risk of loss.

For the allocation of EC to over-the-counter (OTC) derivative exposures, EAD estimates are treated as mark-to-market (MTM) loan equivalents, where the amount of capital allocated to a particular transaction is driven by the:

- borrower's netting arrangements;
- borrower's TTC PD;
- trade's residual maturity;
- nature of each trade; and
- net EAD and corresponding LGD.

For RC calculation purposes, the current exposure method (CEM) is applied to OTC derivative exposures. The Group relies mainly on cash, government bonds and negotiable certificates of deposits as collateral for derivative contracts.

The Group intends to adopt the Standardized Approach in the calculation of the Group's RC requirements for these portfolios and progress towards this adoption is at an advanced stage. However, during the current reporting period, all calculations were based on the CEM. The Group's policies for establishing impairment allowances for counterparties of traded products are based on applicable accounting requirements.

Credit derivatives

Credit rating downgrade

The Group enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the Group stipulate credit protection terms, such as limitations on the amount of accepted unsecured credit exposure, collateralisation in the event of a MTM credit exposure exceeding the current amount and collateralisation and/or termination of a contract when certain credit events occur. Such events might include a downgrade of the counterparty's public credit rating.

Certain counterparties may require the Group to provide similar credit protection terms, to which it may agree from time to time, on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally only conceded to highly rated counterparties, and whenever possible, on a reciprocal basis.

The impact in terms of the additional amount of collateral required in the event of a credit downgrade is determined by the negative MTM value on derivative contracts. Where the impact on the Group's liquidity is deemed to be material, the potential exposure is taken into account in model stress testing. Generally, the extent of legal commitments resulting in additional collateral requirements caused by a rating downgrade is not material and would not adversely affect the Group's financial position.

As at the reporting date, additional collateral of R75.4 million for a one-notch downgrade, R88.2 million for a two-notch downgrade and R141.5 million for a three-notch downgrade would be required.

Concentrations of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk although it can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. Group risk management policies and processes identify and analyse risk, set appropriate risk appetite limits and controls and monitor the risks and adherence to limits by means of reliable and timely data. One particular area of review is concentration risk.

Diversification is achieved through setting maximum exposure guidelines to individual counterparties. Limits in excess of the maximum exposure guideline are approved at the Barclays Africa Concentration Risk Committee, which is a Board Risk Committee. Mandate and scale limits are used to limit the stock of current exposures in a loan portfolio and the flow of new exposures into a loan portfolio. Limits are typically based on the nature of the lending and the amount of the portfolio meeting certain standards of underwriting criteria.

Due to the composition of the Group's business portfolios, a certain degree of risk concentration in the collateral portfolios is evident. The Group manages these risks through mandate and scale limits that differ across the individual portfolios, for example:

- vehicle and asset finance: limits are placed on affordability and LTV ratios;
- mortgages: limits are placed on property values and LTV ratios; and
- commercial property finance: limits are placed on the type of asset (e.g. industrial or retail) and geographical area.

Due to the structure of the South African financial markets, a certain level of concentration with derivative counterparties is also to be expected. The Group manages this type of concentration risk through mandate and scale limits, sophisticated, simulation-based exposure models that support a rigorous credit analysis, on-going monitoring of these counterparties and the Group's MTM exposure.

Wrong-way risk

Wrong-way risk is another form of concentration risk and arises when there is a strong correlation between the counterparty's PD and the MTM value of the underlying transaction. The Group distinguishes between two types of wrong-way risk:

- Specific wrong-way risk, which may arise in transactions with certain structural features, such as the collateralisation of a loan with the borrower's, or a related party's shares; and
- General or conjectural wrong-way risk, which may arise where the credit quality of the counterparty is related to the value of the transaction for non-specific reasons such as, where both the credit quality of the counterparty and the value of the derivative are strongly related to a macroeconomic variable.

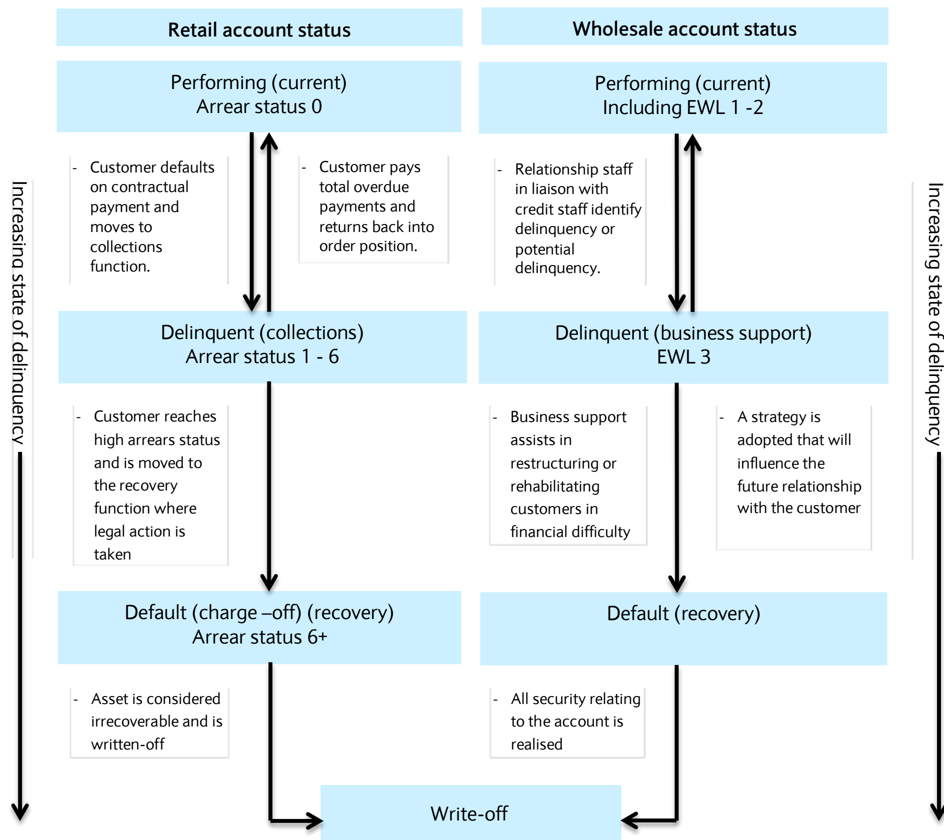
The Group aims to limit both these risk types. However, it recognises the need to engage in certain transactions that could expose the Group to specific wrong-way risk, such as funding broad-based black economic empowerment (BBBEE) transactions.

Risk management strategy

Monitoring weaknesses in portfolios

Corporate accounts deemed to contain heightened levels of risk are recorded on EWLs. These are updated monthly and circulated to relevant risk control points. Once an account is included on EWL, exposure is carefully monitored and, where possible, a reduction of the exposure is affected. The lists are graded in line with the perceived severity of the risk attached to the loan. Corporate customers are escalated through three categories of increasing concern. When an account becomes impaired, it would normally but not necessarily, have passed through all three categories, which reflect the need for increased monitoring and control. Where a borrower's financial health presents grounds for concern, it is immediately placed into the appropriate category. All borrowers are subject to a full review of all facilities on at least an annual basis. Interim reviews may be performed if necessary.

Within the Retail Banking portfolios, which tend to comprise homogeneous assets, statistical techniques allow the impairment to be monitored on a portfolio basis. It is consistent with the Group's policy to raise an impairment allowance as soon as objective evidence of impairment is identified as a result of one or more loss events that occurred, subsequent to initial recognition. The Group offers forbearance programmes to assist customers and clients in financial difficulty through agreements that may include accepting less than contractual amounts due where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. Models in use are based upon customers' personal and financial performance information over recent periods, which serve as a predictor for future performance. The models' output are regularly reviewed against actual performance and, where necessary, amended to optimise their effectiveness.



Risk management strategy

Securitisation

Securitisation transactions have been used as a means of raising long-term funding.

Apart from originating and sponsoring securitisation transactions, the Group also acts as an investor, a service provider, a liquidity provider and credit enhancer to a number of securitisation transactions. The Group invest directly in the securitisation schemes.

Strategy

Securitisation transactions, used as part of the Group's credit portfolio, are primarily focused on the effective management of funding requirements. Planned securitisation transactions, market appetite and potential marketing and placement strategies are governed by a delegated mandate from the Board Finance Committee and assessed with the assistance of the Africa Market Risk Committee (AMRC) and Africa Treasury committee (ATC). There are two main types of securitisation:

- traditional securitisation transactions where an originating bank transfers a pool of assets it owns to a special purpose entity on an arm's length basis; and
- synthetic securitisation transactions where the originating bank transfers only the credit risk associated with an underlying pool of assets, through the use of credit-linked notes or credit derivatives, while retaining legal ownership of the pool of assets.

All securitisation transactions entered into as at the reporting date involved the sale of the underlying assets to the securitisation vehicle. The Group has not originated any synthetic securitisation transactions. Nonetheless, the Group calculates appropriate capital charges in respect of the risk assumed through the provision of liquidity facilities and retained exposures, as per the Basel III securitisation framework.

As at the current reporting date, the Group's own assets relating to the Home loan portfolio were securitised. The look through approach is applied for the Home Obligors Mortgage Enhanced Securities Proprietary Limited (Homes securitisation), hence transfer of credit risk does not take place. In addition to credit risk, liquidity and interest rate risk are also considered regularly. The origination of transactions based on other asset classes, such as CPF are considered on an ongoing basis.

The Group does not enter into any re-securitisation transactions.

Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes. The Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

Strategy

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal and technical (where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIBW and Business Bank. Equity and other investments held by the Group's insurance entities are addressed in the insurance risk management section of this report.

The equity investment portfolio decreased during the current reporting period primarily due to the sale of the Group's interest in Absa Capital Private Equity Fund 1.

Risk management strategy

Market Risk management

Market risk is the risk that the Group's earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. It consists of the following:

- Traded market risk is the risk of the Group being impacted by changes in the level or volatility of positions in its trading books, primarily in the Investment Bank.
- Non-traded market risk is the risk that the Group is unable to hedge the interest rate risk in the banking book, primarily in retail, business banking and corporate portfolios.
- Insurance risk is the risk that future experiences relating to claims, expenses, policyholder behaviour and investment returns are different from the assumptions made when setting premiums or valuing policyholder liabilities.
- Pension risk arises when an adverse movement between pension assets and liabilities contributes to a pension deficit.

Traded market risk arises in the trading book to support client-trading activity, whereas non-traded market risk arises in the banking book to support customer products.

The Africa Market Risk Committee (AMRC) meets monthly to review, challenge and make recommendations concerning the market risk profile, including risk appetite, policies, limits, risk utilisation and the effectiveness of the control environment.

The Trading Risk Committee (TRC), Africa Treasury Committee (ATC) and their respective regional subcommittees provide oversight of business- and region-specific market risk.

Strategy

Market risk management objectives are to:

- Ensure risk is managed within the Group's appetite by monitoring risk against the limit and appetite framework.
- Ensure a high degree of net interest margin stability in the Group's banking books.
- Understand risk sensitivity and volatility, leverage stress testing and empirical analytics. Use appropriate models to measure risk.
- Underwrite risks that are well diversified in terms of types of risk and the level of insured benefits. Develop strategies to reduce earnings volatility and increase potential profits under good claims experience conditions.
- Reduce exposures to insurance business lines where the risk-adjusted returns are low, and increase exposures to more attractive business lines to improve the risk-return outlook. Monitor and continuously reassess the inherent quality and risk profile of the insurance business book.
- Ensure pension risk is managed within outlined principles, objectives and governance, as well as country specific regulations.
- The Group retains additional capital reserves which target a 99,6% level of confidence that policyholder obligations will be met during severe economic and demographic experience scenarios. The Group's adequacy of reserves, premiums and retained capital is regularly reviewed, in preparation for the Solvency Assessment and Management (SAM) legislation.

Risk management strategy

Traded Market Risk

Approach

Market risk is prevalent in both the trading book and the banking book, as defined for regulatory purposes. Interest rate risk in the banking book is subjected to equally rigorous measurement and control standards as the trading book, but the associated sensitivities are reported as part of the interest rate risk in the banking book section.

Risk appetite

The risk appetite for traded market risk is based on:

- proposed business strategy and growth;
- targeted growth in risk;
- budgeted revenue growth;
- historical risk usage;
- statistical modelling measures; and
- risk equated to capital projection under various stress scenarios.

Risk measurement

A number of techniques are used to measure and control traded market risk daily, which include:

- Value at risk (VaR) based measures including stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting (Non-VaR);
- stress testing;
- backtesting; and
- standardised general & specific risk, as relevant.

The standardised approach is used to quantify regulatory capital requirements for both specific and general risk for the regions. Additional measures such as VaR, Non-VaR and stress testing are used for management reporting purposes.

In line with regulatory requirements for public disclosures on the internal models approach, the sections below on Daily Value at Risk, Backtesting, Tail metrics and Stressed Value at Risk specifically relate to the models used for South Africa.

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data, and a holding period of one day with a confidence interval of 95%.

The historical simulation methodology can be split into three parts:

- calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves;
- sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history; and
- DVaR is the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory backtesting and RC calculation purposes, respectively. The VaR internal model has been approved by the SARB to calculate RC for all trading book portfolios. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach. Additionally, for any new products, which are awaiting regulatory approval, the regulatory standardised approach is used to determine capital.

DVaR is an important market risk measurement and control tool. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

Risk management strategy

VaR estimates have a number of limitations:

- historical simulation assumes that the past is a good representation of the future, which might not always be the case.
- the assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentile.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

Backtesting

The Group conducts backtesting of the VaR risk measurement model against:

- the theoretical profit and loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit and loss representing the actual daily trading outcome, excluding fees, commissions, bid-ask spreads and net interest income, as required for regulatory backtesting purposes.

Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

Non-value at risk

Non-VaR reporting covers non-statistical measures of measuring and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have Non-VaR reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

Stressed value at risk

SVaR is an estimate of the potential loss arising from a 12-month period of significant financial stress. The sVaR model and period selection methodology was approved by the SARB. The SARB has also assigned a sVaR model multiplier to be used for calculations. SVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period which represents a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVaR RC requirement is calculated daily and is disclosed for the reporting period.

Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Group performs two main types of stress/ scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers for South Africa's trading books. A full revaluation approach is applied to undertake stress testing for South Africa's trading books.

Risk management strategy

Standardised risk

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules. In addition, the standardised rules are used to quantify general risk regulatory capital for any instruments traded in South Africa for which internal model approach approval has not yet been obtained.

General risk for the regions is also quantified using standardised rules, specifically for the interest rate and foreign exchange asset classes to which exposures in these entities are limited (derivatives and other asset classes are traded only on a back-to-back basis with South Africa). In particular, the maturity method is used to quantify general interest rate risk for the regions.

Risk control

Risk limits are set and reviewed at least annually to control the Group's trading activities, in line with the defined risk appetite. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (VaR and sVaR);
- position and sensitivity (Non-VaR) limits;
- stress testing limits, where relevant; and
- loss notification thresholds: reporting of actual losses based on pre-determined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by the product control and independent price verification teams, and the results are reviewed monthly by the Valuation Governance and Control Committee.

The Model Validation function is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

Risk reporting

The Group's market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the AMRC and other governance committees, as required.

Non-Traded Market Risk

Interest rate risk in the banking book

Approach

Interest rate risk is the risk that the Group's financial position may be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, as well as from certain structural exposures within the statement of financial position, mainly due to repricing timing differences between assets, liabilities and equity. These risks impact both the Group's earnings and economic value.

The Group's objective for managing interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to the local treasury or Group Treasury, which in turn hedges material net exposures with the external market. As a result of mainly timing considerations, interest rate risk may arise when some of the net position remains with Treasury. A limits framework is in place to ensure that retained risk remains within approved risk appetite.

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits.

Where possible, hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Group's accounting policies, are followed.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity and is managed by Group Treasury. Interest rate risk also arises in each of the Africa subsidiaries' treasuries in the normal course of managing the statement of financial position and facilitating customer activity. The risk is managed by the local treasury functions, subject to modest risk limits and other controls.

Risk management strategy

Embedded customer optionality risk may also give rise to interest rate risk in the banking book. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract. Embedded customer optionality is distinct from direct optionality, which arises through the underlying product structure (e.g. capped rate loan products). The Group's policy requires such direct option risk to be hedged explicitly.

Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Group is unable to collect full market-related compensation. The risk is controlled through book and term limits, funding (hedging) new loans according to the expected behavioural repayment profile and tracking deviations of actual customer behaviour from the expected profile.

Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Controls include campaign rules, prefunding of anticipated take-up and the management of the resultant residual risk

Risk measurement

The techniques used to measure and control interest rate risk in the banking book include repricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity sensitivity and stress testing.

Repricing profiles

With the repricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate repricing date and the maturity date. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets based on the most likely repricing behaviour. The repricing profiles take the assumed behavioural profile of structural product balances into account.

Annual earnings at risk (AEaR)/ Net interest income (NII) sensitivity

AEaR/ NII sensitivity measures the sensitivity of net interest income over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk

A 1-day VaR calculated at a 95% confidence level for measuring interest rate risk in the banking book is used. The DVaR is monitored against approved internal limits and is used as a complementary tool to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time to a specified shock to the yield curve. Similar to DVaR, EVE is present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Group Treasury and Group Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Africa subsidiaries is carried out by Group Market Risk and the risk functions in each subsidiary and has been adopted as one of the primary risk metrics for African subsidiaries and is monitored against formal internal limits.

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics, as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set at the business level and then cascaded down. The business level limits for AEaR, DVaR and stress are agreed by the AMRC. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Risk reporting

DVaR and supporting metrics and stress are reported daily for Group Treasury and the Africa subsidiaries' respectively, with the exception of two African subsidiaries where reporting is done on a monthly basis. The repricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for both Group Treasury and the Africa subsidiaries.

Risk management strategy

Foreign exchange risk

Approach

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk. Translation risk is addressed under the Capital Management section.

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading books.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading books at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Asset Management risk

Approach

Asset management risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of AEaR to reflect the sensitivity of annual earnings to shocks in market rates. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises mainly in Financial Services. Asset management risk was immaterial during the reporting period.

Insurance Risk management

Within the Group, four categories of insurance risk are recognised, namely short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and life and short-term insurance investment risk. These four categories of insurance risk are managed within different entities within the Group.

Strategy

The Group's insurance risk management objectives are:

- pursuing profitable growth opportunities;
- balancing exposure between life and short-term insurance to allow for better diversification; and
- growing risk exposures outside South Africa.

Within Financial Services, the different risk types are managed through specific committees, as set out below:

- Short-term insurance underwriting risk is managed through underwriting authority mandates and through referral to an Underwriting Review Committee, as and when required. Risk governance is monitored by the Control Review Committee, the Actuarial Review Committee and Key Risk reporting.
- Life insurance underwriting risk is monitored on a quarterly basis by the Underwriting Risk Forum to ensure the risk taken is in line with the risk priced and reserved for. Risk governance is monitored by the Control Review Committee, the Actuarial Review Committee and Key Risk reporting.
- Life insurance mismatch risk is monitored on a monthly basis by the Investment Risk Committee. A quarterly review is conducted by the Absa Financial Services (AFS) Capital and Investment Risk Committee and an annual review by the Actuarial Review Committee.
- Life and short-term insurance investment risk is monitored by the entity Investment risk committee on a quarterly basis.

Pension risk

The Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a funding deficit. In these circumstances, the Group could be required or might choose to make additional contributions to the defined benefit plan.

Risk management strategy

Liquidity Risk management

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due, resulting in an inability to support normal business activity, and a failure to meet liquidity related regulatory requirements. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Strategy

The Group's liquidity risk management objectives are:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- lengthening the Group's funding profile in order to improve key liquidity metrics, thereby reducing the Group's liquidity risk exposure;
- maintaining adequate levels of surplus liquid asset holdings in view of the Basel III liquidity requirements; and
- lowering the weighted average cost of funding.

Barclays Africa Group is expected to maintain the healthy liquidity position throughout 2014 which will enable it to support its growth targets.

Basel III impact

The Group maintains a strong liquid assets buffer and funding tenor position of the funding book, ahead of the timeframes required by the Basel rules outlined in the table below. Liquidity resources remain sufficient under the liquidity risk appetite framework with surplus liquid assets under a one-month survival horizon.

Currently none of Barclays Africa (excluding South Africa) entities have a Basel III LCR or NSFR requirement. Based on the overall funding and liquidity positions of these entities, this is not expected to have a negative impact at a Group level.

