Barclays Africa Group Limited
2017 Pillar 3 risk management report

BARCLAYS

Contents

1.	Summary of capital position, risk profile and risk-weighted assets (RWA)	4
2.	Overview of the Group	11
3.	Basis of preparation	16
4.	Overview of risk management	21
5.	Credit risk	33
6.	Market risk	69
7.	Treasury and capital risk	80
8.	Insurance risk	99
9.	Operational risk	106
10.	Model risk	111
11.	Conduct risk	117
12.	Reputation risk	120
13.	Legal risk	122
14.	Annexures	126
15.	Abbreviations and acronyms	148

Icons used in this report

Unchanged

Increase/decrease

BCBS Pillar 3 disclosure requirements of sections and tables

References to disclosure requirements have been designated by a [ ]

			Page
OVA	Bank risk management approach		22
OV1	Overview of risk-weighted assets (RWA)		8
LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories		18
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements		20
LIA	Explanations of differences between accounting and regulatory exposure amounts		20
CRA	General information about credit risk		34
CR1	Credit quality of assets		38
CR2	Changes in stock of defaulted loans and debt securities		38
CRB	Additional disclosure related to the credit quality of assets		36
	CRB(i)	Ageing analysis of accounting past due exposures	Refer the Group's Annual Financial Statements note 63
	CRB(ii)	Restructured exposures (impaired versus not impaired)	42
	CRB(iii)	Geographical breakdown of impaired exposures	43
	CRB(iv)	Industry breakdown of impaired exposures	43
	CRB(v)	Residual contractual maturity of exposures	44
CRC	Qualitative disclosure requirements related to credit risk mitigation (CRM)		44
CR3	CRM techniques – overview		45
CRD	Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk		46
CR4	Standardised approach – credit risk exposure and CRM effects		46
CR5	Standardised approach – exposures by asset classes and risk weights		47
CRE	Qualitative disclosures related to internal ratings-based (IRB) models		48
CR6	Internal ratings-based (IRB) – Credit risk exposures by portfolio and probability of default (PD) range		49
CR7	IRB – Effect on RWA of credit derivatives used as CRM techniques		56
CR8	RWA flow statements of credit risk exposures under IRB		56
CR9	IRB-Backtesting of PD per portfolio		56
CR10	Internal ratings-based (IRB) (specialised lending and equities under the simple risk weight method)		68
CCRA	Qualitative disclosure related to counterparty credit risk (CCR)		59
CCR1	Analysis of CCR exposure by approach		60
CCR2	Credit valuation adjustment (CVA) capital charge		60
CCR3	Standardised approach of CCR exposures by regulatory portfolio and risk weights		N/A[1]
CCR4	IRB – CCR exposures by portfolio and PD scale		71
CCR5	Composition of collateral for CCR exposure		63
CCR6	Credit derivatives exposures		64

Notes
[1] Not applicable to the Group.

		Page
CCR7	RWA flow statements of CCR exposures under the Internal Model Method (IMM)	N/A[1]
CCR8	Exposures to central counterparties	64
SECA	Qualitative disclosure requirements related to securitisation exposures	65
SEC1	Securitisation exposures in the banking book	65
SEC2	Securitisation exposures in the trading book	N/A[1]
SEC3	Securitisation exposures in the banking book and associated regulatory capital (RC) requirements – bank acting as originator or as sponsor	66
SEC4	Securitisation exposures in the banking book and associated capital requirements – bank acting as investor	N/A[1]
MRA	Qualitative disclosure requirements related to market risk	70
MRB	Qualitative disclosures for banks using the Internal Models Approach (IMA)	70
MR1	Market risk under standardised approach	75
MR2	RWA flow statements of market risk exposures under an IMA	76
MR3	IMA values for trading portfolios	77
MR4	Comparison of value at risk (VaR) estimates with gains/losses	75
REMA	Remuneration policy	145
REM1	Remuneration awarded during the financial year	145
REM2	Special payments	145
REM3	Deferred remuneration	146

Notes

[1] Not applicable to the Group

Directives requirements in terms of Regulation 43 of the Regulations relating to Banks

	Page
Composition of capital disclosure template	127
Reconciliation of accounting capital to regulatory capital template	133
Leverage ratio common disclosure template and summary	137
Main features of capital instruments disclosure template	141
Liquidity coverage ratio (LCR) common disclosure template	145

1. Summary of capital position, risk profile and RWA

Contents

1.1	Risk and capital performance over the current reporting period	5
1.2	Current and emerging risks	6
1.3	Overview of RWA	8

1.1 Risk and capital performance over the current reporting period

Key metrics

Capital adequacy ratio	^	16.1%/14.9%[1] 2016: 14.8%
Common equity tier 1 ratio	^	13.5%/12.1%[1] 2016: 12.1%
Leverage ratio	^	7.9%/7.2%[1] 2016: 7.1%
Liquidity coverage ratio	^	107.5% 2016: 95.8%[2]
Growth in gross loans and advances to customers	^	3.9% 2016: 2.7%
Credit loss ratio	v	0.87% 2016: 1.08%
Non-performing loans as a percentage of gross loans and advances	v	3.7% 2016: 3.9%
Performing loans coverage ratio	v	0.7% 2016: 0.8%
Non-performing loans coverage ratio	v	43.1% 2016: 44.2%
Operational risk losses	v	R240m 2016: R582m

Risk weighted assets		2017 Rbn	2017 %	2016 Rbn	2016 %
1 Credit risk[3]	^	**527.9**	**71.6**	499.4	70.9
2 Counterparty credit risk	^	**38.1**	**5.2**	33.3	4.7
3 Market risk	v	**24.8**	**3.4**	28.9	4.1
4 Operational risk	^	**105.7**	**14.3**	100.4	14.3
5 Equity	=	**9.7**	**1.3**	9.7	1.4
6 Non-customer assets	v	**25.3**	**3.4**	25.4	3.6
7 Other	v	**5.4**	**0.8**	6.7	1.0
Total	^	**736.9**		703.8	

Review of current reporting period

- The Group maintained a strong capital adequacy position above both the minimum regulatory requirements and Board-approved capital target ranges, with capital buffers sufficient to withstand stressed conditions.
- The liquidity position remained healthy, within risk appetite and above the minimum regulatory requirements, maintaining buffers approved by the Board.
- Continued relatively slow growth in loans and advances is in part a function of persistently tough economic conditions, political and policy uncertainty, and low confidence levels in South Africa.
- Operational resilience continues to improve due to investments in infrastructure, process engineering, people and technology.
- The credit loss ratio improved as a result of lower defaults experienced across the South African wholesale portfolios, improved credit performance in the Rest of Africa businesses, and risk mitigation strategies undertaken in the South African retail businesses.

Priorities

The Group's operating environment is expected to remain difficult and risk management will remain a priority, including:

- Tight control and management of Separation and execution risks by delivering a structured programme of work via an integrated governance structure supported by ongoing monitoring of idiosyncratic risks and independent quality assurance.
- Continuing to manage the capital position of the Group, allowing for continued economic uncertainty, regulatory and accounting developments, and actions taken by ratings agencies.
- Ensuring that management of the funding and liquidity position is in line with risk appetite and regulatory requirements by maintaining appropriate buffers while optimising the associated cost.
- Continued monitoring of the credit, treasury and market risk infrastructure's resilience to market volatility.
- Continuing to improve control, efficiency and operational resilience across critical processes including collections, cybersecurity and fraud, data management, data centres (including disaster recovery), and financial crime.
- Strengthening the employee value proposition to ensure the continued availability of the right talent pool to enable the Group's strategy.

Notes

1 IFRS (International Financial Reporting Standards) (light blue)/Total normalised (dark blue): IFRS includes the impact of the contribution amounts received as part of the Barclays PLC Separation. 2016 values are based on an IFRS view; however the Barclays PLC Separation amounts are only effective from June 2017. All numbers include unappropriated profits.

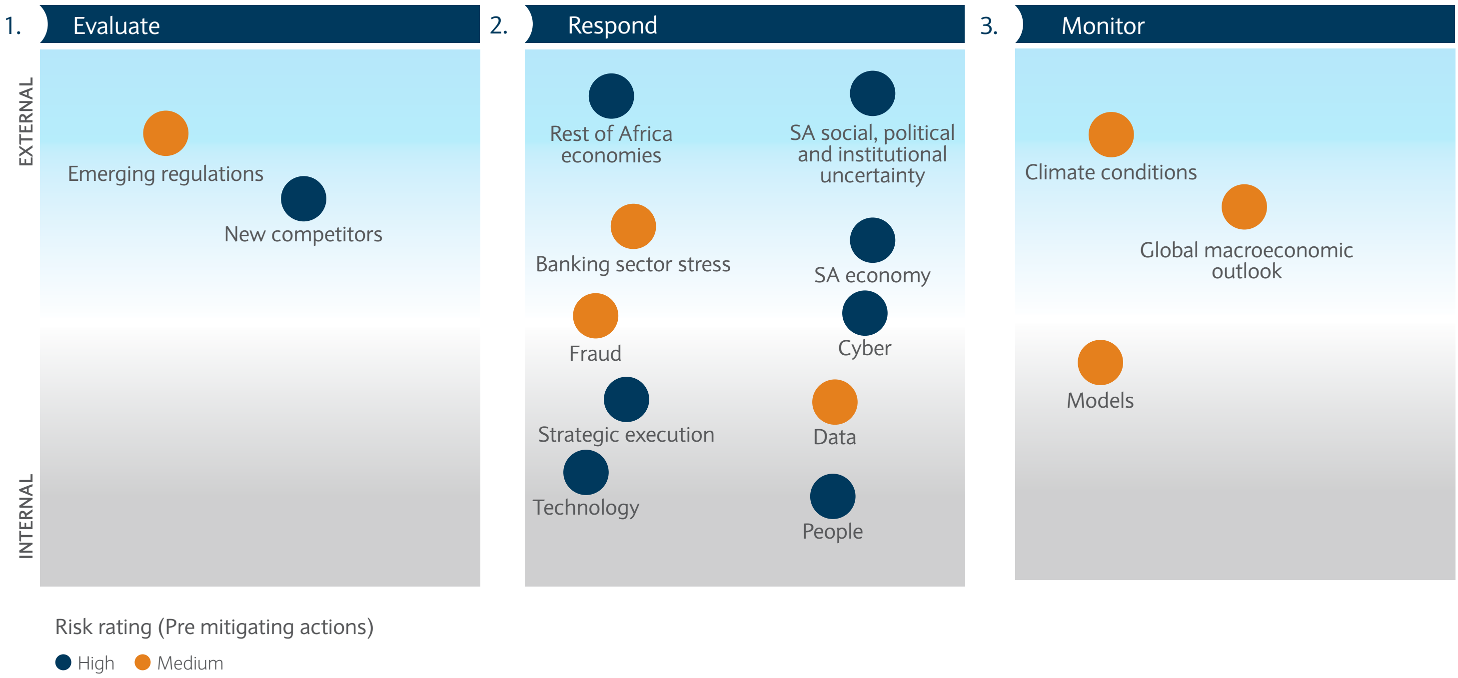
2 2016 liquidity coverage ratio (LCR) reported post audit.

3 Credit risk includes securitisation exposures in the banking book, which are separately disclosed in table OV1 in section 1.3.

Contents IFC
Summary of capital position, risk profile and risk-weighted assets (RWA) 4
Overview of the Group 11
Basis of preparation 16
Overview of risk management 21
Credit risk 33
Market risk 69
Treasury and capital risk 80
Insurance risk 99
Operational risk 106
Model risk 111
Conduct risk 117
Reputation risk 120
Legal risk 122
Annexures 126
Abbreviations and acronyms 148

1.2 Current and emerging risks

Through its risk process of evaluate, respond and monitor, the Group can identify and assess both external and internal risks, determine the appropriate response, and monitor the effectiveness of the response. The following graphics outline the landscape of the material risks to the Group's strategic ambitions and reflect how these risks are being effectively and efficiently managed.



The table below highlights the ways in which the material risks influence/impact our business, our mitigation actions and the residual risk.

Themes	Key risks	Potential impacts	Mitigating actions	Residual risk[1]
Macroeconomic environment impacts our ability to sustain business and achieve our market commitments	• Subdued global and local growth • Economic performance of commodity importing countries • Banking sector stress • Weak business confidence in SA and sovereign downgrade	• Reduced revenue • Pressure on the credit portfolio • Liquidity and capital constraints • Increased impairments	• Strong risk management ensures monitoring of leading indicators combined with definitive steps • Hedging of interest rate and foreign exchange risks • Strategy adapted to manage the business in slow economic growth	Medium
Social and political environment impacts our operating environment	• Socio and political risk • Political uncertainty • Deteriorating fiscal position • Institutional uncertainty • Unemployment	• Reduced revenue • Social pressure • Pressure on portfolio quality	• Commitment to shared growth • Support community initiatives • Close monitoring of portfolio	Medium
Strategic changes impact our ability to execute our plans	• Separation from Barclays PLC • Strategy execution risk • Reputation and brand risk • People risk	• Delayed completion of projects • Increased expenditure • Lack of focus on key strategic initiatives • Loss of customers • Loss of key resources	• Address business-as-usual, transition and transformation change requirements through our dedicated and integrated functions	Medium
Technology and the pace of change impact competitiveness and operational risk	• Cyber risks • Fraud risk and financial crime • Technology disruptions • Data management failures • Model risk • Disruption through Fintechs and new competitor banks	• Security breaches • Operational disruptions • Operational losses • Reputational damage • Incorrect models informing decisions • Loss of customers	• Continue to invest in technology platforms, processes and controls • Maintain IT systems stability through monitoring, enhancements and prioritisation of key issues • Innovation	Medium
New and emerging regulations	• The volume and increasing complexity of regulatory requirements (eg Twin Peaks, Retail distribution review, Financial Intelligence Centre Amendment Act) • Model risk	• Reduced revenue and/ or increased expenses • Fines or penalties due to non-compliance • Reputational damage • Increase in financial and human resource requirements	• Maintain the coordinated, comprehensive and timely approach to identify, assess and respond to regulatory changes • Regulatory change team in place • Diversified business model that is sustainable and competitive	Medium
Climate change risks impact on our clients, organisation and operating environment	• Adverse weather conditions (e.g. drought and floods) • Water stress • Resource depletion	• Impact on operational environment • Impact on ability to service clients • Increased impairments	• Effective business recovery plan in place • Energy efficient buildings • Effective credit mitigation	Medium

Notes

1 Residual risk is classified in terms of likelihood and consequence, taking into account the current and forward-looking risk profile. Medium risk indicates monitoring of the risk is required and/or further action in the future.

1.3 Overview of RWA OV1

The following table provides the risk-weighted assets (RWA) per risk type and approach as well as the associated minimum capital requirements. Additional disclosures for each risk type namely credit risk, counterparty credit, equity investment risk, securitisation, market risk, and operational risk are included in the sections to follow.

		a		b	c
	Group	December 2017 RWA Rm	December 2016 RWA Rm	September 2017 RWA Rm	December 2017 Minimum capital requirements[1] Rm
1	Credit risk (excluding counterparty credit risk (CCR))	527 466	498 826	534 497	56 703
2	Of which standardised approach (SA)	144 558	140 001	152 922	15 540
3	Of which internal rating-based (IRB) approach	382 908	358 825	381 575	41 163
4	CCR	38 126	33 337	31 448	4 099
5	Of which standardised approach for CCR (SA-CCR)[2]	38 126	33 337	31 448	4 099
6	Of which internal model method (IMM)	–	–	–	–
7	Equity positions in banking book under market-based approach	9 707	9 658	9 521	1 044
8	Equity investments in funds – look-through approach	–	–	–	–
9	Equity investments in funds – mandate-based approach	–	–	–	–
10	Equity investments in funds – fall-back approach	–	–	–	–
11	Settlement risk	1 130	1 842	435	121
12	Securitisation exposures in banking book	460	576	492	49
13	Of which IRB ratings-based approach (RBA)	460	576	492	49
14	Of which IRB Supervisory Formula Approach (SFA)	–	–	–	–
15	Of which SA/simplified supervisory formula approach (SSFA)	–	–	–	–
16	Market risk	24 761	28 890	23 993	2 662
17	Of which standardised approach (SA)	7 689	8 447	9 292	827
18	Of which internal model approaches (IMA)	17 072	20 443	14 701	1 835
19	Operational risk	105 730	100 433	103 487	11 366
20	Of which basic indicator approach (BIA)	3 432	3 849	3 528	369
21	Of which Standardised Approach	26 082	25 156	25 533	2 804
22	Of which Advanced Measurement Approach (AMA)	76 216	71 428	74 426	8 193
	Non-customer assets	24 167	23 524	23 845	2 598
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	5 345	6 699	5 175	574
24	Floor adjustment	–	–	–	–
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24+non customer assets)**	736 892	703 785	732 893	79 216

Key drivers of year-on-year change in RWA consumption were as follows:

- **Credit risk:** Exposures subject to the AIRB approach have increased by R24.1bn as a result of exposure growth in Corporate and Investment Banking (CIB) and Retail Bank in line with balance sheet growth. In addition to exposure growth, credit deterioration due to ratings downgrades, and methodology updates resulted in increased RWA (refer to table CR8). The increase in the standardised approach (Rest of Africa) of R4.6bn is due mainly to wholesale loan growth with higher standardised risk weighting; this was offset by the strengthening of the Rand.
- **CCR:** The increase in CCR of R4.8bn is in line with market volatility, specifically exchange rate fluctuations.
- **Market risk:** The decrease in market risk of R4.1bn is due to lower levels of value at risk (VaR) and stressed value at risk (sVaR) in the three-month averaging period.
- **Operational risk:** Operational risk increased by R5.3bn due to higher operating income attributable by AMA entities, which drove an increase in the regulatory floor (TSA floor on AMA entities).

Notes

[1] The 2017 minimum regulatory capital requirement is calculated at 10.75% which includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

[2] SA-CCR amount is calculated using the CEM.

	Absa Bank Limited[1]	a December 2017 RWA Rm	December 2016 RWA Rm	b September 2017 RWA Rm	c December 2017 Minimum capital requirements[2] Rm
1	Credit risk (excluding CCR)	384 998	366 099	383 693	41 387
2	Of which standardised approach (SA)	12 882	15 018	12 396	1 385
3	Of which IRB approach	372 116	351 081	371 297	40 002
4	CCR	37 902	32 814	30 955	4 075
5	Of which standardised approach for CCR (SA-CCR)[3]	37 902	32 814	30 955	4 075
6	Of which IMM	–	–	–	–
7	Equity positions in banking book under market-based approach	2 707	2 775	2 494	291
8	Equity investments in funds – look-through approach	–	–	–	–
9	Equity investments in funds – mandate-based approach	–	–	–	–
10	Equity investments in funds – fall-back approach	–	–	–	–
11	Settlement risk	1 069	1 773	435	115
12	Securitisation exposures in banking book	460	576	492	49
13	Of which IRB RBA	460	576	492	49
14	Of which IRB SFA	–	–	–	–
15	Of which SA/SSFA	–	–	–	–
16	Market risk	20 633	22 935	18 076	2 218
17	Of which standardised approach (SA)	3 561	2 492	3 375	383
18	Of which internal model approaches (IMA)	17 072	20 443	14 701	1 835
19	Operational risk	75 221	70 895	73 612	8 086
20	Of which BIA	3 348	3 772	3 439	360
21	Of which Standardised Approach	–	–	–	–
22	Of which AMA	71 873	67 123	70 173	7 726
	Non-customer assets	18 688	16 943	17 898	2 009
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	521	657	620	56
24	Floor adjustment	–	–	–	–
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24+non-customer assets)**	542 199	515 467	528 275	58 286

Key drivers of year-on-year change in RWA consumption were as follows:

- **Credit risk:** Exposures subject to the AIRB approach have increased by R21.0bn as a result of exposure growth in Corporate and Investment Banking (CIB) and Retail Bank in line with balance sheet growth. Refer Group comments on the previous page for additional information. The decrease under the SA of R2.1bn is due mainly to the reduction of the Edcon portfolio.
- **CCR:** The increase in CCR of R5.1bn is in line with market volatility, specifically exchange rate fluctuations.
- **Market risk:** The decrease in market risk of R2.3bn is due to lower levels of Value at Risk (VaR) and Stressed Value at Risk (sVaR) in the three-month averaging period.
- **Operational risk:** Operational risk increased by R4.3bn due to higher operating income attributable by AMA entities, which drove an increase in the regulatory floor (TSA floor on AMA entities).

Notes

1 Absa Bank Limited includes subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings.

2 The 2017 minimum regulatory capital requirement is calculated at 10.75% which includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

3 SA-CCR amount is calculated using the CEM.

2. Overview of the Group

Contents

2.1	Business model overview	12
2.2	Scope of consolidation	14
	2.2.1 Group structure	14
	2.2.2 Country and segment structure	15

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

2.1 Business model overview

The Group is a diversified financial services provider offering an integrated set of products and services across retail and business banking, corporate and investment banking, wealth and investment management and insurance.

The Group helps to create, grow and protect wealth. Its strategy focuses on opportunities for growth and takes into account the matters believed to be material to long-term sustainability. The diagram below depicts core activities and how they translate into products and services to meet the needs of customers and clients.

Our core business activities and processes

Activities	What this means	Risks	Balance sheet impact	Flow of money	Income statement impact
A safe place to save, invest and manage funds	Managing shareholder funds Accepting customers' and clients' deposits and raising debt Facilitating payments and investments Providing investment management products and advice Providing pension fund administration	Interest rate Liquidity Operational Conduct Market	Deposits Debt securities in issue Shareholders' equity and preference shares	Interest paid to depositors and other funders Returns generated for shareholders Investments made on behalf of customers and clients Fee income administration services	Interest expense Fee and commission income Dividends paid Gains and losses from investment activities
Provide funds for purchases and growth	Extending credit, taking into account customers' credit standing and our risk appetite	Credit Interest rate Operational Conduct	Loans and advances Provision for bad debts	Receive interest income from borrowers Fee income relating to lending activities	Net interest income Fee and commission income Other operating income Bad debts expense
Manage business and financial risks	Providing solutions to manage various risks such as interest rate and foreign exchange	Credit Market Operational Conduct	Hedging and trading portfolio liabilities Hedging and trading portfolio assets	Fee income from advisory services Commission income Trading revenue	Gains and losses from banking and trading activities Fee and commission income Other operating income
Provide financial and business support	Providing individual and business advice, investment research and advisory on large corporate deals	Market Operational Conduct		Fee income from advisory services	Fee and commission income
Protect against risks	Providing compensation for retirement and/or a specified loss (damage, illness or death) in return for a premium payment	Insurance Operational Conduct Market	Policyholder liabilities under insurance and investment contracts Reinsurance assets	Insurance premium income Pay out claims for specified losses	Net insurance premium income Net claims and benefits payable on insurance contracts

We provide our customers and clients with a range of solutions

<table>
<tr><th></th><th>Individuals</th><th>Small and medium-size businesses</th><th>Corporates</th><th>Financial institutions and banks</th><th>Sovereigns and institutions</th></tr>
<tr><td rowspan="6">A safe place to save, invest and manage funds</td><td colspan="5">Current accounts and overdrafts</td></tr>
<tr><td colspan="5">Savings, deposits and investment products</td></tr>
<tr><td colspan="3">Mobile and digital payments</td><td colspan="2"></td></tr>
<tr><td colspan="2">Stock broking and trading services</td><td colspan="3">Access to international financial markets</td></tr>
<tr><td rowspan="2"></td><td colspan="4">Cash management, payment systems and international trade services</td></tr>
<tr><td colspan="2">Pension fund administration</td><td colspan="2"></td></tr>
<tr><td rowspan="4">Provide funds for purchases and growth</td><td rowspan="4">Residential home loans, vehicle and asset finance, personal loans and credit cards</td><td colspan="3">Commercial property finance and business loans</td><td rowspan="2"></td></tr>
<tr><td colspan="3">Asset and lease finance, trade and supplier finance and working capital solutions</td></tr>
<tr><td rowspan="2"></td><td colspan="3">International capital markets</td></tr>
<tr><td colspan="2">Large corporate inter-bank lending</td><td></td></tr>
<tr><td rowspan="3">Manage business and financial risks</td><td></td><td colspan="4">Foreign exchange rate hedging</td></tr>
<tr><td colspan="3">Fixed-rate loans</td><td colspan="2"></td></tr>
<tr><td></td><td></td><td colspan="3">Inflation and interest rate hedging</td></tr>
<tr><td rowspan="2">Provide financial and business support</td><td rowspan="2">Wealth advisory and private banking services, including investment advice, wills and trusts</td><td colspan="4">Relationship managers and support</td></tr>
<tr><td>Business seminars and start-up support</td><td colspan="3">International investment research. Advice on large corporate deals, and mergers and acquisitions</td></tr>
<tr><td>Protect against risks</td><td colspan="3">Insurance (life, investments, retirement, credit and short-term)</td><td colspan="2"></td></tr>
</table>

2.2 Scope of consolidation

Barclays Africa Group Limited (the Group) was formed on 31 July 2013 through the combining of Absa Group Limited and Barclays' African operations. Reflecting the enlarged Group's Africa focus, the name changed from Absa Group Limited to Barclays Africa Group Limited on 2 August 2013.

On 1 March 2016, Barclays PLC announced its intention to sell down its 62.3% interest in the Group. As part of its divestment, Barclays PLC contributed R12.6bn to the Group, mainly in recognition of the investments required for the Group to separate from Barclays PLC[1]. Investments will be made primarily in rebranding, technology and Separation-related projects. It is expected that this will neutralise the capital and cash flow impact of Separation investments on the Group over time. The Separation process will increase the capital base of the Group in the near term and generate endowment revenue thereon, with expenditure increasing over time as the separation investments are concluded.

By the end of December 2017, Barclays PLC had reduced its shareholding in the Group to 14.9%. A key decision taken and linked to the Separation is to change the holding company name from Barclays Africa Group Limited to Absa Group Limited in June 2018, subject to approval from regulators and shareholders. This change is at a Group level. The subsidiary banks on the continent will not change their name immediately. This is the first step in the Group's journey to ultimately having one brand, Absa, across all operations (subject to regulatory approval).