Key metrics under Basel liquidity risk framework and timeframes for compliance

Risk metric	Purpose of metric	Implementation timeframes
LCR	To promote short-term resilience of a bank's liquidity risk profile by ensuring it has sufficient high-quality liquid assets to survive a significant stress scenario lasting for one month.	Requirements phased in from 2015 with full compliance required by 2019.
NSFR	To promote resilience over a longer-time horizon (one year) by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.	Compliance required by 2018. (Basel Committee currently reviewing)

Approach to liquidity risk

The Barclays Africa Group applies a three step risk management process:

- **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

Risk management strategy

The liquidity risk management processes are summarised in the table below:

Funding planning	Liquidity risk monitoring	Execution and intra-day liquidity risk	Contingent funding planning	Regulatory compliance
– Funding plan – Concentration risk – Client behaviour – Pricing liquidity risk through funds transfer pricing	– Liquidity policies – Liquidity risk appetite – Stress testing – Limits and metrics – Intraday liquidity risk monitoring – Monitoring other contingent liquidity risks – New product review – Debt buyback monitoring	– Liquidity buffers – Funding execution – Daily clearing and settlement – Contingent liquidity risks in transaction documentation	– Contingency planning – Early warning indicators – Liquidity simulations – Resolution planning	– Current – Reserving – Liquid assets – Regulatory reporting – Basel III – Liquidity coverage ratio – Net stable funding ratio

Funding planning

Each entity is required to ensure that funding diversification is taken into account in its business planning process and where appropriate maintain a funding plan or forecast. This takes into account market conditions and the changes in factors that affect the entity's ability to raise funds.

Entities avoid undue reliance on large deposits from a single source, a particular business type, a particular geographic region, a common maturity date or through an individual product as this could, in extreme circumstances, lead to a rapid outflow of funds in times of stress.

Stress and scenario testing

Each entity within the Barclays Africa Group undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the contingency funding plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Group's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines; readily marketable investment securities and price sensitive overnight loans.

This stress testing provides the basis for the Liquidity Risk Appetite. This is the key internal risk metric used in liquidity risk management.

Key risk metric used in stress liquidity risk management

Risk metric	Purpose of metric
Survival horizon	Provides a measure of the adequacy of the bank's liquidity resources during times of severe stress, measured as the number of days that the bank is expected to survive a defined liquidity scenario.

Liquid assets

The Group holds a stock of highly liquid assets to meet any unexpected liquidity drains. In the majority of locations local regulators impose rules on the quantum of reserve liquidity to be held. Each operation maintains and demonstrates constant access to the relevant underlying asset market to avoid undue price movement if liquid assets need to be sold to maintain confidence in the bank's name. Each operation ensures that its buffer can be liquidated at short notice.

Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- the roles and responsibilities of senior management in a crisis situation,
- authorities for invoking the plan,
- communications and organisation,
- an analysis of a realistic range of market-wide and Group specific liquidity stress tests, and
- scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

The Group maintains a range of early warning indicators (EWIs). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation.

Risk management strategy

Operational Risk management

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human error or external events. Operational risk exists in the natural course of business activity therefore it is impossible to eliminate all operational risk exposure. Risk events of significance are not frequent and the organisation seeks to reduce the likelihood of these in accordance with its risk appetite.

Operational risk is recognised as a significant risk type and the organisation is committed to enhancing the measurement and management thereof. Within the operational risk framework, qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

Strategy

The Group's operational risk management objectives are to:

- To articulate an appropriate level of financial and non-financial appetite for Operational Risk, that supports the business strategy;
- To manage risk and control effectively and in doing so maintain the operational risk profile within appetite;
- Embedding a positive risk culture across the organisation; and
- To minimise the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss.

Primary supporting activities include:

- further embedding an operational risk-aware culture throughout the Group;
- setting and monitoring appropriate operational risk appetite and performance matrices;
- performing end to end risk reviews of the Group's core processes;
- enhancing controls using automated solutions as far as possible, specifically relating to fraud;
- strengthening follow-up and recovery actions for unexpected operational risk and boundary events; and
- continuing the shift from re-active remedial activities to proactively managing and effectively mitigating key operational risks.

Approach to operational risk

Operational risk is a principal risk managed through an associated Operational Risk Framework (ORF), which is underpinned by a taxonomy of key risks. These key risks constitute the risk environment for operational risk and the management of each key risk is overseen by designated independent senior management experts called Key Risk Officers.

The ORF comprises a number of elements that allows the Group to manage and measure its operational risk profile and to calculate the amount of operational risk capital that needs to be held to absorb unexpected losses. The minimum, mandatory requirements for each of these elements are set out in the Group's operational risk policies. These policies are implemented: vertically, through the organisational structure with all businesses required to implement and operate the ORF that meets, as a minimum, the requirements detailed in these operational risk policies; and horizontally, with the key risk officers required to monitor information relevant to their key risk.

The Group is committed to the management and measurement of operational risk and was granted approval to operate an AMA for operational risk as per the regulations to the Banks Act, which commenced in January 2008. The majority of the South African entities in the Group calculate RC using AMA. The basic indicator approach or the standardised approach is being applied for the remaining entities.

Operational risk comprises a number of specific key risks defined as follows:

- External supplier risk: inadequate selection and ongoing management of external suppliers.
- Financial reporting risk: reporting misstatement or omission in external financial or regulatory reporting.
- Fraud risk: dishonest behaviour with the intent to make a gain or cause a loss to others.
- Information risk: inadequate protection of the Group's information in accordance with its value and sensitivity.
- Legal risk: failure to identify and manage legal risks.
- Payment risk: failure in operation of payments processes.
- People risk: inadequate people capabilities and/or performance/reward structures, and/or inappropriate behaviour.
- Premises and security risk: unavailability of premises (to meet business demand) and/or safe working environments, and inadequate protection of physical assets, employees and customers against external threats.
- Taxation risk: failure to comply with tax laws and practice that could lead to financial penalties, additional tax charges or reputational damage.
- Technology risk: failure to develop and deploy secure, stable and reliable technology solutions.
- Transaction operations risk: failure in the management of critical transaction processes.

Regulatory, Financial Crime and Product Design risks are included in the ERMF under the Conduct Risk Principal Risk The implementation of the Conduct Risk key risk frameworks will only however commence implementation in H2, 2014 therefore these risks are currently being classified and reported on under the Operational Risk Principal Risk.

Risk management strategy

The prime responsibility for the management of operational risk rests with the business and functional units where the risk arises. Operational risk managers are widely distributed throughout the organisation and support these areas, assisting line managers in understanding and managing their risks. The heads of Operational Risk for each of the business lines are responsible for ensuring the implementation of and compliance with the operational risk policies and the ORF.

The ORF has been designed to meet external and internal governance requirements including Basel and the Banks Act. The ORF includes the following elements:

Risk and control assessments

Material risks are identified and assessed in each business area and the performance of key controls is evaluated regularly to mitigate those risks. Managers in the business use self-assessment techniques to identify risks, evaluate the effectiveness of key controls and assess whether the risks are effectively managed within business risk appetite. The businesses are then able to make decisions on what, if any, action is required to reduce the level of risk. These risk assessments are monitored on a regular basis to ensure that each business continually understands the risks it faces.

Internal risk events

An operational risk event is any circumstance where there is a potential or actual impact to the Group resulting from inadequately controlled or failed internal processes, people and systems or from an external event. The definition includes situations in which a loss could have been incurred, but in fact a gain was realised, as well as incidents resulting in reputational damage or regulatory impact. Boundary events, such as operational risk materialising within credit risk, are also tracked. Thresholds are used across the organisation for reporting risk events and as part of the analysis the Group seeks to identify where improvements are needed to be made to processes or controls, to reduce the likelihood of recurrence and/or magnitude of risk events.

Lessons Learnt

The ORF was recently updated to include a process and requirement to perform detailed root cause analysis of any significant loss events incurred. This process is referred to as “Lessons Learnt”. The technique is valuable as it contributes to managements’ understanding of the risk and control environment across the organisation and enables informed and appropriate remediation (on an individual and pervasive basis) targeted at continuously improving the Group’s operational risk management process and the effectiveness with which the bank is managed.

External risk events

Applicable external loss information is regularly considered to support and inform risk identification, assessment, and measurement, and provide management with insight into possible emerging risks. The Group is a member of the Operational Risk Data eXchange (ORX), a not-for-profit association of international banks formed to share anonymous loss data information. This external loss information is used to support and inform risk identification, assessment and measurement.

Key indicators

Key indicators (KIs) are metrics that are used to monitor the Group’s operational risk profile. KIs include measurable thresholds that reflect the risk appetite of the business and are designed to track risk, control and business factors which influence the operational risk profile. KIs are monitored to alert management when risk levels exceed acceptable ranges or risk appetite levels and drive timely decision making and actions.

Key risk scenarios

Key Risk Scenarios are a summary of the extreme potential risk exposure for each Key Risk in each business and function, including an assessment of the potential frequency of risk events, the average size of losses and extreme scenarios. The Key Risk Scenario assessments are a key input to the Advanced Measurement Approach calculation of regulatory and economic capital requirements (see following section on Operational Risk Measurement). The assessment is performed by Key Risk Officers in businesses and functions, taking into account analysis of internal and external loss experience, key risk indicators, risk and control assessments and other risk information.

The Risk Officers analyse potential extreme scenarios, considering:

- the circumstances and contributing factors that could lead to an extreme event;
- the potential financial and non-financial impacts (e.g. reputational damage); and
- the controls that seek to limit the likelihood of such an event occurring, and the mitigating actions that would be taken if the event were to occur (e.g. crisis management procedures, business continuity or disaster recovery plans).

Management may then conclude whether the potential risk is acceptable (within appetite) or whether changes in risk management control or business strategy are required.

Risk management strategy

Insurance

As part of the Group's risk management approach, insurance is applied to mitigate the impact of insurable operational risks.

Reporting

The on-going monitoring and reporting of Operational risk is a key component of an effective operational risk framework. Reports are used by the operational risk function and by business management to understand, monitor, manage and control operational risks and losses.

The Operational Risk and Control Committee (ORCC) is the senior executive body responsible for the oversight and challenge of operational risk in the Group. The ORCC presents relevant risk profile information to the GRCMC and GACC. The ORCC is chaired by the GCRO.

In addition, business unit Control Review Committees (CRC) and Country Risk and Control Committees (RCC) monitor risk management and control effectiveness. The Group is in a process of aligning in-country governance and risk committees to mirror the requirements of the ORCC and the overarching principles of the ERMF.

Operational risk measurement

The Group assesses its operational risk capital requirements using an Advanced Measurement Approach. The approach involves estimating the potential range of losses that could be incurred in a year from operational risk events, using statistical distributions. Regulatory capital requirements are set to cover 99,9% of the estimated losses. The Group also assesses its economic capital requirements to cover 99,95% of the estimated losses that exceed the typical losses.

The potential frequency and severity of losses is estimated for each Key Risk (within the Operational Risk category) in each business and function. The potential range of individual loss severities is represented by a statistical distribution, estimated from the average loss size and three extreme scenarios (from Key Risk Scenarios), as well as loss data from ORX.

The capital calculation also takes into account the possibility of correlations between operational risk losses occurring in a year (between risks within businesses and functions and between Businesses and functions).

In certain operations outside of South Africa, joint ventures and associates, Barclays may not be able to apply the AMA model. In these instances, the BIA or TSA approach is utilised.

Conduct Risk management

Conduct risk is the risk that detriment is caused to customers, clients, counterparties or Barclays and its employees because of inappropriate judgement in the execution of the Group's business activities.

Managing conduct risk effectively is a key part of the organisation's journey to building trust, improving customer loyalty and building a sustainable business. The organisation has recognised conduct risk as a separate stand-alone risk within its ERMF that supports the business in ensuring that customers' interests are being taken into account in all the Group's business decisions. Conduct risk is an evolution of treating customer fairly principals and sets the assumption aside that in majority cases bank's put their customer interest aside. Conduct risk recognise that due to banking product complexity, the importance of banking to peoples' lives and the power asymmetry between customers and banks, conscious actions need to be taken which proactively prevent or mitigate the risk of poor conduct. Implementing an effective Conduct Risk framework will support the Barclays-wide programme that aims to develop a strong culture where individuals and business units are responsible for operating in a way that is both compliant with regulatory requirements and consistent with the Group's values of respect, integrity, service, excellence and stewardship.

The conduct of banks is under more rigorous scrutiny from regulators globally and the Group is committed to enhancing the measurement and management thereof. The Twin Peaks model to regulatory supervision is in the process of being implemented in South Africa. Part of this development will see the creation of two primary regulatory bodies, one of which will be the Market Conduct Regulator, with the purpose "to protect consumers of financial services and promote confidence in the financial system". The implementation of a Conduct Risk management framework will position the Group to meet any enhanced requirements that may result.

Strategy

The Group's conduct risk management objectives are to:

- embed conduct risk across the organisation;
- proactively identify and effectively mitigate key conduct risks within the Group's strategy and business models; and
- continue to engage with regulators and industry bodies to pro-actively identify and implement regulatory change.

Risk management strategy

Approach to conduct risk

Conduct risk is a principal risk managed through an associated conduct principal risk framework (CPRF), which is underpinned by seven key risks defined as follows:

- Culture and Governance: the risk that the organisation does not organise or govern itself in a way that effectively identify and manage conduct risks.
- Strategy and Business model: the risk that strategy and business models cause customer detriment or negatively impact market integrity.
- Product Design: the risk that products do not meet the needs of customers for whom they are intended both at launch and during the lifetime of the product.
- Transaction Services: the risk that introducing, promoting, offering, advising, managing, selling, executing and dealing of products cause detriment to clients or negatively impact market integrity. It includes wholesale and retail transactions and both advisory and non-advisory transactions.
- Client servicing: the risk that all customers related and ancillary activities not directly related to Product Design or Transaction Services that typically begins after each transaction is agreed with a customer cause customer detriment.
- Financial Crime: the risk of breaching economic and financial sanctions, the facilitation of money laundering or terrorist financing and/or bribery and corruption.
- Regulatory authorisations and permissions: the risk that Barclays' fail to obtain and maintain relevant regulatory authorisations, permissions and licence requirements.

The conduct principal risk framework comprises a number of elements that allows the Group to manage and measure its conduct risk profile. The minimum, mandatory requirements for each of these elements are set out in seven key risk frameworks. These frameworks are implemented across the organisational structure with all businesses required to implement and operate a minimum set of controls and key risk indicators.

The prime responsibility for the management of conduct risk rests with the business units. The heads of the different business units are responsible for ensuring the implementation of and compliance with the conduct risk framework. In addition, business unit Control Review Committees (CRC) and Country Risk and Control Committees (RCC) monitor risk management and control effectiveness. The Group compliance function is responsible for establishing, owning and maintaining the CPRF and for overseeing the portfolio of conduct risk. The Conduct and Reputational Risk Committee (CRRC) is the senior executive body responsible for the oversight and challenge of conduct risk in the Group. The CRRC presents relevant risk profile information to the Social and Ethics Committee, GACC and GRCMC. The CRRC is chaired by the Head of Compliance.

The conduct principal risk framework has been designed to meet external and internal governance requirements and includes the following conduct risk outcomes which are guiding principles that articulate the Group's commitment to achieve positive and fair customer outcomes:

- The Group's culture places customer interests at the heart of the Group's strategy, planning, decision making and judgements.
- The Group's strategy is to develop long term banking relationships with the Group's customers by providing banking products and services that meet their needs and do not cause detriment.
- The Group does not disadvantage or exploit customers, customer segments or markets. The Group does not distort market competition.
- The Group proactively identifies conduct risks and intervene before they crystallise by managing, escalating and mitigating them promptly.
- The Group's products, services and distribution channels are designed, monitored and managed to provide value, accessibility and to meet the needs of the Group's customers.
- The Group provides banking products and services that meet the Group's customers' expectations and perform as represented.
- The Group addresses any customer detriment and dissatisfaction in a timely and fair manner.
- The Group safeguards the privacy of personal data.
- The Group does not conduct or facilitate market abuse.
- The Group does not conduct or facilitate financial crime.

Conduct Material Risk assessments and forward looking conduct risk reporting

The Group performs conduct material risk assessments (CMRA) to ensure that when developing business models and strategy it fully considers customer/client outcomes and market integrity and identify the management actions that need to be put in place to avoid customer detriment or damage to market integrity. Accountable Executives produce quarterly conduct risk reporting. By using the strategy and business model key risk lens, conduct risk reporting is forward-looking and identifies conduct risks at the earliest stages of the Group's strategy formulation and decision making.

Internal risk events reporting

Conduct Risk is a non-financial risk type and intrinsic in all of the Group's activities. Customers of a bank may experience detriment e.g. due to adverse economic and market conditions. Nevertheless the Group has no appetite for customer detriment resulting from inappropriate judgements in the execution of its business activities and has a *de minimis* level of tolerance for conduct incidents. The Group recognises that from time to time conduct risks (including detriment) will crystallise and become conduct incidents. Thresholds are used to ensure that probable conduct risks and realised conduct incidents are escalated to governance forums. Root cause analysis of and lessons learnt from events are key to the Group's understanding of the Group's risk and control environment. It informs appropriate remediation targeted at continuously improving the Group's conduct risk management processes and considers customer restitution.

Risk management strategy

Key indicators

Key indicators (KIs) are used to monitor conduct risk against measurable targets. KIs are generally categorised between key risk indicator (KRI), key control indicator (KCI) or key performance indicator (KPI) each respectively designed to monitor identified risk exposures, control effectiveness, and other business performance. KPIs have been drafted at a high level to allow businesses to identify underlying processes and data relevant to their business' or function's key risk profile. KPIs allow the Group to measure performance or achievement of objectives, which are the 10 conduct risk outcomes and the Barclays Way.

Reputation risk management

Barclays' reputation is its most precious asset, fundamental to business success and long term sustainability and to becoming the "Go To" bank. The effective identification and management of reputation risk in conducting our business and in our decision-making is therefore an imperative for all employees.

Damage to our brand and consequent erosion of our reputation reduces the attractiveness of the Group and Barclays to stakeholders and may lead to negative publicity, loss of revenue, regulatory or legislative action, loss of existing and potential client business, reduced workforce morale and difficulties in recruiting talent. Ultimately it may destroy shareholder value.

Strategy

The Group's reputation risk management objectives are to:

- Ingrain reputation risk in the business decision-making process and embed associated attitudes, practices and culture.
- Correctly identify and pre-empt reputation risks through continual horizon scanning, gathering market intelligence and regular engagement with policy-makers, opinion-shapers as well as public officials and private individuals.
- Evaluate, respond to and manage reputation risks as they arise.

Approach to reputation risk

Barclays has designated reputation risk as a Principal Risk and developed procedures and resources, including this Reputation Risk Principal and Key Risk Framework, to support businesses and functions in dealing with reputation risks arising in their areas of activity. The Framework complements other Barclays risk frameworks as reputation risk may arise as a result of issues and incidents relevant to other Principal Risks, in particular other non-financial risks e.g.: conduct or operational risk. Therefore, the Framework is an additional tool to help guide individuals' judgements about reputation risk.

Reputation risk is by nature pervasive and can be difficult to quantify, requiring more subjective judgement than many other risks. The Framework is designed explicitly in the light of that subjectivity and, together with the tools, policies and procedures that accompany it, provides a holistic view of how Barclays manages reputation risk.

Reputation Risk Principal and Key Risk Framework

This Framework supports, and should be applied in the context of, The Barclays Way code of conduct which articulates the purpose, values and behaviours to which all employees must adhere and which are relevant to all our business processes, practices and decisions. It sets out the activities, tools, techniques and organisational arrangements to ensure that all material risks are identified and understood, and that appropriate responses are in place to protect the Group and prevent detriment to customers/clients, colleagues and community, enabling the Group to meet its goals and enhancing our ability to respond to new opportunities.

The framework also outlines the considerations involved in escalating reputation risk judgements within the Group and the nature of those escalation procedures. Finally, it also sets out the role and responsibility of the internal support team to help individuals, businesses and functions reach a view on the nature of any reputation risk associated with a business decision, as well as whether and how that should influence decision making, including escalation. That support team also is responsible for managing the overall framework, including any policies that are put in place, making sure that relevant information is accessible and clear for decision makers. The framework makes clear that Group policy decisions will take account not only of specific business decisions raised and past experience, but also a forward looking view of potential reputation risk.

The Group's appraisal of business decisions (including, but not limited to, client transactions and business relationships, product development and operational decisions) includes an evaluation of the potential for reputation risk to the Group's brands. That consideration takes place prior to any commitment with a view to identifying, mitigating and / or managing any material risks identified, as well as on-going monitoring to take account of changes in circumstances which may affect the risk profile after the commitment has been made.

Reporting

Each business (and function/region where appropriate) must submit quarterly KRI reports to the reputation risk team, highlighting their most significant current and potential reputation risks and issues and how they are being managed. The reports, which require input from relevant subject matter experts (e.g.: Legal, Governance, Compliance, Corporate Communications and Government Relations teams), must be signed-off at the relevant Business Risk Oversight meeting (or equivalent). The reports are aggregated into a Barclays Reputation Risk Issue Register for review by the Conduct and Reputation Risk Committee. They also contribute, as the primary internal source of reputation risk information, to the production of a semi-annual reputation risk horizon scan report for the Board Social and Ethics Committee.

Analysis of risk exposures

Analysis of risk exposures

Credit risk

In this section of the report the aim is to provide the Group's credit exposure based on the strategy and policies as discussed. In the tables that follow it is disclosed how this exposure is calculated based on the Group's internal models and the volatility over time.

The Group also discloses the effectiveness of its credit risk mitigation strategy based on the Group's exposures. The Group's exposure in terms of contractual maturity, geographical and industry splits is further analysed.

Gross exposure per Basel III approach and asset class

	30 June 2014						30 June 2013	31 December 2013
	Utilised on-statement of financial position exposure	Off-statement of financial position exposure)	Repurchase and resale agreements	OTC derivative instru-ments	Total credit exposure	EAD	EAD	EAD
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
AIRB approach								
Banks	39 001	12 113	21 300	37 979	110 394	67 869	48 489	43 251
Corporate exposure	183 576	118 303	7 946	9 357	319 183	245 504	224 104	240 050
Corporate	133 615	104 768	7 946	9 296	255 625	185 126	169 582	180 327
SME Corporate	40 197	10 911	-	-	51 109	50 031	46 196	49 051
Specialised lending - income producing real estate	4 770	491	-	-	5 261	4 902	1 959	4 866
Specialised lending - project finance	4 994	2 133	-	61	7 188	5 445	6 367	5 806
Local government and municipalities	4 076	5 616	-	-	9 692	5 973	9 290	9 867
Public sector entities	5 271	4 632	40	692	10 635	8 132	8 421	9 702
Retail exposure	355 894	85 691	-	-	441 583	395 827	390 098	393 944
Mortgages (including any home loan equity lines of credit)	230 797	45 397	-	-	276 194	251 438	255 128	252 916
Other	77 131	913	-	-	78 044	74 403	69 750	72 839
Unsecured lending≤ 30 000	3 540	103	-	-	3 643	3 879	4 517	4 048
Unsecured lending > 30 000	13 291	792	-	-	14 083	13 897	14 999	13 288
Other	2 056	-	-	-	2 056	2 056		2 109
Vehicle and asset finance	58 244	18	-	-	58 262	54 571	50 234	53 394
Revolving credit	31 444	32 520	-	-	63 963	47 139	43 356	44 851
Credit cards	29 746	28 355	-	-	58 100	39 929	36 241	37 710
Non-credit cards	1 698	4 165	-	-	5 863	7 210	7 115	7 141
SME	16 522	6 861	-	-	23 382	22 847	21 864	23 338
Secured lending	8 236	633	-	-	8 869	8 445	8 156	8 744
Unsecured lending	8 286	6 228	-	-	14 513	14 402	13 708	14 594
Securities firms	2 580	1 394	6 044	502	10 519	5 294	8 027	3 442
Sovereigns	69 595	1 001	1 004	32	71 631	71 666	72 541	69 337
Standardised approach								
Banks	20 635	946	-	162	21 742	21 399	1 988	31 809
Corporate exposure	35 446	16 019	-	63	51 528	45 084	5 555	41 603
SME Corporate	35 446	16 019	-	63	51 528	45 084	5 555	41 603
Retail exposure	40 644	13 352	-	-	53 996	40 621	18 208	42 135
Mortgages (including any home loan equity lines of credit)	4 890	10	-	-	4 900	4 815	155	10 506
Vehicle and asset finance	21 950	24	-	-	21 974	21 422	957	1 505
Revolving credit	13 103	13 306	-	-	26 409	13 724	17 096	30 124
Credit cards	11 254	12 210	-	-	23 464	11 981	16 393	13 929
Non credit cards	1 849	1 096	-	-	2 945	1 743	703	16 195
SME	701	12	-	-	713	660	-	-
Sovereigns	29 906	148	-	-	30 054	29 995	4 869	29 778
Total	786 624	259 215	36 334	48 787	1 130 957	937 364	791 590	914 918

Analysis of risk exposures

Indicative mapping of DG to PD band, alphanumeric agency grades and regulatory bands

Default grade bucket	Note	Min PD (>) %	Max PD (<) %	PD Midpoint %	Standard & Poor's	Moody's	PD band	Lower bound %	Upper bound %
		DG to PD mapping			Alphanumeric scale mapping			Regulatory PD bank to PD mapping	
1	1	-	0.0200	0.0100	AAA	Aaa	1	0.0001	0.0120
2		0.0200	0.0300	0.0250	AA-	Aa3/A1	2	0.0121	0.0170
3		0.0300	0.0500	0.0400	A+	A2	3	0.0171	0.0240
4		0.0500	0.1000	0.0750	A/A–	A3/Baa1	4	0.0241	0.0340
5		0.1000	0.1500	0.1250	BBB+	Baa2	5	0.0341	0.0480
6		0.1500	0.2000	0.1750	BBB	Baa2	6	0.0481	0.0670
7		0.2000	0.2500	0.2250	BBB	Baa3	7	0.0671	0.0950
8		0.2500	0.3000	0.2750	BBB–	Baa3	8	0.0951	0.1350
9		0.3000	0.4000	0.3500	BBB–	Ba1	9	0.1351	0.1900
10		0.4000	0.5000	0.4500	BB+	Ba1	10	0.1901	0.2690
11	2	0.5000	0.6000	0.5500	BB+	Ba2	11	0.2691	0.3810
12		0.6000	1.2000	0.9000	BB	Ba3	12	0.3811	0.5380
13		1.2000	1.5500	1.3750	BB-	Ba3	13	0.5381	0.7610
14		1.5500	2.1500	1.8500	BB–	B1	14	0.7611	1.0760
15		2.1500	3.0500	2.6000	B+	B1	15	1.0761	1.5220
16		3.0500	4.4500	3.7500	B	B2	16	1.5221	2.1530
17		4.4500	6.3500	5.4000	B	B3	17	2.1531	3.0440
18		6.3500	8.6500	7.5000	B-	B3	18	3.0441	4.3050
19		8.6500	11.3500	10.0000	B-	Caa1	19	4.3051	6.0890
20	3	11.3500	18.6500	15.0000	CCC+	Caa2	20	6.0891	8.6110
							21	8.6111	12.177
							22	12.177	17.222
							23	17.222	24.355
							24	24.355	34.443
21		18.6500	100.0000	30.0000	CCC	Ca	25	34.443	100.000
Default		100.0000	100.0000	100.0000	D	D	Default	100.000	100.000

Notes

[1] Default grades 1 – 10: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BB rating and better.

[2] Default grades 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies.

[3] Default grades 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These assets are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

Analysis of risk exposures

Analysis of risk

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed from the level of individual facilities up to total portfolio. Integral to this is the calculation of internal ratings that are used in numerous aspects of credit risk management. The key building blocks of the process are:

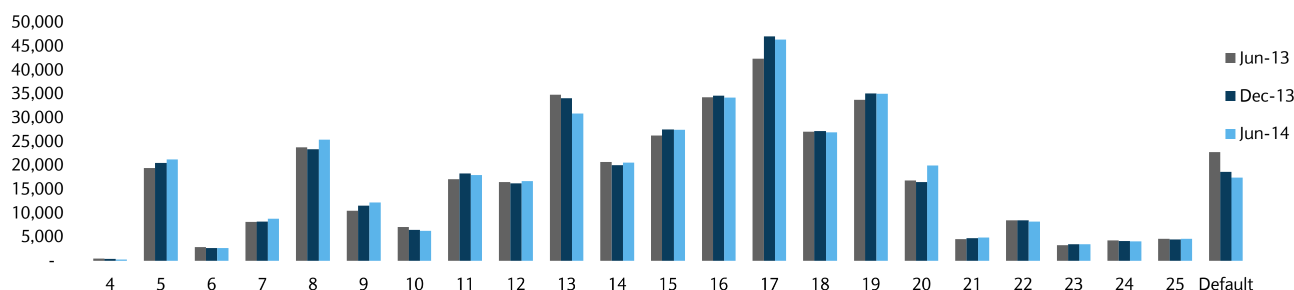
- PD
- EAD
- LGD and
- Maturity

The purpose of the following section is to provide a view of the performance of Basel models used to measure and manage the Group's risk exposure as disclosed in the previous tables.

Comparison of probability of default estimates with actual default

The objective of PD back testing is to compare the accuracy of the PD estimates for regulatory purposes with actual default data. For regulatory capital a through-the-cycle (TTC) PD is used. However in order to test the performance of the PD models, for each retail and wholesale Basel III asset class, the point-in-time (PIT) PD at the previous reporting date is compared to the actual default rate during the period.

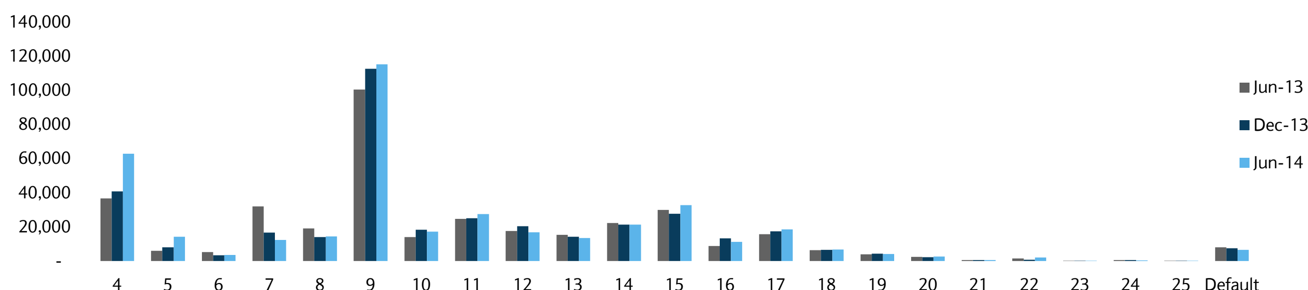
Exposure migration across probability of default bands - retail operations (Rm)



EAD weighted average PD (performing): June 2014: 3,40%, June 2013: 3,37%

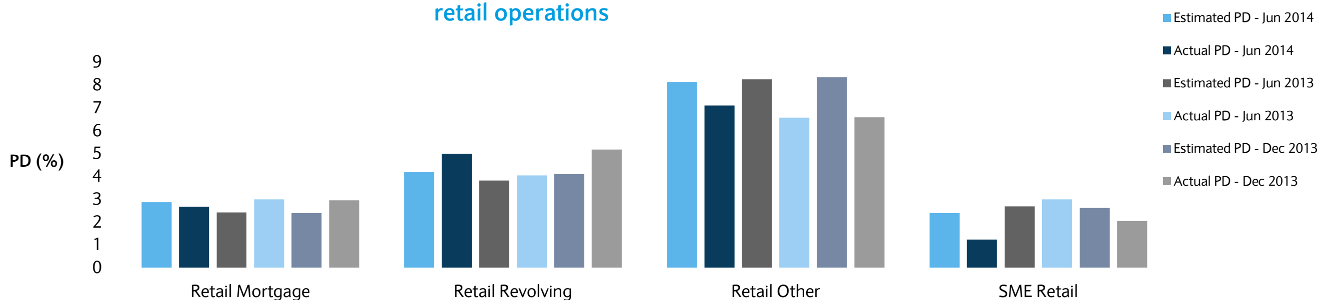
During the period there has been a reduction in the default category. There has been a 3% increase in exposure in the last 12 months across the Retail Performing Portfolio with most of that growth due to growth in the Mortgage, Vehicle Finance and Card portfolios within the Investment Grade bucket. Across the rest of the PD buckets the portfolio has remained fairly static.

Exposure migration across probability of default bands - wholesale operations (Rm)

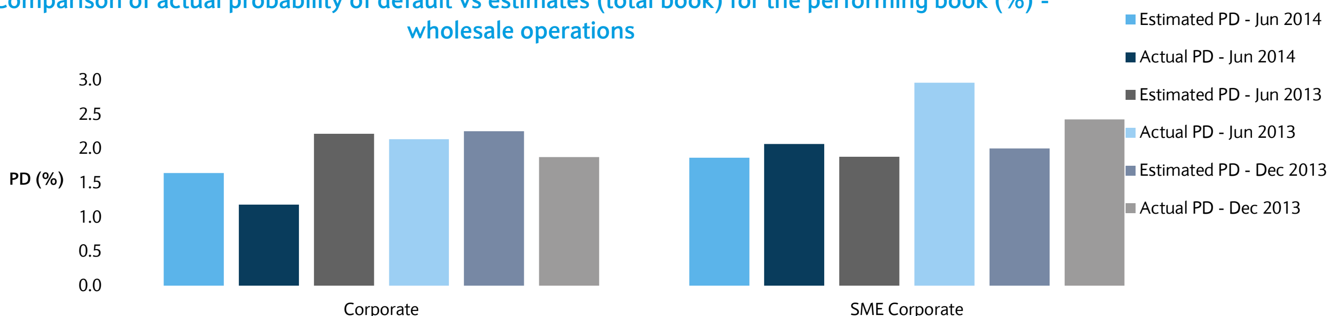


EAD weighted average PD (performing): June 2014: 0,77%, June 2013: 0,76%

Analysis of risk exposures



Back testing results show a slight improvement in the accuracy of estimates in 2014 compared to 2013. Slight PD overestimation occurred within Mortgages and Retail other with underestimation present in Retail Revolving. These results are in line with internal monitoring which also considers the level of TTC PD estimates relative to experienced long run default rates. Based on this back testing and additional internal monitoring the Group is comfortable with the overall level of PD estimates within retail portfolios.



Back testing indicates that TTC PDs in wholesale credit remained stable for Corporates, while there is a slight improvement in the actual and estimated PDs for 2014 in the SME-corporate book. Underestimation occurred in the SME-Corporate book, mitigated through a Post Model Adjustment process, while estimates for Corporate entities remain conservative. The back testing and internal monitoring processes confirms the appropriateness of the overall level of PDs within acceptable ranges.

Analysis of risk exposures

Approach to credit risk

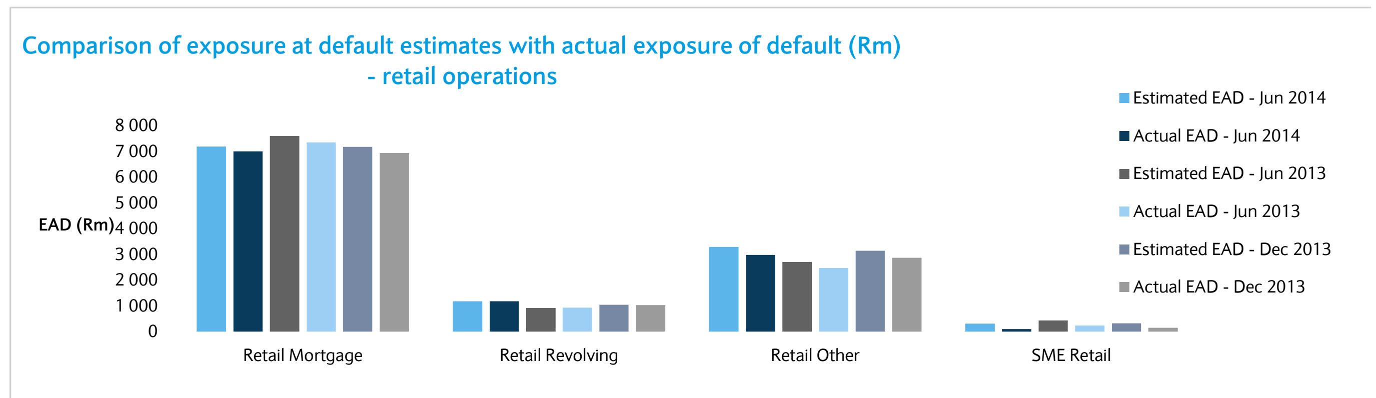
Risk-weighted assets and minimum required capital

Group	30 June 2014		30 June 2013		31 December 2013	
	RWAs Rm	**Required capital Rm**	RWAs Rm	Required capital Rm	RWAs Rm	Required capital Rm
Banks	**14 662**	**1 393**	12 811	1 217	14 211	1 350
Corporate exposure	**145 671**	**13 838**	135 476	13 240	145 312	13 805
Corporate [1]	**107 865**	**10 247**	97 098	9 594	106 524	10 120
SME Corporate	**32 402**	**3 078**	32 926	3 128	32 854	3 121
Specialised lending – income producing real estate	**2 465**	**234**	1 983	188	2 676	254
Specialised lending – project finance	**2 939**	**279**	3 469	330	3 258	310
Local governments and municipalities	**897**	**85**	1 335	127	1 450	138
Public sector entities	**2 545**	**242**	2 155	205	3 045	289
Retail exposure	**149 418**	**14 194**	154 138	14 643	155 328	14 756
Mortgages (incl. home equity line of credit)	**55 389**	**5 262**	62 990	5 984	62 189	5 908
Other	**51 565**	**4 898**	50 008	4 750	51 965	4 937
Unsecured lending ≤30 000	**4 075**	**387**	4 858	461	4 385	417
Unsecured lending >30 000	**14 926**	**1 418**	16 234	1 542	14 622	1 389
Other - other	**2 203**	**209**	-	-	2 254	214
Vehicle and asset finance	**30 361**	**2 884**	28 916	2 747	30 704	2 917
Revolving credit	**30 558**	**2 903**	30 377	2 886	29 486	2 801
Credit cards	**28 574**	**2 715**	28 508	2 708	27 538	2 616
Non-credit cards	**1 984**	**188**	1 869	178	1 948	185
SME1	**11 906**	**1 131**	10 763	1 023	11 689	1 111
Secured lending	**3 390**	**322**	2 683	255	3 345	318
Unsecured lending	**8 516**	**809**	8 080	768	8 344	793
Securities firms	**1 999**	**190**	3 594	341	849	81
Sovereign	**5 126**	**487**	4 170	396	4 210	400
Securitisation	**866**	**82**	845	80	-	-
Standardised approach	**109 602**	**10 412**	23 551	2 237	113 597	9 088
Total	**430 786**	**40 923**	338 075	32 486	438 003	39 908

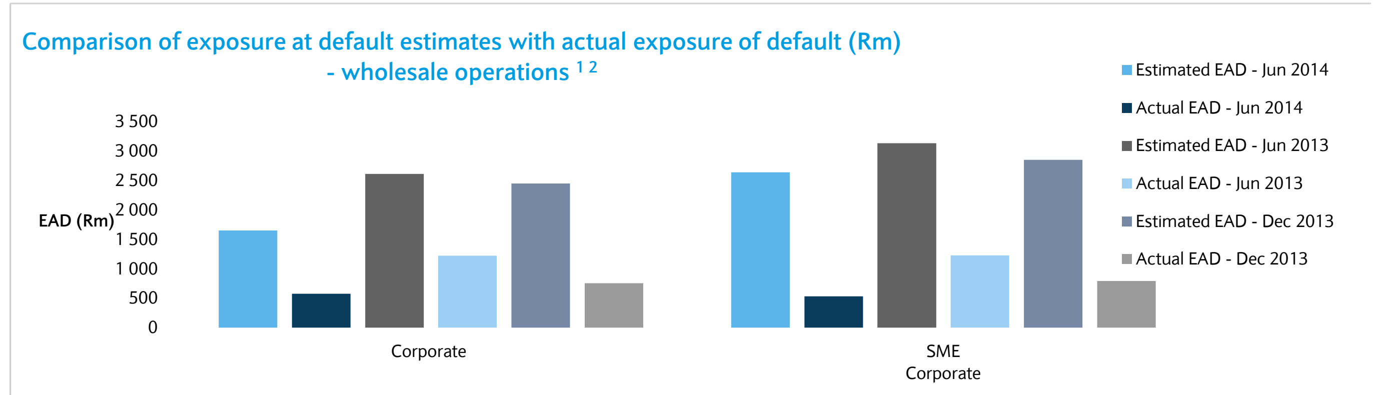
Analysis of risk exposures

Comparison of exposure at default with actual exposure at default

The objective of EAD back testing is to compare the accuracy of EAD estimates for regulatory purposes with actual EAD. For each retail and wholesale Basel III asset class, the estimated EAD at the previous reporting date is compared to the actual EAD of those loans that defaulted during the period.



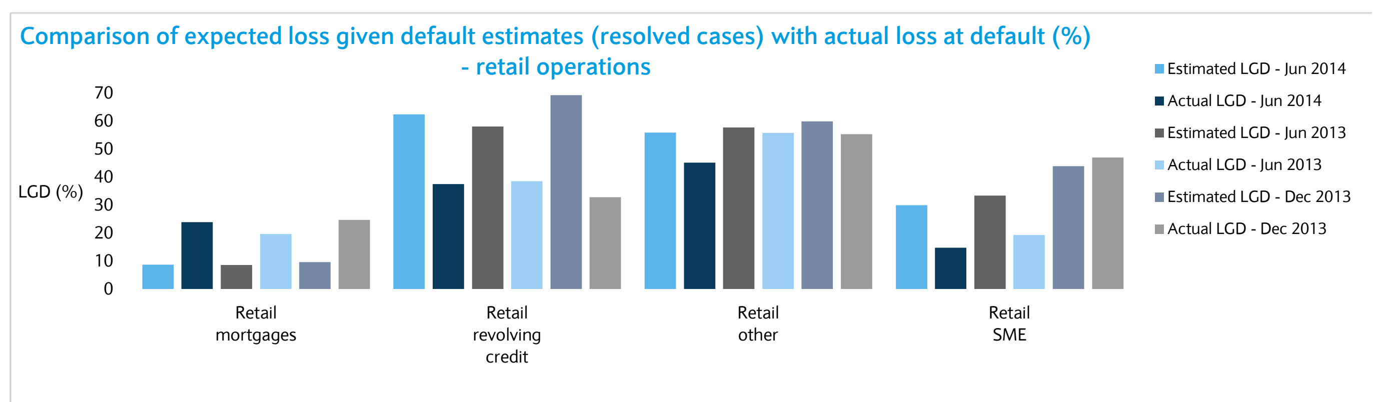
Across asset classes the level of accuracy of the EAD estimates is acceptable. There is some overestimation evident with the main driver in these instances being where the estimated EAD is floored at the balance at the time of conducting the estimate which is in line with regulatory requirements.