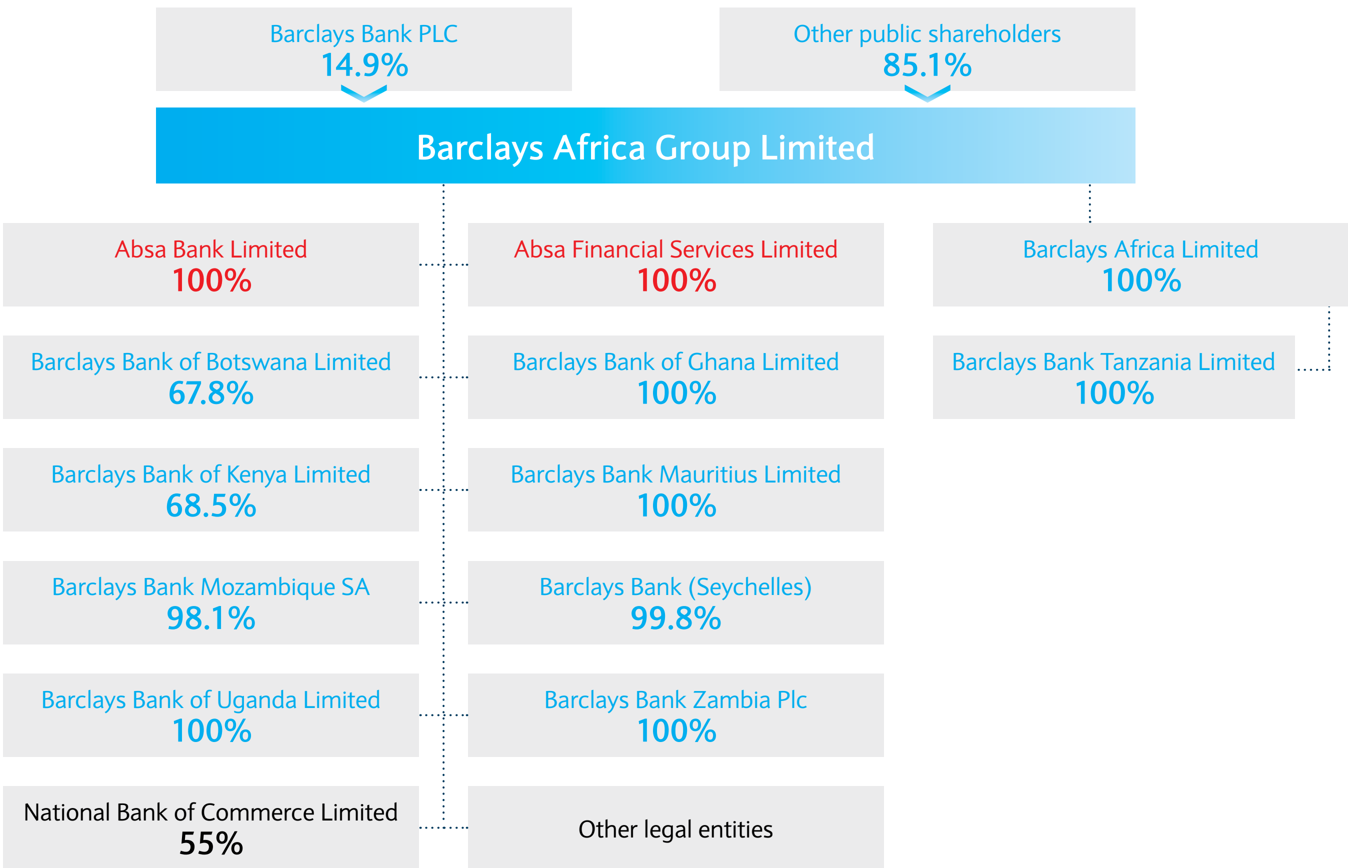
The Group's registered head office is in Johannesburg, South Africa with majority shareholding in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, South Africa, Tanzania (Barclays Bank Tanzania and National Bank of Commerce), Uganda and Zambia. The Group also has representative offices in Namibia and Nigeria.

Barclays Bank Kenya and Barclays Bank Botswana continue to be listed on their respective stock exchanges.

Disclosure in this report is presented on a consolidated basis for the Group. The consolidation is similar to that used for reporting to the South African Reserve Bank (SARB). Insurance entities have been deconsolidated for regulatory reporting purposes.

2.2.1 Group structure

The legal structure below outlines the holdings of the Group.



[1] Throughout the document, the 'Separation' refers to the programme of activities over approximately three years which will disengage the businesses from one another.

2.2.2 Country and segment structure

The Group's main reportable segments are based on an operating model that is driven largely by geography and customer as primary dimensions as depicted in the figures below. Also included are the countries in which the Group operates:

Barclays Africa Group

South Africa Banking

RBB

Retail Banking

- Home Loans
- Vehicle and Asset Finance
- Card
- Personal Loans
- Transactional and Deposits
- Other

Business Banking

- Debt Products
- Deposit Products
- Transactional Products
- Equities

CIB

- Corporate
- Investment Bank
  - Markets
  - Banking
  - Private Equity and Infrastructure Investments
  - Commercial Property Finance

Rest of Africa Banking

RBB

CIB

- Corporate
- Investment Bank

Head Office, Treasury and other operations

WIMI

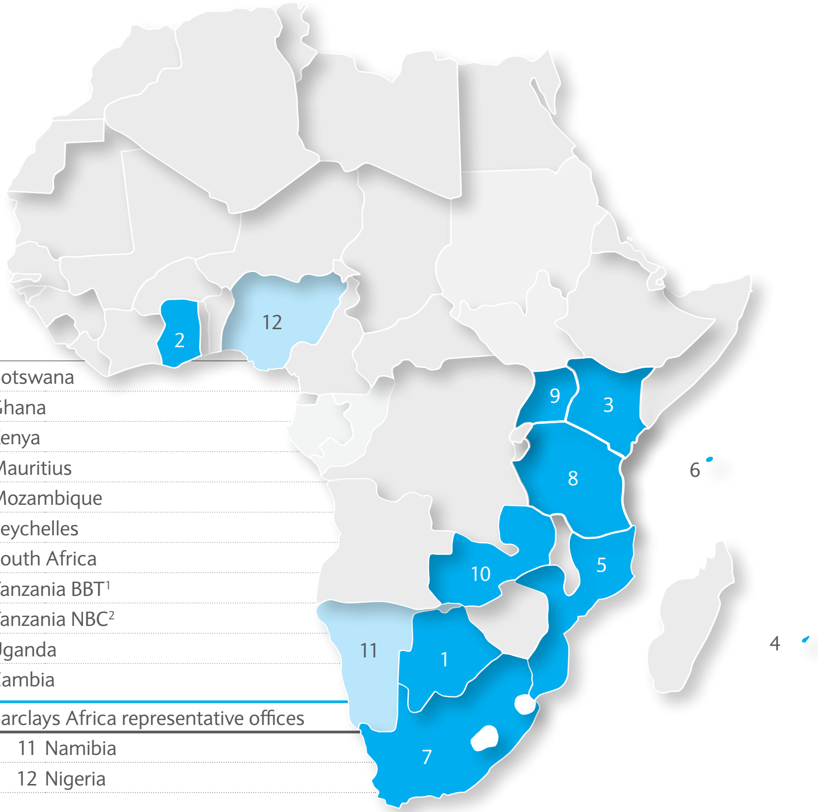
- Life Insurance
- Wealth and Investment Management
- Short-term Insurance
- Fiduciary Services
- Distribution
- Other

Head office, Treasury and other operations in South Africa

- Enterprise Functions
- Group Treasury
- Consolidation Centre

Barclays Separation[1]

- Financial impact of the Barclay PLC Separation to differentiate between normal business activities and the IFRS impact of the Separation



1 Botswana
2 Ghana
3 Kenya
4 Mauritius
5 Mozambique
6 Seychelles
7 South Africa
8 Tanzania BBT[1]
8 Tanzania NBC[2]
9 Uganda
10 Zambia

Barclays Africa representative offices

11 Namibia
12 Nigeria

[1] Barclays Bank Tanzania.
[2] National Bank of Commerce.

Normalised

IFRS

[1] The results presented in this report are based on IFRS. Refer to section 7.2.3.3 for the normalised impact on capital.

3. Basis of preparation

Contents

3.1	Pillar 3 risk management report oversight	17
3.2	Preparation, validation and sign-off	17
3.3	Scope of application of Basel measurement	17
3.4	Accounting policies and valuation methodologies	17
3.5	Linkages between financial statements and regulatory exposures	18
3.5.1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	18
3.5.2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	20

3.1 Pillar 3 risk management report oversight

The purpose of the Pillar 3 risk management report is to provide a comprehensive view of the Group's regulatory capital and risk exposures. It complies with:

- The Basel Committee on Banking Supervision (BCBS) revised Pillar 3 disclosure requirements (Pillar 3 standard).
- Regulation 43 of the Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), where not superseded by the revised Pillar 3 disclosure requirements.

The information in this report is unaudited.

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 that the Group is adequately capitalised and funded to support the execution of its strategy.

3.2 Preparation, validation and sign-off

This report was prepared in line with the requirements of the Board-approved Public Disclosure Policy that sets out responsibilities in the preparation, validation and sign-off of the report. All data submissions were attested to by the Chief Risk Officers. Review and challenge was performed centrally within Group Risk to ensure that the disclosures are a fair representation of the risk profile. The report was validated and approved through the Group's risk governance channels which include Principal Risk Officers, Group Chief Risk Officer (GCRO), Group Financial Officer (GFO), and the Group Risk and Capital Management Committee (GRCMC).

3.3 Scope of application of Basel measurement

The Group applies the following regulatory capital demand measurement approaches when determining its Pillar 1 capital requirements:

Risk type	Approach used
Credit risk (SA)	
• Retail and wholesale credit risk	• Advanced Internal Ratings-Based Approach (AIRB)
• Counterparty credit risk	• Current exposure method and AIRB
• CVA	• Standardised Approach for CVA
• Securities financing	• Comprehensive Approach
• Edcon retail portfolio	• Standardised Approach
• Statutory reserve and liquid asset portfolio	• Advanced Internal Ratings-Based Approach (AIRB)
• Equity investment risk in the banking book – listed and unlisted	• Market-based simple risk weight Approach
• Investments in associates and joint ventures	• Pro rata consolidated methodology or the deduction Approach
Credit risk Rest of Africa entities	
• All entities	• Standardised Approach for all risk types
Traded market risk	
• General position risks for trading book positions	• Internal Model Approach (IMA)
• Issuer-specific risks for trading book positions	• Standardised Approach
Operational risk	
• Operational risk – majority of the Group's divisions	• Advanced Measurement Approach (AMA)
• Certain joint ventures and associates and Rest of Africa legal entities	• Basic indicator approach or the Standardised Approach (TSA)
Other risks	
• Non-customer assets	• Standardised Approach

3.4 Accounting policies and valuation methodologies

Refer the Group's Annual Financial Statements note 1 for accounting policies, which includes the valuation methodologies and valuation techniques in note 1.2

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

3.5 Linkages between financial statements and regulatory exposures

Where a different treatment is applied for Basel regulatory reporting compared to statutory accounting 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 that 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.

3.5.1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The carrying values under the scope of regulatory consolidation below are based on the SARB's regulatory requirements, while the financial statement carrying values reflect the requirements of IFRS. LI1

	a	b	c	d	e	f			g
	2017								
			Carrying values of items						
	Carrying values as reported in published financial statements Rm	Carrying values under scope of regulatory consolidation Rm	Subject to credit risk framework Rm	Subject to CCR framework Rm	Subject to securitisation framework Rm	Subject to market risk framework Rm	Equity Investment Risk Rm	Other Assets Rm	Not subject to capital requirements or subject to deduction from capital Rm
Assets									
Cash and balances with central bank	48 669	45 347	31 793	–	–	–	–	13 554	–
Investment securities	111 409	107 502	104 204	–	–	–	2 823	–	475
Loans and advances to banks	55 426	53 742	38 687	14 657	398	–	–	–	–
Trading portfolio assets	132 183	132 178	–	56 649	–	132 178	–	–	–
Hedging portfolio assets	2 673	2 673	–	2 673	–	–	–	–	–
Other assets	20 963	19 415	5 444	–	–	–	–	13 971	–
Current tax assets (Income tax receivable)	314	262	–	–	–	–	–	262	–
Non-current assets held for sale	1 308	1 308	1 308	–	–	–	–	–	–
Loans and advances to customers	749 772	747 744	725 115	19 316	3 314	–	–	–	–
Reinsurance assets	892	–	–	–	–	–	–	–	–
Investments linked to investment contracts	18 936	–	–	–	–	–	–	–	–
Investments in associates and joint ventures	1 234	1 234	–	–	–	–	–	–	1 234
Investment properties	231	53	–	–	–	–	–	53	–
Property and equipment	15 303	15 193	–	–	–	–	–	15 193	–
Goodwill and intangible assets	5 377	5 089	–	–	–	–	–	–	5 089
Deferred tax assets	1 291	916	–	–	–	–	–	329	587
Total assets	**1 165 981**	**1 132 656**	**906 551**	**93 295**	**3 712**	**132 178**	**2 823**	**43 362**	**7 385**

	a	b	c	d	e	f			g
	2017								
			Carrying values of items						
	Carrying values as reported in published financial statements Rm	Carrying values under scope of regulatory consoli-dation Rm	Subject to credit risk framework Rm	Subject to CCR framework Rm	Subject to securiti-sation framework Rm	Subject to market risk framework Rm	Equity Investment Risk Rm	Other Assets Rm	Not subject to capital require-ments or subject to deduction from capital Rm
Liabilities									
Deposits from banks	67 390	67 390	–	–	–	–	–	–	67 390
Trading portfolio liabilities	64 047	64 043	–	44 186	–	64 043	–	–	–
Hedging portfolio liabilities	1 123	1 123	–	–	–	–	–	–	1 123
Other Liabilities	31 744	30 066	–	–	–	–	–	–	30 066
Provisions	3 041	2 967	–	–	–	–	–	–	2 967
Current tax liabilities	57	35	–	–	–	–	–	–	35
Non-Current liabilities held for sale	48	48	–	–	–	–	–	–	48
Deposits due to customers	689 867	688 549	–	–	–	–	–	–	688 549
Debt securities in issue	137 948	137 948	–	–	–	–	–	–	137 948
Liabilities under investment contracts	30 585	9 604	–	–	–	–	–	–	9 604
Policyholder liabilities under insurance contracts	4 617	–	–	–	–	–	–	–	–
Borrowed funds	15 895	15 895	–	–	–	–	–	–	15 895
Deferred tax liabilities	557	466	–	–	–	–	–	–	466
Total liabilities	**1 046 919**	**1 018 134**	**–**	**44 186**	**–**	**64 043**	**–**	**–**	**954 091**

Column b: The regulatory scope of consolidation excludes balances related to the Group's insurance entities, while the financial statements include these balances.

Columns c to g: The carrying value under regulatory scope of consolidation does not equal the sum of the amounts subject to the different risk framework due to:

- Derivative financial instrument (contained in trading portfolio assets, trading portfolio liabilities and hedging portfolio assets) are subject to RC for both CCR and market risk.
- Reverse repos to non-banks included in loans and advances to customers are subject to RC under the credit and counterparty credit risk frameworks.
- Reverse repos to banks are included in loans and advances to banks are subject to RC under the credit and counterparty credit risk frameworks.

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3.5.2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements LI2

				a			b	c
		2017						
			Items subject to					
		Total Rm	Credit risk framework Rm	Securiti-sation framework Rm	CCR framework Rm	Market risk framework Rm	Equity investment risk Rm	Other assets Rm
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	1 125 271	906 549	3 712	93 295	132 178	2 823	43 363
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	64 043	–	–	44 186	64 043	–	–
3	**Total net amount under regulatory scope of consolidation**	1 061 228	906 549	3 712	49 109	68 135	2 823	43 363
4	Off-balance sheet amounts		319 227	–	–	–	–	–
5	Cash and balances with central bank		(6 701)	–	–	–	–	–
6	Other assets		–	–	18 343	–	–	–
7	Differences in valuations		(12 407)	–	(27 104)	–	–	–
8	Differences due to consideration of provisions		14 966	–	–	–	–	–
9	Differences due to prudential filters		–	–	–	–	–	–
10	Credit Conversion Factor (CCF)		(165 442)	–	–	–	–	–
11	Significant Investments not subject to RWA		–	(1 154)	–	–	(495)	–
12	**Exposure amounts considered for regulatory purposes**	1 061 228	1 056 192	2 558	40 348	68 135	2 328	43 363

The most important drivers of the difference between the carrying value and exposures considered for regulatory purposes are: LIA

- Line4: Pre-CCF Off-balance sheet exposures, which contribute to regulatory credit risk framework.
- Line 5: Other assets under credit risk framework relates to joint venture exposures that are included in regulator capital calculations.
- Line 7: Differences in valuations under the credit risk framework relates to differences in treatment between risk and finance as a result of eliminations and grossing up of transactions.
- Line 8: Differences due to consideration of provisions relate to impairments under the AIRB approach deducted from credit risk framework in LI1.
- Line 9: Netting effects under the CCR framework relate to the impact of netting of derivative exposure.

The Exposure amounts considered for regulatory purposes in table LI2 above correspond to the exposure reported in the following tables:

- Credit risk framework total corresponds to the sum of: EAD post CRM and CCF in table CR6 on page 71 and exposures post CCF and CRM in table CR4 on page 46.
- Securitisation framework total corresponds to the sum of securitisation exposures where the Group acted as originator and sponsor in table SEC1 on page 65.
- CCR framework total corresponds to the sum of EAD post CRM under the different approaches in table CCR1 on page 60.
- Equity investment risk total corresponds to the sum of exposure amount in table CR10 on page 68.

4. Overview of risk management

Contents

4.1	Approach to Risk Management	22
4.2	The Enterprise Risk Management Framework	22
4.3	Strategy and risk appetite	23
	4.3.1 Strategy, business model and risk appetite	23
	4.3.2 Stress testing	24
4.4	Risk process	24
4.5	Risk architecture	26
	4.5.1 Risk culture	26
	4.5.2 The three lines of defence	26
	4.5.3 Governance	27
	4.5.4 Combined assurance	29
	4.5.5 Frameworks, policies and standards	30
	Ownership and Approval	30
	4.5.6 Human Capital	31
	4.5.7 Data	31
	4.5.7.1 Risk Data	31
	4.5.7.2 Risk Reporting	31
	4.5.7.3 Risk Data Aggregation and Risk Reporting (RDARR)	31
	4.5.8 Models	31
	4.5.9 Technology	32
4.6	Principal risks	32

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
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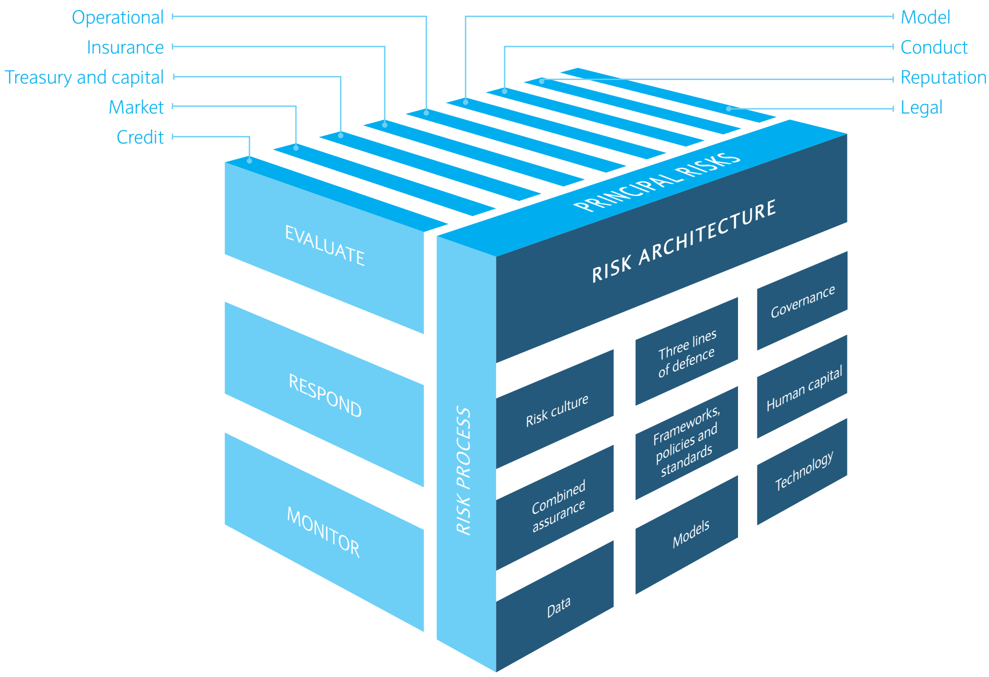
4.1 Approach to Risk Management OVA

The Group maintains an active approach towards managing both current and emerging risks through the continued operating effectiveness of its Board approved Enterprise Risk Management Framework (ERMF). This approach is underpinned by:

- A robust and aligned governance structure at Group, country and business level.
- Well defined material risk categories known as principal risks.
- A 'three lines of defence' model (refer section 4.5.2), with clear accountability for managing, overseeing and independently assuring risks.
- Comprehensive processes to evaluate, respond to, and monitor risks.
- A sound architecture that sets out the appropriate risk practices, tools, techniques and organizational arrangements.

4.2 The Enterprise Risk Management Framework



The role of risk management is to evaluate, respond to, and monitor risks in the execution of the Group's strategy. It is essential that the business strategy is supported by an effective ERMF. The Group's business culture is closely aligned to a sound and well understood approach to risk. The Group's Risk Function retains independence in analysis and decision-making, underpinned by regular reporting to, and the support of, the GRCMC.

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing appropriate risk practices throughout the Group. It also defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It ensures that appropriate responses are in place to protect the Group and its stakeholders.

The ERMF sets out the principal risks, and assigns clear ownership and accountability for these risks. The ERMF defines credit, market, treasury and capital, insurance, operational, model, conduct, reputation and legal risks as principal risks in recognition of their significance to the Group's strategic ambitions. Credit risk, market risk and treasury and capital risk are collectively known as financial principal risks. The remaining risks are referred to as non-financial principal risks.

The Group Chief Risk Officer (GCRO) is the owner of the ERMF. Application of the ERMF in the Group is overseen by the Heads of applicable principal risk types, with the Head of Operational Risk operating as the custodian and lead on ERMF matters.

4.3 Strategy and risk appetite

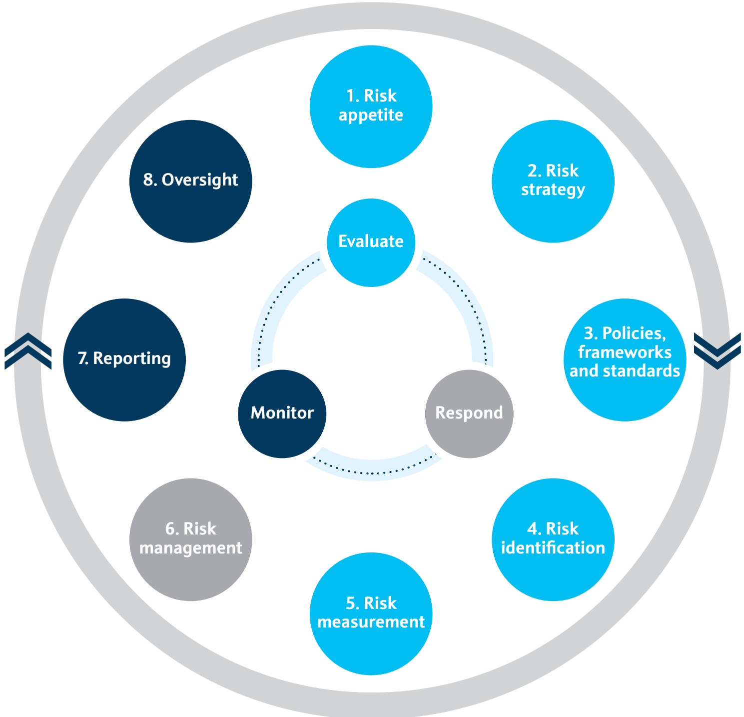
4.3.1 Strategy, business model and risk appetite

The Group helps to create, grow and protect wealth through its banking, insurance and wealth businesses. The Group's strategy focuses on opportunities for growth and takes into account the matters believed to be material to long-term sustainability. The Group's strategy is the key driver of risk and return, and should be achieved within the parameters of the agreed risk appetite.

The risk strategy is developed alongside the Group's business strategy and forms an integral part of the integrated planning process. Within the risk strategy, risk appetite defines the nature and amount of risk that the Group is willing to take to meet its strategic objectives. This is set at the start of the strategic planning process to ensure that the business strategy is achievable within risk appetite, and that risk information is considered in the organisation's decision-making and planning process.

The Group's risk appetite:

- Specifies the level of risk the Group is willing to take and why.
- Considers all principal risks individually and, where appropriate, in aggregate.
- Consistently measures, monitors and communicates the level of risk for different risk types, expressed in qualitative and quantitative terms.
- Describes agreed parameters for the Group's performance under varying levels of financial stress with respect to profitability, loss and return metrics, capital adequacy and liquidity ratios.
- Is considered in key decision-making processes, including business planning, mergers and acquisitions, new product approvals and business change initiatives.



The Group's risk appetite is defined using qualitative statements and quantitative measures which are cascaded to the level of principal risk, legal entity and business unit.

The Group's risk appetite is stated qualitatively in terms of risk principles and risk preferences, with reference given to the types of risk the Group actively seeks as well as those it accepts and avoids. In addition, the maximum amount of risk that the Group is prepared to accept in pursuit of its business objectives is defined using a range of quantitative metrics relating to capital adequacy, earnings volatility, liquidity, and leverage.

Quantitative Risk Appetite Metrics	Definition
Total regulatory capital coverage	The extent to which the Group is adequately capitalised on a regulatory basis for both its banking and insurance businesses.
CET1 ratio (%)	The extent to which the Group is adequately capitalised with common equity tier 1.
Economic capital (EC) coverage	The extent to which the Group is adequately capitalised on an economic basis.
Accounting earnings-at-risk (%)	Percentage of profit before tax potentially lost over a 12 month period.
Loan loss rate (bps)	Level of actual credit losses in the Group's credit portfolios.
Liquidity coverage ratio (%) (Basel III)	The Group's sufficiency of high-quality liquid assets relative to total net cash outflows over a 30 day period.
Leverage ratio (%) (Basel III)	Level of leverage in the Group per unit of qualifying Tier 1 regulatory capital (statutory).

Qualitative risk appetite

Risk principles provide a high level perspective on how the Group thinks about risk and reward. The Group's risk principles state that:

- The Group takes on only those risks that it understands, has the skills to monitor and manage, and can price for appropriately. This is to ensure that expected reward exceeds minimum risk-adjusted return for shareholders.
- The Group prefers risks that are capital efficient. In assessing capital efficiency, the impact of diversification or concentration on the existing risk profile is considered.
- The Group considers risk by legal entity and business unit taking into account the available risk budget in the business unit and in aggregate at the Group level.
- The Group avoids risks where it exposes itself to volatile or potentially extreme adverse outcomes.

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Risk preferences provide a view of the risks the Group is actively seeking, accepting or avoiding. The preferences state that:

- The Group actively seeks risks directly related to the pursuit of lending, transacting, trading, advisory, and insurance and investment business through appropriate products and services. These risks include credit risk, equity risk, business risk, market risk, insurance risk and the associated key risks.
- The Group consciously accepts risks that arise as a consequence of balance sheet management activities aimed at increasing shareholder value, optimising capital efficiency, managing liquidity and hedging risks stemming from the Group's products and services. These risks include interest rate risk, currency risk, credit risk, equity risk, fixed asset risk, pension risk, liquidity risk and capital risk.
- The Group accepts the risks that may arise from the adoption of a customer centric business model. These risks include reputation, fraud, compliance, legal, and conduct risks.
- The Group is willing to accept the risks that arise from the execution of its long-term strategy, in particular those arising from its growth ambitions in respect of new markets and geographies as articulated in the Group's long term strategy. These risks include sovereign risk, foreign exchange risk, political risks and country risk.

4.3.2 Stress testing

Stress testing and scenario analysis are key elements of the Group's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's business in the expected economic environment and also evaluate the potential impact of adverse economic conditions, using and applying the information in the process of setting risk appetite.

Stress testing is conducted across all legal entities, business units, risk types, as well as at Group level. This is supported by a framework, policies, and procedures, adhering to internal and external stakeholder requirements, and benchmarked against best practice.

The stress testing results are reviewed by management and the Board and have been incorporated into the Group's internal capital adequacy assessment process (ICAAP), as well as its recovery and resolution plan. The Group performs ad hoc stress tests for internal and regulatory purposes.

The Group conducts a range of stress testing exercises, aimed at informing different strategic and risk decisions. These are based on stress scenarios of varying levels of severity and applying various projection techniques.

As a minimum, the following types of stress testing would be performed annually:

Type of exercise	Purpose	Scenario type	Approach
Internal Group-wide stress testing	Evaluates the impact of changing market variables on business decisions (e.g. financial, capital, funding capital implications).	Based on a range of plausible macro-economic scenarios ranging from mild to severe stresses.	A combination of bottom-up and top-down stress testing approaches.
External Group-wide stress testing	Evaluates the impact of regulator determined scenarios on key regulatory measures (e.g. capital, liquidity and operational targets and metrics).	Based on macro-economic scenarios provided by regulatory authorities.	The approach taken varies based on regulatory scenario. However, it is largely a top-down approach focusing on a portfolio/Group-wide stress assessment.
Reverse stress testing	Assists BUs in understanding key risks and scenarios that may put business strategies and continuance as a "going concern" at risk.	Based on severely extreme stress scenarios that would result in the bank reaching a "point of failure" without the use of any recovery actions.	Largely top-down approaches used.

4.4 Risk process

The risk management process is structured in three steps, being evaluate, respond and monitor (the E-R-M process). This 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 Group.
- Is embedded into the business decision-making process.
- Guides the Group's response to changes in the external or internal environment.
- Involves all staff and all three lines of defence.

The three-step evaluate-respond-monitor (E-R-M) process 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 contrary views and positions and the exercising of expert judgement. • Analysing 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. Use of models must adhere to set principles. • Investigating the relationships and interactions between risks, compounding effects, correlations, concentrations, and aggregations. • Where possible, assessing risks on the basis of inherent and residual risks. • Ranking risks and taking an overall portfolio view of them to determine priorities. • Competitor analysis.
Respond	• Complying with all relevant laws and regulations. • Focusing on the priority risks first. • Looking for a single response that might mitigate more than one risk, and extend or replicate existing controls if appropriate. • Embedding controls into the business activity/process and automating controls wherever 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.
Monitor	• Focusing on progress towards objectives, using key performance indicators (KPIs) to identify those objectives which require further attention. • Analysing the current and evolving risk profile and risk trends, use of key risk indicators (KRIs) to understand changes in the risk environment; maintain watch for new risks that might impact objectives (e.g. horizon scanning and use of scenario analysis); and monitoring 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 this 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), monitoring first line activities to ensure these are operating within mandates, ensuring policies are routinely updated and that standards have been implemented, and that appropriate resources are being deployed. Monitoring includes Assurance, Control testing, and Conformance Reviews. • The Group applies a combined assurance model with an objective to optimise overall assurance in the risk and control environment. • 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.

4.5 Risk architecture

4.5.1 Risk culture

The Code of Conduct outlines the values and behaviours which govern our way of working. It constitutes a reference point covering all aspects of employee's working relationships, specifically with other employees, customers and clients, governments and regulators, business partners, suppliers, competitors and the broader community. The objective of the Code of Conduct is to define the way we think, work and act at a Group level to ensure we deliver against our purpose of helping people to achieve their ambitions – in the right way.

The Code of Conduct sets out the ethical and professional attitudes and behaviours expected of the Group and its employees. All colleagues are required to be mindful of living the behaviours consistent with the Group's values of:

- Respecting our customers and their needs.
- Respecting the role of Compliance, Risk and Audit colleagues who provide partnership and challenge to the businesses.
- Speaking up if we believe decisions are not right or could potentially harm our stakeholders.
- Disclosing all relevant information and discussing conduct risks in an open, honest and factual manner.
- Making fair and balanced decisions.
- Sharing and learning from mistakes and near misses.
- Taking individual accountability by promptly communicating and escalating instances of inappropriate judgement that could cause detriment to our stakeholders.
- Always acting in a way which protects the interests of our stakeholders.
- Exercising a duty of care when providing banking services to our stakeholders.
- Promoting a 'identify and address' culture in relation to potential stakeholders' detriment.
- Underpinning the Group's risk and control culture by its Management Control Approach methodology which is reliant on the tone from the top and its translation into action within the organisation.

4.5.2 The three lines of defence

The Group applies a 'three lines of defence' model to govern risk across all segments and functions. The ERMF assigns specific responsibilities to each line of defence.

- **The first line:** Process and control owners in customer-facing segments and select Group functions, who are responsible for managing end-to-end risks and controls in their daily processes.
- **The second line:** Independent risk, compliance, legal and control functions and management control groups, who formulate risk and control policies and standards, and review the first line's adherence to these.
- **The third line:** Internal and external audit functions who test and review controls to determine whether the first and second lines execute their responsibilities effectively and consistently.

<table>
<tr><th></th><th>Responsibilities</th><th colspan="3">Stakeholders</th></tr>
<tr><td>1</td><td>Originate and own risk, and implement controls
• Manage risks and controls in business processes
• Maintain the risk profile within approved appetite
• Oversee risk and control via risk committees
• Perform assurance, incl control testing
• Monitor the risk profile and capability and escalate material exposure</td><td colspan="3">Process and control owners in customer and client-facing business segments and select Group functions
Business units</td></tr>
<tr><td>2</td><td>Oversee and challenge the first line providing independent risk management activity and controls
• Set risk frameworks and policies
• Recommend risk appetite
• Review and challenge first line risk management activity and the risk profile – day-to-day and via risk committees
• Conduct independent assurance, including conformance reviews
• Oversee compliance to policies via dispensation, Waiver and Breach process</td><td>Business unit risk</td><td>Enterprise risk</td><td>Compliance</td></tr>
<tr><td>3</td><td>Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended
• Provide independent and timely assurance to the Board and management in relation to the effectiveness of governance, risk management and control
• External auditors
• External assurance parties</td><td colspan="2">Internal Audit</td><td>External Audit</td></tr>
</table>

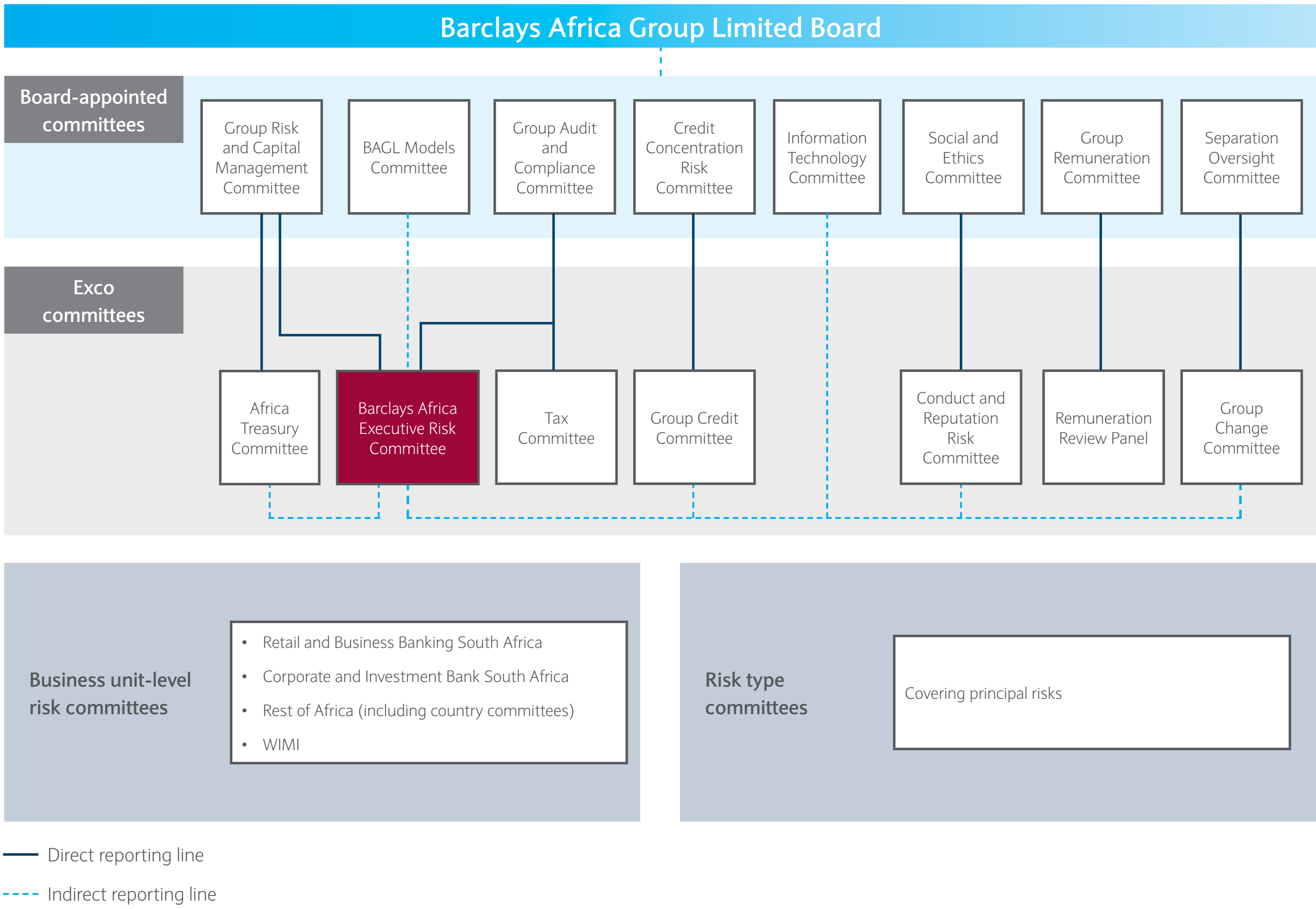
Combined assurance techniques are employed where appropriate to ensure adequate coverage and efficiency of the Group's risk assurance activities.

All employees are required to take responsibility for their role in risk management, regardless of position, function or location. They are required to be familiar with risk management policies relevant to their activities, must know how to escalate actual or potential risk issues, and have a role-appropriate level of awareness of the ERMF, the risk management process and governance arrangements.

4.5.3 Governance

The Group Board is supported by a number of committees at Board, Executive, and Business level. The below diagram depicts the risk related committees.

Risk governance structure



Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
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The main responsibilities of the Board-appointed committees are:

Committees	Key risk focus areas	Principal risk covered
Group Risk and Capital Management Committee (GRCMC)	Risk, risk appetite, capital, funding and liquidity management	• Credit risk • Market risk • Treasury and capital risk • Insurance risk • Operational risk • Model risk • Conduct risk • Reputation risk • Legal risk
Models Committee (MC)	Approval of material models and model governance oversight	• Model risk
Social and Ethics Committee (SEC)	Conduct risk, sustainability, stakeholder management, corporate citizenship, ethics, labour, diversity and inclusion, and general human resources and talent management matters	• Conduct risk • Reputation risk
Group Audit and Compliance Committee (GACC) (includes Disclosure Committee)	Internal controls, compliance, internal and external audit, accounting and external reporting	• Operational risk
Information Technology Committee (ITC)	IT systems, data, architecture and innovation, resilience and return on investment	• Operational risk
Credit Concentration Risk Committee (CCoRC)	Credit exposures above 10% of the Group's qualifying capital and reserves, portfolio exposures, applicable impairment trends and concentration risks	• Credit risk
Group Remuneration Committee (RemCo)	Remuneration and incentive arrangements, policy and disclosures, executive appointments and succession	• All principal risks
Separation Oversight Committee	Oversight of the execution of the Separation. Specific decisions in relation to the Separation activities rest with the relevant Board committees, in accordance with their respective mandates. This Committee will remain in place until the completion of the Separation (approximately three years).	• All principal risks

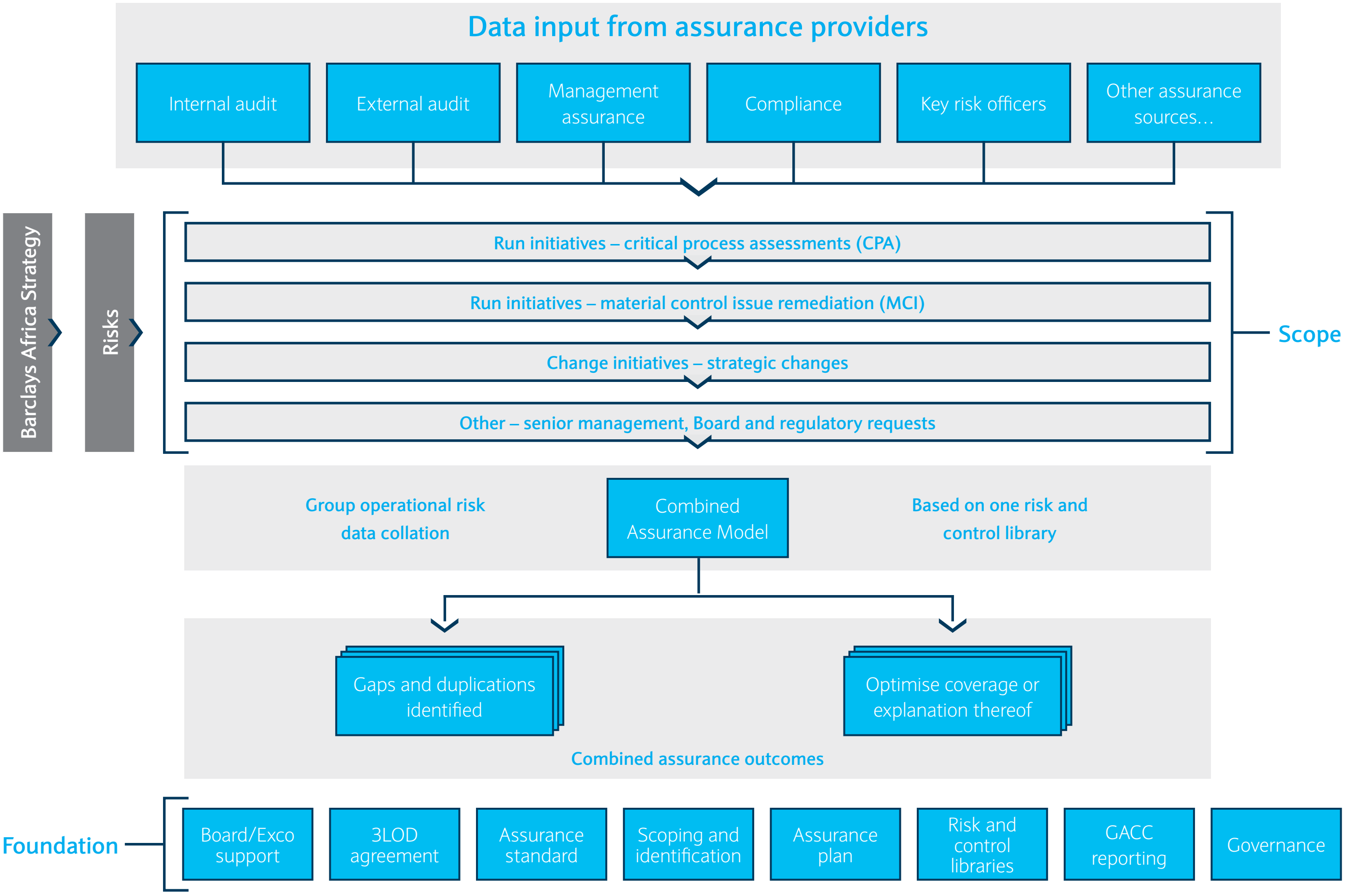
4.5.4 Combined assurance

The Group applies a combined assurance model and requires co-ordinated activity across the three lines of defence for effective combined assurance. The objective of combined assurance is to optimise overall assurance provided to the executive and Board in respect of the risk and control environment.

The Group seeks to have a greater level of process automation and a higher proportion of preventative controls, wherever possible.

The combined assurance strategy is a more risk-based approach, across those areas that are most material to the enterprise.

The Group's combined assurance diagram is aligned to King IV requirements:



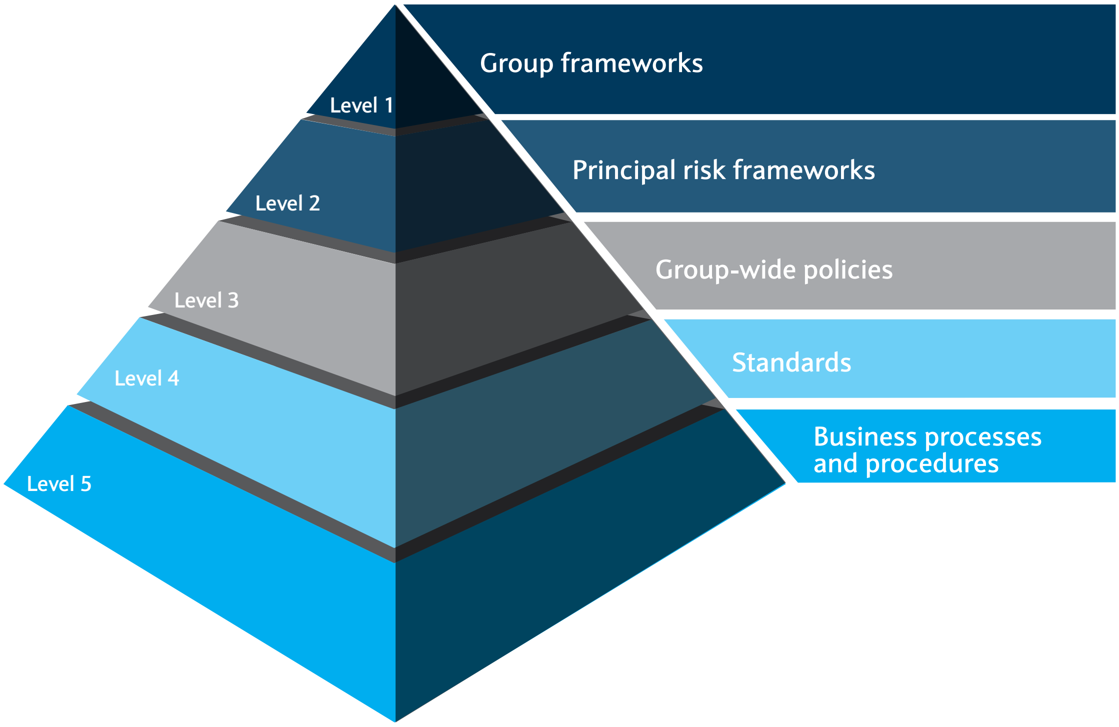
4.5.5 Frameworks, policies and standards

The Group has a policy hierarchy in place, which delivers broad, consistent group requirements through:

- Implementing Group-wide frameworks, policies and standards.
- Limiting variation from Group minimum requirements and policy to circumstances where specific jurisdictional legal or regulatory requirements apply.
- Mandating alignment of governance documentation to the requirements and definitions of the hierarchy.

This drives consistency and efficiency and enables enhanced aggregation and risk oversight across the businesses and improved 'line of sight' to all levels of management.

The hierarchy has five-tiers, with each level cascading from the one above. The degree of granularity and specificity of requirements increases as the levels descend.



- **Principal Risk Frameworks:** Principal Risk Frameworks describe the high level Group-wide approach for a specific risk and are mandatory for each of the principal risks identified within the ERMF. Frameworks also outline the risk and policy taxonomy that enables the proper management and governance over the principal risk.
- **Policies:** Policies set out the control objectives, principles and other core requirements for the activities of the organisation. Policies explain 'what' businesses, functions and legal entities need to do, rather than how they need to do it.
- **Standards:** Standards set out the key controls that ensure the objectives set out in the policy are met, and who needs to carry them out. Standards describe 'how' the Policy requirements will be met in a particular entity, business or function.

Ownership and Approval

All frameworks and policies are owned by Group functions; standards, processes and procedures may be owned by functions or businesses.

Principal Risk Frameworks are approved by the Group Board or mandated Board sub-committee. Policies are approved either by committees or individuals, as determined by the Principal Risk Officer. Standards are approved by policy owners or other individuals mandated by the policy owner. Processes and Procedures are owned and approved by their respective businesses and functions.

Frameworks, policies and standards are subject as a minimum to an annual review, unless explicitly waived for appropriate reasons by the relevant Principal Risk Officers.

4.5.6 Human Capital

Strong business performance during the planned Separation from Barclays PLC remains a priority. A sustained focus on employees, as a differentiating asset, enables the Group to accelerate progress. Central to this is leadership continuity, critical skills retention, and the continued ability to attract and engage talent, independent of Barclays PLC.

The Group's people promise aims to embed a culture that appreciates employees and unifies them through a shared identity, common purpose, colleague credo and meaningful experiences.

Regular reviews of the operating model and capacity are conducted to ensure that the Group has the appropriate skills and expertise to conduct its business in a responsible manner. Investments in colleague development and strengthening of the employer brand are ongoing initiatives to continually develop the leadership and managerial depth to underpin future strategic ambitions. The Group supplements its skills profile with specialist third parties on a needs driven basis. Transformation of the workforce remains a strategic imperative

4.5.7 Data

4.5.7.1 Risk Data

Internal and external data is utilised in meeting regulatory requirements and the management of risk. The Group enters into selected data and analytics partnerships with third parties, to enhance and heighten understanding of customers and clients. Third parties may include public and private sector corporate clients, bureaus and other data providers. Internal data is owned and managed by the respective business units with regular assessment of data quality via their respective risk governance structures. All key datasets are subject to the requirements of the Group's Data Policies and Standards.

4.5.7.2 Risk Reporting

The objective of risk reporting is to provide timely, accurate, comprehensive and useful information to the Board and senior management to facilitate informed decision-making. Board and senior management risk committees determine their requirements in terms of content and frequency of reporting under both normal and stressed conditions. Risk reporting process flow is from the business unit and risk type risk committees; to the BERC; and thereafter to Board committees. The content and level of aggregation are adjusted along the way to suit the needs of each committee. Risk reports typically contain the following key information:

- Monitoring of the risk profile against risk appetite and trend analysis.
- Utilisation of financial resources against the risk budget.
- Reporting of key risk metrics per risk type.
- Monitoring of emerging risks and changes in the environment and an assessment of their potential impact.
- Results of stress testing exercises undertaken (both to assess the adequacy of financial resources and sensitivity stresses).
- An assessment of the risk governance profile, including an assessment of the degree to which risk frameworks and policies are implemented throughout the bank and assurance activities.

4.5.7.3 Risk Data Aggregation and Risk Reporting (RDARR)

The Basel Committee published the regulations pertaining to the principles for RDARR in 2013. In February 2015, the SARB published its directive requiring domestic systemically important banks (D-SIBs) to be fully compliant by 1 January 2017. In line with the local industry trend, the Group has received dispensation from the SARB extending the date of full compliance to 1 January 2021. The Group has implemented a programme to ensure full compliance with RDARR (BCBS239) principles with reserved funding and dedicated resourcing. The planning phase is completed and execution is underway, managed through integrated change governance. Processes and procedures, albeit reliant on tactical solutions, have been implemented in reporting Board/senior management approved risk appetite metrics. Automation via strategic solutions is planned over the next three years.

4.5.8 Models

Model risk has been identified as a principal risk to be managed under the Enterprise Risk Management Framework (ERMF), with specific guidelines set out in the Group Model Risk Policy (GMRP) and relevant standards covering model ownership, model development, model approval, model implementation, model monitoring and model validation.

A model is defined as a quantitative method, system or approach that applies statistical, economic, financial, or mathematical theories, techniques, parameters and assumptions to process input data into outputs. A model comprises inputs, parameters and calculations that produce outputs. A model is considered as an end-to-end concept, including the sourcing of inputs, the selection and specification of methodology, the calibration of parameters, the implementation of the model and the usage of the outputs.

Model risk is defined as the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports. As such, it considers both the likelihood of an adverse event and the severity thereof. The most material models are likely to present the greatest model risk and, therefore, increased scrutiny is placed on the independent validation and challenge of those models.

4.5.9 Technology

Technology is a building block for the Group's risk management practices, and to this end solutions are focused on:

- Data collection and storage.
- Risk analysis and modelling.
- Risk assessment, monitoring and control.
- Risk reporting and communication.

The Group's risk technologies are sourced primarily from third party suppliers. Long-term strategic relationships are in place with many of the established industry brands.

In addition to enabling the effective management of risk, these technologies present opportunities for digitisation of components of core business processes, e.g. credit assessment in a vehicle finance loan. Any such opportunities are explored and implemented collaboratively across the Group through its integrated change governance.

The Group's investment in risk related technology over the next three years will prioritise cyber, 'Big Data', reporting and operational risk.

4.6 Principal risks

The ERMF includes those risks taken by the Group that are foreseeable and material enough to merit establishing specific Group-wide control frameworks. These are grouped into nine principal risks, which account for the vast majority of the total risk faced by the Group.

- Financial principal risks
  - Credit risk
  - Market risk
  - Treasury and capital risk
  - Insurance risk
- Non-financial principal risks
  - Operational risk
  - Model risk
  - Conduct risk
  - Reputation risk
  - Legal risk

The ERMF is reviewed and approved annually by the Board, on recommendation after detailed scrutiny by the GRCMC. In its latest design review, the ERMF was amended to define treasury and capital, insurance, model, reputation and legal risks as principal risks in recognition of their significance to the Group's strategic ambitions.

The Group Chief Executive grants authority and responsibility to the GCRO to ensure the principal risks are properly managed under appropriate risk control frameworks and within the constraints of the Board-approved risk appetite and risk budget.

Individual events may entail more than one principal risk. For example, internal fraud by a trader may expose the Group to operational and market risks as well as many aspects of conduct risk.

Credit risk, market risk and treasury and capital risk are collectively known as financial principal risks. The remaining risks are referred to as non-financial principal risks.

This is not an exhaustive list of risks to which the Group is subject. For example, the Group is also subject to political and regulatory risks in the jurisdictions in which it operates. While these may be consequential, and are assessed from time to time in the planning and decision making of the Group, they are not considered principal risks. These other risks are, however, subject to this framework and oversight by Risk Management.

The GCRO is accountable for ensuring that frameworks, policies and associated standards are developed and implemented for each of the financial principal risks, operational risk and model risk and that they are subject to limits, monitored, reported on and escalated as required. The Chief Compliance Officer is likewise accountable for conduct risk and reputation risk, and the Group General Counsel for legal risk.

5. Credit risk

Contents

5.1	Review of current reporting period	34
5.2	Priorities	34
5.3	General information about credit risk	35
	5.3.1 Risk identification and risk management	35
	5.3.2 Governance	35
	5.3.3 Reporting	36
	5.3.4 Credit quality of assets	36
	5.3.5 Credit impairments	39
	5.3.6 Management of customers in distress	40
	5.3.7 Measuring and managing credit concentrations	42
5.4	Credit risk mitigation (CRM)	44
	5.4.1 Valuation of collateral	45
	5.4.2 Types of guarantor and credit derivative counterparties	45
5.5	Credit risk under the standardised approach	46
5.6	Credit risk under the internal ratings-based (IRB) approach	48
5.7	Counterparty credit risk (CCR)	59
5.8	Securitisation	65
5.9	Equity investment risk	68

Credit risk is the risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations. CRA

5.1 Review of current reporting period

Key risk metrics	YoY trend	2017 Group	YoY trend	2017 Wholesale	YoY trend	2017 Retail
Growth in gross loans and advances to customers (%)	↑	3.9	↓	6.9	↑	1.5
Credit loss ratio (%)	↓	0.87	↓	0.41	↓	1.29
Non-performing loans (NPL) as a percentage of gross loans and advances (%)	↓	3.7	↓	2.5	↑	5.3
NPL coverage ratio (%)	↓	43.1	↓	39.5	↓	44.5
Performing loans coverage ratio (%)	↓	0.7	↓	0.5	↓	0.9
Weighted average probability of default (PD) (%)[1]	↓	2.3	=	1.0	↓	3.9
Weighted average loss-given-default (LGD) (%)[1]	↑	30.6	↑	34.2	↓	26.1
Credit risk-weighted assets (RWA) as a percentage of EAD (%)[1]	↑	45.3	↑	48.0	↑	42.1

	2016 Group	2016 Wholesale	2016 Retail
Growth in gross loans and advances to customers (%)	2.7	7.8	(0.8)
Credit loss ratio (%)	1.08	0.63	1.54
NPL as a percentage of gross loans and advance (%)	3.9	2.8	5.2
NPL coverage ratio (%)	44.2	40.8[2]	45.6[2]
Performing loans coverage ratio (%)	0.8	0.7[2]	1.0[2]
Weighted average PD (%)[1]	2.4	1.0	4.0
Weighted average LGD (%)[1]	28.6	30.6	26.2
Credit RWA as a percentage of EAD (%)[1]	43.5	46.1	40.6

- **Loans and advances:** The **3.9%** (4.8% on a constant currency basis) growth in loans and advances to customers is largely a function of tough economic conditions, political and policy uncertainty, and low confidence levels in South Africa. Muted growth in retail advances was partly offset by solid growth in wholesale loans and advances. The home loans portfolio remained unchanged year-on-year. Wholesale growth was largely due to strategic focus on selected names in the real estate sector and high quality mid-tier corporates.
- **NPLs:** NPL as a percentage of gross loans and advances improved to **3.7%** (2016: 3.9%) due to the recovery of a large single name exposure, write-offs, and payments received on NPLs in the Wholesale Rest of Africa portfolio.
- **Credit loss ratio:** Credit loss ratio improved to **87bps** (2016: 108bps), driven by reduced impairment charges. Impairment charges have reduced by 19.8% to R7 022m (2016: R8 751m), as a result of lower default experience across the South African wholesale portfolios, improved credit performance in the Rest of Africa businesses, and risk mitigation strategies initiated previously in the South African retail businesses. The income statement charge for macroeconomic provisions was lower during the reporting period.
- **Performing coverage:** The decrease in coverage to **70bps** (2016: 79bps) relates to an improvement in the Wholesale portfolio's risk profile.
- **Credit RWA intensity:** RWA consumption calculated as a percentage of the exposure at default has increased and is attributable to increased wholesale LGD levels (due to a new sovereign LGD model implementation) and market movements increasing both counterparty credit risk (CCR) and credit value adjustment (CVA).