The EAD models in wholesale remains conservative while additional information is collected to improve the accuracy of the models.

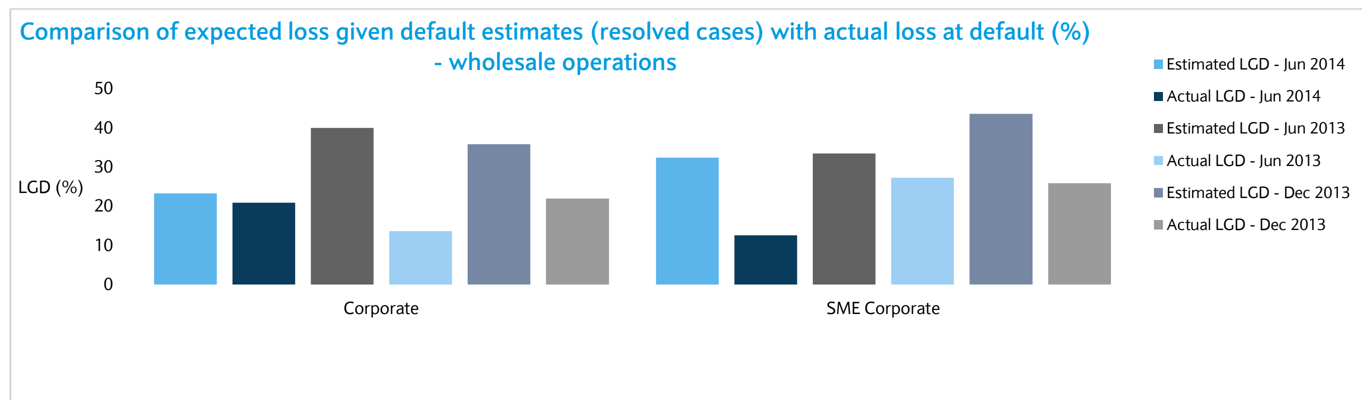
Comparison of loss given default estimates with actual loss given default

The objective of LGD back testing is to compare the accuracy of LGD estimates for regulatory purposes with actual LGD. For each retail and wholesale Basel III asset class, the actual LGD for those cases resolved during the period is compared to the estimated LGD of those cases at the time of defaulting. Resolved cases refer to those cases that were either written off, rehabilitated or closed during the period



Analysis of risk exposures

The results of this analysis are dependent on the nature of the workouts during the period. In the case of the mortgage portfolio there has been a focus on working out the aged NPL portfolio which has led to losses greater than those estimated at the time of default. The adjustment of these loss estimates has already taken place through increased impairment and an RWA add on, however these adjustments are not reflected in the estimated LGD at the time of default. For the revolving portfolios there has been a significant improvement in collections over the past few years relative to the expectations at the time of default. The Group expects this to normalise into the future along with the trends observed within the portfolio performance. The estimates for the other portfolios are in line with the actual experience. Based on this analysis and taking into account the post model adjustment within the mortgage portfolio the Group is comfortable with the overall level of LGD estimates across Retail portfolios.



The LGD actual estimates improved for both the Corporate and SME-Corporate environment. LGD estimates utilised in the calculation of regulatory measures remain conservative in line with expectations.

In terms of Regulation 43 an analysis of impairment and non-performing loans are required. The analysis of impairment disclosures were made in the Group's annual financial statements. Please refer to note 64.2 for the IFRS 7 analysis for impairments. An analysis of the NPL was disclosed in the Group's booklet. Please refer to note 3 for the NPL disclosure.

Analysis of risk exposures

Credit risk mitigation

	30 June 2014						30 June 2013	31 December 2013
	Original credit and counter-party exposure Rm	Effects of netting agree-ments Rm	Net expo-sure after netting and credit risk Rm	Eligible financial collateral Rm	Other eligible IRB collateral Rm	Credit risk mitigation affecting LGD estimates Rm	Credit risk mitigation affecting LGD estimates Rm	Credit risk mitigation affecting LGD estimates Rm
AIRB approach								
Banks	110 394	30 456	79 938	3 369	6	3 375	5 217	9 711
Corporate exposure	319 183	4 836	314 348	4 694	72 763	77 457	73 768	74 205
Corporate	255 625	4 834	250 792	2 374	28 965	31 339	40 029	32 632
SME Corporate	51 109	-	51 109	2 320	38 653	40 973	32 234	37 673
Specialised lending – income producing real estate	5 261	-	5 261	-	5 145	5 145	1 505	3 900
Specialised lending – project finance	7 188	2	7 186	-	-	-	-	-
Local governments and municipalities	9 692	-	9 692	-	103	103	118	121
Public sector entities	10 635	520	10 115	72	14	86	97	128
Retail	441 583	-	441 583	1 742	624 708	626 449	642 537	657 192
Mortgages (including home equity lines of credit)	276 194	-	276 194	648	562 978	563 626	554 449	557 687
Other	78 044	-	78 044	43	48 733	48 775	73 310	83 141
Unsecured lending ≤ 30 000	58 262	-	58 262	9	48 677	48 685	73 122	83 018
Unsecured lending > 30 000	3 643	-	3 643	-	4	4	-	-
Other	14 083	-	14 083	34	52	86	188	123
Vehicle and asset finance	2 056	-	2 056	-	-	-	-	-
SME	23 382	-	23 382	129	12 813	12 942	13 376	15 052
Secured lending	8 869	-	8 869	-	9 664	9 664	8 559	10 009
Unsecured lending	14 513	-	14 513	129	3 149	3 278	4 817	5 043
Revolving credit	63 963	-	63 963	922	184	1 106	1 402	1 312
Credit cards	58 100	-	58 100	-	-	-	-	-
Non-credit cards	5 863	-	5 863	922	184	1 106	1 402	1 312
Securities firms	10 519	155	10 364	340	-	340	62	610
Sovereign	71 631	32	71 599	20	-	20	334	623
	973 637	35 999	937 639	10 237	697 594	707 830	722 133	742 590

Credit derivatives

The following table provides an overview of the outstanding amount of exposure held in respect of the Group's credit derivative positions, used in managing the Group's credit portfolio, broken down by product type, indicating whether protection was bought or sold:

Analysis of risk exposures

Exposure by instrument bought or sold

	30 June 2014				30 June 2013				31 December 2012			
	Intermediation portfolio				Intermediation portfolio				Intermediation portfolio			
	As protection buyer		As protection seller		As protection buyer		As protection seller		As protection buyer		As protection seller	
	Banking	Trading	Banking	Trading	Banking	Trading	Banking	Trading	Banking	Trading	Banking	Trading
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Credit derivative product type												
Credit-default swaps	**10 009**	**3 616**	**4 444**	**9 090**	-	5 042	1 504	11 969	9 858	5 086	5 373	10 517
Other	**459**	**3 239**	**-**	**-**	10 547	1 795	192	-	498	2 269	-	-
Total notional exposure to Credit derivative transactions	**10 468**	**6 855**	**4 444**	**9 090**	10 547	6 837	1 696	11 969	10 356	7 355	5 373	10 517

This book is volatile and derivative exposures are driven by MTM movements due to changes in the underlying instrument during the current reporting period. The implementation of Basel III, resulted in an increase in credit RWA specifically on the trading book, driven by additional CVA and AVC capital requirements.

Analysis of risk exposures

Breakdown of OTC and credit derivative exposure

	30 June 2014						
	Gross positive fair value Rm	Current netting benefits Rm	Current exposure Rm	Expected positive exposure (CEM) Rm	Expected positive exposure netting (CEM) Rm	Exposure at default Rm	Notional value Rm
Commodities	294	27	266	176	34	407	1 738
Credit derivatives	99	95	4	1 195	671	417	15 267
Equity derivatives	1 117	963	154	2 031	915	1 206	32 195
Foreign exchange derivatives	15 720	11 943	3 126	17 734	9 235	10 167	843 521
Interest rate derivatives	25 438	22 215	3 223	15 214	8 281	8 743	4 687 292
	42 668	35 243	6 773	36 350	19 136	20 940	5 580 013

	30 June 2013						
	Gross positive fair value Rm	Current netting benefits Rm	Current exposure Rm	Expected positive exposure (CEM) Rm	Expected positive exposure netting (CEM) Rm	Exposure at default Rm	Notional value Rm
Commodities	701	489	212	864	242	730	7 368
Credit derivatives	113	101	13	1 282	684	417	16 516
Equity derivatives	1 742	1 378	364	3 712	1 491	2 033	55 317
Foreign exchange derivatives	24 873	17 810	7 062	15 073	7 452	11 599	678 058
Interest rate derivatives	29 945	24 386	5 559	12 628	6 450	8 855	3 643 423
	57 374	44 164	13 210	33 559	16 319	23 634	4 400 682

	31 December 2013						
	Gross positive fair value Rm	Current netting benefits Rm	Current exposure Rm	Expected positive exposure (CEM) Rm	Expected positive exposure netting (CEM) Rm	Exposure at default Rm	Notional value Rm
Commodities	238	17	221	194	29	386	1 790
Credit derivatives	103	96	7	1 238	694	522	15 521
Equity derivatives	741	432	309	1 876	618	1 495	30 749
Foreign exchange derivatives	16 043	12 436	3 031	15 601	8 173	9 387	669 910
Interest rate derivatives	27 034	22 518	4 516	14 812	7 783	9 869	3 915 949
	44 158	35 499	8 084	33 721	17 298	21 660	4 633 919

Analysis of risk exposures

Residual contractual maturity of exposures

	30 June 2014 EAD				
	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm	Total Rm
Banks	30 046	38 523	18 163	2 536	89 268
Corporate exposure	1 792	87 818	162 195	38 784	290 589
Corporate	1 207	65 576	96 868	21 475	185 126
SME Corporate	442	21 115	61 309	12 251	95 116
Specialised lending - income producing real estate	143	6	2 017	2 735	4 902
Specialised lending - project finance	-	1,121	2,001	2,323	5 445
Local governments and municipalities	12	2 632	2 836	493	5 973
Public sector entities	2	3 503	1 947	2 680	8 132
Retail exposures	111 947	10 284	104 396	209 822	436 448
Mortgages (including any home loan equity line of credit)	39 792	4 136	12 277	200 048	256 253
Other	4 228	1 556	83 115	6 926	95 825
Unsecured lending ≤ 30 000	651	65	1 917	1 246	3 879
Unsecured lending > 30 000	1 952	400	6 383	5 162	13 897
Other	377	34	1 127	518	2 056
Vehicle and asset finance	1 248	1 057	73 688	-	75 993
Revolving credit	60 398	465	0	0	60 863
Credit cards	51 910	-	-	-	51 910
Non credit cards	8 488	465.00	-	-	8 953
SME	7 529	4 127	9 004	2 848	23 507
Secured lending	33	238	6 332	1 842	8 445
Unsecured lending	7 496	3 889	2 672	1 006	15 062
Securities firms	157	1 048	3 888	201	5 294
Sovereigns	29 289	10 852	34 620	26 899	101 660
	173 245	154 660	328 045	281 415	937 364

Analysis of risk exposures

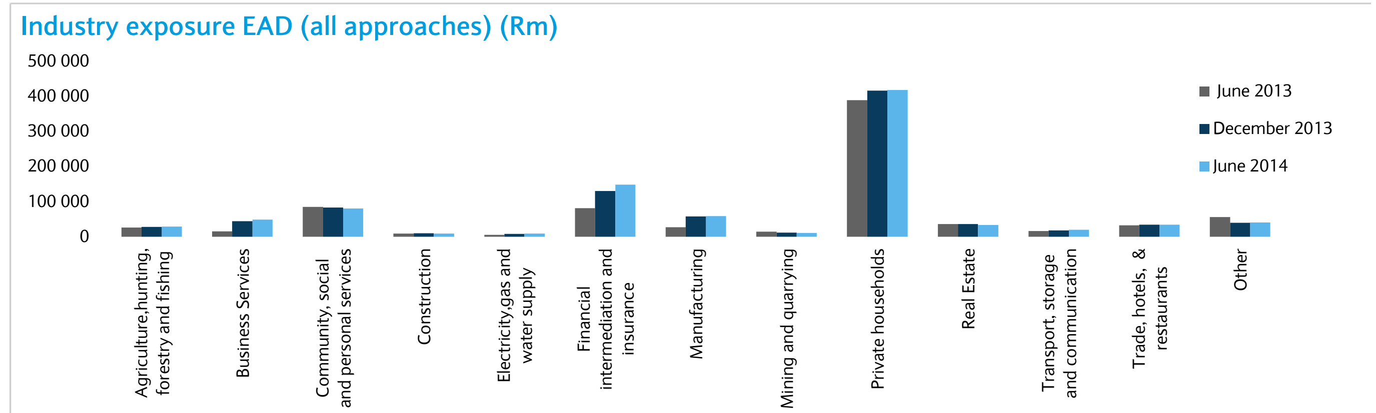
	30 June 2013				
	EAD				
	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm	Total Rm
Banks	2 388	29 605	15 905	2 578	50 477
Corporate Exposure	3 908	94 825	95 517	35 410	229 659
Corporate	3 502	74 658	72 114	19 309	169 582
SME Corporate	401	19 963	19 037	12 350	51 751
Specialised lending - income producing real estate	5	0	372	1 582	1 959
Specialised lending - project finance	-	204	3,994	2,169	6 367
Local governments and municipalities	15	3 010	2 285	3 980	9 290
Public sector entities	0	5 802	1 065	1 554	8 421
Retail	112 692	8 698	73 748	213 166	408 306
Mortgages (including any home loan equity line of credit)	41 147	3 252	10 236	200 647	255 283
Other	5 228	1 050	57 338	7 090	70 708
Unsecured lending ≤ 30000	796	80	2 103	1 538	4 517
Unsecured lending > 30000	2 206	258	6 982	5 552	14 999
Vehicle and asset finance	2 226	712	48 253	-	51 192
Revolving credit	59 931	521	0	0	60 451
Credit cards	52 633	-	-	-	52 633
Non credit cards	7 298	521.00	-	-	7 818
SME	6 386	3 875	6 174	5 429	21 864
Secured lending	56	106	3 288	4 705	8 156
Unsecured lending	6 330	3 769	2 886	724	13 708
Securities firms	1 268	4 147	2 371	240	8 027
Sovereign	27 822	2 067	17 577	29 944	77 410
	148 093	148 154	208 468	286 872	791 590

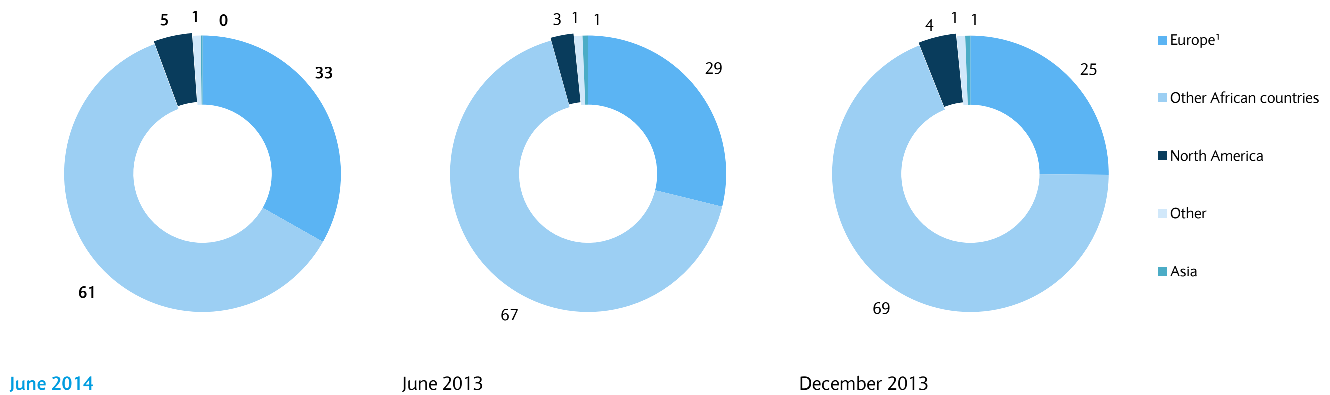
Analysis of risk exposures

	31 December 2013				
	EAD				
	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm	Total Rm
Banks	34 615	19 305	18 074	3 066	75 060
Corporate Exposure	35 507	97 114	116 770	32 264	281 653
Corporate	5 774	75 525	83 343	15 686	180 327
SME Corporate	29 652	21 088	27 507	12 407	90 654
Specialised lending - income producing real estate	81	480	1 845	2 461	4 866
Specialised lending - project finance	-	21	4,075	1,710	5 806
Local governments and municipalities	4	3 521	3 985	2 357	9 867
Public sector entities	2	3 943	2 655	3 101	9 702
Retail	108 682	8 936	106 841	211 621	436 078
Mortgages (including any home loan equity line of credit)	39 024	3 297	19 570	201 531	263 421
Other	4 714	1 094	61 574	6 963	74 344
Unsecured lending ≤ 30000	676	49	2 014	1 310	4 048
Unsecured lending > 30000	1 845	222	6 171	5 050	13 288
Other	438	26	1 042	603	2 109
Vehicle and asset finance	1 755	797	52 347	-	54 899
Revolving credit	58 309	471	16 195	0	74 975
Credit cards	51 639	-	-	-	51 639
Non credit cards	6 670	471.00	16,195.00	-	23 336
SME	6 635	4 074	9 502	3 127	23 338
Secured lending	42	181	6 360	2 161	8 744
Unsecured lending	6 593	3 893	3 142	966	14 594
Securities firms	4	2 926	295	217	3 442
Sovereign	50 181	2 568	20 222	26 143	99 115
	228 995	138 313	268 842	278 769	914 917

Analysis of risk exposures

Breakdown of exposure per industry





Analysis of risk exposures

Breakdown of gross exposure by geographical area

	30 June 2014							
	Asia Rm	Europe[1] Rm	North America Rm	Other African Countries Rm	Other Rm	South Africa Rm	South America Rm	Total Rm
AIRB approach	466	76 689	10 401	7 347	2 178	876 558	-	973 639
Standardised approach	-	-	-	133 931	-	23 389	-	157 320
	466	76 689	10 401	141 278	2 178	899 947	-	1 130 959

	30 June 2013							
	Asia	Europe[1]	North America	Other African Countries	Other	South Africa	South America	Total
AIRB approach	1 366	60 913	5 673	7 326	2 097	878 335	-	955 710
Standardised approach	-	-	-	133 931	-	23 201	-	157 132
	1 366	60 913	5 673	141 257	2 097	901 536	-	1 112 842

	31 December 2013							
	Asia	Europe[1]	North America	Other African Countries	Other	South Africa	South America	Total
AIRB approach	1 368	57 785	10 209	7 697	2 297	871 459	-	950 815
Standardised approach	-	-	-	150 758	-	24 657	-	175 415
	1 368	57 785	10 209	158 455	2 297	896 116	-	1 126 230

Notes

[1] The majority of the exposures under Europe relate to exposures to Barclays Bank Plc.

Analysis of risk exposures

Securitisation

The Group's securitisation activities

Securitisation transactions have been used as a means of raising long-term funding. The IRB approach is applied in the assessment of the Group's securitisation exposures for RC purposes and use Fitch, Moody's and Standard and Poor's as external credit assessment institutions (ECAIs).

Apart from originating and sponsoring securitisation transactions, the Group also acts as an investor, a service provider, a liquidity provider and credit enhancer to a number of securitisation transactions. The Group invests directly in the securitisation schemes.

The following table provides a breakdown of the Group's role in each transaction during the current reporting period:

Roles played by the Group in securitisation schemes

	Originator	Sponsor	Investor (Absa)	Liquidity provider	Services provider	Credit enhancement /subordinated loan
Blue Granite 1 Proprietary Limited			√			
Home Obligors Mortgage Enhanced Securities Proprietary Limited	√	√	√		√	√
Nitro 4				√		
Nqaba Finance Proprietary Limited				√		
Mmela			√			

The Grayston Conduit Liquidity facility was cancelled in January 2014.

Portfolio securitised

The following table provides a breakdown of the total funding raised through securitisation at the reporting date as well as the ECAIs used in the various asset classes.

		30 June		31 December
		2014	2013	2013
	ECAI	**Amount securitised Rm**	Amount securitised Rm	Amount securitised Rm
Mortgage advances	**Moody's, Fitch and Standard and Poor's**	**4 235**	4 172	4 518

Investment Grades Notes Issued reduced due to notes that were repurchased.

No securitised assets existed at the reporting date which related to instalment finance.

The Group originated securitisation transactions performed according to expectations and no triggers were breached.