5.2 Priorities

- Continued focus on risk and return considerations and the correct pricing of risk.
- Close monitoring of changes in the macroeconomic, political and regulatory environment in South Africa in order to identify and manage risks and opportunities at an early stage.
- Continued focus on management of Separation from Barclays PLC, including governance processes, drafting and embedment of localised policies and ownership of risk technology.

Notes
1 The percentages include only portfolios subject to the IRB approaches.
2 Changed from the previous disclosure due to business changes in Rest of Africa where some of the balances moved between Retail and Wholesale.

- Continuously refine the credit risk appetite methodology, models and stress testing capabilities.
- Further enhancement of risk data aggregation and reporting capabilities at all levels of the organisation.

5.3 General information about credit risk

5.3.1 Risk identification and risk management

The ERMF, owned by the GCRO and approved by the Board, sets out the processes and governance arrangements used to evaluate, respond to and monitor risks incurred by the Group. Credit risk is identified within the ERMF as a principal risk. The credit risk framework sets out:

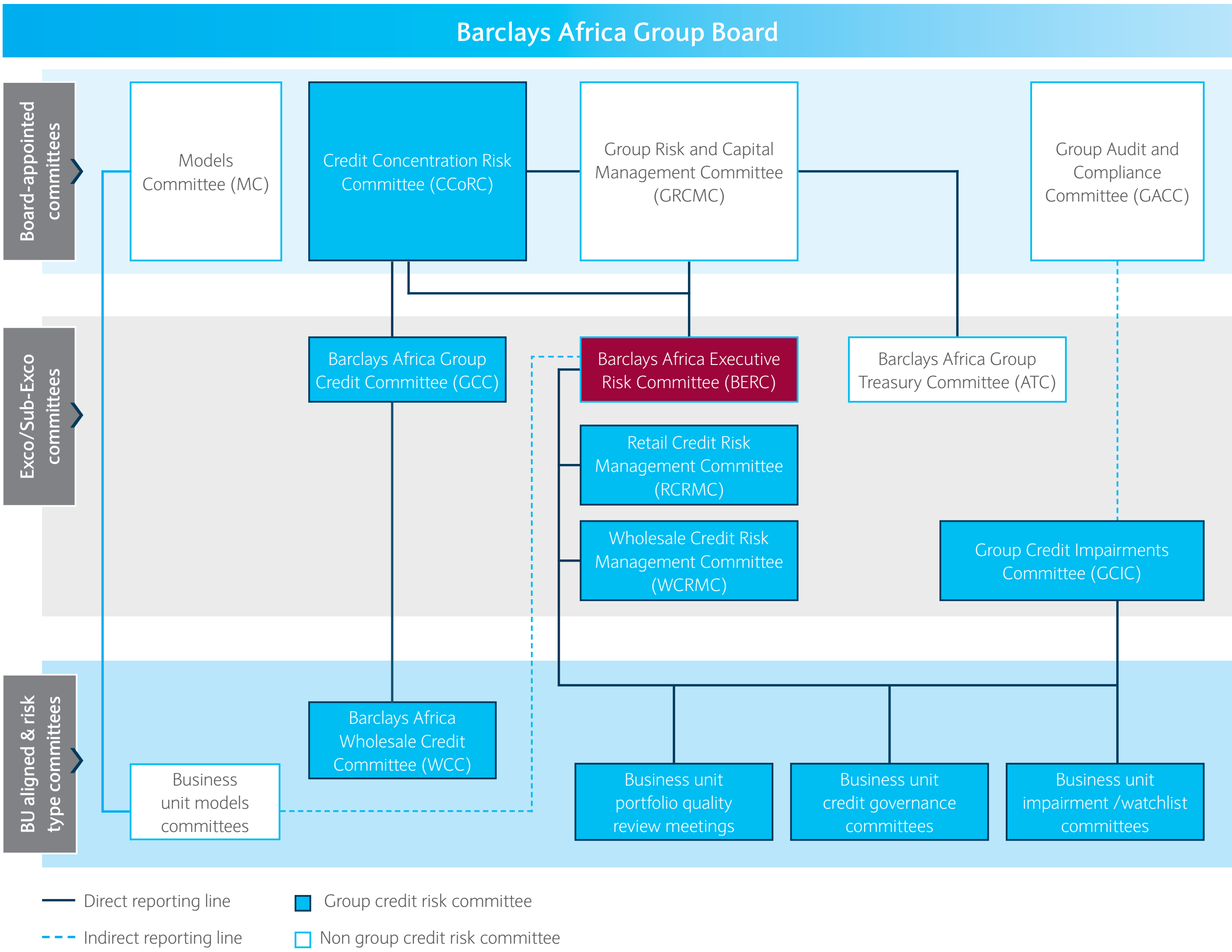
- The credit risk governance process.
- The process for establishing credit risk appetite.
- The requirements for the management, measurement and reporting of credit risk.
- The authorisation and delegation of credit risk activities.

Group credit policies augment the framework and contain detailed control objectives that must be met.

The management of credit risk is done in accordance with the bank's three lines of defence model that is depicted on page 26. This depicts the relationship between the credit risk function, compliance and internal audit. Both the Credit Risk function and Compliance are positioned in the second line of defence. The credit risk functions embedded in the business units are responsible for providing oversight over the risk-taking activities of business areas. Group credit functions are responsible for credit policies and to provide independent credit risk assurance services. Internal audit is positioned in the third line of defence.

5.3.2 Governance

The credit risk management and control function consists of committees and individuals at Board, executive management and business unit level. The key committees involved in the governance of credit risk are depicted below:



Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

- **Credit portfolio oversight:** The CCoRC is the primary Board sub-committee responsible for credit risk oversight. The Exco Risk Committee (BERC) is the most senior management committee responsible for credit risk oversight. At a business unit level, credit portfolio quality review meetings are responsible for the oversight and management of business unit credit portfolios.
- **Model governance:** The Board level MC is responsible for the review and approval of the most material credit models. Business unit model approval committees are in place for the review of the balance of the models.
- **Sanctioning:** The CCoRC is the ultimate sanctioning authority in the bank, responsible for the approval of single name exposures that exceed 10% of the Group's qualifying capital and reserves, irrespective of risk grade. Further, the committee delegates authority for the approval of sovereign risk exposures and single name exposures that fall below the 10% threshold to the Group Credit Committee (GCC), which in turn delegates authority to the Group Chief Credit Officer (GCCO).

5.3.3 Reporting CRA

The GCCO is responsible for the following board-level reporting:

- **To the CCoRC:** The Group's credit risk profile, including key credit metrics, effective utilization of risk appetite, and credit concentrations.
- **To the GRCMC:** A summary of the Group's credit risk profile and its utilisation of risk appetite against limits.
- **To the GACC:** A summary of the Group's impairment results and impairment position.

5.3.4 Credit quality of assets CRB

Various regulatory and accounting terms are used to refer to assets that are not performing as expected at the time or origination.

The diagram below depicts these terms.

Not impaired

Impaired

Objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition:

- Significant financial difficulty of issuer or obligor;
- Breach of contract (default or delinquency in interest or principal). A tolerance of one cent one day is used for delinquency;
- Granting a concession to the borrower that would not otherwise be considered due to the borrower's financial difficulty (distressed restructure);
- Probable bankruptcy or financial reorganisation of the borrower;
- The disappearance of an active market for the financial asset because of financial difficulties; and
- Observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual assets in the portfolio.

Current

Delinquent/Past due

- Any amount due under the contract (interest, principal, fee) has not been paid in full at the date when it was due.
- Past due from the first day of missed payment, even when the amount of the exposure or the past-due amount is not considered material.

90 days

Not defaulted

Default

- Payment is 90 days or more past the contractual due date, or payment is three or more instalments in arrears, or the utilisation on a revolving facility remains in excess of an advised limit for 90 days or more; or
- The Group considers that the customer is unlikely to pay its credit obligation to the bank in full. Indications of unlikeliness to pay include: suspension of interest, the Group consents to a distressed restructuring of the credit obligation, the customer applies for debt review, business rescue or similar protection, and bankruptcy.

Retail Default

Evaluated at an individual facility level. It is thus possible for certain facilities to a customer to be in default, while others are still performing.

Wholesale Default

Evaluated at customer level so that all facilities will either be in default or performing. If any exposure triggers default, all exposures to the customer will be considered as defaulted.

Performing

Non-performing

- In the Retail portfolio, loans that are more than 90 days past due; and
- in the Wholesale portfolio, loans that are considered unlikely to make full repayment of capital and interest to the bank and where the intent of the bank switches from rehabilitation to recovery of the outstanding capital and accrued interest.

The tables below depict the credit quality of assets. CR1

		a	b	c	d
		2017			
		Gross carrying values of			
		Defaulted exposures[1] Rm	**Non-defaulted exposures Rm**	**Allowances/ impairments Rm**	**Net values (a+b-c) Rm**
1	Loans	**30 890**	**789 470**	**18 874**	**801 486**
2	Debt Securities	**–**	**104 204**	**–**	**104 204**
3	Off-balance sheet exposures	**–**	**213 343**	**–**	**213 343**
4	**Total**	**30 890**	**1 107 017**	**18 874**	**1 119 033**

		a	b	c	d
		2016			
		Gross carrying values of			
		Defaulted exposures[1] Rm	Non-defaulted exposures Rm	Allowances/ impairments Rm	Net values (a+b-c) Rm
1	Loans	31 096	725 030	19 715	736 411
2	Debt Securities	–	129 687	–	129 687
3	Off-balance sheet exposures	–	189 251	–	189 251
4	**Total**	31 096	1 043 968	19 715	1 055 349

Refer to section 5.1 (Review of current reporting period) for commentary in respect of the year-on-year movement.

The table below depicts the statutory NPL loans and debt securities and the main drivers of the change. CR2

		a	
		2017 Defaulted exposures[1] Rm	2016 Defaulted exposures Rm
1	Defaulted loans and debt securities at end of the previous reporting period	**31 096**	27 980
2	Loans and debt securities that have defaulted since the last reporting period	**20 972**	24 282
3	Returned to non-defaulted status	**(9 597)**	(10 210)
4	Amounts written off	**(7 783)**	(5 936)
5	Other changes	**(3 798)**	(5 020)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**30 890**	31 096

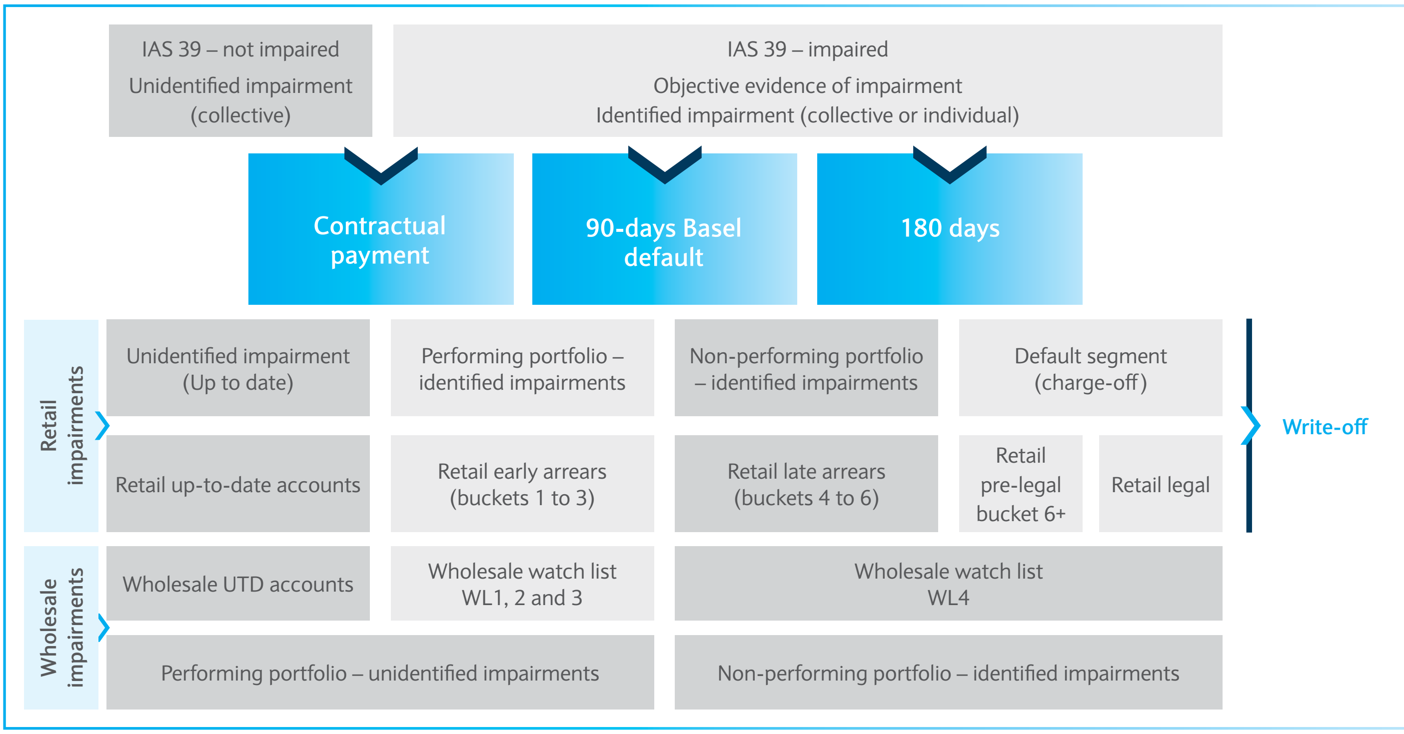
- Loans and debt securities that have defaulted are lower than prior period as a result of improved credit quality across Wholesale and the Edcon Card portfolio. Amounts that returned to non-defaulted status include corporate exposures in South Africa and Ghana.
- Amounts written off include a large single name corporate exposure and write-offs in Ghana, NBC and Tanzania.
- 'Other changes' include security realised and/or closed.

Refer the Group's annual financial statements note 63.2 for an ageing analysis of accounting past-due exposures[2]. CRB(i)

Notes
[1] The defaulted exposures are expressed in terms of statutory non-performing loans.
[2] No identified impairments are raised on exposures with sufficient collateral and classified as past due not impaired.

5.3.5 Credit impairments

The diagram depicts the stages of risk and related impairments:



Risk management process

Impairment assessments are conducted individually for significant assets, which comprise all wholesale customer loans and larger retail business loans, and collectively for smaller loans and for portfolio level risks, such as country or sectorial risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together, generally on the basis of:

- Product type.
- Industry.
- Geographical location.
- Collateral type.
- Past due status.
- Other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset, or the group of assets, which are then discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Following impairment, interest income is recognised at the original effective interest rate on the reduced carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets. Uncollectible loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to impairment losses on loans and advances in profit or loss.

Recognition criteria

Identified impairment

- Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account. For example, the business prospects for the customer, the fair value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management.
- Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case.
- Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

Unidentified impairment

- An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the Group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.
- In cases where the collective impairment of a portfolio cannot be individually evidenced, the Group sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will be identifiable at an individual borrower level only at a future date.

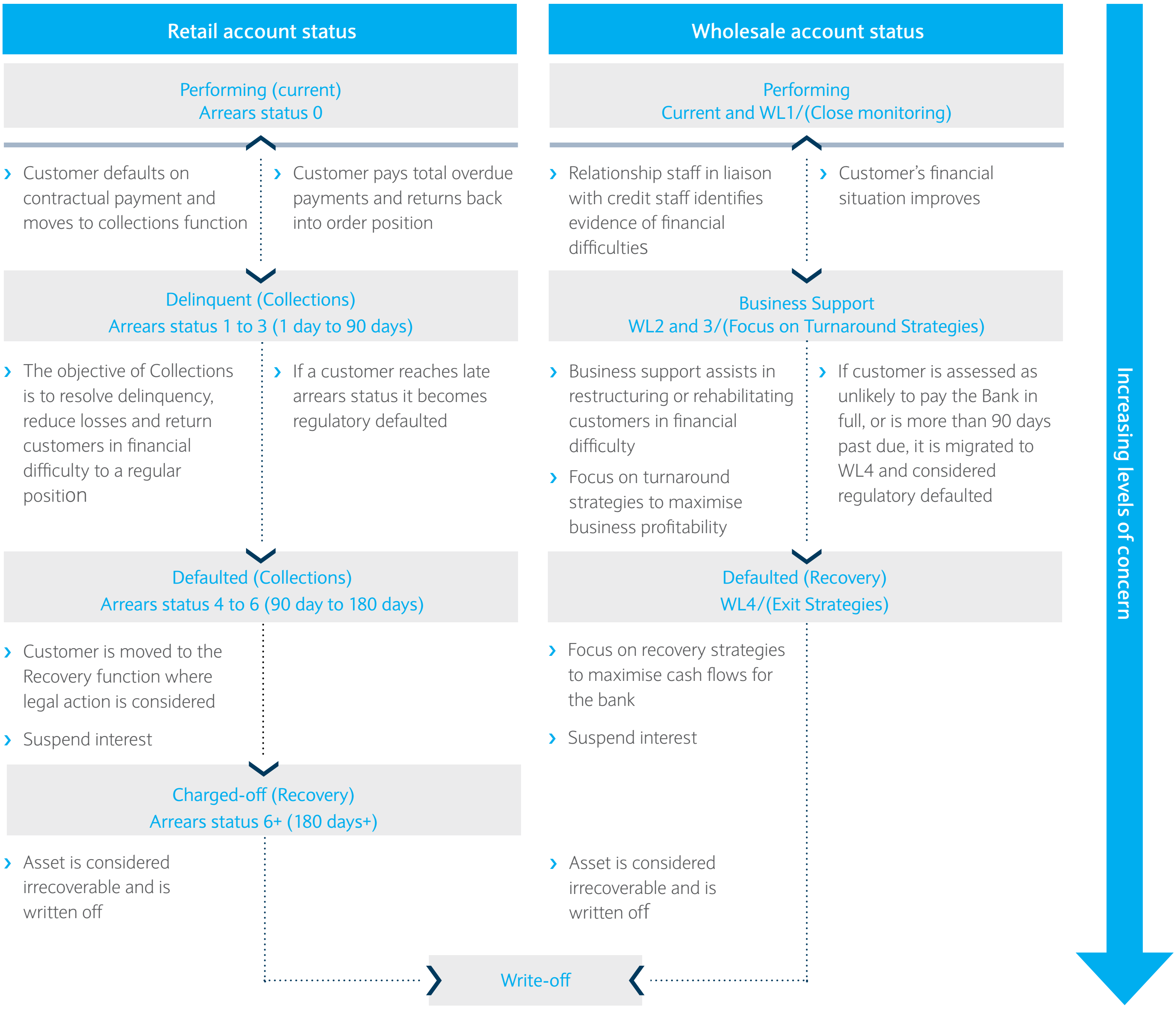
To the extent that the unidentified impairments created by the banking operations of the Group are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

5.3.6 Management of customers in distress

Distressed assets must be subject to enhanced risk oversight and monitoring to ensure that appropriate action is taken in a timely manner, allowing a high level of turnaround success and reduced risk of loss for the bank.

Wholesale businesses are required to identify, at an early stage, those customers believed to be facing financial distress or where there are grounds for concern regarding their financial health. Distressed customers are assigned to a specific Watch List (WL) category based on various qualifying criteria relating to the severity of their financial difficulties. It is expected that most customers would be categorised WL1 before migrating to a different WL category (WL2, WL3, WL4) or out of the WL framework. WL4 counterparties are assessed as unlikely to pay their credit obligations in full and as such represent defaulted assets. WL categories are updated monthly and are subjected to business unit aligned governance forums where the status of individual names is discussed and approved. Once an account is included on a WL, exposure is carefully monitored and, where deemed necessary, a reduction of the exposure is pursued.

Within the Retail portfolios, the Collections and Recovery functions are responsible for managing customers in financial distress. Business units have established consistent approaches to the identification and management of customers in financial distress using toolkits such as High Risk (HR) customer strategies, restructures, collection arrangements and legal action. HR customers are not in arrears, but are identified systematically either through an event or observed behaviour to exhibit potential financial distress. Strategies are in place to prevent, as far as possible, these customers from rolling to an arrears status. Collection activities (1-180 days in arrears) are focused on assisting customers to return to a current status. Recovery activities (180 days+ arrears) are focused on collection of the full amount owed. Legal action may be considered at this stage, and interest is suspended.



Restructure

The Group may offer restructure plans to assist customers in financial distress. A distressed restructure is defined as an agreement between the bank and a customer to modify the terms and conditions of a credit agreement - typically to accept less than the original contractual amounts due for a period of time where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. The following factors are taken into account when determining whether the restructure was performed due to the financial distress of the customer:

- In all cases, if the loan is in arrears at the time of the restructure, the restructure is regarded as a distressed restructure.
- If the loan has been in arrears at any point during the past 6 months prior to the restructure, the restructure is regarded as a distressed restructure.
- Where the loan is not in arrears at the time of the restructure and the terms and conditions were changed in order to prevent the customer from going into arrears, this is regarded as a distressed restructure. In order to determine whether the terms and conditions were changed for the purposes of preventing the customer from going into arrears the following should be considered:
  - bankruptcy or application for bankruptcy by the customer;
  - application for debt counselling by the customer;
  - analysis of the information available indicates that the cash-flows will be insufficient to service the existing agreement; and
  - any other information that comes to the bank's attention that indicates that the customer is experiencing financial distress.

Exposures that underwent a distressed restructure are monitored closely to ensure that they are able to perform under the revised terms and conditions. Exposures are marked and reported as distressed restructures until such time that they have been able to perform in terms of the revised terms and conditions for 12 consecutive months.

The restructuring may result in reduced financial obligation where interest or capital concessions are made. In the retail banking business, customers under debt review will often involve a reduced financial obligation, whereas internal restructures will not imply interest and capital concessions under current policies (but rather a term extension).

Exposures that are marked as distressed restructures are segregated for impairment purposes and are impaired to a level that is consistent with the historical behaviour of assets that underwent distressed restructures.

A distressed restructure is objective evidence of impairment. Such exposures are assessed for impairment at the time of the restructure and at appropriate intervals thereafter. Where subsequent to the impairment test an identified impairment is raised against the exposure or where there is any other reduction of the financial obligation, this should be regarded as a reduced financial obligation and the exposure is classified as 'impaired'.

The Group currently treats all distressed restructure exposures as 'defaulted' for regulatory purposes.

The table below depicts the Group's stock of distressed restructured exposure, and splits the exposure between performing and non-performing (defined as regulatory impaired).

Restructured exposures (impaired versus not impaired) CRB(ii)

	2017			2016		
	Gross carrying values of			Gross carrying values of		
	Total	Impaired[1]	Not Impaired	Total	Impaired[1]	Not Impaired
	Rm	Rm	Rm	Rm	Rm	Rm
Total Restructured Exposures	14.91	4.24	10.67	13.25	4.43	8.82

The increase in restructured exposures is as a result of continuing macro-economic pressures on Retail customers.

5.3.7 Measuring and managing credit concentrations

Credit risk management includes the management of concentrations, or pools of exposures, whose collective performance has the potential to affect a bank negatively even if each individual transaction within a pool is soundly underwritten. When exposures in a pool are sensitive to the same economic or business conditions, that sensitivity, if triggered, may cause the sum of the transactions to perform as if it were a single, large exposure.

The CCoRC has the overall responsibility for the oversight of credit concentration risk in the bank and approves material credit concentration risk limits. Credit concentration risk is managed from the following perspectives:

- **Large Exposures and Maximum Exposure Guidelines:** Large Exposures to a single counterparty or group of counterparties are done in accordance to regulatory requirements, with CCoRC fulfilling Board level responsibilities in terms of this requirement. In addition to the regulatory requirements, a framework of internally derived Maximum Exposure Guidelines inform risk appetite guideline levels to single counterparties or group of counterparties, with risk appetite scaled according to probability of default.
- **Mandate and Scale:** Mandate and Scales are selected on the basis that they isolate segments of high loss volatilities (i.e. where loss rates increase disproportionately relative to the remainder of the portfolio in a stress environment) or, where concentrations are considered of significance. Groups of exposures are considered according to sector/industry, collateral, maturity, product and transactions with similar underwriting criteria.
- **Country Risk:** Country Risk involves the risk of default by obligors, on their cross-border obligations, due to implementation of capital controls (transfer risk) and/or a risk of loss occurring as a result of a country event (e.g. adverse political changes, legal changes, the macro economy (jurisdiction risk) or environmental factors). Country risk includes the following risks: transfer risk, currency risk, contagion risk, sovereign risk as well as the consideration of other jurisdiction risks.

The Group maintains a well-diversified portfolio of credit assets. Concentrations exist in the following areas which flow naturally from the Group's position and role in the South African economy:

- Private households, and specifically the home loans asset class due to the Group's position as a major retail bank in the South African market.
- Sovereign exposure, that is largely due to the Group's liquid asset portfolio holdings.
- South Africa geographic exposure due to the Group's home base being South Africa.
- Banks, due to the Group's funding and hedging activities.

Notes

[1] Regulatory definition of impaired.

In the tables below, total exposure represents both drawn and undrawn credit exposure in the banking book portfolios.

Exposures by geography CRB(iii)

	2017			
	Total exposure Rm	Non-performing loans Rm	Specific impairments Rm	Write-offs Rm
Asia	4 461	–	–	–
Europe	21 886	–	–	–
North America	12 830	–	–	–
Other	7 204	–	–	–
Other African countries	189 266	4 742	2 636	1 411
South Africa	1 007 908	26 148	11 245	6 372
South America	235	–	–	–
Total	1 243 790	30 890	13 881	7 783

Exposures by industry CRB(iv)

	2017		
	Total exposure Rm	NPLs Rm	Specific impairments Rm
Agriculture, hunting, forestry and fishing	43 534	1 621	366
Business services	102 785	3 711	1 726
Community, social and personal services	100 146	37	4
Construction	18 290	1 167	301
Electricity, gas and water supply	20 751	8	2
Financial intermediation and insurance	105 031	417	131
Manufacturing	82 086	1 030	122
Mining and quarrying	21 480	256	156
Other	89 278	571	251
Private households	495 541	17 056	9 885
Real estate	63 212	2 064	503
Transport, storage and communication	39 246	132	42
Wholesale and retail trade, repair of specified items, hotels and restaurants	62 410	2 820	392
Total	1 243 790	30 890	13 881

Exposures by Basel asset class and maturity CRB(v)

	2017				
	Total exposure Rm	Current to 6 months Rm	6 months to 1 year Rm	1 year to 5 years Rm	More than 5 years Rm
Banks	63 951	12 678	33 444	16 031	1 798
Corporate	301 757	143 744	23 847	124 017	10 149
Local governments and municipalities	7 948	1 508	25	2 721	3 694
Public sector entities	26 576	9 347	1 370	9 379	6 480
Retail – other	108 496	8 600	3 931	78 675	17 290
Retail mortgages (including any home equity line of credit)	281 102	35 783	1 032	14 910	229 377
Retail revolving credit	98 349	98 349	–	–	–
Securities firms	11 262	5 859	309	5 094	–
SME Corporate	134 167	78 251	16 488	34 890	4 538
SME Retail	23 727	14 244	517	5 392	3 574
Sovereign (including central government and central bank)	136 613	46 171	26 251	36 159	28 032
Specialised lending – income producing real estate	20 149	165	29	8 049	11 906
Specialised lending – project finance (PF)	29 693	3 828	3 486	13 576	8 803
Total	1 243 790	458 527	110 729	348 893	325 641

5.4 Credit risk mitigation (CRM) CRC

The most widely used forms of credit risk mitigation (CRM) in the banking book include collateral, suretyships and guarantees (from both related parties and third parties), and risk distribution. The bank also makes use of other forms of risk mitigants such as covenants and parental support to strengthen its position as a lender. In addition, the bank makes use of on-balance sheet netting (set-off) to reduce credit risk exposure across multiple accounts (with both debit and credit balances) held by a single customer. The bank only allows set-off on instruments of the same maturity and currency. A formal legal agreement governs the arrangement with the customer. The Group makes limited use of credit derivatives to mitigate risk in the banking book.

Generally one or more forms of CRM is used in the credit approval process. The use and approach to CRM varies by product type, portfolio, customer and business strategy. Minimum requirements are prescribed in policies and procedures, and cover:

- Acceptable risk mitigation types, and any conditions or restrictions applicable to these mitigants;
- The 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 valuations of collateral and the frequency with which the collateral 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;
- Management of concentration risks, for example, setting thresholds on the maximum amount that can be accepted in a particular collateral type; and
- Collateral management to ensure that CRM is legally enforceable.

The Group accepts the following types of collateral:

- Financial collateral, such as cash, government bonds, commodities, listed or unlisted equities and pledged securities.
- Physical collateral, such as bonds over properties (commercial and residential), equipment and vehicles.
- Other funded collateral, such as intangible assets and receivables.

Depending on the Group's assessment of a customer's financial capacity, financing may also be granted on an unsecured basis.

5.4.1 Valuation of collateral

The Group uses a number of approaches for the valuation of collateral that is not in a defaulted state, including physical inspection, Automated Valuation Model (AVM), desktop valuation, statistical indexing and price volatility modelling. Valuations are refreshed on a regular basis.

Once an asset becomes non-performing, the following approach is followed:

- 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.
- In the retail portfolio, mortgage asset valuations are updated using an Automated Valuation Model (AVM), while an indexing methodology is used for instalment sale assets. High value property assets are valued through a physical valuation. Valuations are updated at least every six months.

The banking book 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. All security structures and legal covenants are reviewed at least annually to ensure they remain fit for purpose and consistent with accepted market practice.

5.4.2 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 sometimes 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 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 recorded against the guarantor/issuer's credit limits.

Overview of credit risk mitigation techniques employed by the Group CR3

The table below depicts the extent to which collateral and financial guarantees are used by the Group to secure exposures and reduce capital requirements.

		a	b	c	d	e
		2017				
		Exposures unsecured: carrying amount Rm	**Exposures secured by collateral Rm**	**Exposures secured by collateral of which secured amount Rm**	**Exposures secured by financial guarantees Rm**	**Exposures secured by financial guarantee, of which secured amount Rm**
1	Loans	**344 163**	**457 324**	**457 324**	**18 874**	**16 061**
2	Debt securities	**104 204**	**–**	**–**	**–**	**–**
3	**Total**	**448 367**	**457 324**	**457 324**	**18 874**	**16 061**
4	Of which defaulted	**10 245**	**20 645**	**20 645**	**–**	**–**

		a	b	c	d	e
		2016				
		Exposures unsecured: carrying amount Rm	Exposures secured by collateral Rm	Exposures secured by collateral of which secured amount Rm	Exposures secured by financial guarantees Rm	Exposures secured by financial guarantee, of which secured amount Rm
1	Loans	312 163	424 248	424 248	19 715	17 344
2	Debt securities	129 687	–	–	–	–
3	**Total**	441 850	424 248	424 248	19 715	17 344
4	Of which defaulted	10 313	20 783	20 783	–	–

The increase in unsecured exposures is driven by growth of 4% in Personal Loans and Retail overdrafts growth of 23%.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

5.5 Credit risk under the standardised approach CRD

The Group uses the standardised credit risk approach for its Rest of Africa banking book portfolios (both Wholesale and Retail), and in South Africa for the Edcon retail portfolio. Due to the relative scarcity of data, the Rest of Africa portfolios are not currently on the IRB migration plan. The Edcon portfolio is on the IRB migration plan.

Standard and Poor's and Moody's ratings are used by the Group as input into standardised capital formulas for the Bank, Corporate and Sovereign asset classes. Rating agencies have limited coverage in the Rest of Africa where the Group applies the standardised approach. Where more than one rating is available, the more conservative rating is applied. Issuer ratings are generally used. Obligors that are not rated externally are classified as unrated for regulatory capital purposes.

The table that follows provides an analysis, per Basel asset class, of the exposure and impact of CRM under the standardised approach. In the Rest of Africa portfolio there are limited amounts of eligible collateral available for use in regulatory calculations.

Standardised approach – credit risk exposure and CRM effects CR4

		a	b	c	d	e	f
		2017					
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount Rm	Off-balance sheet amount Rm	On-balance sheet amount Rm	Off-balance sheet amount Rm	RWA Rm	RWA density Rm
1	Corporate	15 128	12 729	15 128	5 509	21 110	102
2	SME Corporate	30 964	13 507	30 964	8 349	39 691	101
3	Public sector entities	2 872	374	2 872	348	3 270	102
4	Local governments and municipalities	–	–	–	–	–	–
5	Sovereign (including central government and central bank)	40 882	1 659	40 882	1 467	38 065	90
6	Banks	23 770	519	23 770	281	5 354	22
7	Securities firms	–	–	–	–	–	–
8	Residential mortgages (including any home equity line of credit)	6 831	41	6 831	21	3 542	52
9	Retail – revolving credit	8 925	15 410	8 925	2 801	8 036	69
10	Retail – other	23 032	15	23 032	8	16 429	71
11	SME retail	–	–	–	–	–	–
12	**Total**	152 404	44 254	152 404	18 784	135 497	79

		a	b	c	d	e	f
		2016					
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount Rm	Off-balance sheet amount Rm	On-balance sheet amount Rm	Off-balance sheet amount Rm	RWA Rm	RWA density Rm
1	Corporate	22 503	15 105	22 503	7 221	31 560	106
2	SME Corporate	23 092	6 435	23 092	3 526	26 901	101
3	Public sector entities	2 845	273	2 845	236	2 070	67
4	Local governments and municipalities	–	–	–	–	–	–
5	Sovereign (including central government and central bank)	37 998	1 451	37 998	1 102	32 564	83
6	Banks	28 305	600	28 305	273	6 585	23
7	Securities firms	15	–	15	–	15	100
8	Residential mortgages (including any home equity line of credit)	6 939	37	6 939	–	3 853	56
9	Retail – revolving credit	10 570	13 921	10 570	11 535	8 659	39
10	Retail – other	23 890	23	23 890	–	16 913	71
11	SME retail	660	28	660	–	510	77
12	**Total**	156 817	37 873	156 817	23 893	129 630	72

The decrease in Retail revolving credit is driven by adverse impact on Edcon store card sales from NCA affordability regulations.

The total RWA density increased in line with growth in wholesale exposure that carries a higher risk weight.

The table that follows provides an analysis, per Basel asset class, of the risk weights applied to standardised exposures.

Standardised approach – exposures by asset classes and risk weights CR5

		a	b	c	d	e	f	g	h	i	j	k
		2017										
		Risk weight										
		0%	>0% – 10%	>10% – 20%	>20% – 35%	>35% – 50%	>50% – 75%	>75% – 100%	>100% – 150%	>150%	Others	Total credit exposures amount (post CCF and post-CRM)
	Asset classes											
1	Corporate	–	–	–	–	210	8	18 737	1 681	–	–	20 636
2	SME Corporate	–	–	–	–	336	16	36 048	2 914	–	–	39 314
3	Public sector entities	–	–	–	–	–	–	3 057	163	–	–	3 220
4	Local governments and municipalities	–	–	–	–	–	–	–	–	–	–	–
5	Sovereign (including central government and central bank)	1 167	–	2 222	–	6 106	–	29 431	3 426	–	–	42 352
6	Banks	12 435	–	4 831	–	5 034	–	1 531	226	–	–	24 057
7	Securities firms	–	–	–	–	–	–	–	–	–	–	–
8	Residential mortgages (including any home equity line of credit)	–	–	–	2 342	1 764	2 442	302	–	–	–	6 850
9	Retail – revolving credit	–	–	–	–	1 384	10 244	26	66	–	–	11 720
10	Retail – other	–	–	–	–	1 125	21 853	6	55	–	–	23 039
11	SME retail	–	–	–	–	–	–	–	–	–	–	–
12	**Total**	13 602	–	7 053	2 342	15 959	34 563	89 138	8 531	–	–	171 188

		a	b	c	d	e	f	g	h	i	j	k
		2016										
		Risk weight										
		0%	>0% – 10%	>10% – 20%	>20% – 35%	>35% – 50%	>50% – 75%	>75% – 100%	>100% – 150%	>150%	Others	Total credit exposures amount (post CCF and post-CRM)
	Asset classes											
1	Corporate	–	–	–	–	–	–	25 978	3 746	–	–	29 724
2	SME Corporate	–	–	–	–	–	–	25 942	676	–	–	26 618
3	Public sector entities	–	–	–	–	–	–	2 931	150	–	–	3 081
4	Local governments and municipalities	–	–	–	–	–	–	–	–	–	–	–
5	Sovereign (including central government and central bank)	–	–	4 928	–	5 255	–	28 850	67	–	–	39 100
6	Banks	18 663	–	283	–	5 661	–	3 968	4	–	–	28 579
7	Securities firms	–	–	–	–	–	–	15	–	–	–	15
8	Residential mortgages (including any home equity line of credit)	–	–	–	1 601	–	5 338	–	–	–	–	6 939
9	Retail – revolving credit	–	–	–	–	–	22 104	–	–	–	–	22 104
10	Retail – other	–	–	–	–	253	23 638	–	–	–	–	23 891
11	SME retail	–	–	–	–	–	614	–	47	–	–	661
12	**Total**	18 663	–	5 211	1 601	11 169	51 694	87 684	4 690	–	–	180 712

5.6 Credit risk under the internal ratings-based (IRB) approach CRE I

Refer to the model risk section [p 112] for further details on credit risk under the IRB approach.

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 credit parameters that are used for credit risk management purposes and in the calculation of RC, EC and impairment requirements. The key credit parameters used in this process are EAD, PD, LGD, maturity (M) and asset correlation.

Key risk parameters used in credit risk measurement

EAD Exposure at Default	PD Probability of default	LGD Loss given default	M Maturity	Correlation Correlation
An estimate of the level of credit exposure, should the obligor default occur during the next (rolling) 12-month period.	Represents the likelihood that an individual obligor will default during the next (rolling) 12-month period.	Represents an estimate of the percentage of EAD that will not be recovered, should the obligor default occur during the next (rolling) 12-month period.	Remaining time until the contractual maturity date of the loan or other credit facility.	Measures to what extent the risks in the various industry sector and regions in the loan portfolio are related to common factors.

These parameters can be calculated to represent different views of the credit cycle, which are used in different applications:

	• **Through-the-cycle (TTC):** reflecting the predicted default frequency in an average 12-month period across the credit cycle. • **Point-in-time (PIT):** reflecting the predicted default frequency in the next 12 months.	• **Downturn (DT):** reflecting behaviour observed under stressed economic conditions. • **Long run (LR):** reflecting business-as-usual measures or behaviour under current conditions.		

Internal and vendor-supplied credit models are used to estimate the key credit parameters of EAD, PD, LGD and asset correlation. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers.

To provide a common measure of default risk across the Group, an internal default grade scale is used. This scale is mapped to a scale of default probabilities for regulatory reporting purposes and to external agency ratings for benchmarking purposes.

The application of the key risk parameters in credit risk measurement and decision-making is set out in the following tables:

Application of key risk parameters in credit risk measurement

EAD Exposure at Default	PD Probability of default	LGD Loss given default	M Maturity	Correlation Correlation
Expected loss: the Expected loss calculation is determined making use of EAD, TTC PD and depending on being a DT Expected loss or LR Expected loss will make use of either the DT LGD or LR LGD respectively. **Impairment parameters:** the Impairment calculation makes use of EAD, TTC PD and LR LGD.				
RC parameters: The RC calculation makes use of EAD, TTC PD, DT LGD and contractual maturity.				
EC parameters: The EC calculation makes use of EAD, TTC PD, LR LGD, contractual maturity as well as asset correlation, including PD-LGD correlation.				

Application of key risk parameters in credit risk decision making

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.
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 setting and monitoring	RC and EC (including measures of earnings volatility) are used in the Group's risk appetite framework. Measures of stressed losses and capital utilisation are used in the setting of concentration risk limits.
Risk profile reporting	Credit risk reports to Board and senior management make use of model outputs to describe the Group's credit risk profile.

The tables that follow provide a detailed breakdown, per Basel asset class, of the drivers of the bank's capital requirements under the AIRB approach.

Credit risk exposures by portfolio and PD range CR6

	a	b	c	d	e	f	g	h	i	j	k	l
						2017						
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF[1] Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity[2]	RWA Rm	RWA density %	EL[3] Rm	Provisions Rm
Corporate												
0.00 to <0.15	69 584	35 628	18	82 745	0.11	203	38	1.73	17 958	22	33	47
0.15 to <0.25	22 055	12 096	14	27 231	0.23	135	32	1.68	7 807	29	20	19
0.25 to <0.50	25 179	18 928	20	32 972	0.36	324	34	1.78	13 675	41	40	30
0.50 to <0.75	5 978	2 927	40	7 388	0.61	168	38	2.22	4 749	64	17	12
0.75 to <2.50	35 185	28 478	23	45 207	1.64	1 056	37	2.13	39 561	88	273	155
2.50 to <10.00	6 792	5 379	21	8 454	5.86	122	39	1.70	11 574	137	202	114
10.00 to <100.00	203	2 405	15	574	30.97	21	39	1.62	1 210	211	71	20
100.00 (Default)	2 211	874	5	2 317	100.00	19	34	–	3 203	138	664	664
Sub-total	167 187	106 715	20	206 888	0.84	2 048	36	1.84	99 737	48	1 320	1 061
Specialised lending[4]												
0.00 to <0.15	3 070	392	1	3 271	0.17	43	32	3.77	1 234	38	2	2
0.15 to <0.25	4 919	533	7	5 153	0.23	75	24	4.72	2 039	40	3	3
0.25 to <0.50	10 900	3 169	7	11 691	0.41	133	30	3.85	6 632	57	15	15
0.50 to <0.75	1 997	589	2	2 281	0.57	60	31	4.48	1 515	66	4	3
0.75 to <2.50	13 104	6 631	3	14 022	2.05	819	24	3.55	8 924	64	67	31
2.50 to <10.00	1 400	524	–	1 581	5.77	42	33	3.34	1 915	121	31	23
10.00 to <100.00	901	110	–	928	29.51	18	25	1.93	1 306	141	69	72
100.00 (Default)	1 178	423	–	1 183	100.00	56	42	–	119	10	576	576
Sub-total	37 469	12 371	4	40 110	1.88	1 246	28	3.82	23 684	59	767	725

Notes
1 CCF: Credit conversion factor.
2 Average maturity reported for 2017 is the capped maturity used for regulatory capital calculations. The 2016 numbers are reported on an uncapped basis.
2 EL: Expected loss.
4 Implementation of new model hierarchy with associated asset classification refinements resulted in the reported increase in specialised lending. These refinements resulted in the reported movements in the following asset classes; Corporate, SME Corporate and SME Retail and securities firms.

	a	b	c	d	e	f	g	h	i	j	k	l
						2017						
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA Rm	RWA density %	EL Rm	Pro-visions Rm
SME Corporate												
0.00 to <0.15	432	253	56	623	0.13	129	45	1.79	142	23	–	–
0.15 to <0.25	406	179	71	556	0.22	186	32	2.82	168	30	–	–
0.25 to <0.50	7 428	2 645	81	9 936	0.41	2 188	36	2.94	4 517	45	15	12
0.50 to <0.75	4 965	1 408	78	6 279	0.64	1 302	35	3.06	3 492	56	14	12
0.75 to <2.50	37 449	15 696	37	44 796	1.80	22 197	34	3.11	33 059	74	273	193
2.50 to <10.00	10 476	2 568	68	12 591	5.23	1 349	39	2.68	13 608	108	255	215
10.00 to <100.00	1 827	261	76	2 079	25.83	309	34	2.80	3 242	156	176	127
100.00 (Default)	3 286	418	10	3 316	100.00	565	28	–	2 472	75	961	961
Sub-total	66 269	23 428	48	80 176	2.71	28 225	35	2.99	60 700	76	1 694	1 520
Public sector entities												
0.00 to <0.15	2 192	2 864	42	4 023	0.09	14	26	1.62	554	14	1	1
0.15 to <0.25	12 449	3 345	10	13 163	0.21	9	26	2.63	3 762	29	7	8
0.25 to <0.50	94	421	50	216	0.45	19	23	1.01	59	27	–	–
0.50 to <0.75	7	167	50	91	0.74	3	27	4.82	64	70	–	–
0.75 to <2.50	703	1 086	44	1 267	1.46	104	30	1.81	818	65	6	1
2.50 to <10.00	–	–	100	–	4.42	4	45	1.00	–	103	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	15 445	7 883	29	18 760	0.28	153	26	2.35	5 257	28	14	10
Local government and municipalities												
0.00 to <0.15	1 869	108	46	1 975	0.13	37	19	3.70	319	16	–	–
0.15 to <0.25	917	1 468	15	1 674	0.19	14	11	2.09	167	10	–	–
0.25 to <0.50	1 138	1 524	30	1 661	0.28	15	12	3.42	271	16	1	–
0.50 to <0.75	1	–	82	1	0.63	4	45	1.69	1	59	–	–
0.75 to <2.50	770	152	33	844	2.38	149	25	2.16	561	67	4	1
2.50 to <10.00	–	1	77	1	4.90	3	47	2.27	1	136	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	4 695	3 253	24	6 156	0.50	222	16	2.98	1 320	21	5	1
Sovereign (including central government and central bank)[1]												
0.00 to <0.15	70 211	1 115	3	72 341	0.01	38	30	3.08	4 880	7	2	–
0.15 to <0.25	168	99	47	220	0.23	11	35	3.05	98	44	–	–
0.25 to <0.50	7	13	80	11	0.47	7	12	1.00	1	13	–	–
0.50 to <0.75	98	1	100	101	0.63	3	58	4.98	116	115	–	1
0.75 to <2.50	471	1 101	29	804	1.39	21	36	1.13	576	72	4	3
2.50 to <10.00	312	–	100	367	5.40	4	36	4.75	557	152	7	8
10.00 to <100.00	–	–	–	–	15.00	1	36	1.00	–	100	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	71 267	2 329	18	73 844	0.05	85	30	3.07	6 228	8	13	12

Notes
[1] New PD and LGD models implemented in 2017 are the drivers for improved EAD weighted PD and increased EAD weighted LGD, respectively.

	a	b	c	d	e	f	g	h	i	j	k	l
						2017						
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA Rm	RWA density %	EL Rm	Pro-visions Rm
Banks												
0.00 to <0.15	18 381	4 743	39	15 605	0.04	73	38	1.08	1 628	10	2	9
0.15 to <0.25	737	1 263	30	1 384	0.23	3	43	1.03	574	42	1	1
0.25 to <0.50	121	20	50	135	0.43	10	44	1.00	67	50	–	-
0.50 to <0.75	5 923	–	–	871	0.60	4	44	1.18	697	80	2	1
0.75 to <2.50	4 343	784	47	5 028	1.42	29	42	1.24	4 524	90	30	5
2.50 to <10.00	1 817	1 278	42	2 349	6.26	20	44	1.59	2 885	123	65	11
10.00 to <100.00	–	253	50	127	13.58	7	44	1.00	261	205	8	-
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	-
Sub-total	31 322	8 341	39	25 499	0.98	146	40	1.16	10 636	42	108	27
Securities firms												
0.00 to <0.15	3 488	872	32	2 394	0.11	19	20	1.14	228	10	1	-
0.15 to <0.25	2 504	799	13	2 681	0.24	12	37	1.82	1 007	38	2	3
0.25 to <0.50	958	330	1	999	0.29	19	43	1.37	418	42	1	1
0.50 to <0.75	–	133	50	66	0.60	5	44	1.00	40	59	–	-
0.75 to <2.50	1 516	661	8	1 608	1.13	202	44	1.12	1 307	81	8	3
2.50 to <10.00	–	–	–	–	4.45	4	44	1.00	–	130	–	-
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	-
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	-
Sub-total	8 466	2 795	18	7 748	0.39	261	34	1.40	3 000	39	12	7
Retail mortgages (including any home equity line of credit)												
0.00 to <0.15	1 044	1 444	56	1 939	0.12	3 225	14	–	84	4	–	1
0.15 to <0.25	2 113	3 428	48	3 792	0.23	9 678	11	–	190	5	1	1
0.25 to <0.50	10 681	10 412	54	16 690	0.37	32 144	13	–	1 477	9	8	9
0.50 to <0.75	19 180	17 691	54	29 323	0.64	58 311	13	–	3 722	13	24	24
0.75 to <2.50	113 595	12 831	54	124 534	1.82	241 400	12	–	28 223	23	268	329
2.50 to <10.00	46 923	5 251	83	49 899	4.19	74 905	12	–	18 908	38	258	310
10.00 to <100.00	9 941	81	61	10 239	28.39	24 375	12	–	6 875	67	337	430
100.00 (Default)	19 500	112	–	18 588	100.00	37 262	16	–	6 714	36	1 994	1 994
Sub-total	222 977	51 250	56	255 004	3.18	481 300	12	–	66 193	26	2 890	3 098
Retail revolving credit												
0.00 to <0.15	408	5 504	52	4 855	0.10	368 434	56	–	177	4	3	2
0.15 to <0.25	555	2 281	51	1 986	0.23	121 689	59	–	145	7	3	1
0.25 to <0.50	2 123	4 574	51	5 081	0.39	326 724	57	–	559	11	11	6
0.50 to <0.75	1 676	2 077	55	3 165	0.65	186 944	56	–	517	16	12	3
0.75 to <2.50	8 476	5 224	55	12 507	1.63	756 010	56	–	4 015	32	114	70
2.50 to <10.00	16 769	16 088	95	23 251	5.01	665 171	57	–	16 740	72	658	341
10.00 to <100.00	2 488	336	59	2 945	26.60	228 582	56	–	4 298	146	432	254
100.00 (Default)	5 336	99	–	5 333	100.00	233 489	74	–	6 581	123	3 422	3 422
Sub-total	37 831	36 183	71	59 123	4.09	2 887 043	58	–	33 032	56	4 655	4 099

	a	b	c	d	e	f	g	h	i	j	k	l
	2017											
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA Rm	RWA density %	EL Rm	Pro-visions Rm
SME Retail												
0.00 to <0.15	133	1 090	74	1 489	0.04	98 389	78	–	44	3	–	–
0.15 to <0.25	52	52	100	114	0.20	187	56	–	27	24	–	–
0.25 to <0.50	390	747	82	1 307	0.38	28 386	73	–	260	20	4	1
0.50 to <0.75	290	311	84	780	0.63	4 276	64	–	217	28	3	1
0.75 to <2.50	8 941	3 832	81	13 191	1.81	73 901	46	–	5 773	44	113	31
2.50 to <10.00	4 367	837	83	5 370	5.18	25 221	59	–	4 608	86	169	26
10.00 to <100.00	760	117	86	913	27.29	4 518	61	–	1 510	165	144	23
100.00 (Default)	1 010	75	16	984	100.00	3 186	41	–	1 453	148	291	291
Sub-total	15 943	7 061	80	24 148	3.36	238 064	54	–	13 892	58	724	373
Retail – other												
0.00 to <0.15	532	158	99	787	0.11	16 278	54	–	111	14	–	–
0.15 to <0.25	853	964	73	3 620	0.20	6 745	20	–	319	9	1	1
0.25 to <0.50	1 429	130	95	1 689	0.44	15 343	33	–	392	23	2	1
0.50 to <0.75	2 254	27	99	2 309	0.63	22 836	37	–	735	32	5	2
0.75 to <2.50	20 708	168	96	21 023	1.83	176 338	38	–	10 430	50	148	75
2.50 to <10.00	38 948	669	56	39 752	5.44	363 792	39	–	24 889	63	895	490
10.00 to <100.00	11 533	1	97	11 550	20.43	137 583	45	–	11 887	103	1 077	590
100.00 (Default)	7 075	2	1	6 814	100.00	94 174	49	–	9 830	144	2 164	2 164
Sub-total	83 332	2 119	73	87 544	6.12	833 089	40	–	58 593	67	4 292	3 323
Total (all portfolios)	762 203	263 728	39	885 000	2.41	4 471 882	30	2.93	382 272	43	16 494	14 256