Analysis of risk exposures

Outstanding securitisation balances

IRB exposure	30 June 2014 Rm	30 June 2013 Rm	31 December 2013 Rm
On-statement of financial position			
Retail - mortgages	**3 818**	4 387	4 104
Total IRB exposures	**3 818**	4 387	4 104
Of which notes issued			
Investment grade	**2 896**	3 134	3 182
Sub-investment grade[1]	**922**	1 038	922

Originator	30 June 2014 Amount securitised originator Rm	30 June 2014 Past due originator Rm	30 June 2013 Amount securitised originator Rm	30 June 2013 Past due originator Rm	31 December 2013 Amount securitised originator Rm	31 December 2013 Past due originator Rm
Mortgage advances[2]	**3 808**	**2**	**4 172**	**1**	**4 076**	**1**

Retained or purchased securitisation exposures per asset class

Exposure type - Retail	30 June 2014 Retained Rm	30 June 2014 Purchased Rm	30 June 2014 Total Rm	30 June 2013 Retained Rm	30 June 2013 Purchased Rm	30 June 2013 Total Rm	31 December 2013 Retained Rm	31 December 2013 Purchased Rm	31 December 2013 Total Rm
Mortgages	**922**	**-**	**-**	923	19	942	-	-	-
Other	**-**	**-**	**-**	-	-	-	-	450	450
	922	**-**	**-**	923	19	942	-	450	450

Retained or purchased securitisation exposure by risk weight band (%)

Risk-weighted band (%)	30 June 2014 Retained Rm	30 June 2014 Purchased Rm	30 June 2013 Retained Rm	30 June 2013 Purchased Rm	31 December 2013 Retained Rm	31 December 2013 Purchased Rm
11 – 19						
20 – 49					-	450
50 – 75				19		
250						
1 250 or deducted	**922**		923		922	-
	922		923	19	922	450

Notes

[1] BBB and below.

[2] No recognised losses were recorded in the current or previous reporting period.

Analysis of risk exposures

Rated securitised exposures

(Excluding deductions and investors interest in respect of schemes with early amortisation features)

IRB exposures	30 June 2014 Total senior exposure rated BBB or better Rm	30 June 2014 Total base risk weight exposure rated BBB or better Rm	30 June 2014 Total exposure rated BBB or below Rm	30 June 2013 Total senior exposure rated BBB or better Rm	30 June 2013 Total base risk weight exposure rated BBB or better Rm	30 June 2013 Total exposure rated BBB or below Rm	31 December 2013 Total senior exposure rated BBB or better Rm	31 December 2013 Total base risk weight exposure rated BBB or better Rm	31 December 2013 Total exposure rated BBB or below Rm
Instalments sales and leasing	-	3	-	1	-	1	1	-	-
Mortgages	91	-	11	39	36	75	32	34	92
Other	-	-	-	9	-	9	7	16	-
	91	3	11	49	36	85	40	50	92

Retail risk-weighted assets and capital deductions (IRB)

IRB exposures - Retail	30 June 2014 RWAs Rm	30 June 2014 Required capital Rm	30 June 2013 RWAs Rm	30 June 2013 Required capital Rm	31 December 2013 RWAs Rm	31 December 2013 Required capital Rm
Instalment sales and leasing	237	24	8	1	4	0
Mortgages	629	62	751	71	695	68
Other	-	-	86	8	238	23
	866	86	845	80	937	91

Equity investment risk

To address the specific Pillar 3 disclosure requirements of the SARB relating to unrealised gains or losses for equity risk in the banking book, it should be noted that:

- The Group does not have any latent revaluation gains or losses, i.e. unrealised gains or losses which are not recognised in the statement of comprehensive income; and
- The Group does not have unrealised gains or losses that are recognised in primary or secondary capital and reserve funds without being recognised in the statement of comprehensive income. This is due to an IFRS principle that the Group has adopted, i.e. all unrealised gains or losses that are not recognised in the statement of comprehensive income cannot be recognised in primary or secondary capital and reserve funds.

Realised and unrealised gains for equity investments in the banking book as per the specific pillar 3 disclosure requirements of the SARB are reflected in the following table:

Analysis of equity investment risk in the banking book (regulatory definition)

The equity portfolio falling within the ambit of Regulation 31 of the Regulations to the Banks, excludes third-party equity investments under management for which the Group does not bear the risk, selected associates treated under the pro rata consolidation methodology, and equity investments held by insurance entities (as these entities are regulated separately, and addressed in the insurance risk management section of this report).

The size, composition, RWA component and EC requirement of the Group's equity investments in the banking book are reflected in the following table after recognition of guarantees. As at the reporting date, the statement of financial position value of such investments amounted to R4 030 million (June 2013: R 5 697million; December 2013: R3 966 million). Of the R4 030 million investment exposure at the reporting date, R3 529 million is held for capital gains purposes and the remainder for strategic and other purposes.

Analysis of risk exposures

The increase in the equity exposure from the prior year is mainly due to positive revaluations and draw-downs on current investments.

Equity investments in the banking book	30 June 2014 Rm	30 June 2013 Rm	31 December 2013 Rm
Statement of financial position	**4 030**	5 697	3 966
Exchange traded investments, associates and joint ventures	**592**	447	525
Privately held traded investments, associates and joint ventures	**3 438**	5 250	3 441
Fair value of exchange traded investments, associates and joint ventures	**592**	447	525
Risk-weighted assets	**14 871**	22 081	14 624
Exchange traded investments, associates and joint ventures	**350**	349	213
Privately held traded investments, associates and joint ventures	**14 521**	21 732	14 411
Economic capital	**2 251**	2 942	2 188
Exchange traded investments, associates and joint ventures	**117**	142	114
Privately held traded investments, associates and joint ventures	**2 134**	2 800	2 074

Realised and unrealised gains for equity investments in the banking book as per specific SARB Pillar 3 disclosure requirements are reflected in the following table:

Realised and unrealised gains on equity investments	30 June 2014 Rm	30 June 2013 Rm	31 December 2013 Rm
Cumulative realised gains/(losses) arising from sales and liquidations	**47**	11	22
Total unrealised gains/(losses) recognised directly in the statement of financial position	**1**	(6)	17

Analysis of risk exposures

Market risk

In line with regulatory requirements for public disclosures on the internal models approach, the sections below specifically relate to the trading books for which internal models approval has been obtained for the previous and current reporting period. Disclosures relate to the standardised approach, which include the Group's issuer-specific risk exposures, any instruments traded by South Africa for which internal model approach approval has not yet been obtained, as well as general market risk for all the regions, are provided under the Basis of Preparation and Capital Management sections.

Analysis of market risk exposure

The following table reflects the DVaR and expected shortfall statistics for the trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, changed to R18,86 million for the reporting period, which is up 7% compared to the previous reporting period (R17,67 million) and down 9% compared to the full 2013 financial year (R20,73 million). This was principally due to a reduction in interest rate risk during the period. The business model of the Corporate and Investment Bank is focused on client flow and the risk profile is maintained so that it is aligned with the near-term demands of the Group's clients. Trading revenues increased compared to the previous reporting period and a favourable risk-adjusted return was sustained.

Trading book DVaR summary

	30 June								31 December			
	2014				2013				2013			
	Average Rm	High[1] Rm	Low[1] Rm	At the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	At the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	At the reporting date Rm
Interest rate risk	**13.87**	**27.12**	**9.18**	**18.47**	15.75	37.04	7.06	11.49	16.36	37.04	7.06	11.28
Foreign exchange risk	**7.73**	**22.68**	**1.68**	**4.34**	7.34	23.59	2.33	9.26	6.96	23.59	1.20	2.93
Equity risk	**3.56**	**7.50**	**1.37**	**1.83**	3.61	11.89	1.38	3.92	4.45	15.95	1.38	4.32
Commodity risk	**0.33**	**3.23**	**0.13**	**0.25**	1.99	4.16	0.63	3.51	1.52	4.16	0.32	0.34
Inflation risk	**9.69**	**19.33**	**4.34**	**8.93**	10.03	17.37	4.87	8.75	8.29	17.37	4.36	4.46
Credit spread risk	**5.01**	**5.80**	**4.04**	**5.64**	5.12	8.96	2.18	5.11	4.52	8.98	1.96	4.35
Diversification effect	**(21.33)**	**n/a**	**n/a**	**(17.37)**	(26.17)	n/a	n/a	(20.39)	(21.37)	n/a	n/a	(14.28)
Total DVaR[2]	**18.86**	**33.01**	**12.50**	**22.09**	17.67	31.61	10.34	21.65	20.73	37.14	10.34	13.40
Expected shortfall	**27.82**	**42.77**	**17.75**	**29.88**	25.16	14.48	45.61	32.29	30.53	53.81	14.48	21.66
Regulatory VaR[3]	**32.32**	**60.04**	**19.45**	**32.07**	29.76	64.29	17.35	38.51	35.94	76.09	17.35	29.65
Regulatory sVaR[3]	**42.28**	**81.24**	**22.95**	**63.61**	48.99	67.35	33.40	38.31	51.15	91.19	23.81	29.16

The following graph indicates the daily history of the trading book DVaR, along with the period averages, highs and lows. In comparison with the previous period and continuing the trend, it demonstrates much lower variability in DVaR with a lower maximum and higher minimum compared to the previous period, given that the change in the interest rate risk profile which was changed towards the end of 2013 and into 2014.

Notes

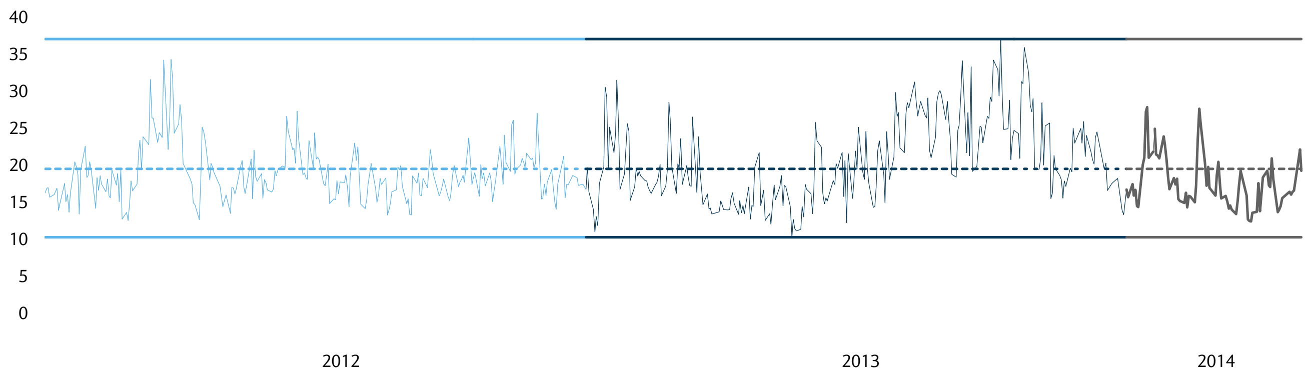
[1] The high and low DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] The analysis includes trading books for which internal models approval has been obtained.

[3] Regulatory VaR and sVaR are reported with a 1-day holding period at a 99% confidence level. Consequently, these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to on-going review for appropriateness.

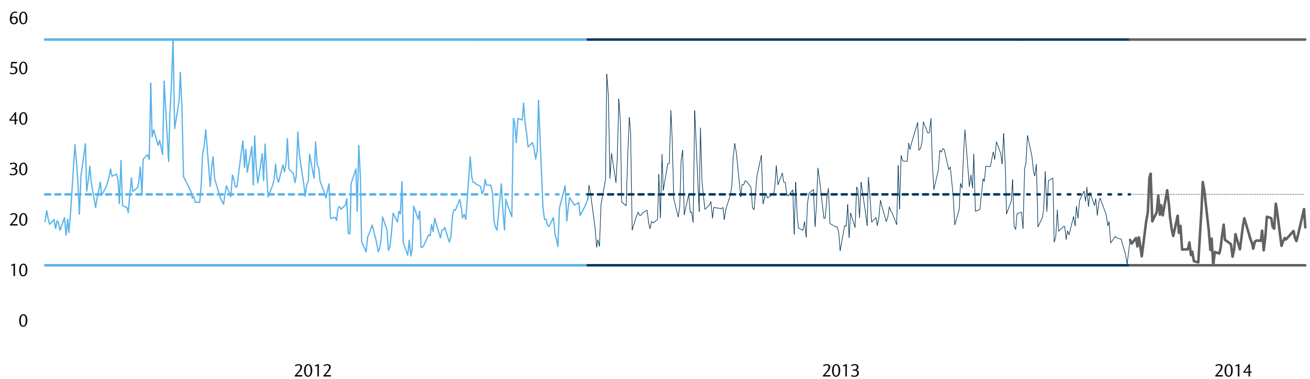
Analysis of risk exposures

Trading book management daily value at risk (daily values, period average, high and low) (Rm)



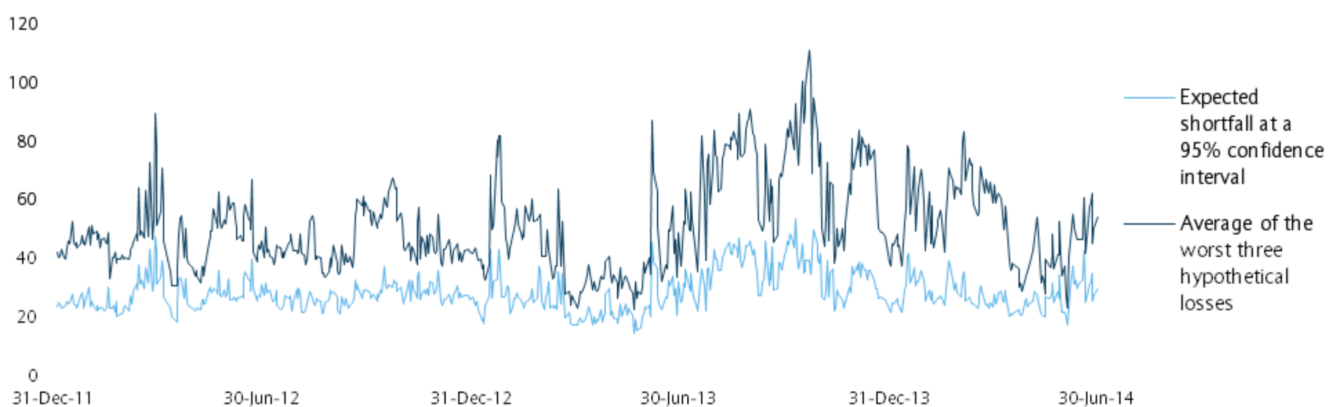
The following graph shows the daily history of the trading book sVaR. The reduction in the level and volatility seen in the DVaR is also evident in the sVaR.

Trading book management stressed value at risk (daily values, period average, high and low) (Rm)



The following graph shows the daily history of the trading book tail metrics. Similar to the VaR-metrics, the level and volatility of the tail metrics reduced notably towards the end of 2013 and during the reporting period.

Trading book tail metrics (daily values) (Rm)



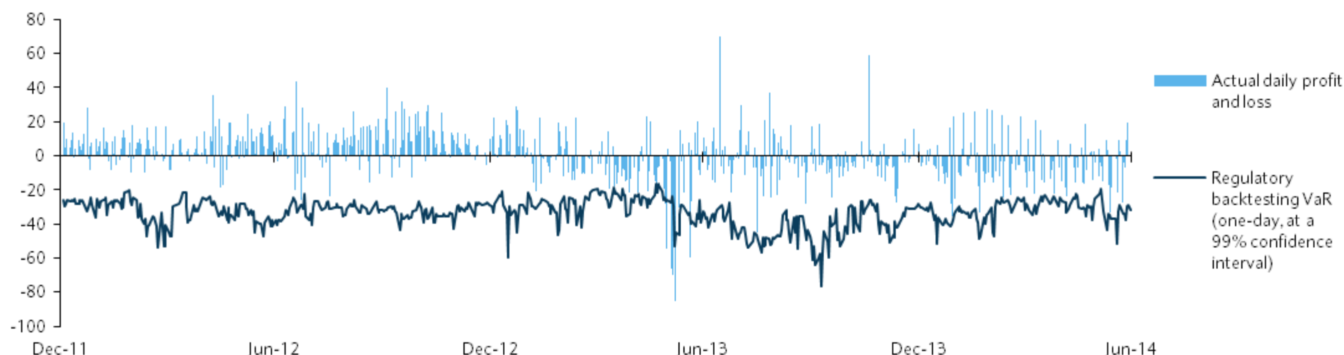
Analysis of risk exposures

Comparison of value at risk estimates with trading revenues

The following graph compares the total VaR estimates over a one-day holding period at a 99% confidence level with the daily revenues generated by the trading units for the previous period and the reporting period. Revenue as reported here, relates to actual trading book revenue only, excluding fees, commissions, bid-ask spreads and net interest income, as required for regulatory backtesting purposes.

During the previous reporting period, there were seven instances in which an actual daily trading loss exceeded the corresponding VaR estimate. There were no actual or theoretical losses that exceeded the VaR estimate during the reporting period.

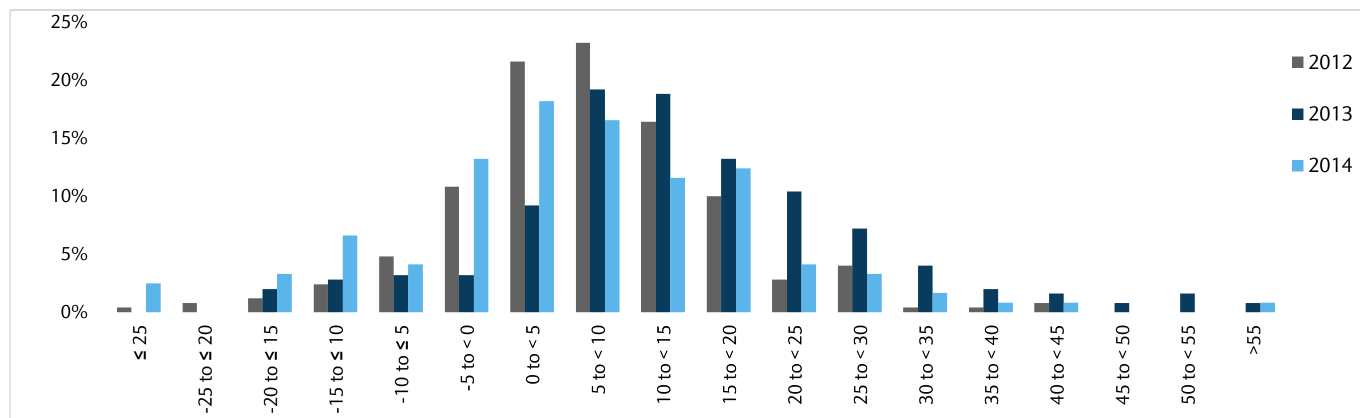
The Group's trading book revenue backtested against regulatory value at risk (Rm)



Analysis of trading revenue

The following histogram depicts the distribution of daily trading revenue of the trading book for the previous period and the reporting period. Revenue includes net trading book income, excluding net fees and commissions. The distributions are skewed to the profit side. The average daily trading revenue for the reporting period decreased compared to that of the previous two reporting periods. The percentage of positive revenue days decreased to 70% in the current period compared to 89% during the previous period. This was largely driven by an increase in risk holding periods at the start of the year.

Daily trading book revenue (Rm) achieved per percentage of business days (%)



Interest rate risk in the banking book

Impact on earnings

The following table shows the AEaR from impacts to net interest income for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of R1,50 billion (30 June 2013: R1,77 billion; 31 December 2013: R2,04 billion). A similar increase would result in an increase in projected 12-month net interest income of R1,37 billion (30 June 2013: R1,60 billion; 31 December 2013: R1,85 billion). AEaR decreased by 1,6% to 4,4% of the net interest income. A sensitivity analysis by major currency market interest rates indicates that earnings sensitivity to South African rand (ZAR) market interest rates constitutes 84% of the total earnings at risk at the reporting date (30 June 2013: 84%; 31 December 2013: 86%), therefore indicating that the Group remains primarily exposed to South African market interest rates.

Analysis of risk exposures

Group's change in market interest rates

	30 June 2014			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	(1 261)	(577)	554	1 134
Foreign subsidiaries[1] banks books[2](Rm)	(236)	(118)	118	236
Total (Rm)	(1 497)	(695)	672	1 370
Percentage of the Group's net interest income (%)	(4,4)	(2,1)	2,0	4,0
Percentage of the Group's equity (%)	(1,7)	(0,8)	0,8	1,6

	30 June 2013			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	(1 493)	(729)	644	1 323
Foreign subsidiaries[1] banks books[2] (Rm)	(277)	(139)	139	277
Total (Rm)	(1 770)	(868)	783	1 600
Percentage of the Group's net interest income (%)	(5,8)	(2,9)	2,6	5,3
Percentage of the Group's equity (%)	(2,0)	(1,0)	0,9	1,8

	30 December2013			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	(1 753)	(866)	758	1 562
Foreign subsidiaries[1] banks books[2](Rm)	(283)	(142)	128	283
Total (Rm)	(2 036)	(1 008)	886	1 845
Percentage of the Group's net interest income (%)	(6,3)	(3,1)	2,7	5,7
Percentage of the Group's equity (%)	(2,4)	(1,2)	1,0	2,2

Notes

[1] Includes exposures held in the CIB banking book.