	a	b	c	d	e	f	g	h	i	j	k	l
	2016											
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA Rm	RWA density %	EL Rm	Pro-visions Rm
Corporate												
0.00 to <0.15	67 871	29 530	35	81 309	0.12	290	38	2.05	18 690	23	36	39
0.15 to <0.25	25 435	9 755	37	30 487	0.23	190	31	3.53	9 768	32	21	22
0.25 to <0.50	31 766	26 231	42	42 440	0.36	403	35	2.41	17 734	42	53	50
0.50 to <0.75	6 224	2 612	34	7 297	0.59	157	35	3.01	4 199	58	15	12
0.75 to <2.50	31 654	25 899	24	38 915	1.64	854	37	2.62	33 926	87	236	200
2.50 to <10.00	6 141	7 337	38	9 066	4.87	183	40	1.95	11 712	129	177	122
10.00 to <100.00	1 858	1 564	46	2 646	21.78	31	43	2.25	5 910	223	248	178
100.00 (Default)	2 267	943	–	2 333	100.00	10	34	–	263	11	1 026	1 102
Sub-total	173 216	103 871	34	214 493	0.94	2 118	36	2.45	102 202	48	1 812	1 725
Specialised lending												
0.00 to <0.15	333	321	39	472	0.11	19	29	4.53	79	17	–	–
0.15 to <0.25	133	52	36	156	0.22	11	13	6.55	24	15	–	–
0.25 to <0.50	3 971	785	28	4 309	0.39	28	24	7.76	1 761	41	4	4
0.50 to <0.75	409	18	1	422	0.59	10	17	7.94	137	32	–	–
0.75 to <2.50	3 478	1 446	29	4 000	1.49	64	24	3.18	2 061	52	15	12
2.50 to <10.00	1 203	172	6	1 251	5.70	23	28	12.25	1 360	109	22	11
10.00 to <100.00	–	60	–	–	21.63	3	10	3.67	–	–	–	–
100.00 (Default)	332	53	2	333	100.00	10	26	–	73	22	75	75
Sub-total	9 859	2 907	27	10 943	1.43	168	24	6.33	5 495	50	116	102
SME Corporate												
0.00 to <0.15	860	303	61	1 089	0.10	395	46	3.51	230	21	-	1
0.15 to <0.25	1 743	994	48	2 484	0.23	321	26	5.47	643	26	1	1
0.25 to <0.50	6 949	3 025	67	9 451	0.40	3 154	31	3.84	3 544	38	12	10
0.50 to <0.75	5 945	1 639	60	7 225	0.62	1 924	32	4.77	3 707	51	14	13
0.75 to <2.50	30 708	13 239	43	37 612	1.72	18 956	33	4.26	26 678	71	219	186
2.50 to <10.00	13 898	4 613	36	16 141	5.27	4 536	38	3.61	17 626	109	324	336
10.00 to <100.00	1 817	1 496	9	2 011	22.64	916	39	3.38	3 504	174	172	156
100.00 (Default)	4 349	1 189	25	4 398	100.00	1 128	32	-	3 906	89	1 350	1 350
Sub-total	66 269	26 498	43	80 411	2.69	31 330	34	4.11	59 838	74	2 092	2 053
Public sector entities												
0.00 to <0.15	10 095	5 634	46	13 023	0.15	28	29	5.57	3 296	25	5	6
0.15 to <0.25	6 362	581	29	6 610	0.23	12	26	3.36	1 836	28	4	5
0.25 to <0.50	17	44	74	39	0.37	16	13	1.87	5	14	–	–
0.50 to <0.75	5	–	51	5	0.58	3	5	4.12	1	12	–	–
0.75 to <2.50	583	1 410	40	1 162	1.48	23	19	2.06	556	48	4	2
2.50 to <10.00	22	1	74	23	4.26	4	15	3.94	13	57	–	–
10.00 to <100.00	–	45	51	23	15.00	1	44	1.0	50	212	2	1
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	17 084	7 715	44	20 885	0.27	87	27	4.66	5 757	28	15	14

	a	b	c	d	e	f	g	h	i	j	k	l
	2016											
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA Rm	RWA density %	EL Rm	Provisions Rm
Local government and municipalities												
0.00 to <0.15	3 423	2 609	8	3 718	0.12	72	15	4.48	382	10	1	–
0.15 to <0.25	235	2 070	48	1 259	0.22	33	12	1.93	149	12	–	–
0.25 to <0.50	31	215	99	252	0.31	22	13	1.94	37	15	–	–
0.50 to <0.75	13	24	81	34	0.64	11	45	3.05	26	76	–	–
0.75 to <2.50	306	23	83	334	2.71	90	12	4.96	103	31	1	–
2.50 to <10.00	–	1	71	1	4.15	4	51	5.0	1	157	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	4 008	4 942	29	5 598	0.31	232	14	3.81	698	12	2	–
Sovereign (including central government and central bank)												
0.00 to <0.15	77 107	154	–	81 677	0.12	3	8	6.83	4 250	5	6	–
0.15 to <0.25	186	108	52	248	0.22	19	5	6.65	16	7	–	–
0.25 to <0.50	–	60	54	32	0.41	13	5	1.11	2	6	–	–
0.50 to <0.75	–	4	51	2	0.69	3	5	1.0	–	7	–	–
0.75 to <2.50	1	304	48	149	1.67	22	5	1.0	17	11	–	–
2.50 to <10.00	361	–	96	372	5.40	2	44	1.0	523	141	9	13
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	77 655	630	38	82 480	0.15	62	8	6.79	4 808	6	15	13
Banks												
0.00 to <0.15	9 983	11 026	36	17 179	0.08	70	39	1.17	3 668	21	6	4
0.15 to <0.25	1 443	49	74	737	0.22	9	44	1.01	270	37	1	1
0.25 to <0.50	–	76	55	42	0.36	10	44	1.04	18	44	–	–
0.50 to <0.75	74	16	51	85	0.73	3	44	0.98	56	66	–	–
0.75 to <2.50	2 614	155	51	1 927	1.71	24	44	1.77	1 997	104	14	4
2.50 to <10.00	886	1 726	37	1 547	6.11	17	36	3.02	1 909	123	34	3
10.00 to <100.00	–	131	20	27	13.44	7	44	0.99	55	204	2	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	15 000	13 179	37	21 544	0.41	140	40	1.35	7 973	37	57	12
Securities firms												
0.00 to <0.15	78	–	–	–	0.08	4	44	1.0	–	16	–	–
0.15 to <0.25	2	1 500	–	–	0.21	4	27	1.0	–	100	–	–
0.25 to <0.50	1	–	–	1	0.50	1	44	1.0	1	54	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	1.38	1	44	1.0	–	100	–	–
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	81	1 500	–	1	0.50	10	44	1.0	1	54	–	–

	a	b	c	d	e	f	g	h	i	j	k	l
						2016						
PD scale	Original on-balance sheet gross exposure Rm	Off-balance sheet exposures pre CCF Rm	Average CCF %	EAD post CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA Rm	RWA density %	EL Rm	Pro-visions Rm
Retail mortgages (including any home equity line of credit)												
0.00 to <0.15	919	1 142	54	1 602	0.11	2 983	13	10.12	60	4	–	1
0.15 to <0.25	2 016	3 288	48	3 648	0.22	9 451	11	10.74	183	5	1	1
0.25 to <0.50	11 287	10 199	55	17 179	0.37	34 387	13	9.04	1 497	9	8	9
0.50 to <0.75	18 848	17 519	54	28 994	0.64	58 813	13	8.42	3 793	13	25	11
0.75 to <2.50	116 231	12 691	54	127 226	1.84	255 371	12	12.24	28 962	23	275	341
2.50 to <10.00	45 117	5 419	74	48 524	4.27	73 407	12	14.28	18 526	38	254	292
10.00 to <100.00	10 054	86	62	10 359	28.91	24 933	12	11.57	6 864	66	345	403
100.00 (Default)	18 795	96	–	17 988	100.00	36 976	16	–	5 543	31	2 032	2 032
Sub-total	223 267	50 440	56	255 520	3.23	496 321	13	11.77	65 428	26	2 940	3 090
Retail revolving credit												
0.00 to <0.15	405	5 766	51	4 860	0.11	362 877	57	–	184	4	3	2
0.15 to <0.25	583	2 306	50	2 015	0.23	139 540	58	–	148	7	3	1
0.25 to <0.50	2 071	4 276	52	4 921	0.39	303 284	57	–	551	11	11	5
0.50 to <0.75	1 546	1 901	52	2 859	0.65	185 169	56	–	467	16	10	2
0.75 to <2.50	8 150	5 190	54	12 107	1.62	746 638	56	–	3 877	32	110	64
2.50 to <10.00	15 774	14 344	94	21 343	4.96	641 332	57	–	15 243	71	598	300
10.00 to <100.00	2 306	307	58	2 730	27.12	232 235	55	–	4 031	148	408	229
100.00 (Default)	5 076	81	–	5 070	100.00	207 970	73	–	5 948	117	3 222	3 222
Sub-total	35 911	34 171	70	55 905	4.02	2 819 045	58	–	30 449	54	4 365	3 825
SME Retail												
0.00 to <0.15	197	1 056	70	1 484	0.04	100 961	75	0.56	40	3	–	–
0.15 to <0.25	57	38	85	96	0.21	170	45	2.96	19	20	–	–
0.25 to <0.50	660	773	76	1 557	0.38	28 631	62	1.91	279	18	4	1
0.50 to <0.75	195	322	80	575	0.62	4 495	73	0.81	149	26	3	1
0.75 to <2.50	10 506	4 636	80	15 391	1.87	93 121	44	4.79	7 001	45	130	29
2.50 to <10.00	6 883	1 411	72	8 197	4.88	36 569	52	2.71	6 298	77	212	22
10.00 to <100.00	1 335	158	82	1 531	22.57	5 896	52	3.26	2 021	132	178	20
100.00 (Default)	360	–	–	321	100.00	1 426	46	–	391	122	147	147
Sub-total	20 193	8 394	77	29 152	3.62	271 269	50	3.67	16 198	56	674	220
Retail – other												
0.00 to <0.15	500	117	96	640	0.08	15 901	63	2.79	85	13	–	–
0.15 to <0.25	877	1 001	73	3 534	0.24	6 480	20	0.21	342	10	2	1
0.25 to <0.50	1 227	112	88	1 408	0.44	17 057	43	2.64	414	29	3	1
0.50 to <0.75	2 193	20	94	2 222	0.65	24 423	38	2.95	744	33	6	1
0.75 to <2.50	18 922	147	95	19 134	1.90	168 651	41	3.45	10 381	54	150	76
2.50 to <10.00	35 695	562	58	36 355	5.65	360 244	40	3.78	23 301	64	860	455
10.00 to <100.00	11 863	–	96	11 864	20.52	168 842	47	3.49	12 833	108	1 163	680
100.00 (Default)	6 413	–	–	6 085	100.00	98 099	52	–	11 201	184	1 999	1 999
Sub-total	77 690	1 959	73	81 242	6.50	859 697	42	3.37	59 301	73	4 183	3 213
Total (all portfolios)	720 233	256 206	46	858 174	2.46	4 480 479	28	5.90	358 148	42	16 271	14 267

Effect on RWA of credit derivatives used as CRM techniques CR7

The bank makes limited use of credit derivatives to mitigate credit risk in the banking book.

		a	b
		2017	
		Pre-credit derivatives RWA Rm	Actual RWA Rm
1	Corporate	99 756	99 737
2	Specialised lending	23 702	23 684
3	SME Corporate	60 700	60 700
4	Public sector entities	5 449	5 257
5	Local government and municipalities	1 320	1 320
6	Sovereign (including central government and central bank)	6 228	6 228
7	Banks	11 199	10 636
8	Securities firms	3 000	3 000
9	Retail mortgages (including any home equity line of credit)	66 193	66 193
10	Retail revolving credit	33 032	33 032
11	SME Retail	13 892	13 892
12	Retail – other	58 593	58 593
13	**Total**	383 064	382 272

RWA flow statements of credit risk exposures under IRB CR8

		a	
		2017	2016
		RWA amounts Rm	RWA amounts Rm
1	**RWA as at end of previous reporting period**	358 825	353 052
2	Asset size	15 408	12 075
3	Asset quality	6 672	–
4	Model updates	–	2 599
5	Methodology and policy	2 003	–
6	Acquisitions and disposals	–	–
7	Foreign exchange movements	–	–
8	Other	–	(8 901)
9	**RWA as at end of reporting period**	382 908	358 825

The increase in the RWA is attributable to exposure growth, credit deterioration due to ratings downgrades, higher capital requirements on defaulted assets, and methodology updates.

IRB: Backtesting of probability of default (PD) per portfolio CR9

The tables that follow provide backtesting results to validate the reliability of the bank's IRB PD models. In particular, the tables compare the long-run average PD used in AIRB capital calculations with the realized default rate observed over a five-year period, per Basel asset class. The average historical default rate is calculated as the number of defaults in a given year, divided by the number of obligors that were performing at the start of that year (averaged over five years).

From the tables presented, comfort can be taken that PD models are generally performing according to expectation. Models are able to rank order risk and are able to predict an absolute level of default over an economic cycle accurately.

PD range	a External rating equivalent	b Weighted average PD %	c Arithmetic average PD by obligors %	d 2017 Number of obligors End of previous year #	e End of the year #	f Defaulted obligors in the year #	g Average historical annual default rate %
Corporate							
0 to <0.15	AAA, AA, A, BBB+	0.11	0.08	290	203	3	0.06
0.15 to <0.25	BBB, BBB-	0.23	0.20	190	135	1	0.20
0.25 to <0.5	BBB-, BB+	0.36	0.42	403	324	–	0.38
0.5 to <0.75	BB+, BB	0.61	0.62	157	168	3	0.60
0.75 to <2.5	BB, BB-, B+	1.64	1.38	854	1 056	11	1.35
2.5 to <10	B+, B, B-	5.86	3.96	183	122	11	3.57
10 to <100	CCC/C	30.97	28.35	31	21	4	24.58
100.00 (Default)	100.00 (Default)	100.00	100.00	10	19	–	–
Specialised lending							
0 to <0.15	AAA, AA, A, BBB+	0.17	0.12	19	43	–	0.08
0.15 to <0.25	BBB, BBB-	0.23	0.21	11	75	–	0.21
0.25 to <0.5	BBB-, BB+	0.41	0.36	28	133	–	0.39
0.5 to <0.75	BB+, BB	0.57	0.58	10	60	–	0.64
0.75 to <2.5	BB, BB-, B+	2.05	1.48	64	819	1	1.22
2.5 to <10	B+, B, B-	5.77	3.02	23	42	13	4.93
10 to <100	CCC/C	29.51	27.80	3	18	5	18.33
100.00 (Default)	100.00 (Default)	100.00	100.00	10	56	–	100.00
SME Corporate							
0 to <0.15	AAA, AA, A, BBB+	0.13	0.05	395	129	2	0.07
0.15 to <0.25	BBB, BBB-	0.22	0.21	321	186	–	0.22
0.25 to <0.5	BBB-, BB+	0.41	0.39	3 154	2 188	17	0.37
0.5 to <0.75	BB+, BB	0.64	0.63	1 924	1 302	14	0.61
0.75 to <2.5	BB, BB-, B+	1.80	1.39	18 956	22 197	162	1.40
2.5 to <10	B+, B, B-	5.23	3.34	4 536	1 349	633	3.61
10 to <100	CCC/C	25.83	21.81	916	309	219	21.50
100.00 (Default)	100.00 (Default)	100.00	100.00	1 128	565	–	–
Sovereigns							
0 to <0.15	AAA, AA, A, BBB+	0.01	0.02	3	38	–	–
0.15 to <0.25	BBB, BBB-	0.23	0.22	19	11	–	–
0.25 to <0.5	BBB-, BB+	0.47	0.38	13	7	–	–
0.5 to <0.75	BB+, BB	0.63	0.60	3	3	–	–
0.75 to <2.5	BB, BB-, B+	1.39	1.41	22	21	–	–
2.5 to <10	B+, B, B-	5.40	3.28	2	4	–	–
10 to <100	CCC/C	15.00	15.00	–	1	–	–
100.00 (Default)	100.00 (Default)	–	–	–	–	–	–
Banks							
0 to <0.15	AAA, AA, A, BBB+	0.04	0.06	70	73	–	–
0.15 to <0.25	BBB, BBB-	0.23	0.23	9	3	–	–
0.25 to <0.5	BBB-, BB+	0.43	0.35	10	10	–	2
0.5 to <0.75	BB+, BB	0.60	0.60	3	4	–	–
0.75 to <2.5	BB, BB-, B+	1.42	1.36	24	29	–	–
2.5 to <10	B+, B, B-	6.26	3.23	17	20	–	–
10 to <100	CCC/C	13.58	16.80	7	7	–	–
100.00 (Default)	100.00 (Default)	–	–	–	–	–	–

	a	b	c	d	e	f	g
				2017 Number of obligors			
PD range	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of previous year #	End of the year #	Defaulted obligors in the year #	Average historical annual default rate %
Retail mortgages							
0 to <0.25	AAA, AA, A, BBB, BBB-	0.14	0.14	12 434	12 903	13	0.57
0.25 to <0.5	BBB-, BB+	0.36	0.37	34 387	32 144	52	0.21
0.5 to <0.75	BB+, BB	0.62	0.62	58 813	58 311	137	0.35
0.75 to <2.5	BB, BB-, B+	1.58	1.63	255 371	241 400	2 200	1.16
2.5 to <10	B+, B, B-	3.88	3.81	73 407	74 905	3 213	2.59
10 to <100	CCC/C	28.51	28.78	24 933	24 375	5 050	21.24
100.00 (Default)	100.00 (Default)	100.00	100.00	36 976	37 262	–	–
Retail revolving credit							
0 to <0.25	AAA, AA, A, BBB, BBB-	0.14	0.14	502 417	490 123	1 188	1.61
0.25 to <0.5	BBB-, BB+	0.39	0.36	303 284	326 724	2 028	0.35
0.5 to <0.75	BB+, BB	0.65	0.62	185 169	186 944	2 283	0.60
0.75 to <2.5	BB, BB-, B+	1.63	1.46	746 638	756 010	16 142	1.43
2.5 to <10	B+, B, B-	5.01	5.23	641 332	665 171	113 035	6.70
10 to <100	CCC/C	26.60	33.39	232 235	228 582	58 387	16.29
100.00 (Default)	100.00 (Default)	100.00	100.00	207 970	233 489	–	–
SME retail							
0 to <0.15	AAA, AA, A, BBB+	0.04	0.04	100 961	98 389	1	0.05
0.15 to <0.25	BBB, BBB-	0.20	0.19	170	187	1	0.21
0.25 to <0.5	BBB-, BB+	0.38	0.34	28 631	28 386	4	0.38
0.5 to <0.75	BB+, BB	0.63	0.61	4 495	4 276	224	0.61
0.75 to <2.5	BB, BB-, B+	1.81	1.53	93 121	73 901	102	1.61
2.5 to <10	B+, B, B-	5.18	3.83	36 569	25 221	120	4.12
10 to <100	CCC/C	27.29	23.46	5 896	4 518	257	18.07
100.00 (Default)	100.00 (Default)	100.00	100.00	1 426	3 186	–	–
Retail – other							
0 to <0.5	AAA, AA, A, BBB, BB+	0.22	0.20	39 438	38 366	1 384	2.12
0.5 to <0.75	BB+, BB	0.63	0.62	24 423	22 836	907	1.99
0.75 to <2.5	BB, BB-, B+	1.83	1.57	168 651	176 338	5 486	1.81
2.5 to <10	B+, B, B-	5.44	5.24	360 244	363 792	20 984	3.92
10 to <100	CCC/C	20.43	21.36	168 842	137 583	25 536	12.28
100.00 (Default)	100.00 (Default)	100.00	100.00	98 099	94 174	–	–

- The Corporate asset class represents 26% of the Group's AIRB RWA. This is a low default portfolio that suffers from a small number of observations that could cause distortions in results. In general, though, the corporate models are able to rank order risk, and predict risk accurately.
- The SME Corporate asset class represents 16% of the Group's AIRB RWA. In general the SME corporate models are able to rank order risk, and predict risk accurately.
- No defaults were observed in the Bank and Sovereign asset class in 2017. Over the five-year observation period, one default was observed, namely African Bank.

- The mortgages asset class represents 17% of the Group's AIRB RWA. The mortgage model is able to rank order risk, and is generally predicting risk accurately.
- The Retail revolving credit asset class represents 9% of the Group's AIRB RWA. The revolving product models are able to rank order risk, and are predicting risk accurately.
- The SME Retail asset class represents 4% of the Group's AIRB RWA. The SME retail models are predicting risk accurately.
- The Retail Other asset class (including portfolios like Vehicle Finance and Personal Loans) represents 15% of the Group's AIRB RWA. The Retail Other models are able to rank order risk, and are generally predicting risk accurately.

5.7 Counterparty credit risk (CCR) CCRA

CCR arises from the risk that counterparties are unable to meet their payment obligations under derivatives and securities financing transactions. The credit risk that relates to a derivative or securities financing transaction does not remain static over time, but changes due to movement in underlying market variables. The loss to the Group is the cost of replacing or closing out the contract and is recognised as a trading loss. In order to quantify the potential impact of these changes in market factors on counterparty exposures, the Group employs both Monte Carlo and MTM plus add-on techniques to estimate a counterparty's potential future exposure (PFE). The PFE is a measure of maximum replacement cost (MTM) over the life (in the case of uncollateralised portfolios) or closeout period (in the case of collateralised portfolios) of a counterparty portfolio. A confidence level of 98% is used to measure PFE.

CCR exposures must be approved by the Risk Sanctioning Unit (RSU) by setting PFE credit limits at counterparty level. PFE limits are made available to the first line of defence for trade approvals on a case-by-case basis. The first line of defence is responsible for ensuring that trading exposure falls within approved credit appetite. PFE limits define the magnitude and tenors of acceptable exposure. The RSU is authorised to approve requests for new PFE limits and adjustments to existing PFE limits. The RSU gives due consideration to current usage under relevant concentration limits. All CCR credit limits are considered uncommitted and are revocable at any time.

Wrong way risk (WWR) arises when there is adverse (positive) correlation between the obligor's PD and the Group's exposure to the obligor. Right Way Risk (RWR) arises when an obligor exposure is negatively correlated with the PD.

Specific wrong way risk (SWWR) arises when the CCR exposure to a particular counterparty is positively correlated to the PD of the counterparty due to the structure of the transaction (e.g. when there is a legal connection between the counterparty and the underlying asset of the transaction). Failure to recognise and adjust for SWWR might lead to underestimating the replacement cost in the event of a counterparty default. SWWR transactions are transaction specific and are executed only in exceptional circumstances. SWWR transactions are adjusted to reflect exposure conditional on counterparty default, which will often mean that collateral will have a zero value. SWWR transactions are approved on a case-by-case basis by the RSU and cannot be executed by the first line of defence under pre-approved limits.

General wrong way risk (GWWR) arises where there is positive correlation between risk factors driving the obligor's PD and exposure (net of collateral) to the client, owing to co-dependency of PD and exposure on the same risk factors. GWWR can arise due to the behaviour of market risk or credit risk factors and impact both collateral and/or exposure. There is no requirement for RSU to pre-approve GWWR transactions beyond approving a PFE limit. Stress testing and scenario analysis plays an import role in the identification and monitoring of GWWR. Stress scenarios are run on a monthly basis on portfolios that contain GWWR transactions.

For regulatory and economic capital purposes, EAD is calculated through:

- the current exposure method (CEM) for over-the-counter (OTC) derivative exposures; and
- the comprehensive approach for securities financing transactions.

In terms of these approaches, EAD estimates are calculated as PFE estimates at a counterparty level. The estimates are based on:

- regulatory add-ons and collateral hair-cuts;
- netting arrangements in place;
- the collateral placed/received for the transaction, and the collateral agreements that are in place;
- the trade's residual maturity; and
- the nature of each trade.

In line with international market practice, the Group endeavours to use netting agreements and collateral agreements wherever possible to optimise capital usage. The Group employs primarily (i) International Swaps and Derivatives Association (ISDA) master agreements as well as collateral support annexures (CSAs); (ii) International Securities Lending Association (ISLA) Global Master Securities Lending (GMSLA); and (iii) the International Capital Market Association (ICMA) Global Master Repurchase Agreement (GMRA). These provide standardised and commonly accepted terminology and processes and processes for managing collateral and margin calls over the lifetime of the transaction.

These agreements may create an obligation on the Group unrelated to the underlying instruments in the event of a credit downgrade of the Group. However, the bank currently has no trading book collateral agreements that are sensitive to the bank's own credit rating.

Counterparty credit risk exposure is not typically covered by guarantees. Where guarantees are provided on a counterparty's exposure, these would be treated in line with the approach set out in section 5.4.

The table that follows provides a view of the Group's CCR exposure, effectiveness of CRM techniques and RWA consumption. The table excludes CVA charges (table CCR2) and exposures cleared through central counterparties (CCPs) (table CCR8).

Analysis of CCR exposure by approach CCR1

		a	b	c	d	e	f
		2017					
		Replacement cost Rm	**PFE Rm**	**EEPE[1] Rm**	**Alpha used for computing regulatory EAD Rm**	**EAD post-CRM Rm**	**RWA Rm**
1	CEM (for derivatives)	**25 801**	**18 343**		**1.40**	**35 980**	**14 729**
2	IMM (for derivatives and securities financing transactions (SFTs))			**–**	**–**	**–**	**–**
3	Simple Approach for CRM (for SFTs)					**–**	**–**
4	Comprehensive Approach for CRM (for SFTs)					**4 368**	**1 118**
5	VaR for SFTs					**–**	**–**
6	**Total**						**15 847**

		a	b	c	d	e	f
		2016					
		Replacement cost Rm	PFE Rm	EEPE Rm	Alpha used for computing regulatory EAD Rm	EAD post-CRM Rm	RWA Rm
1	CEM (for derivatives)	15 887	17 455		1.4	31 416	13 955
2	IMM (for derivatives and SFTs)			–	–	–	–
3	Simple Approach for CRM (for SFTs)					–	–
4	Comprehensive Approach for CRM (for SFTs)					6 746	1 238
5	VaR for SFTs					–	–
6	**Total**						15 193

Year-on-year differences are due to market volatility, specifically exchange rate fluctuation.

CVA accounts for the risk of mark-to-market losses on OTC derivative due to credit quality fluctuations on the derivative counterparty. A CVA capital charge is required under Basel III rules. The Group uses the standardised approach for the calculation of CVA capital.

CVA capital charge CCR2

		a	b	a	b
		2017		2016	
		EAD post-CRM Rm	**RWA Rm**	EAD post-CRM Rm	RWA Rm
	Total portfolios subject to the Advanced CVA capital charge				
1	i. VaR component (including the 3×multiplier)		**–**	–	–
2	ii. sVaR component (including the 3×multiplier)		**–**	–	–
3	All portfolios subject to the Standardised CVA capital charge	**35 980**	**21 329**	31 416	16 696
4	**Total subject to the CVA capital charge**	**35 980**	**21 329**	31 416	16 696

The increases in EAD and RWA are due to specific exposure downgrades, and exchange rate volatility which impacted cross currency swaps.

Notes
[1] EEPE: Effective expected positive exposure.

The table that follows provides a view of all relevant parameters used for the calculation of CCR capital requirements under the Group's AIRB models. The table excludes CVA charges and exposures cleared through a CCP. Since collateral is taken into account in the EAD estimate of CCR transactions, an unsecured LGD is used in capital formulas.

IRB – CCR exposures by portfolio and PD scale CCR4

	a	b	c	d	e	f	g
				2017			
PD scale	EAD post-CRM Rm	Average PD %	Number of obligors	Average LGD %	Average Maturity Yrs	RWA Rm	RWA density %
Corporate/ SME Corporate							
0.00 to <0.15	2 037	0.10	51	41	2.01	512	25
0.15 to <0.25	1 526	0.23	37	38	2.05	569	37
0.25 to <0.50	8 647	0.50	87	27	4.20	4 855	56
0.50 to <0.75	541	0.56	31	44	4.06	508	94
0.75 to <2.50	1 025	1.64	352	40	2.07	947	92
2.50 to <10.00	167	6.15	42	42	1.39	239	143
10.00 to <100.00	7	18.01	8	44	1.10	16	220
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	13 950	0.01	608	–	3.44	7 646	1
Banks/Securities firms							
0.00 to <0.15	22 351	0.05	30	42	1.61	3 906	17
0.15 to <0.25	91	0.23	4	44	1.78	50	55
0.25 to <0.50	1 167	0.36	16	44	4.64	988	85
0.50 to <0.75	76	0.61	2	44	3.87	94	123
0.75 to <2.50	1 317	1.83	29	42	1.71	1 324	101
2.50 to <10.00	1 227	5.30	16	44	1.02	1 708	139
10.00 to <100.00	1	17.63	2	43	1.00	1	103
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	26 230	–	99	–	1.73	8 071	–
Total (all portfolios)	40 180	–	700	–	2.32	15 717	–

	a	b	c	d	e	f	g
	2016						
PD scale	EAD post-CRM Rm	Average PD %	Number of obligors	Average LGD %	Average Maturity Yrs	RWA Rm	RWA density %
Corporate/ SME Corporate							
0.00 to <0.15	2 533	0.11	61	43	2.75	744	29
0.15 to <0.25	6 493	0.23	40	26	4.64	2 456	38
0.25 to <0.50	1 232	0.39	91	38	4.89	678	55
0.50 to <0.75	479	0.56	33	40	9.13	406	85
0.75 to <2.50	2 064	1.74	282	41	8.70	1 952	95
2.50 to <10.00	87	4.39	83	44	1.81	120	138
10.00 to <100.00	18	16.33	8	44	1.25	40	217
100.00 (Default)	1	100.00	1	44	1.00	–	0
Sub-total	12 907	0.53	599	34	5.08	6 396	50
Banks/Securities firms							
0.00 to <0.15	22 336	0.08	38	44	1.64	5 857	26
0.15 to <0.25	95	0.22	5	44	5.24	57	60
0.25 to <0.50	33	0.33	6	44	1.86	17	52
0.50 to <0.75	1 185	0.59	3	44	7.78	1 279	108
0.75 to <2.50	1 053	1.50	21	44	1.75	1 014	96
2.50 to <10.00	127	3.94	13	44	9.18	185	146
10.00 to <100.00	1	30.00	1	44	1.00	–	–
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	24 830	0.19	87	44	1.99	8 409	34
Total (all portfolios)	37 737	0.31	686	40	3.05	14 805	39

The increase in RWA is attributable to increased derivative activity and market volatility.