[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

Analysis of risk exposures

Interest return on average balances

Average balances and weighted average effective interest rates were as follows:

Group average statement of financial position

	30 June						30 December		
	2014			2013			2013		
Group average statement of financial position	**Average balance[1] Rm**	**Average rate[2] %**	**Interest income/ (expense) Rm**	Average Balance[1] Rm	Average Rate[2] %	Interest income/ (expense) Rm	Average Balance[1] Rm	Average Rate[2] %	Interest income/ (expense)[5] Rm
Assets									
Cash, cash balances and balances with central banks	**14 073**	**2,25**	**157**	14 178	1,42	100	14 110	1,74	245
Statutory liquid asset portfolio	**60 533**	**7,61**	**2 284**	60 758	7,30	2 199	62 083	7,01	4 352
Loans and advances to banks and customers	**674 086**	**8,30**	**27 737**	626 874	8,11	25 213	638 504	8,12	51 825
Investment securities	**11 622**	**16,73**	**964**	9 546	21,40	1 013	8 125	25,50	2 072
Other interest[3]	**-**	**-**	**708**		-	826	-	-	1 738
Interest-bearing assets	**760 314**	**8,45**	**31 850**	711 356	8,32	29 351	722 822	8,33	60 232
Non-interest-bearing assets	**210 895**	**-**	**-**	206 037	-	-	195 180	-	-
Total assets	**971 209**	**6,61**	**31 850**	917 393	6,45	29 351	918 002	6,56	60 232
Liabilities									
Deposits from banks and due to customers	**600 748**	**(3,77)**	**(11 234)**	553 270	(3,65)	(10 026)	566 017	(3,91)	(22 158)
Debt securities in issue	**106 055**	**(6,33)**	**(3 329)**	110 585	(6,45)	(3 537)	107 503	(6,09)	(6 545)
Borrowed funds	**13 489**	**(10,93)**	**(731)**	15 847	(10,15)	(798)	15 528	(9,56)	(1 485)
Other interest[3]	**-**		**641**	-	-	705	-	-	2 307
Interest-bearing liabilities	**720 292**	**(4,10)**	**(14 653)**	679 702	(4,05)	(13 656)	689 048	(4,05)	(27 881)
Non-interest-bearing liabilities	**165 324**	**-**	**-**	151 474	-	-	145 483	-	-
Total liabilities	**885 616**	**(3,34)**	**(14 653)**	831 176	(3,31)	(13 656)	834 531	(3,34)	(27 881)
Total equity	**85 593**			86 217			83 471	-	-
Total liabilities and equity	**971 209**	**(3,04)**	**(14 653)**	917 393	(3,00)	(13 656)	918 002	(3,04)	(27 881)
Net interest margin on average interest-bearing assets	**-**	**4,56**	**-**	-	4,56	-	-	4,48	-

Notes
1 Calculated based on daily and monthly weighted average balances
2 The average rate has been annualised
3 The interest income and expense include fair value adjustments on hedging instruments and hedged items.

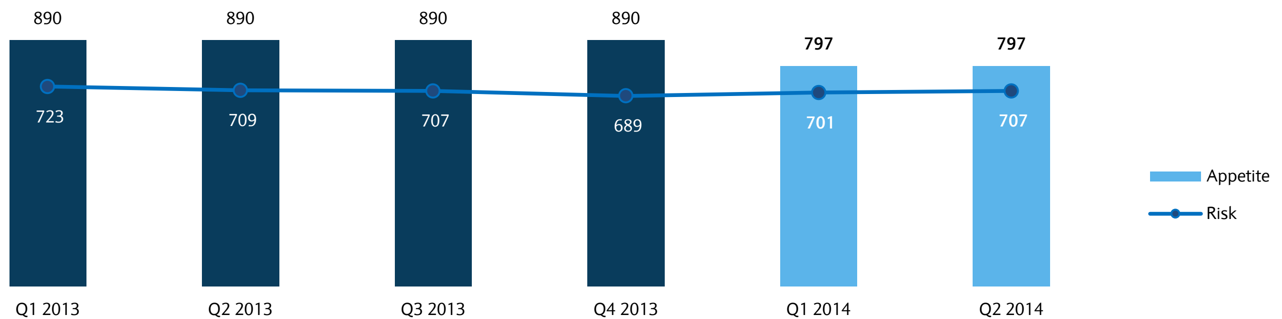
Analysis of risk exposures

Insurance risk

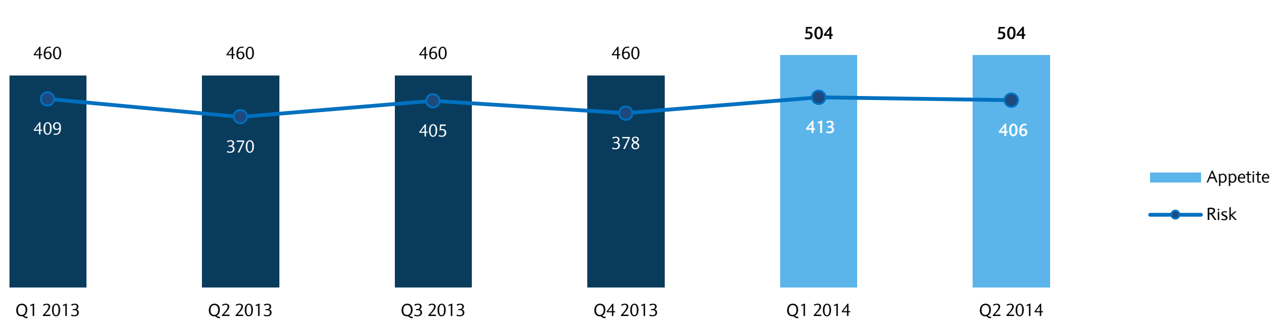
The underwriting risk figures were approved by the entity Actuarial Review Committees in November 2013. The figures are based on economic capital principles and refer to 1 in 250 event levels. Absa Life extrapolates the underwriting Capital Adequacy Requirement (CAR) by assuming that life underwriting risk follows Student's t-distribution with four degrees of freedom. The underwriting risk appetite for Short Term insurance is calculated based on the projected Net Written Premium for 2014.

The following graphs show detailed matrices in the Group's insurance business:

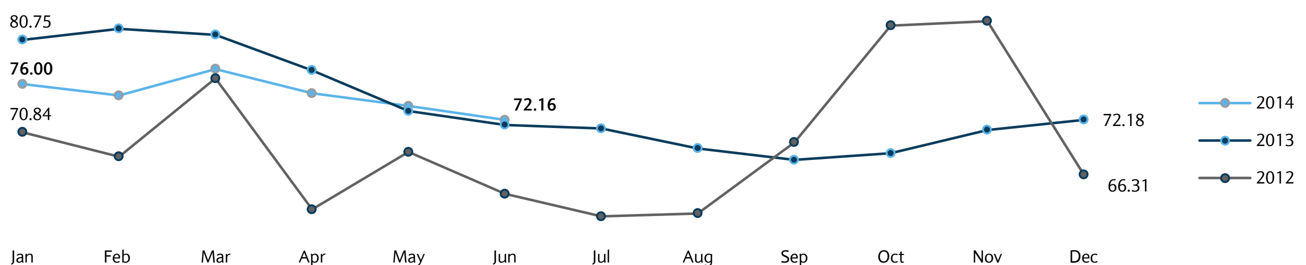
Short term insurance underwriting risk (Rm)



Life insurance underwriting risk (Rm)



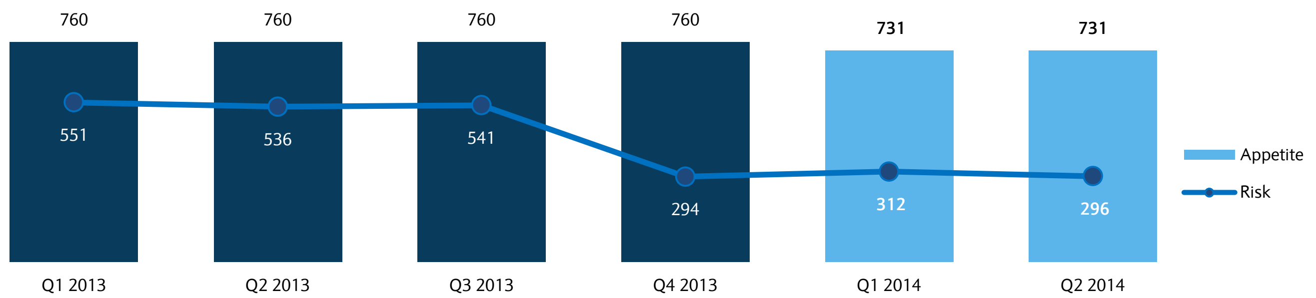
Short term loss ratio (%)



Short-term insurance loss ratios were flat over the reporting period despite drought-related claims in the agricultural crop insurance.

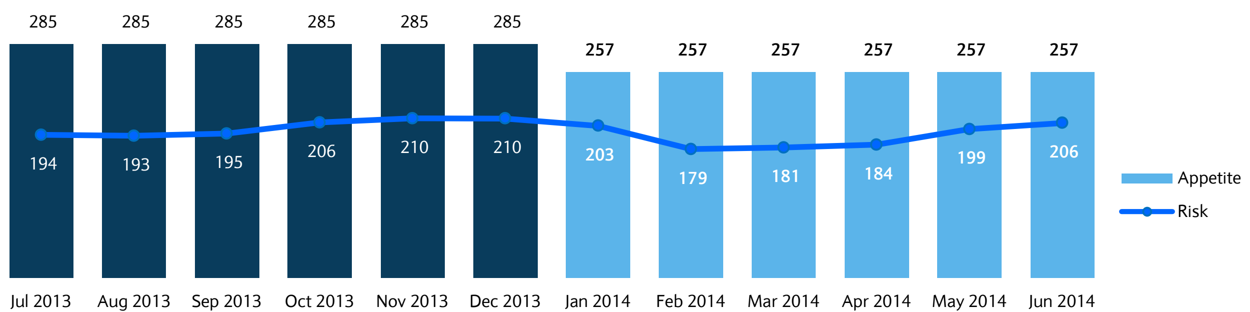
Analysis of risk exposures

Life insurance mismatch risk (Rm)



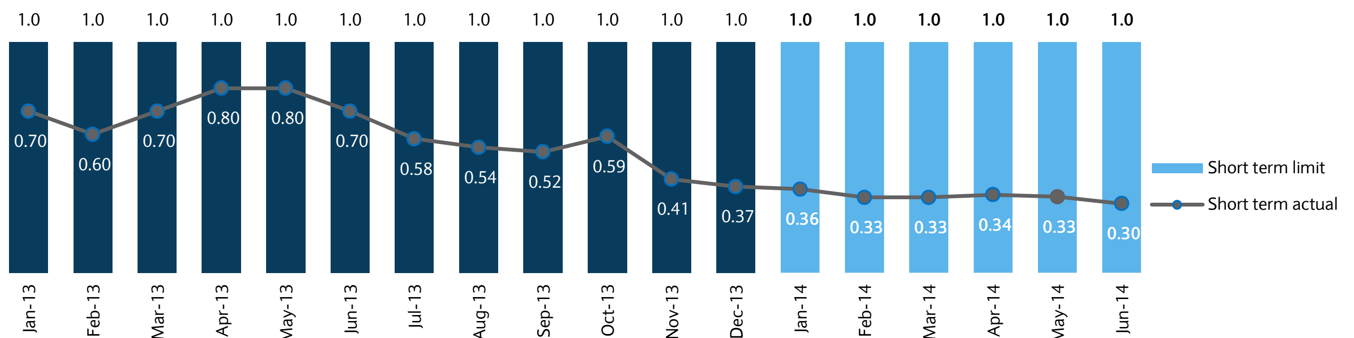
Life insurance mismatch risk remained well within appetite over the reporting period.

Life and short term investment risk - position vs. appetite (Rm)



The duration of the interest-bearing investments backing short-term insurance policy liabilities remained within the limit set.

Short term insurance duration matching (years)



The effective duration of the assets decreased in 2014 compared to 2013 as the fund manager increased relative holdings in shorter dated financial instruments. Assets backing for the short-term insurance liabilities remained within the mandated one year maximum.

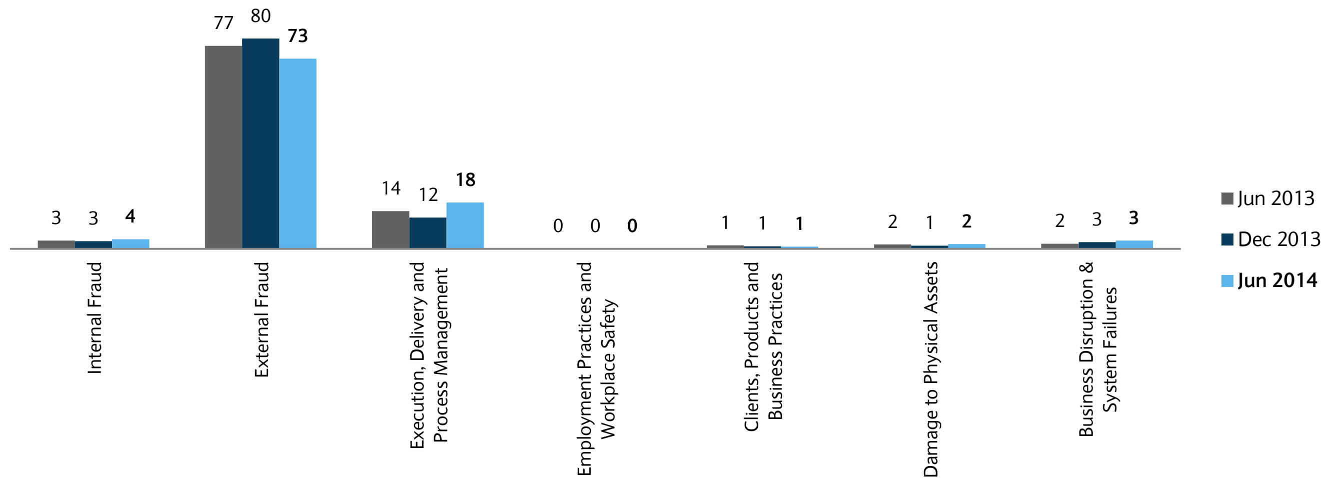
Analysis of risk exposures

Operational risk

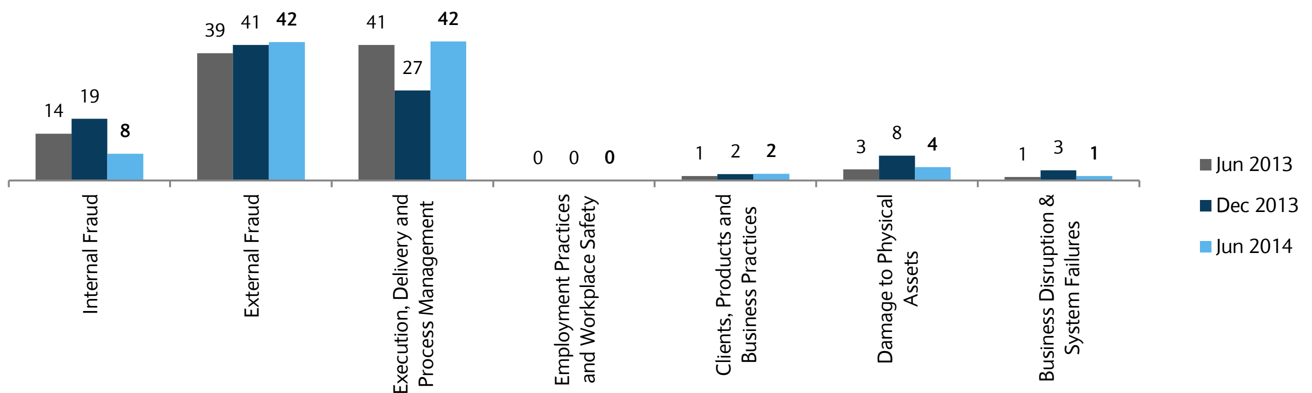
The Group monitors trends in operational risk events by size (count and value), product line and internal risk categories (including Key Risk). For comparative purposes, the analysis below presents the operational risk events by Basel II category. The highest frequency of events for the period occurred in external fraud (73%). This pattern is in line with the nature of operational risk and the environment in which the Group operates.

The highest portion of losses by value during H1 2014 occurred in External fraud (42%) and Execution, Delivery and Process Management (42%). Significant improvement is noted for the reduction in internal staff fraud compared to the previous periods. Plastic fraud losses remains the key driver behind the overall fraud losses, but has improved and stabilised across all portfolios in Card.

Total risk events by count (%)



Total risk events by value (%)



Analysis of risk exposures

Liquidity Risk

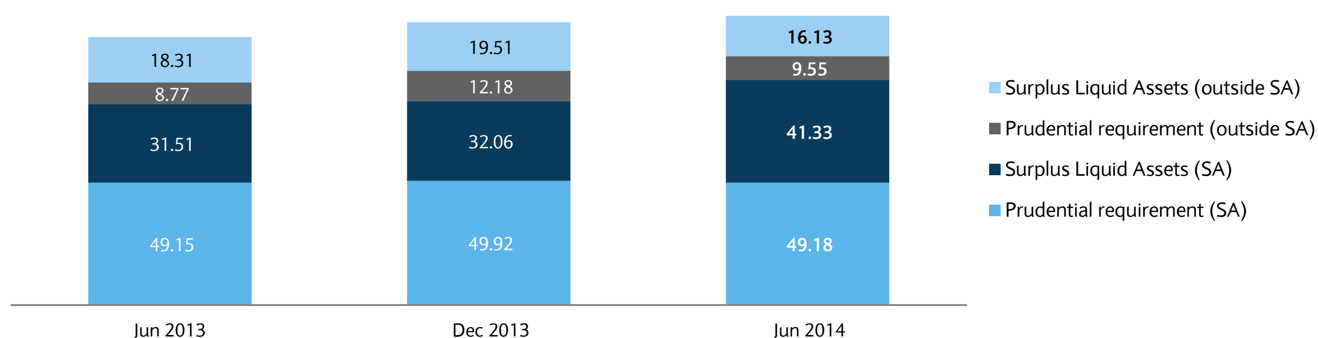
The Group sources of liquidity (Rm)

	30 June 2014	30 June 2013	31 December 2013
The Group sources of liquidity (Rm)	**180 700**	159 212	153 871
High quality liquid assets	**90 514**	80 666	81 974
Statutory liquid assets (South Africa)	**49 183**	49 152	49 915
Surplus liquid assets (South Africa)	**41 331**	31 514	32 059
Other liquid assets (outside South Africa)	**25 672**	27 080	31 697
Other sources of liquidity	**64 514**	51 466	40 200

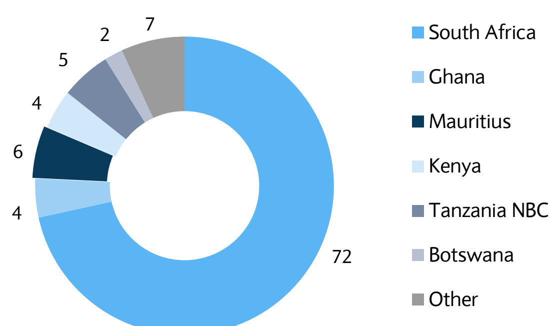
Surplus liquid assets and reserves held

The level of surplus liquid assets and reserves held by the Group (defined as unencumbered liquid assets and reserves held in excess of the amount required to be held in accordance with the regulations) was maintained, ending the current reporting period with a surplus of R57bn for the Group.

Summary liquid assets and reserves position (Rbn)



Composition of surplus liquid assets and reserves (%)

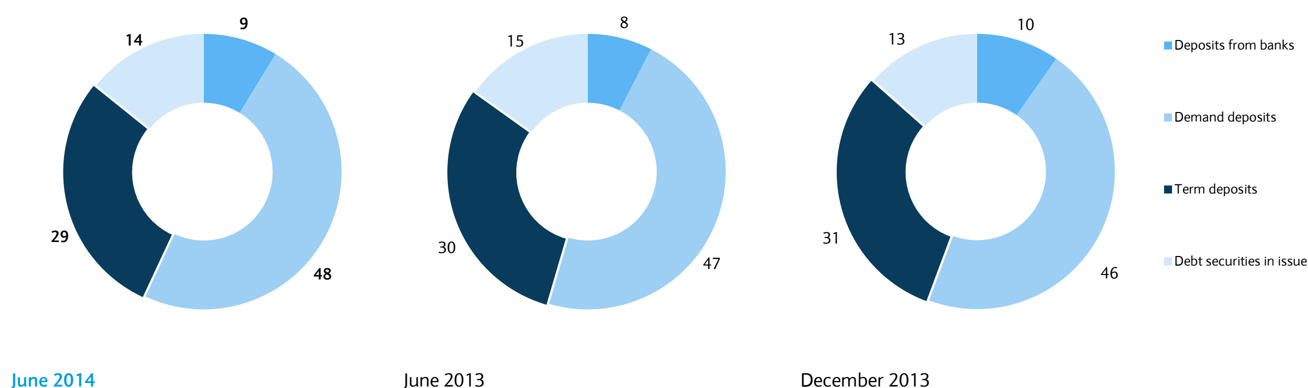


Funding Structure

Funding is sourced from a variety of depositors representing a diversity of South African economic sectors, with a wide range of maturities. The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of liquidity are regularly reviewed to maintain a wide diversity of provider, product and term.