The table that follows provides a breakdown of the types of collateral posted or received by the bank to support or reduce the CCR exposure related to derivatives and securities financing transactions (SFTs), including transactions cleared through a CCP. The Group relies mainly on cash and government bonds as collateral for derivative and securities financing contracts. The value of collateral used in each leg of SFTs is depicted on a gross basis.

Composition of collateral for CCR exposure CCR5

	a	b	c	d	e	f
	2017					
	Collateral used in derivative transactions				**Collateral used in SFTs**	
	Fair value of collateral received		**Fair value of posted collateral**			
	Segregated Rm	**Unsegregated Rm**	**Segregated Rm**	**Unsegregated Rm**	**Fair value of collateral received Rm**	**Fair value of posted collateral Rm**
Cash – domestic currency	–	4 561	–	1 058	12 045	22 821
Cash – other currencies	–	2 325	–	9 164	–	11 774
Domestic sovereign debt	–	–	–	–	22 804	18 951
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	2 177	–	–	8 315	123
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	–	–
Total	–	9 063	–	10 222	43 164	53 669

	a	b	c	d	e	f
	2016					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
	Segregated Rm	Unsegregated Rm	Segregated Rm	Unsegregated Rm	Fair value of collateral received Rm	Fair value of posted collateral Rm
Cash – domestic currency	–	1 715	–	1 422	18 932[1]	18 140
Cash – other currencies	–	2 604	–	4 622	–	16 744
Domestic sovereign debt	–	–	–	–	17 044	13 209
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	970	601
Corporate bonds	–	2 011	–	–	10 561	–
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	–	–
Total	–	6 330	–	6 044	47 507	48 694

The increase in collateral is attributable to market volatility, exchange rate volatility, and growth in the Prime Broking Business.

Notes
[1] The 2016 number was restated post audit review.

The table that follows illustrates the extent of the Group's exposures to credit derivative transactions in the trading book broken down between protection bought and protection sold positions.

Credit derivatives exposures CCR6

	a	b	a	b
	2017		2016	
	Protection bought Rm	Protection sold Rm	Protection bought Rm	Protection sold Rm
Notionals				
Single-name credit default swaps	**4 141**	**5 299**	619	11 635
Index credit default swaps	–	–	–	–
Total return swaps	**7 321**	**9 542**	9 086	–
Credit options	–	–	–	–
Other credit derivatives	–	–	–	–
Total notionals	**11 462**	**14 841**	9 705	11 635
Fair values				
Positive fair value (asset)	**1 435**	–	(2)	(183)
Negative fair value (liability)	–	**(1 370)**	(18)	(218)

Refer commentary included under table CCR5 (Composition of collateral for CCR exposure).

The table that follows provides a comprehensive picture of the Group's exposure to qualifying CCPs. The Group has no exposure to non-qualifying CCPs. The table includes exposures due to operations, margins posted and contributions to default funds.

Exposures to CCPs CCR8

		a	b	a	b
		2017		2016	
		EAD post-CRM Rm	RWA Rm	EAD post-CRM Rm	RWA Rm
1	**Exposures to qualifying central counterparty (QCCPs) (total)**		**949**		1 448
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	–	–	–	–
3	i. OTC derivatives		–	–	–
4	ii. Exchange-traded derivatives	**13 893**	**826**	1 427	357
5	iii. Securities financing transactions	–	–	–	–
6	iv. Netting sets where cross-product netting has been approved	–	–	–	–
7	Segregated initial margin	–		–	
8	Non-segregated initial margin	**5 350**	**56**	5 449	1 090
9	Pre-funded default fund contributions	**135**	**67**	56	1
10	Unfunded default fund contributions	–	–	–	–
11	**Exposures to non-QCCPs (total)**		–		–
12	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	–	–	–	–
13	i. OTC derivatives	–	–	–	–
14	ii. Exchange-traded derivatives	–	–	–	–
15	iii. Securities financing transactions	–	–	–	–
16	iv. Netting sets where cross-product netting has been approved	–	–	–	–
17	Segregated initial margin	–		–	
18	Non-segregated initial margin	–	–	–	–
19	Pre-funded default fund contributions	–	–	–	–
20	Unfunded default fund contributions	–	–	–	–

Increase in exchange traded derivatives is due to increased activity via the London Clearing House.

5.8 Securitisation SECA

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

The Group currently does not undertake any securitisation transactions apart from the SARB committed liquidity facility (CLF) which is a non-market securitisation transaction. Home loans are sold into a special purpose vehicle (SPV) structure, notes are issued to Absa Bank Limited to fund this acquisition, and the senior notes are ceded to the SARB as collateral for the CLF.

As at the current reporting date, the Group's own assets relating to the Home loans portfolio were securitised. The look-through approach is applied for the Home Obligors Mortgage Enhanced Securities Proprietary Limited and Absa Home Loans 101 (RF) Limited (AHL101) (Homes securitisation); hence transfer of credit risk does not take place. In addition to credit risk, liquidity and interest rate risk are considered regularly. The Group does not enter into any re-securitisation transactions.

Securitisation exposures in the banking book SEC1

		a	b	c	e	f	g
		2017					
		Bank acts as originator			Bank acts as sponsor		
		Traditional Rm	Synthetic Rm	Sub-total Rm	Traditional Rm	Synthetic Rm	Sub-total Rm
1	**Retail (total)**	2 369	–	2 369	189	–	189
2	Residential mortgage	2 369	–	2 369	189	–	189
6	**Wholesale (total)**	–	–	–	–	–	–

		a	b	c	e	f	g
		2016					
		Bank acts as originator			Bank acts as sponsor		
		Traditional Rm	Synthetic Rm	Sub-total Rm	Rm	Synthetic Rm	Sub-total Rm
1	**Retail (total)**	2 792	–	2 792	544	–	544
2	Residential mortgage	2 792	–	2 792	544	–	544
6	**Wholesale (total)**	–	–	–	–	–	–

Securitisation exposures in the banking book and associated RC requirements – bank acting as originator or as sponsor SEC3

		2017				
		Exposure values (by risk-weight (RW) bands)				
		≤20% RW Rm	>20% to 50% RW Rm	50% to 100% RW Rm	>100% to <1 250% RW Rm	1 250% RW Rm
1	Total exposures	2 558	–	–	–	–
2	Traditional securitisation	2 558	–	–	–	–
3	Of which securitisation	2 558	–	–	–	–
4	Of which retail underlying	2 558	–	–	–	–
5	Of which wholesale	–	–	–	–	–
6	Of which re-securitisation	–	–	–	–	–
7	Of which senior	–	–	–	–	–
8	Of which non-senior	–	–	–	–	–
9	Synthetic securitisation	–	–	–	–	–
10	Of which securitisation	–	–	–	–	–
11	Of which retail underlying	–	–	–	–	–
12	Of which wholesale	–	–	–	–	–
13	Of which re-securitisation	–	–	–	–	–
14	Of which senior	–	–	–	–	–
15	Of which non-senior	–	–	–	–	–

		2016				
		Exposure values (by risk-weight (RW) bands)				
		≤20% RW Rm	>20% to 50% RW Rm	50% to 100% RW Rm	>100% to <1 250% RW Rm	1 250% RW Rm
1	Total exposures	3 336	–	–	–	–
2	Traditional securitisation	3 336	–	–	–	–
3	Of which securitisation	3 336	–	–	–	–
4	Of which retail underlying	3 336	–	–	–	–
5	Of which wholesale	–	–	–	–	–
6	Of which re-securitisation	–	–	–	–	–
7	Of which senior	–	–	–	–	–
8	Of which non-senior	–	–	–	–	–
9	Synthetic securitisation	–	–	–	–	–
10	Of which securitisation	–	–	–	–	–
11	Of which retail underlying	–	–	–	–	–
12	Of which wholesale	–	–	–	–	–
13	Of which re-securitisation	–	–	–	–	–
14	Of which senior	–	–	–	–	–
15	Of which non-senior	–	–	–	–	–

Notes
[1] RBA: ratings-based approach.
[2] IAA: Internal assessment approach.
[3] SFA: supervisory formula approach.
[4] SA: standardised approach.
[5] SSFA: simplified supervisory formula approach.

2017

Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
IRB[1] RBA (incl IAA[2]) Rm	IRB SFA[3] Rm	SA[4]/ SSFA[5] Rm	1 250% Rm	IRB RBA (Incl IAA) Rm	IRB SFA Rm	SA/SSFA Rm	1 250% Rm	IRB RBA (incl IAA) Rm	IRB SFA Rm	SA/SSFA Rm	1 250% Rm
–	2 558	–	–	–	461	–	–	–	37	–	–
–	2 558	–	–	–	461	–	–	–	37	–	–
–	2 558	–	–	–	461	–	–	–	37	–	–
–	2 558	–	–	–	461	–	–	–	37	–	–
–	–	–	–	–	–	–	–	–	–	–	–
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–	–	–	–	–	–	–	–	–	–	–	–

2016

Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
IRB RBA (incl IAA) Rm	IRB SFA Rm	SA/ SSFA Rm	1 250% Rm	IRB RBA (incl IAA) Rm	IRB SFA Rm	SA/SSFA Rm	1 250% Rm	IRB RBA (incl IAA) Rm	IRB SFA Rm	SA/SSFA Rm	1 250% Rm
–	3 336	–	–	–	576	–	–	–	46	–	–
–	3 336	–	–	–	576	–	–	–	46	–	–
–	3 336	–	–	–	576	–	–	–	46	–	–
–	3 336	–	–	–	576	–	–	–	46	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
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–	–	–	–	–	–	–	–	–	–	–	–

5.9 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 governance of equity investments is based on the following fundamental principles:

- A formal approval governance process.
- Key functional specialists reviewing investment proposals.
- Adequate monitoring and control after the investment decision has been implemented.
- Implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for transactions 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 CIB 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 Group uses the simple risk-weight regulatory approach for the calculation of RC on its equity investment portfolio.

Equities under the simple risk-weight method CR10

	2017				
	On-balance sheet amount Rm	Off-balance sheet amount Rm	Risk weight %	Exposure amount Rm	RWA Rm
Exchange-traded equity exposures	154		300	154	490
Private equity exposures	2 174		400	2 174	9 217
Total	**2 328**			**2 328**	**9 707**

	2017				
	On-balance sheet amount Rm	Off-balance sheet amount Rm	Risk weight %	Exposure amount Rm	RWA Rm
Exchange-traded equity exposures	170		300	170	541
Private equity exposures	2 150		400	2 150	9 117
Total	2 320			2 320	9 658

6. Market risk

Contents

6.1	Review of current reporting period				70
6.2	Priorities				70
6.3	General information about market risk				70
	6.3.1	Risk identification and management			70
		6.3.1.1	Traded market risk		70
			Daily value at risk (DVaR)		71
			Stressed value at risk (sVaR)		71
			Stress testing		72
			Tail metrics		72
			Backtesting		72
			Non-VaR		72
			Standardised risk		72
		6.3.1.2	Non-traded market risk		72
			Interest rate risk in the banking book (IRRBB)		72
			Re-pricing profiles		73
			AEaR/ NII sensitivity		73
			DVaR		73
			EVE sensitivity		73
			Stress testing		73
			Foreign exchange risk		73
	6.3.2	Governance			74
		6.3.2.1	Structure		74
		6.3.2.2	Committees		74
	6.3.3	Reporting			74
		6.3.3.1	Risk reporting traded market risk		74
			Market risk under standardised approach		75
			Traded market risk under the IMA		75
				Comparison of VaR estimates with trading revenues	75
			RWA flow statements of market risk exposures under IMA		76
			IMA values for trading portfolios		77
			Interest rate risk in the banking book (IRRBB)		77
				Impact on earnings	77
	6.3.4	Additional disclosures			78
		6.3.4.1	Analysis of market risk exposure		78
		6.3.4.2	Analysis of trading revenue		79

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 variables.

6.1 Review of current reporting period

Key risk metrics	Y-o-Y trend	2017	2016
Average traded market risk – 95% DVaR (Rm)	∨	**26.5**	26.8
Traded market risk RC (Rm)	∨	**2 476**	2 889
Banking book annual earnings at risk (AEaR) for a 2% interest rate shock (% of Group net interest income (NII))	∨	**<5%**	<6%

- **Traded market risk:** Trading exposures were managed within overall risk appetite. 95% VaR decreased marginally over the period. RC reduction was driven by a decrease in standardised specific risk exposure across the Rest of Africa businesses.
- **Non-traded market risk:** Banking book earnings at risk decreased y-o-y, remaining within risk appetite. The Group remained positively exposed to increases in interest rates after the impact of hedging.

6.2 Priorities

- Continue to ensure market risk is managed within risk appetite in potentially volatile conditions.
- Retain focus on regulatory changes, specifically preparing for the adoption of the Fundamental Review of the Trading Book (FRTB) and the standard on interest rate risk in the banking book (IRRBB).
- Continue to manage margin volatility through the structural hedge programme in South Africa and through appropriate asset and liability management processes in Rest of Africa.
- Continue to enhance the implementation and standardisation of the pension risk control framework across the Group.

6.3 General information about market risk MRA and MRB

6.3.1 Risk identification and management

The first line of defence for market risk management resides with business unit heads. Independent market risk teams, who report to the Head of Enterprise Risk, are responsible for the oversight of the business units ensuring that they remain within the set limits, including VaR, non-VaR, sensitivity, stop loss thresholds and stress testing limits. Limits and thresholds are reviewed and set at the Group level and allocated to business units at least annually. The Market Risk function ensures limit and threshold excesses are condoned or brought back into line when they occur. Excesses and actions are reported to the various Market Risk Committees (MRCs).

6.3.1.1 Traded market risk

Traded market risk is the risk of the Group being impacted by changes in the level or volatility of market variables affecting positions in trading books.

Market risk management objectives are to:

- Ensure risk is managed within the Group's appetite by monitoring risk against the limit and appetite framework.
- Understand risk sensitivity and volatility.
- Use appropriate models to measure risk.
- Utilize stress testing and empirical analytics to supplement model-based risk management.

The business model for traded market risk 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.

A number of techniques are used to measure and control traded market risk on a daily basis. These include:

- VaR based measures including sVaR.
- Tail metrics.
- Position and sensitivity reporting (Non-VaR).
- Stress testing.
- Exposure at default risk monitoring.
- Backtesting.
- Standardised general and specific risk, as relevant to monitor default risk.

The Standardised Approach (TSA) is used to quantify RC requirements for general risk for the Rest of Africa. Additional measures such as VaR, Non-VaR, stress testing and EC are used for management reporting purposes.

In line with regulatory requirements for public disclosures on the internal models approach (IMA), the sections below on DVaR, backtesting, tail metrics and sVaR specifically relate to the models used for South Africa.

Daily value at risk (DVaR)

DVaR provides an estimate of the potential loss, at a chosen confidence level, 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 market moves 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, using observed daily market moves (absolute rate/price/volatility changes) between consecutive business days via a full revaluation approach.
- Sum all hypothetical profits or losses for each position, giving a total profit or loss. Repeat this for all the other days in the two-year history.
- Calculate DVaR as the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss amounts; and 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 (via a scalar[1] assuming no autocorrelation to increase the holding period time horizon) 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 the RC for all trading book exposures, including certain banking book exposures. The approval covers general position-risk across the following asset classes: interest rate, foreign exchange, commodity, equity and traded credit products. The issuer-specific risk is currently reported in accordance with the regulatory standardised approach and is calculated as a stand-alone charge. The regulatory standardised approach is used to calculate RC for any new products which are awaiting regulatory approval.

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

The VaR estimates have a number of known limitations namely:

- The historical simulation assumes that the past is a good representation of the future[2], 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.
- The VaR may underestimate the severity of potential losses.
- The VaR is based on positions at the close of the business day. The intra-day risk or the risk from a position being bought and sold on the same day is not captured.
- Prudent valuation practices are used in the VaR calculation when there is a difficulty in obtaining historical rate/price information.
- VaR is not additive, e.g. two VaR amounts may not simply be combined from different parts of a business due to correlation and diversification.

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

Stressed value at risk (sVaR)

The 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 the calculations. Therefore, sVaR uses DVaR methodology based on inputs calibrated to historical data from the chosen 12-month stress period. A regular process is applied to assess the stress period that is most relevant to the bank's portfolio in accordance with the approved methodology. The sVaR RC requirement is calculated daily and is disclosed for the reporting period. Regulatory coverage and reporting of sVaR follows the same approach as VaR (refer to disclosure above). The sVaR historical period remained as the 2008/2009 volatile period.

Notes

1 Based on the square root of time rule.

2 To be more accurate, it is assumed the distribution of historical returns is the same as the distribution of future returns.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120		
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122		
Overview of the Group	11	> Market risk	69	Model risk	111	Annexures	126		
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148		

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:

- Risk factor stress testing is carried out by applying historical stress moves to each of the main risk categories (including interest rate, equity, foreign exchange, commodity, and credit spread risk) and is an estimate of potential losses that might arise from extreme market moves or scenarios to key liquid risk factors.
- The trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events that may impact the market risk exposure across liquid and illiquid risk factors at the same time.

These are reported based on the concurrent aggregation of all risk factors including cross-risk factor effect. Scenarios are reviewed at least annually A full revaluation approach is applied to undertake stress testing for South Africa's trading books and a sensitivity based approach is used for the Rest of Africa. The results are monitored against approved limits and thresholds.

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 unweighted historical market moves, are:

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

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.
- The actual profit and loss representing the actual daily trading outcome from price moves only (excluding fees, commissions, provisions, NII and the time value of money), as required for regulatory backtesting purposes.

Non-VaR

The non-VaR reporting covers non-statistical measures for calculating and monitoring risk sensitivities and exposures as well as gross notional limits, issuer risk limits and concentration exposure where appropriate. All asset classes and product types have non-VaR reporting and limit monitoring. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

Standardised risk

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

General risk for the Rest of Africa is quantified using standardised rules. In particular, the maturity method is used to quantify general interest rate risk for the Rest of Africa.

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.
- Loss notification thresholds: actual losses versus pre-determined tolerance levels.
- Valuation control, independent price and bid-offer testing conducted by the Independent Valuation Control team within Product Control. The results are reviewed monthly by the Traded Risk Committee.

6.3.1.2 Non-traded market risk

Interest rate risk in the banking book (IRRBB)

IRRBB is the risk that the Group's financial position might 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, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced 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 is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with Treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

Risk management strategies 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 IRRBB. 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 Rest of Africa treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.
  - Embedded customer optionality risk may also give rise to IRRBB. This risk arises from a customer's right to buy, sell or in some manner alter the cash flow of a financial contract.
  - 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. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
  - 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. Market risk processes are in place to enable robust management of these additional forms of IRRBB.

The techniques that are used to measure and control IRRBB include:

- Re-pricing profiles.
- Annual earnings at risk (AEaR).
- DVaR; and tail metrics.
- Economic value of equity (EVE) sensitivity.
- Stress testing.

DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis. These techniques are supported by non-VaR metrics (position and sensitivity limits). Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk teams with oversight provided by Market Risk.

Re-pricing profiles

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

AEaR/NII sensitivity

AEaR/NII sensitivity measures the sensitivity of NII 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.

DVaR

DVaR calculated at a 95% confidence level for measuring IRRBB is used. The DVaR is monitored against approved internal limits and is used as a complementary metric to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

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 sensitive 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 Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Rest of Africa is carried out by Market Risk and the risk functions in country and has been adopted as one of the primary risk techniques for the Rest of Africa. It is monitored against formal internal limits.

Foreign exchange risk

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 managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book 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.

6.3.2 Governance

6.3.2.1 Structure

Market risk is structured into two units in accordance with regulatory treatment i.e. traded market risk and IRRBB. Traded market risk is structured by asset class for South Africa and geographically for Rest of Africa with individual analysts responsible for ensuring trading activity occurs within assigned limits and that VaR results are accurate. The individual analysts report into a separate Head of SA and Head of Rest of Africa market risk.

Traded market risk interacts daily with the Product Control Group (reporting into the CIB Chief Financial Officer and responsible for daily profit and loss (PnL) and PnL attribution), the Front Office traders and Desk Heads and credit risk analysts (where appropriate). Daily reports are sent to the Head of Enterprise Risk and front office detailing limit utilization, limit breaches, VaR/sVaR and commentary where relevant.

Traded market risk is governed by the Traded Risk Committee, a sub-committee of the GMRC. The information reviewed at this monthly meeting includes summary of the months risk utilisation, limit breaches, independent valuation results and capital utilization. The committee is also responsible for reviewing traded market risk policies and recommending them for approval to the GMRC.

6.3.2.2 Committees

A number of business unit, Exco and Group level market risk committees exist. These committees set secondary limits and review actual exposure from positions, risks, stresses, RWA and capital across all asset classes against these limits. A risk summary is then presented at the Group Market Risk Committee (GMRC) including the Risk Profile Report which is tabled at the GRCMC.

6.3.3 Reporting

6.3.3.1 Risk reporting traded market risk

The Group's Market Risk team produces a number of detailed and summary, daily and monthly, market risk reports. The reports summarise the positions, risks, stresses, RWA and capital across all asset classes for the Trading Book. A risk summary is also presented at the GMRC and other governance committees, as required, including the Risk Profile Report tabled at the GMRC.

Market risk under standardised approach MR1

		a	a
		Dec 2017 RWA Rm	Dec 2016 RWA Rm
	Outright products	**7 689**	8 447
1	Interest rate risk (general and specific)[1]	**6 710**	7712
2	Equity risk (general and specific)	**573**	471
3	Foreign exchange risk	**407**	263
4	Commodity risk		
	Options		
5	Simplified approach		
6	Delta-plus method		
7	Scenario approach		
8	Securitisation		
9	**Total**	**7 689**	8 447

Traded market risk standardised RWA decreased by 10% **(to R7 689m)** from December 2016 (R8 447m). The reduction was driven by a decrease in standardised specific risk exposure across the Rest of Africa businesses as the businesses reduced risk going into year-end.

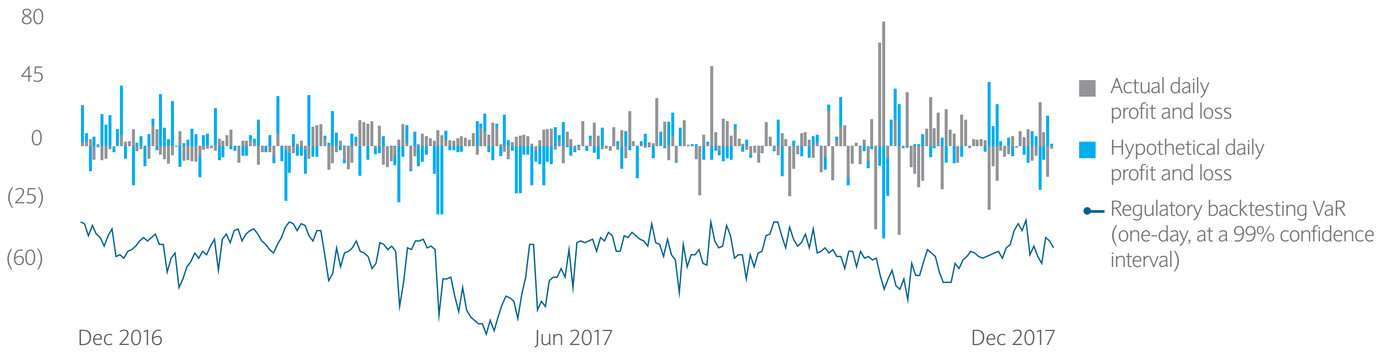
Traded market risk under the IMA

This section specifically relates to the trading books for which internal models approval have been in place for the previous and current reporting period.

Comparison of VaR 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. Revenue reported is actual 'clean' trading book profit and loss (excluding fees, commissions, NII, bid-ask spreads, price testing and NII other provisions, as required for regulatory backtesting purposes) as well as hypothetical profit and loss (which is computed in the risk system and is based on the assumption that the portfolio holdings remain constant). There were no actual or hypothetical losses that exceeded the VaR estimate during the current reporting period.

The Group's trading book revenue back tested against regulatory VaR (Rm) MR4



Notes

[1] General and Specific risk are calculated separately as stand-alone charges without diversification.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

RWA flow statements of market risk exposures under IMA MR2

		a	b	c	d	e	f	
		2017						
		VaR Rm	**SVaR Rm**	**IRC[1] Rm**	**CRM Rm**	**Other Rm**	**Total RWA Rm**	**Total capital requirement[2] Rm**
1	RWA at previous quarter end (29 September 2017)	**6 579**	**8 122**	**–**	**–**	**–**	**14 701**	**1 580**
2	Movements in risk levels	**921**	**1 450**	**–**	**–**	**–**	**2 371**	**255**
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals)							
6	Other							
7	**RWA at end of reporting period (29 December 2017)**	**7 501**	**9 571**	**–**	**–**	**–**	**17 072**	**1 835**

- **VaR and sVaR:** Market risk capital requirements for VaR and sVaR noted an increase in Q4 2017, largely driven by an increase in the average FX net open position and interest rate risk being held. Political and economic news driven event risk resulted in increased client facilitation activity and higher levels of overnight risk being run by the business as these positions were cleared.

		a	b	c	d	e	f	
		2016						
		VaR Rm	SVaR Rm	IRC[1] Rm	CRM Rm	Other Rm	Total RWA Rm	Total capital requirement[2] Rm
1	RWA at previous quarter end (30 September 2016)	7 177	13 545	–	–		20 722	2 150
2	Movements in risk levels	1 228	(1 507)	–	–		(279)	(29)
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals)							
6	Other							
7	**RWA at end of reporting period (31 December 2016)**	8 406	12 038	–	–		20 444	2 121

- **VaR and sVaR:** Market risk capital requirements for VaR and sVaR noted a decrease from 2016, largely as a result of ongoing efforts to enhance the South African business's internal model data inputs.

Notes
[1] IRC: incremental risk charge.
[2] Calculated at 10.75% of RWA.

IMA values for trading portfolios MR3

		a	a
		2017	2016
		Rm	Rm
	VaR (10 day 99%)[1]		
1	Maximum value	**301.26**	311.36
2	Average value	**158.59**	143.87
3	Minimum value	**94.26**	75.62
4	Period end	**129.71**	140.91
	Stressed VaR (10 day 99%)[1]		
5	Maximum value	**367.30**	456.97
6	Average value	**196.67**	267.28
7	Minimum value	**121.34**	159.66
8	Period end	**209.84**	159.66
	Incremental risk charge (99.9%)		
9	Maximum value	**–**	–
10	Average value	**–**	–
11	Minimum value	**–**	–
12	Period end	**–**	–
	Comprehensive risk capital charge (99.9%)		
13	Maximum value	**–**	–
14	Average value	**–**	–
15	Minimum value	**–**	–
16	Period end	**–**	–
17	Floor (standardised measurement method)	**–**	–

Traded market risk exposure, as measured by average 10 day 99% DVaR, increased to **R158.59m** (2016: 143.87m) for the reporting period, which is a 10% increase on the prior year average balance. This was principally due to increased volatility in interest rate and foreign exchange exposure particularly over Q2 2017 and Q4 2017.