Analysis of risk exposures

Summary funding composition (%)

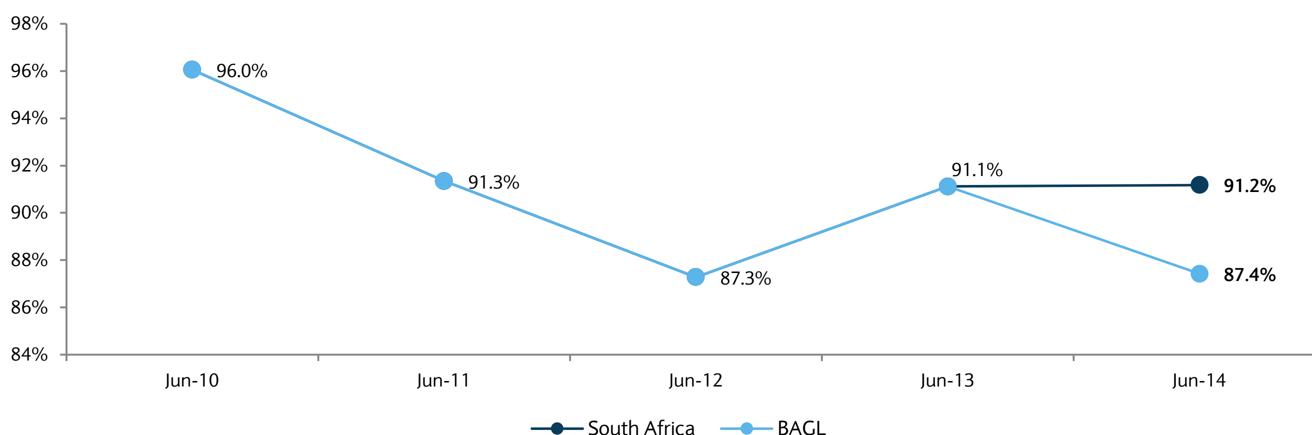


June 2014 June 2013 December 2013

Loan–to-deposits ratio

	30 June		31 December
	2014	2013	2013
Advances			
Loans and advances to customers	**614 642**	583 632	605 337
Deposits	**703 064**	676 961	685 840
Deposits due to customers	**597 555**	570 692	588 011
Debt securities in issue	**105 509**	106 269	97 829
Loan-to-deposit ratio (%)	**87,4**	86,2	88,3

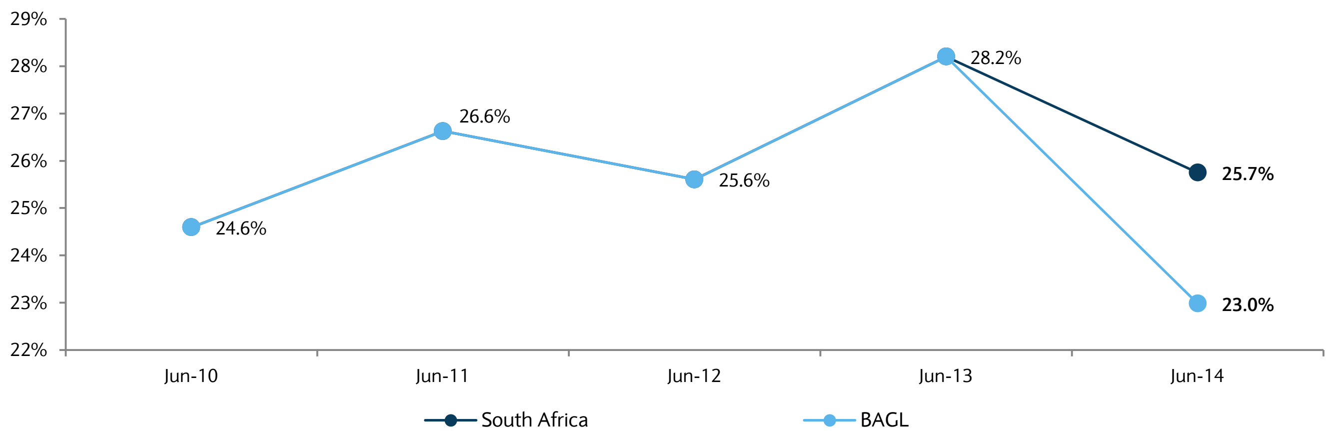
The progression of the loan-to-deposit ratio is summarised in the graph below. From June 2013 to June 2014 the South African loan-to-deposit ratio was maintained at 91%. The acquisition of the Barclays Africa entities had a positive impact on the ratio, reducing it by 3,8% to 87,4%, because the majority of these banks are deposit led.



Analysis of risk exposures

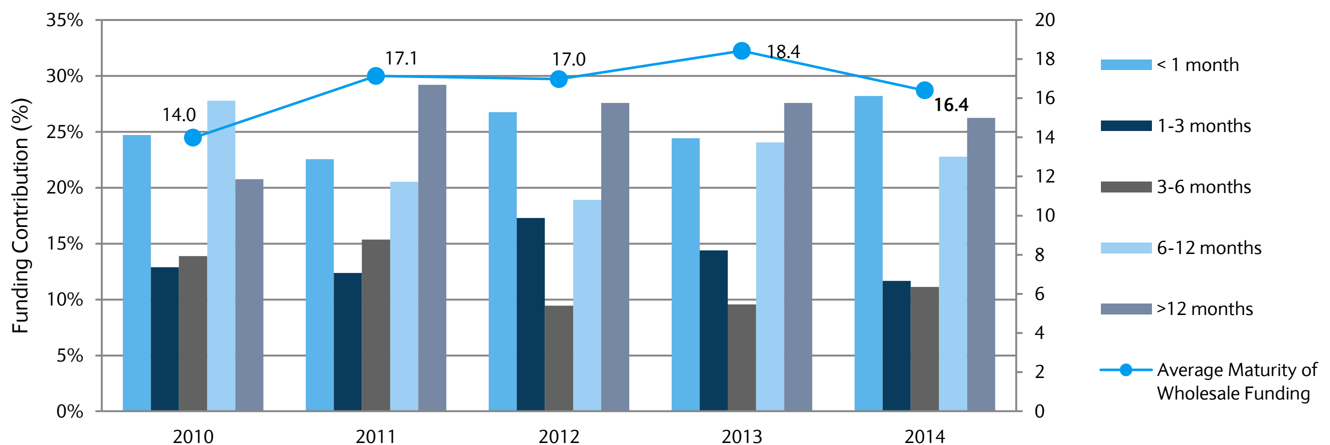
Long-term funding ratio

A key metric used to track the funding structure is the average long-term funding ratio. This ratio reflects the proportion of total funding with an outstanding term in excess of six months. The progression in the South African average long-term funding ratio is shown below. Between June 2013 and June 2014 the South African average long-term funding ratio decreased to 25,7%. The acquisition of the Barclays Africa entities reduced the Group ratio by 2,7% to 23,0%. The African entities are predominantly deposit-led banks funded through retail and corporate deposits. Whilst these deposits are very stable they are generally short term.



Weighted average maturity of South African wholesale funding

The graph below summarises the extent to which the Group has been able to extend the South African wholesale funding profile. The weighted average remaining term of wholesale funding has decreased marginally since 30 June 2013 to 16.4 months at 30 June 2014.



Conduct Risk

The Group will monitor trends in conduct risk events by number of customers impacted, customer loss, product line and internal risk categories (including Key Risk). Conduct risk is currently being transitioned into business and reporting and analysis of risk exposures will commence in H2 2014.

Reputation risk

Business units and functions regularly analyse reputation risk and react to changes in the internal and external environment. They monitor and report on KRIs through the preparation of quarterly reports for Group. Once embedded, horizon scanning will complement existing procedures and ensure timeous responses to potential reputation risks. This new function is expected to be implemented towards the end of H2 2014. The revised Reputation Risk Framework and Toolkit will form the basis of further training and information-sharing discussions and guide future internal report submissions.

Annexures

Annexure A

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements

AIRB approach

Retail portfolio[1]

	June 2013	June 2014																				
			Mortgages *(including home equity line of credit)*				SME: Secured lending				SME: Unsecured lending				Revolving: Credit cards				Revolving: Non-credit cards			
Risk Grade	Average PD	Average PD	LGD	Exposure Weighted average Risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD
	%	%	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm
Non-default	3.37	3.40	13.2	23.1	1 019	238 855	50.0	108.2	166	2 036	75.3	103.5	159	3 502	77.7	105.8	524	12 757	38.2	51.8	699	53 368
4	0.03	0.03	15.5	1.6	-	31	-	-	-	-	-	-	-	-	83.1	9.1	-	27	-	-	-	-
5	0.04	0.04	10.8	1.2	1	16 529	50.0	5.8	-	-	72.2	8.4	-	175	75.8	8.8	-	239	40.4	4.7	-	247
6	0.05	0.05	11.0	1.7	-	2 587	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	0.09	0.09	10.4	2.4	1	8 174	-	-	-	-	-	-	-	-	82.0	16.7	-	3	37.7	9.2	-	480
8	0.11	0.11	10.6	2.8	2	18 966	-	-	-	-	73.7	23.4	-	89	77.2	24.5	-	355	38.5	10.2	-	1 109
9	0.16	0.16	13.5	4.9	2	9 268	-	-	-	-	71.2	27.5	-	30	73.0	28.2	-	77	-	-	-	-
10	0.23	0.22	14.1	6.5	2	5 615	-	-	-	-	-	-	-	-	83.1	35.8	-	27	40.1	20.4	-	-
11	0.30	0.30	17.9	10.0	8	15 495	50.0	26.8	-	-	73.2	41.1	-	191	77.2	44.2	2	716	37.9	22.0	-	253
12	0.46	0.46	12.3	9.5	6	11 424	-	-	-	-	71.8	49.3	-	36	73.8	51.0	-	98	38.3	28.4	7	4 011
13	0.65	0.65	13.2	13.2	24	28 207	50.0	44.9	-	-	73.4	62.5	1	215	77.2	64.4	4	867	38.2	32.9	1	559
14	0.89	0.88	12.5	15.1	14	12 448	50.0	48.3	-	-	75.0	75.7	1	138	78.1	78.1	4	660	38.1	39.8	10	2 947
15	1.23	1.24	13.8	21.3	25	15 006	50.0	57.7	-	-	78.6	91.7	7	685	79.7	93.0	26	2 680	37.0	51.7	22	4 707
16	1.83	1.84	12.8	25.2	52	22 097	50.0	65.8	-	-	74.1	98.4	2	181	77.6	102.6	11	802	38.6	51.7	54	7 566
17	2.59	2.57	13.9	33.7	76	20 959	50.0	72.1	-	11	74.8	106.6	5	248	77.9	111.1	22	1 152	37.9	54.3	154	16 141
18	3.58	3.64	13.1	38.3	57	12 000	50.0	75.2	-	-	75.3	113.5	8	305	75.4	117.5	34	1 242	38.9	55.7	76	5 344
19	4.90	4.82	14.6	51.4	111	14 879	50.0	78.3	-	-	74.1	115.7	7	203	77.0	120.1	24	643	38.4	60.3	50	2 538
20	7.26	7.42	14.5	59.8	121	11 800	50.0	82.2	-	-	76.2	128.4	12	219	77.3	126.4	42	766	38.1	63.8	136	4 458
21	9.94	9.95	14.2	68.7	30	2 055	50.0	87.4	-	-	73.8	129.8	8	115	76.1	133.4	23	311	38.0	66.8	37	1 005
22	15.49	15.49	13.9	78.2	44	2 015	50.0	108.4	166	2 023	76.8	161.4	50	426	79.0	166.7	175	1 435	38.7	80.1	67	1 186
23	20.88	20.84	13.4	80.4	63	2 258	50.0	117.8	-	-	72.1	173.2	7	45	75.8	182.2	24	153	39.5	94.1	37	453
24	29.37	29.92	13.6	83.7	124	3 020	50.0	138.5	-	1	74.2	198.8	30	139	76.8	207.3	83	358	39.3	105.0	27	239
25	47.63	48.84	13.0	68.5	256	4 021	50.0	140.5	-	-	72.2	193.2	21	62	75.0	200.9	50	146	40.3	112.9	18	127
Default	100.00	100.00	15.8	1.3	3 332	12 583	77.7	-	-	20	77.7	119.9	284	377	77.7	125.0	692	1 141	63.9	227.1	457	1 203
Total	9.02	7.66	13.3	22.0	4 351	251 438	50.3	107.1	166	2 056	75.5	105.0	443	3 879	77.7	107.4	1 215	13 897	38.8	55.6	1 156	54 571

Notes

[1] Amounts indicated as zero in the above table, reflect values smaller than R1 million.

Annexure A

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements

AIRB approach

Retail portfolio (continued)[1]

	June 2014																				June 2013
	Other: Vehicle and asset finance				Other Unsecured lending ≤30 000				Other: Unsecured lending >30 000				Other				Total				Total
Risk Grade	LGD	Exposure Weighted average Risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	EAD
	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	Rm
Non-default	74.4	69.4	1 160	38 285	81.8	23.4	51	7 118	23.3	36.4	66	8 220	64.4	59.3	278	14 229	29.3	37.5	4 123	378 370	367 300
4	-	-	-	-	82.3	2.0	-	135	15.1	1.6	-	4	33.1	3.5	-	91	58.7	3.1	-	288	458
5	71.4	1.8	-	4	82.0	2.1	1	2 894	35.1	4.5	-	6	81.5	2.3	-	1 143	25.9	1.6	2	21 236	19 414
6	-	-	-	-	82.9	3.7	-	25	16.4	3.0	-	52	48.0	7.6	-	4	11.9	1.7	-	2 668	2 889
7	75.6	4.3	-	2	82.0	3.9	-	156	33.8	7.6	-	3	82.0	3.9	-	0	13.2	2.8	1	8 818	8 169
8	70.9	4.9	4	4 820	78.4	5.8	-	3	36.5	9.8	-	3	71.8	8.6	-	42	24.6	3.9	7	25 387	23 800
9	69.7	6.4	3	2 836	78.2	7.1	-	14	41.7	14.9	-	2	81.4	7.3	-	5	27.1	5.4	5	12 232	10 509
10	75.0	8.5	-	3	82.2	9.2	1	522	20.8	9.8	-	20	33.0	14.2	-	89	20.4	7.0	3	6 275	7 105
11	77.0	13.2	-	152	82.0	15.0	2	603	33.3	19.4	-	27	77.8	17.2	1	509	25.5	12.3	14	17 947	17 105
12	74.9	17.0	-	21	80.9	17.1	-	49	14.1	9.7	-	568	77.8	19.0	2	521	21.4	14.7	16	16 727	16 518
13	74.3	20.3	-	1	81.5	22.7	2	392	26.7	22.5	-	8	71.9	29.8	3	643	17.9	15.8	36	30 892	34 837
14	74.9	27.3	22	3 314	81.6	30.8	3	440	13.8	14.1	-	349	75.8	37.8	2	312	31.1	23.7	57	20 609	20 744
15	75.1	36.1	9	934	81.8	40.6	9	875	15.1	17.3	2	996	68.3	48.0	13	1 577	33.2	37.8	113	27 459	26 270
16	75.9	45.2	16	1 287	81.3	53.9	4	223	25.9	34.9	2	474	64.8	54.3	18	1 603	25.8	35.7	160	34 233	34 314
17	76.5	58.9	40	2 228	81.7	67.0	5	234	28.3	41.5	16	2 109	57.6	63.3	53	3 316	31.3	47.0	370	46 397	42 397
18	75.0	74.4	88	3 203	81.6	88.0	10	314	21.7	42.7	21	2 660	56.5	73.1	39	1 870	33.8	54.0	332	26 938	27 080
19	74.7	88.8	502	15 183	81.6	105.4	4	93	34.1	53.3	6	363	57.1	84.5	32	1 104	45.6	71.1	737	35 008	33 761
20	77.2	125.4	93	1 672	81.4	133.4	4	75	31.2	51.9	7	286	60.2	103.0	33	696	30.2	71.1	448	19 972	16 851
21	77.9	154.9	67	849	78.2	157.6	5	62	37.4	66.5	7	200	66.5	122.7	19	290	40.4	93.1	195	4 886	4 522
22	78.3	186.8	95	846	81.6	194.9	-	4	22.5	45.7	2	69	72.0	167.6	25	227	49.3	119.0	625	8 232	8 453
23	78.6	219.3	77	483	81.8	228.8	1	5	41.0	97.3	1	15	76.9	208.6	13	82	31.0	110.3	223	3 495	3 258
24	79.2	244.7	50	225	82.0	251.9	-	1	41.3	109.9	-	1	77.0	225.6	17	79	27.6	111.5	330	4 062	4 263
25	78.3	235.2	93	222	100	-	-	0	41.6	116.6	1	6	79.4	250.8	8	25	20.1	84.7	447	4 609	4 585
Default	74.7	121.7	1 077	1 644	95.1	340.1	77	93	27.4	175.1	161	225	75.1	46.2	40	174	31.3	43.3	6 120	17 459	22 798
Total	74.4	71.6	2 237	39 929	82.0	27.5	129	7 210	23.4	40.1	227	8 445	64.5	59.1	318	14 402	29.4	37.7	10 242	395 829	390 098

Notes

[1] Amounts indicated as zero in the above table, reflect values smaller than R1 million.

Annexure B

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements

AIRB approach

Wholesale portfolio[1]

	June 2013	June 2014																				
			Corporate exposure																			
			Corporate				SME				Specialised lending – Income producing real estate				Specialised lending – Project finance				Public sector entities			
Risk Grade	Average PD	Average PD	LGD	Exposure Weighted average Risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD
	%	%	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm
Non-default	0.76	0.77	37.0	59.09	673	181 440	36.4	64.50	328	47 583	18.8	53.91	23	4 434	26.3	54.36	14	5 445	24.0	34.12	7	8 132
4	0.03	0.03	37.3	11.26	1	10 181	36.7	6.70	-	198	-	-	-	-	-	-	-	-	-	-	-	-
5	0.04	0.04	43.5	24.36	2	10 135	36.8	10.40	-	145	-	-	-	-	-	-	-	-	-	-	-	-
6	0.06	0.05	45.1	21.91	1	3 212	26.4	9.72	-	232	10.0	8.86	-	17	-	-	-	-	-	-	-	-
7	0.08	0.08	36.8	18.10	3	9 025	37.6	18.70	-	22	-	-	-	-	-	-	-	-	-	-	-	-
8	0.12	0.12	34.6	22.20	4	10 214	28.8	15.53	-	38	10.0	11.23	-	184	43.9	48.07	-	104	41.6	21.53	-	190
9	0.16	0.18	33.2	29.44	13	23 569	37.2	29.34	-	117	33.3	23.96	-	483	15.9	18.36	1	2 554	23.4	29.19	2	5 325
10	0.23	0.22	40.0	40.95	10	11 834	36.4	32.70	3	3 380	14.5	23.15	-	137	43.9	32.11	-	49	24.8	19.24	-	260
11	0.32	0.32	36.8	44.97	21	17 918	36.3	37.95	7	6 009	10.0	18.37	-	9	-	-	-	-	24.2	45.71	2	1 931
12	0.47	0.46	36.5	63.53	16	9 250	34.9	43.68	9	5 824	10.0	21.33	-	157	25.6	38.24	1	1 150	14.8	33.05	-	13
13	0.61	0.61	38.9	67.84	22	9 404	37.0	53.82	9	3 663	10.0	25.98	-	185	-	-	-	-	15.0	47.89	-	2
14	0.91	0.91	37.1	80.23	50	14 837	36.9	63.19	18	5 383	14.6	38.44	1	608	43.9	122.96	1	218	25.0	43.57	1	207
15	1.32	1.33	34.2	87.83	117	25 404	32.2	58.39	21	5 033	15.1	42.93	2	1 184	43.9	130.06	6	1 039	24.9	55.86	-	28
16	1.82	1.81	35.6	95.55	46	7 081	35.2	71.97	24	3 787	16.9	46.27	1	425	-	-	-	-	-	-	-	-
17	2.63	2.68	41.0	118.03	121	10 990	38.5	90.36	74	7 240	17.2	60.98	-	102	-	-	-	-	5.0	16.94	-	33
18	3.68	3.68	38.9	129.57	43	3 026	36.2	88.70	40	3 026	12.4	45.81	1	104	43.9	143.23	4	246	5.0	18.90	-	2
19	5.13	5.16	36.4	140.03	44	2 326	40.9	109.58	34	1 599	10.0	43.23	-	62	5.0	16.57	-	85	25.0	110.90	-	-
20	7.41	7.37	35.0	142.04	15	574	42.3	125.00	33	1 048	28.6	136.51	17	778	-	-	-	-	25.0	92.68	3	140
21	9.98	9.77	33.8	152.11	10	298	44.8	151.06	12	269	-	-	-	-	-	-	-	-	-	-	-	-
22	14.76	14.94	40.7	222.69	109	1 796	40.3	161.81	20	318	-	-	-	-	-	-	-	-	-	-	-	-
23	20.32	19.20	36.5	197.49	2	36	40.7	176.88	4	56	-	-	-	-	-	-	-	-	-	-	-	-
24	30.18	29.63	18.4	113.24	16	290	34.8	164.48	16	155	-	-	-	-	-	-	-	-	-	-	-	-
25	39.03	40.85	44.8	249.12	8	40	35.8	170.85	5	39	-	-	-	-	-	-	-	-	-	-	-	-
Default	100.00	100.00	29.5	72.68	1 558	3 686	28.2	69.80	760	2 448	31.0	15.97	-	468	-	-	-	-	-	-	-	-
Total	2.89	2.39	36.8	59.36	2 230	185 126	36.0	64.76	1 088	50 031	20.0	50.28	23	4 902	26.3	54.36	14	5 445	24.0	34.12	7	8 132

Notes

[1] Amounts indicated as zero in the above table, reflect values smaller than R1 million.

Annexure B

Probability of default, exposure at default and loss given default analysis in terms of regulatory disclosure requirements

AIRB approach

Wholesale portfolio (continued)[1]

	June 2014																				June 2013
	Local governments and municipalities				Sovereigns				Banks				Securities firms				Total				Total
Risk Grade	LGD	Exposure Weighted average Risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	LGD	Exposure weighted average risk weight	Expected loss	EAD	EAD
	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	Rm
Non-default	14.9	15.04	2	5 966	6.1	7.16	11	71 666	43.5	25.94	21	67 869	36.4	28.65	2	5 294	31.5	43.03	1 079	397 828	362 904
4	-	-	-	-	20.7	11.96	-	504	43.3	21.71	6	48 628	43.9	23.31	-	3 356	42.2	19.98	8	62 868	36 690
5	10.0	-	-	-	-	-	-	-	43.9	14.95	1	3 700	43.9	77.00	-	152	43.6	22.32	3	14 131	5 970
6	-	-	-	-	-	-	-	-	43.9	34.18	-	155	43.9	135.75	-	2	43.7	21.64	1	3 617	5 200
7	10.0	3.51	-	743	-	-	-	-	43.9	26.94	1	2 537	-	-	-	-	36.6	19.04	4	12 327	31 935
8	18.9	20.18	-	1 969	-	-	-	-	43.9	54.27	1	1 582	43.9	48.84	-	106	33.4	25.67	6	14 388	19 134
9	9.8	10.92	-	2 020	5.9	6.65	8	70 956	43.9	40.56	7	10 198	43.9	28.45	-	2	16.1	15.78	32	115 224	100 448
10	19.9	18.31	-	1 038	5.0	4.18	-	-	43.9	41.71	-	365	43.9	114.67	-	113	37.8	37.97	15	17 177	14 045
11	9.5	12.07	-	152	-	-	-	-	43.9	50.36	-	18	17.7	25.84	1	1 523	34.6	42.25	30	27 559	24 760
12	47.1	82.61	-	21	-	-	-	-	43.9	64.21	1	369	-	-	-	-	35.1	54.53	27	16 784	17 535
13	45.2	88.51	-	11	-	-	-	-	43.9	76.45	-	102	43.9	61.91	-	26	38.0	63.50	31	13 392	15 279
14	10.0	-	-	-	25.0	66.94	-	-	43.9	78.26	-	5	43.9	94.43	-	0	36.3	74.80	70	21 258	22 174
15	45.0	136.08	-	-	-	-	-	-	43.9	86.55	-	9	43.9	163.61	-	14	33.5	83.02	146	32 710	29 895
16	45.0	106.95	-	1	-	-	-	-	43.9	113.89	-	1	-	-	-	-	34.8	85.79	71	11 295	8 748
17	45.7	144.37	-	3	5.0	12.51	-	1	43.9	113.47	1	62	-	-	-	-	39.8	106.65	197	18 432	15 651
18	45.0	153.51	-	8	43.9	173.13	3	204	43.9	148.60	2	130	-	-	-	-	37.7	112.13	93	6 747	6 349
19	-	-	-	-	-	-	-	-	43.9	165.83	-	8	-	-	-	-	37.1	124.10	78	4 081	3 967
20	45.0	222.10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35.5	130.59	67	2 540	2 479
21	-	-	-	-	-	-	-	-	43.9	181.80	-	0	-	-	-	-	39.0	151.61	22	567	557
22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	40.6	213.53	129	2 114	1 432
23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39.1	184.91	7	92	50
24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24.1	131.07	32	445	538
25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	40.4	210.44	13	79	70
Default	5.0	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	29.1	67.52	2 317	6 609	7 958
Total	14.9	15.03	2	5 973	6.1	7.16	11	71 666	43.5	25.94	21	67 869	36.4	28.65	2	5 294	31.5	43.43	3 397	404 437	370 863

Notes

[1] Amounts indicated as zero in the above table, reflect values smaller than R1 million.

Annexure C: Capital management

Composition of capital disclosure

Barclays Africa Group Limited

	Group	Amount subject to Basel III Rm	Amount subject to Pre-Basel III treatment Rm
		30 June 2014	
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	6 202	
2	Retained earnings	63 519	
3	Accumulated other comprehensive income (and other reserves)	4 140	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	2 183	3 209
6	**Common Equity Tier 1 capital before regulatory adjustments**	76 044	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	759	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	2 017	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	79	0
11	Cash-flow hedge reserve	352	0
12	Shortfall of provisions to expected losses	1 672	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	602	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	597	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	**Total regulatory adjustment to Common equity Tier 1**	6 078	
29	Common Equity Tier 1 capital (CET1)	69 996	

Annexure C: Capital management

	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	4 499	
35	of which: instruments issued by subsidiaries subject to phase out	4 644	
36	**Additional Tier 1 capital before regulatory adjustments**	4 499	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
41	National specific regulatory adjustments	83	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	**Total regulatory adjustments to Additional Tier 1 capital**	83	
44	**Additional Tier 1 capital (AT1)**	4 416	
45	**Tier 1 capital (T1 = CET1 + AT1)**	74 382	
	Tier 2 capital and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
47	Directly issued capital instruments subject to phase out from Tier 2	0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	12 350	
49	of which: instruments issued by subsidiaries subject to phase out	18 240	
50	Provisions	440	
51	Tier 2 capital before regulatory adjustments	12 790	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
57	**Total regulatory adjustments to Tier 2 capital**	0	
58	**Tier 2 capital (T2)**	12 790	
59	**Total capital (TC = T1 + T2)**	87 172	
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
	of which: Basel III amendments		
60	**Total risk weighted assets**	595 053	

Annexure C: Capital management

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.8
62	Tier 1 (as a percentage of risk weighted assets)	12.5
63	Total capital (as a percentage of risk weighted assets)	14.6
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	4.5
65	of which: capital conservation buffer requirement	0.0
66	of which: bank specific countercyclical buffer requirement	0.0
67	of which: G-SIB buffer requirement	0.0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.5
	National minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.5
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	7.0
71	National total capital minimum ratio (if different from Basel 3 minimum)	10.0
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	0
73	Significant investments in the common stock of financials	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	440
77	Cap on inclusion of provisions in Tier 2 under standardised approach	5 693
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

Annexure C: Capital management

Composition of capital disclosure

Absa Bank

	Bank	30 June 2014 Amount subject to Basel III Rm	Amount subject to Pre-Basel III treatment Rm
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	14 768	
2	Retained earnings	30 828	
3	Accumulated other comprehensive income (and other reserves)	2 525	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	0	0
6	**Common Equity Tier 1 capital before regulatory adjustments**	48 121	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	0	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	1 233	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
11	Cash-flow hedge reserve	352	0
12	Shortfall of provisions to expected losses	2 063	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	486	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	**Total regulatory adjustment to Common equity Tier 1**	4 134	
29	Common Equity Tier 1 capital (CET1)	43 987	

Annexure C: Capital management

	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	3 715	
31	of which: classified as equity under applicable accounting standards	3 715	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	4 644	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	**Additional Tier 1 capital before regulatory adjustments**	3 715	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
41	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	**Total regulatory adjustments to Additional Tier 1 capital**	0	
44	**Additional Tier 1 capital (AT1)**	3 715	
45	**Tier 1 capital (T1 = CET1 + AT1)**	47 702	
	Tier 2 capital and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	12 500	
47	Directly issued capital instruments subject to phase out from Tier 2	16 100	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Provisions	292	
51	Tier 2 capital before regulatory adjustments	12 792	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	0	
	OF WHICH	0	
57	**Total regulatory adjustments to Tier 2 capital**	0	
58	**Tier 2 capital (T2)**	12 792	
59	**Total capital (TC = T1 + T2)**	60 494	
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
	of which: Basel III amendments		
60	**Total risk weighted assets**	434 103	

Annexure C: Capital management

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.1
62	Tier 1 (as a percentage of risk weighted assets)	10.9
63	Total capital (as a percentage of risk weighted assets)	13.9
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	4.5
65	of which: capital conservation buffer requirement	0.0
66	of which: bank specific countercyclical buffer requirement	0.0
67	of which: G-SIB buffer requirement	0.0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.5
	National minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.5
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	7.0
71	National total capital minimum ratio (if different from Basel 3 minimum)	10.0
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	0
73	Significant investments in the common stock of financials	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	292
77	Cap on inclusion of provisions in Tier 2 under standardised approach	4 206
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	0
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

Annexure C: Capital management

Main features disclosure

Barclays Africa Group

	Disclosure template for main features of regulatory capital instruments	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Issuer	Barclays Africa Group Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Barclays Bank of Botswana Limited	Barclays Bank of Kenya Limited	Barclays Bank of Kenya Limited	Barclays Bank Zambia
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ZAE000174124	ZAE000079810	ZAG000029315	ZAG000065251	ZAG000073669	ZAG000077074	ZAG000077082	ZAG000101221	ZAG000101239	ZAG000101254	BBG003BHGHR9	BBKTR02SBFL02	BBKTR02SBFL02	BBG0019JPQR2
3	Governing law(s) of the instrument	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended)	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended)	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended).	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended).	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended).	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended).
	Regulatory treatment														
4	Transitional Basel III rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible
6	Eligible at solo/group/group&solo	Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Group	Group	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Preference shares	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R 1 694	R 4 180	R 2 000	R 3 000	R 1 500	R 400	R 600	R 1 805	R 2 007	R 1 188	R 108	R 90	R 153	R 102
9	Par value of instrument	R 1 694	R 4 644	R 2 000	R 3 000	R 845	R 400	R 600	R 1 805	R 2 007	R 1 188	R 108	R 90	R 153	R 102
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option
11	Original date of issuance	1986	2006 and 2007	27-Mar-06	20-Mar-09	10-Dec-09	03-May-10	03-May-10	21-Nov-12	21-Nov-12	21-Nov-12	09-May-08	14-Jul-08	14-Jul-08	18-May-09
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	NA	NA	27-Mar-20	20-Sep-19	07-Dec-28	03-May-22	03-May-22	21-Nov-22	21-Nov-23	21-Nov-23	09-May-15	14-Jul-15	14-Jul-15	18-May-16
14	Issuer call subject to prior supervisory approval	NA	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	NA	NA	NA	NA
15	Optional call date, contingent call dates and redemption amount	NA	NA	27 Mar 2015, tax contingent event call, redemption amount equal to Principal amount issued	20 Sep 2014, tax and regulatory contingent events call, redemption amount equal to Principal amount issued plus CPI adjustment if the amount is not less than R 3.000.000.000 otherwise redemption amount equal to Principal Amount issued.	07 Dec 2023, tax and regulatory contingent events call, nominal amount plus CPI adjustment if the amount is not less than R 845.283.052 otherwise redemption amount equal to Principal Amount issued.	03 May 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	03 May 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2018, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2018, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	NA	NA	NA	NA
16	Subsequent call dates, if applicable	NA	NA	NA	NA	NA	NA	NA	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semiannualy after the first optional call date until maturity	NA	NA	NA	NA
	Coupons / dividends														
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed to floating	Floating	Floating	Floating	Fixed to floating	Floating	Floating	Fixed	Fixed	Floating	Fixed	Floating
18	Coupon rate and any related index	NA	70% of the prime overdraft lending rate	8.10%	6.0% indexed to ZAR non revised CPI	5.5 % indexed to ZAR revised CPI	3M JIBAR+210bps	10.28%	3M JIBAR+195bps	3M JIBAR+205bps	8.2950%	11% fixed NACS	182 day T-bill +1%	11.50%	182-day T-bill+2.5%
19	Existence of a dividend stopper	No	No	No	No	No	No	No	No	No	No	No	No	No	No

20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NA	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	NA	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
30	Write-down feature	No	No	No	No	No	No	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Columns 3 to 14, then Column 2	Columns 3 to 14	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes
36	Non-compliant transitioned features	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
37	If yes, specify non-compliant features	NA	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability

Annexure C: Capital management

Main features disclosure

Absa Bank

	Disclosure template for main features of regulatory capital instruments	1	2	3	4	5	6	7	8	9	10
1	Issuer	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ZAE000079810	ZAE000079810	ZAG000029315	ZAG000065251	ZAG000073669	ZAG000077074	ZAG000077082	ZAG000101221	ZAG000101239	ZAG000101254
3	Governing law(s) of the instrument	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended)	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended)	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.	Section 1 of the Banks Act, 1990 (Act no 94. of 1990) (As amended). The subordinated callable notes are listed on the Bond Exchange of South Africa.
	Regulatory treatment										
4	Transitional Basel III rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible
6	Eligible at solo/group/group & solo	Solo	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Preference shares	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R303	R4 180	R2 000	R3 000	R1 500	R400	R600	R1 805	R2 007	R1 188
9	Par value of instrument	R303	R4 644	R2 000	R3 000	R845	R400	R600	R1 805	R2 007	R1 188
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option
11	Original date of issuance	1986	2006 and 2007	27 Mar 2006	20 Mar 2009	10 Dec 2009	03 May 2010	03 May 2010	21 Nov 2012	21 Nov 2012	21 Nov 2012
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	NA	NA	27 Mar 2020	20 Sep 2019	07 Dec 2028	03 May 2022	03 May 2022	21 Nov 2022	21 Nov 2023	21 Nov 2023
14	Issuer call subject to prior supervisory approval	NA	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	27 Mar 2015, tax contingent event call, redemption amount equal to Principal amount issued	20 Sep 2014, tax and regulatory contingent events call, redemption amount equal to Principal amount issued plus CPI adjustment if the amount is not less than R 3.000.000.000 otherwise redemption amount equal to Principal Amount issued.	07 Dec 2023, tax and regulatory contingent events call, nominal amount plus CPI adjustment if the amount is not less than R 845.283.052 otherwise redemption amount equal to Principal Amount issued.	03 May 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	03 May 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2017, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2018, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.	21 Nov 2018, tax and regulatory contingent events call, redemption amount equal to Principal Amount issued.
16	Subsequent call dates, if applicable	NA	NA	NA	NA	NA	NA	NA	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semiannualy after the first optional call date until maturity
	Coupons / dividends										
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed to floating	Floating	Floating	Floating	Fixed to floating	Floating	Floating	Fixed
18	Coupon rate and any related index	NA	70% of the prime overdraft lending rate	8.1%	6.0% indexed to ZAR non revised CPI	5.5 % indexed to ZAR revised CPI	3M JIBAR+210bps	10.28%	3M JIBAR+195bps	3M JIBAR+205bps	8.295%
19	Existence of a dividend stopper	No	No	No	No	No	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NA	No	Yes	Yes	Yes	Yes	Yes	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	NA	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
28	If convertible, specify instrument type	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Main features disclosure

Absa Bank

	Disclosure template for main features of regulatory capital instruments	1	2	3	4	5	6	7	8	9	10
	convertible into										
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
30	Write-down feature	No	No	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Columns 3 to 10, then Column 2	Columns 3 to 10	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes	Deposits and other general debits of the bank including non subordinated notes
36	Non-compliant transitioned features	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
37	If yes, specify non-compliant features	NA	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability	Loss absorbency criteria and point of non-viability

Abbreviations and acronyms

Abbreviations and acronyms

A	
ABC	Anti-Bribery and Corruption
AEaR	annual earnings at risk
AFS	Absa Financial Services
AGL	Absa Group Limited
AIC	Absa Insurance Company
AIRB	advanced internal ratings-based approach
AllPay	AllPay Consolidated Investment Holdings Limited
AMA	advanced measurement approach
AML	Anti-Money Laundering
AMLS	Anti Money Laundering and Sanctions
AMRC	Absa Market Risk Committee
AOL	Absa Online (Retail Bank e-Channel)
ARMS	Arrears Management System
ATC	Africa Treasury Committee
ATM	automated teller machine
AVC	asset value correlation

B	
Basel	Basel Capital Accord
BBM	Barclays Bank Mozambique
BBT	Barclays Bank of Tanzania
BCBS	Basel Committee on Banking Supervision
BIA	basic indicator approach
bps	basis points

C	
CAF	Commercial Asset Finance
CAPM	capital asset pricing model
CAR	capital adequacy requirement
CEM	current exposure method
CET1	Common Equity Tier 1
CFP	contingency funding plan
CIB	Corporate and Investment Bank
CMRA	conduct material risk assessments
CODM	Chief Operating Decision Maker
CoE	cost of equity
CPF	Commercial Property Finance
CPRF	Conduct Principal Risk Framework
CRC	Control Review Committees
CRM	credit risk mitigation
CRRC	Conduct and Reputational Risk Committee
CSA(s)	collateral support annexure(s)
CVA	credit valuation adjustment

D	
DG	default grade
DPS	dividend per share
DVaR	daily value at risk

E	
EAD	Exposure at default
EC	economic capital
ECAI	external credit assessment institutions
Edcon portfolio	Edcon Store Card Portfolio
EL	expected loss
ERMF	Enterprise Risk Management Framework
ESP	electronic sales platform
ETF(s)	exchange-traded fund(s)
EV	embedded value
EVE	economic value of equity
EWI	early warning indicators

F	
FIRB	foundation internal ratings-based approach
FRC	Financial Risk Committee

G	
GACC	Group Audit and Compliance Committee
GCE	Group Chief Executive
GCRO	Group Chief Risk Officer
GRCMC	Group Risk and Capital Management Committee
Group	Barclays Africa Group Limited

H	
HEPS	headline earnings per share

I	
IAS	International Accounting Standard(s)
IAS 16	IAS 16 Property, Plant and Equipment
IAS 19R	IAS 19R Employee Benefits (amended 211)
IAS 27	IAS 27 Consolidated and Separate Financial Statements
IAS 28	IAS 28 Investments in Associates
IAS 36	IAS 36 Impairment of Assets
IAS 38	IAS 38 Intangible Assets
IAS 39	IAS 39 Financial Instruments: Recognition and Measurement
IAS 40	IAS 40 Investment Property
ICAAP	internal capital adequacy assessment process
IFRS	International Financial Reporting Standard(s)
IFRS-IC	IFRS Interpretations Committee
FRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IMA	internal models approach
IMM	internal model method
IRB	internal ratings-based approach
ISDA	International Swaps and Derivatives Association
IT	information technology

J	
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange

Abbreviations and acronyms

K

KCI	key control indicator
KI	key indicator
KPI	key performance indicators
KRI	key risk indicator
KRO	Key Risk Officer
KRS	Key Risk Scenarios

L

LCR	liquidity coverage ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LLR	Loan Loss Rate
LTV	Loan-to-Value

M

MC	Absa Bank Models Committee
MTM	mark-to-market

N

NAAMSA	National Association of Automobile Manufacturers of South Africa
NAV	net asset value
NBC	National Bank of Commerce Limited (Tanzania)
NPL(s)	non-performing loan(s)
NSFR	net stable funding ratio

O

ORCC	Operational Risk and Control Committee
ORF	Operational Risk Framework
ORSA	own risk an solvency assessment
ORX	operational risk data exchange
OTC	over-the-counter

P

PD	profitability of default
P/E	price-to-earnings
PIT	point-in-time
PRO	Principal Risk Officer

R

RBB	Retail and Business Banking
RC	regulatory capital
RCC	Risk and Control Committees
RCRC	Retail Credit Risk Committee
RCTRC	Retail Credit Technical Risk Committee
RoA	return on average assets
RoE	return on average equity
RoRC	return on average regulatory capital
RoRWA	return on average risk-weighted assets
RWA	risk-weighted assets

S

SA	South Africa
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment Management
SARB	South African Reserve Bank
SG	Singapore
SME	small and medium enterprises
STC	secondary tax on companies
sVaR	stressed value at risk

T

TRC	Trading Risk Committee
TSA	the standard approach
TTC	through-the-cycle

V

VAF	Vehicle and Asset Finance
VaR	value at risk
VaS	value at stake

W

WCRMC	Wholesale Credit Risk Committee