6.3.3.2 Risk reporting non-traded market risk

DVaR, supporting metrics and stresses are reported daily for Group Treasury and the Rest of Africa businesses, with the exception of two businesses where reporting is done on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for both Group Treasury and the Rest of Africa.

Interest rate risk in the banking book (IRRBB)

Impact on earnings

The following table depicts the impact on AEaR/NII 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 **R1.93bn** (31 December 2016: R2.38bn). A similar increase would result in an increase in projected 12-month net interest income of R1.7bn (31 December 2016: R2.22bn). On this basis AEaR expressed as a sensitivity to a 200bps parallel decrease in all market interest rates decreased by 1.2% to 4.5% of the Group's net interest income.

Notes
[1] 1 day VaR scaled to 10 days by multiplying the 1 day VaR by square root of 10, same approach for sVaR.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
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AEaR for 100 and 200 bps changes in market interest rates

	2017			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book[1] (Rm)	**(1 405)**	**(459)**	**609**	**1 172**
Foreign subsidiaries banks books[2] (Rm)	**(530)**	**(265)**	**265**	**530**
Total (Rm)	**(1 934)**	**(724)**	**873**	**1 701**
Percentage of the Group's NII (%)	**(4.5)**	**(1.7)**	**2.0**	**4.0**
Percentage of the Group's equity (%)	**(1.9)**	**(0.7)**	**0.9**	**1.7**

	2016			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	(1 835)	(765)	840	1 681
Foreign subsidiaries banks books[2] (Rm)	(541)	(270)	270	541
Total (Rm)[2]	(2 376)	(1 036)	1 110	2 222
Percentage of the Group's NII (%)	(5.7)	(2.5)	2.6	5.3
Percentage of the Group's equity (%)	(2.3)	(1.0)	1.1	2.2

Notes
[1] Includes exposures held in the CIB banking school.
[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

6.3.4 Additional disclosures

6.3.4.1 Analysis of market risk exposure

The following table reflects the DVaR and expected shortfall statistics for 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, increased marginally to **R25.86m** (2016: R25.12m) for the reporting period, which is a 3% increase on the prior year balance. This was principally due to increased volatility in interest rate and foreign exchange exposure particularly over Q2 2017 and Q4 2017.

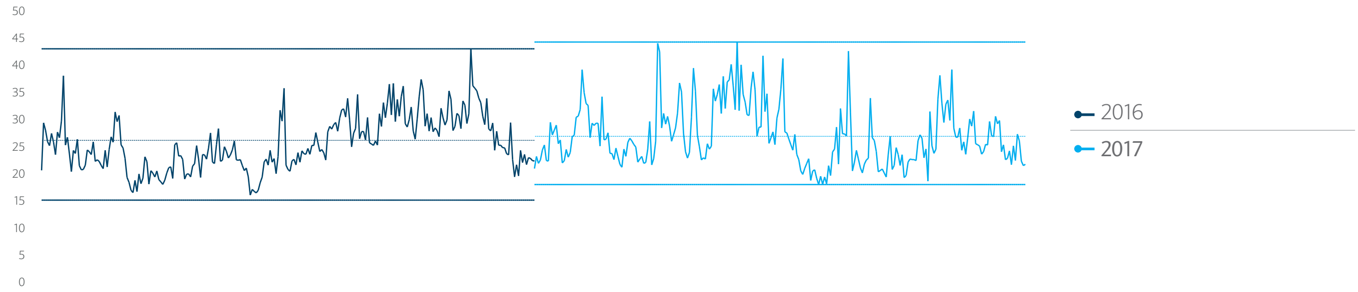
Trading book DVaR summary

	2017				2016			
	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	**25.96**	**36.84**	**18.80**	**31.85**	23.26	37.46	15.83	23.80
Foreign exchange risk	**8.58**	**32.98**	**2.16**	**12.23**	7.97	23.30	1.70	6.51
Equity risk	**6.78**	**29.70**	**1.33**	**3.32**	5.79	20.25	1.91	3.21
Commodity risk	**0.58**	**1.59**	**0.05**	**0.82**	0.45	1.75	0.02	0.66
Inflation risk	**10.29**	**20.84**	**3.21**	**14.04**	10.97	32.59	4.06	8.12
Credit spread risk	**4.38**	**6.08**	**3.21**	**3.54**	7.89	16.47	5.85	6.02
Diversification effect	**(30.70)**	**n/a**	**n/a**	**(45.09)**	(31.22)	n/a	n/a	(25.53)
Total DVaR	**25.86**	**n/a**	**n/a**	**20.71**	25.12	48.51	14.10	22.80
Expected shortfall	**43.00**	**79.50**	**26.83**	**34.16**	39.34	83.52	21.23	33.70
Regulatory VaR[3]	**50.15**	**95.27**	**29.81**	**41.02**	45.55	98.46	23.91	44.56
Regulatory sVaR[3]	**62.19**	**116.15**	**38.37**	**66.36**	84.54	144.51	50.49	50.49

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.

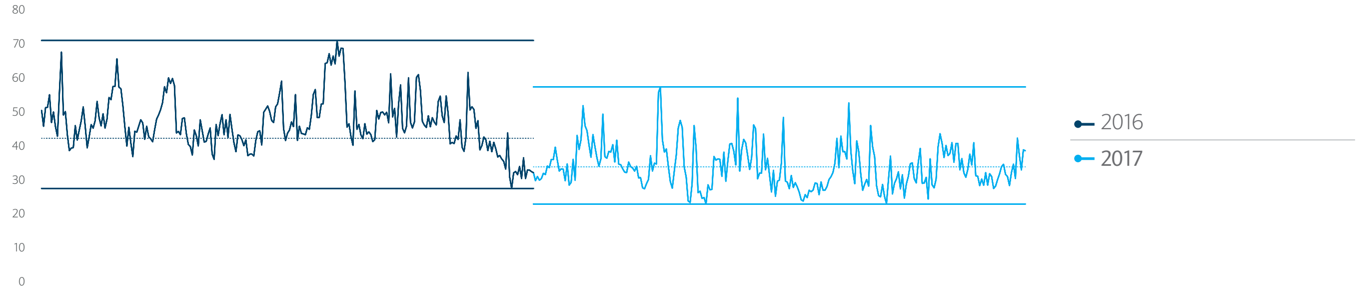
The following graph indicates the daily history of the trading book DVaR, along with the period averages, highs and lows.

Trading book management DVaR (daily values, period average, high and low) (Rm)



The following graph depicts the daily history of the trading book sVaR. sVaR noted a decrease over Q4 2017, driven by reduced average exposure on the books over the quarter as well as ongoing efforts to enhance the South African business's internal model data inputs.

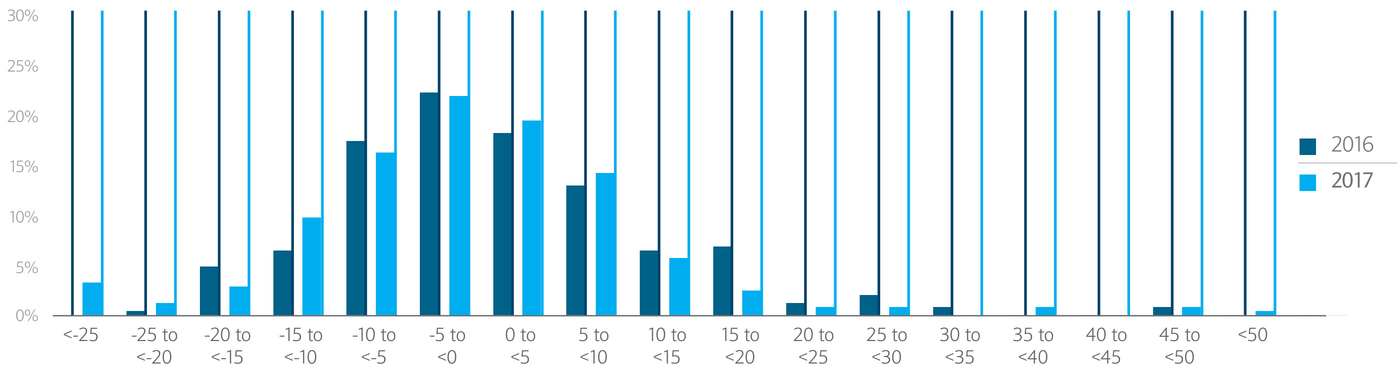
Trading book management sVaR (daily values, period average, high and low) (Rm)



6.3.4.2 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.

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



7. Treasury and capital risk

Contents

7.1	Liquidity risk			81
	7.1.1	Review of the current reporting period		81
	7.1.2	Priorities		82
	7.1.3	General information about liquidity risk		82
		7.1.3.1	Risk identification and management	82
			Funding structure	83
			Funding sources by product	83
			Contractual mismatch	83
			Behavioural mismatch	84
			Diversification	84
			Stress and scenario testing	84
			Contingency funding planning	85
		7.1.3.2	Governance	85
		7.1.3.3	Reporting	86
			Short term liquidity stress	86
			The Group's sources of liquidity	86
			Liquidity Coverage Ratio (LCR)	86
			High Quality Liquid Assets (HQLA)	86
			Composition of liquid assets by country (%)	86
7.2	Capital risk			87
	7.2.1	Review of the current reporting period		87
	7.2.2	Priorities		88
	7.2.3	General information about capital risk		88
		7.2.3.1	Risk identification	88
			Internal Capital Adequacy Assessment Process (ICAAP)	89
			Management of excess capital	90
		7.2.3.2	Governance	90
		7.2.3.3	Reporting	90
			Capital adequacy	90
			Capital supply	94
			Economic capital adequacy	96
			Credit ratings	97
		7.23.4	Additional disclosures	98
			Recovery and resolution planning	98

Treasury and capital risk is the risk that the Group is unable to achieve its business plans as a result of capital and liquidity shortfalls.

- **Liquidity risk:** The risk that the Group is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities and to remain within its Board-approved capital target ranges under normal operating conditions or above regulatory capital requirements under stressed conditions (both actual and as defined for internal planning or regulatory stress testing purposes).

7.1 Liquidity risk

7.1.1 Review of the current reporting period

Key risk metrics	Y-o-Y trend	2017	2016
Sources of liquidity (Rm)	↑	**212 954**	191 671[1]
Net Stable Funding Ratio (%)	=	**>100**	>100
Liquidity coverage ratio (LCR) (%)[2]	↑	**107.5**	95.8[3]
Loan-to-deposit ratio (%)	↑	**90.6**	88.4
Loans and advances to customers	↑	**749 772**	720 309
South Africa	↑	**671 909**	642 432
Rest of Africa	↓	**77 863**	77 877
Deposits	↑	**827 815**	814 579
Deposits due to customers	↑	**689 867**	674 865
South Africa	↑	**581 231**	562 872
Rest of Africa	↓	**108 636**	111 993
Debt securities in issue	↓	**137 948**	139 714

- **Liquidity risk position:** The liquidity position of the Group remained healthy, within risk appetite, and above the minimum regulatory requirements. The Group's sources of liquidity of R213.0bn (2016: R191.7bn), amounted to 30.9% of deposits due to customers.
- **Structure:**
  - The Net Stable Funding Ratio (NSFR) (effective 1 January 2018) for both Group and Absa Bank are expected to meet the minimum requirement of 100%. The NSFR will be reported publicly from 31 March 2018.
  - In addition to the NSFR, the long-term funding ratio is managed at an Absa Bank level on a contractual basis in order to balance the LCR and NSFR requirements with overall costs. Long-term funding was raised to match the growth in long-term assets, and was achieved through a combination of funding instruments, capital market issuances and private placements. Absa Bank targets an average long-term funding ratio of between 24% and 27%.
  - The loan-to-deposit ratio is at **90.6%** (2016: 88.4%), due to increases in loans and advances to customers. The ratio is in line with internal targets.
    - Due to the structure of the South African market, including the low discretionary savings rate, the funding gap between core deposits and advances is supported by longer term wholesale deposits (mainly debt securities in issue). Debt securities with a tenor of greater than 1 month have a weighted average life of approximately 23 months. Wholesale deposits with tenors of less than 1 month are invested in the liquid asset portfolio and are available to support short-term outflows.
    - The Rest of Africa banking entities are primarily deposit-led, comprising mainly retail and corporate deposits, with limited reliance on wholesale funding. Given the high degree of stability exhibited by retail and corporate depositors, these deposits are behaviourally long-term. The Rest of Africa surplus deposits over advances of R30.8bn is invested in liquid assets. The loan-to-deposit ratio for the Rest of Africa is 71.4%. Each Rest of Africa banking entity is required to be self-sufficient from a liquidity perspective with limited working capital support required from the Group.

Notes

[1] December 2016 restated to incorporate a revised assumption relating to available interbank funding.

[2] The Group LCR represents the simple average of the relevant three month-end data points. Surplus HQLA holdings in excess of the minimum requirement of 80% have been excluded from the aggregated HQLA number in the case of all Rest of Africa banking entities.

[3] December 2016 LCR reported post audit.

- The Group's foreign currency balance sheet is surplus funded and comprises less than 5% of deposits due to customers.

- **Diversification:** The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of funding, both Rand and foreign currency, are managed in order to maintain a wide diversity of depositor, product and tenor.
- **Short-term liquidity stress:**
  - The Group targets an LCR above the minimum regulatory requirement, and consistently maintained a buffer in excess of the regulatory minimum requirement of 80% during 2017. The Group's average high quality liquid assets (HQLA) of R157.1bn (2016 R142.8bn) include a committed liquidity facility (CLF) from the South African Reserve Bank (SARB).
  - The Group has an internal Liquidity Risk Appetite (LRA) Framework, which is used to determine the amount of HQLA the Bank is required to hold in order to survive internally defined stress scenarios.

7.1.2 Priorities

- Manage the funding and HQLA position in line with the Board-approved LRA framework and regulatory requirements.
- Build and maintain adequate liquidity buffers to ensure the Group continues to remain compliant with the LCR and NSFR.
- Continue to grow and diversify the funding base to support asset growth and other strategic initiatives, while optimising funding cost.
- Grow core Retail, Business Bank, Corporate and Public Sector deposits faster than wholesale funding.
- Continue to work with regulatory authorities and other stakeholders on resolution planning, and Deposit Insurance Scheme.

7.1.3 General information about liquidity risk

Liquidity risk is monitored at a Group level under a single comprehensive Liquidity Risk Framework. The Liquidity Risk Framework is designed to deliver an appropriate tenor structure and composition of funding consistent with the LRA set by the local Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring..

Each geographic entity is required to be self-sufficient from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

7.1.3.1 Risk identification and management

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the Liquidity Risk Framework, in order to:

- Maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the LRA as expressed by the Board.
- Maintain market confidence.
- Set limits to control liquidity risk within and across lines of business and legal entities.
- Price liquidity costs accurately and incorporate these into product pricing and performance measurement.
- Set Early Warning Indicators (EWIs) to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources.
- Project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items.
- Maintain a Contingent Funding Plan (CFP) and Recovery Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

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 framework and policies • LRA • Stress testing • Limits and metrics • Intra-day 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 • Committed Liquidity Facility • EWIs • Liquidity simulations • Recovery and resolution planning	• Reserving • Liquid assets • Regulatory reporting • LCR • NSFR

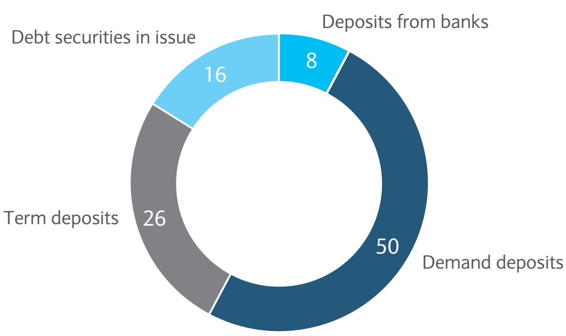
Funding structure

Funding is sourced from a variety of depositors representing a diversity of economic sectors, with a wide range of products and maturities.

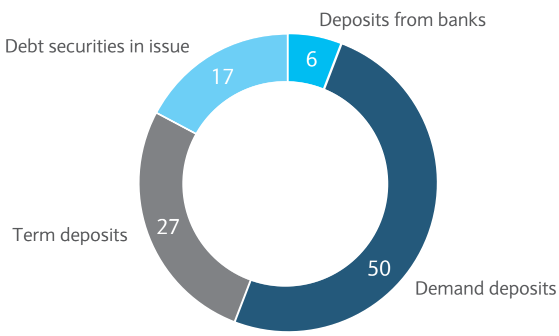
Funding sources by product

The graphs below show that the Group's funding sources has remained stable over the last 12 months.

Funding Sources (%)



2017



2016

Contractual mismatch

Absa Bank applies maturity transformation by using contractually short-dated deposits and on-lending these to customers in need of longer term financing. Due to the structure of the South African market, where customer assets exceed customer deposits, banks remain dependent on wholesale funding sources. Absa Bank's funding strategy is to grow its core deposit franchises in Retail and Business Banking and Corporate and Investment Banking, and to use wholesale funding to fund any shortfall. The Bank's contractual mismatch up to 12 months shows that there are large contractual maturities. This risk is mitigated by ensuring that Group has sufficient sources of liquidity in a stress scenario (see section 7.1.3.3).

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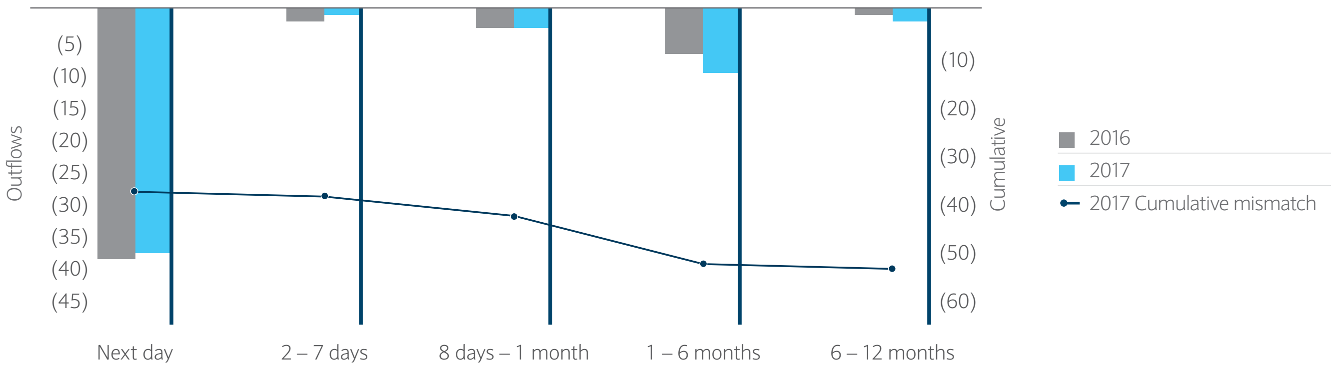
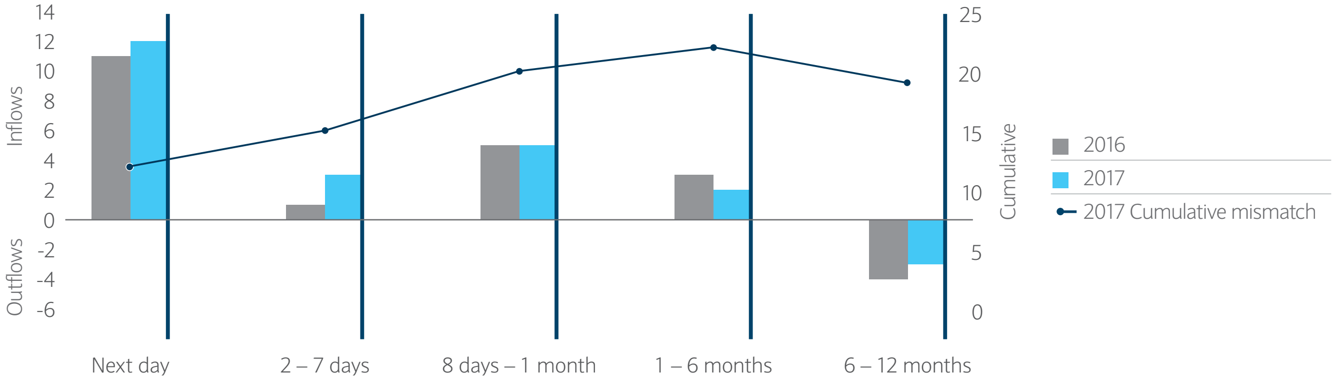
Absa Bank's contractual mismatch up to 12 months (% of customer deposits and debt securities in issue)



Behavioural mismatch

The behavioural mismatch of the balance sheet provides an economic view of the liquidity mismatches across tenors, and models the expected behaviour of the balance sheet under business as usual conditions. Based on past client behaviour, there is a propensity for liabilities to remain with the Bank longer, and for assets to prepay earlier. Wholesale funding retains its contractual maturity due to the type of investor. The resultant behavioural mismatch shows greater inflows than outflows up to 12 months as shown in the graph below:

Absa Bank's behavioural mismatch up to12 months (% of customer deposits and securities in issue)



From a behavioural perspective, Absa Bank has sufficient long-dated funding (greater than 6 months) to fund the long-dated asset mismatch, taking into consideration funding from equity and preference shares. Absa Bank deploys short dated wholesale funding (less than 6 months) into shorter dated liquid and trading assets. Absa Bank targets an average contractual Long-term funding ratio of between 24% and 27% in order to ensure that the Bank's liquidity risk remains within appetite.

Diversification

The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of funding target a wide diversity of depositor, product and tenor.

The foreign currency loans and advances as well as deposits make up less than 5% of Absa Bank's balance sheet. The Group is in the process of further diversifying and lengthening its foreign currency book profile.

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

Stress and scenario testing

Under the Liquidity Risk Framework, the Group has established the LRA, which sets the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory requirements. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Group undertakes a range of stress tests appropriate to its business. Stress tests consider both name-specific and market-wide scenarios. The results of the stress tests are used to determine the liquid asset buffer, to develop the CFP, and the liquidity related components of the Group's Recovery and Resolution plan. Stress testing results are also 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 relevant 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.

Contingency funding planning

Each bank within the Group maintains its own CFP. The CFP includes, inter alia:

- The roles and responsibilities of senior management in a crisis.
- Authorities for invoking the plan.
- Communications and organisation.
- An analysis of a realistic range of market-wide and Group specific liquidity stress tests.
- Scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.
- A range of EWIs, which assist in informing management when deciding whether the CFP should be invoked.

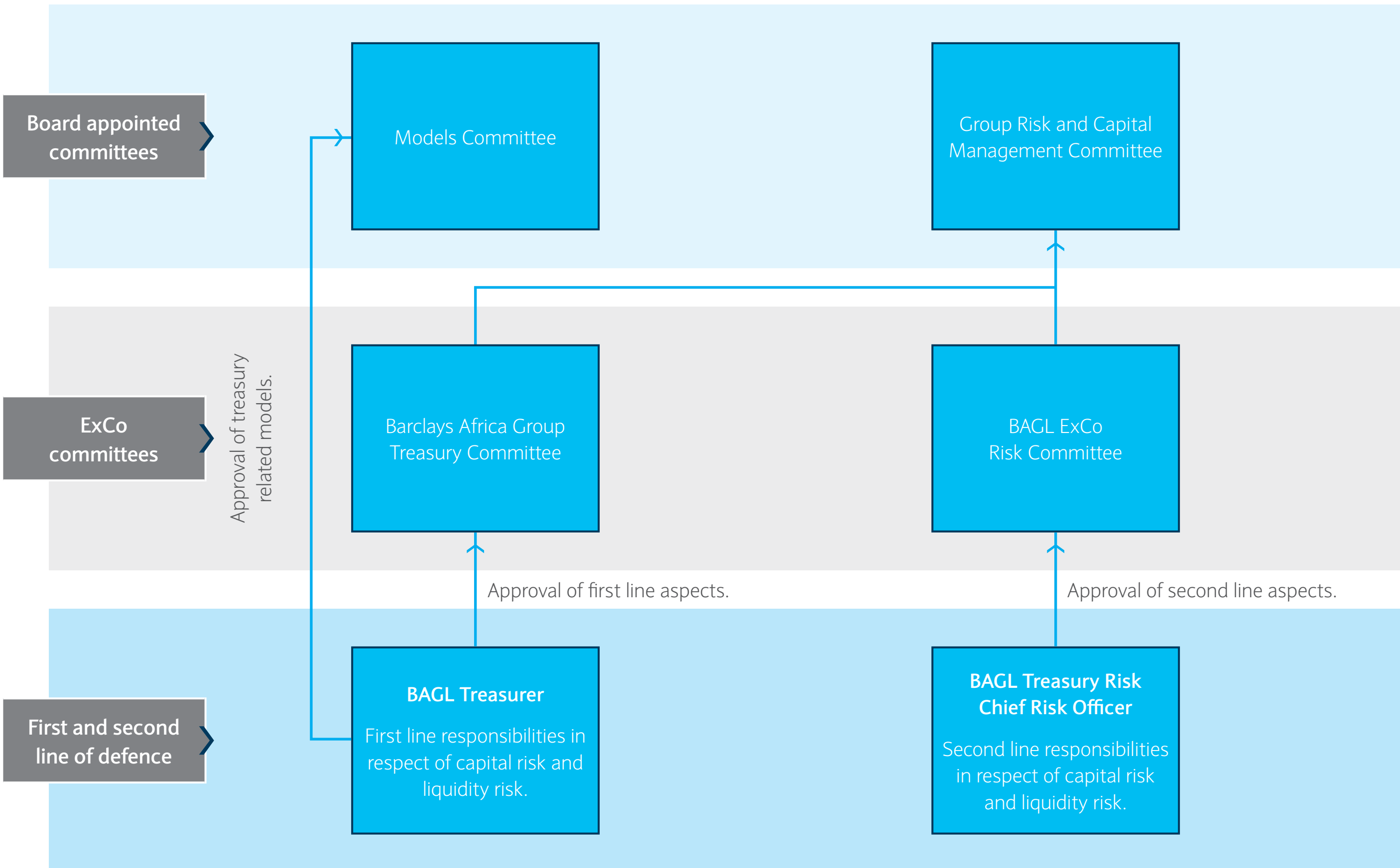
Each banking entity within the Group must adopt and conform to the Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's plan. The CFPs set out the specific requirements to be undertaken locally in a crisis. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets.

7.1.3.2 Governance

The three lines of defence model is followed in respect of treasury and capital risk, with Treasury acting as first line of defence and Group Risk acting as the second line of defence. In line with other risk types, internal and external audit serve as the third line of defence.

A set of policies and standards, with an overarching framework, is used in conjunction with the ERMF to manage and govern treasury and capital risks. The Treasury and Capital Risk Framework includes key control objectives that must be met. The Liquidity and Capital Risk Policies outline a minimum set of standards and requirements that should be maintained for the management of these risks, encompassing planning, limit setting, stress testing, contingency and recovery planning.

The committee structure used to govern decisions relating to treasury and capital risk is outlined below:



7.1.3.3 Reporting

Short-term liquidity stress

The Group's sources of liquidity

	31 December 2017 Rm	31 December 2016 Rm[1]
The Group sources of liquidity	**212 954**	191 671
High quality liquid assets[2]	**159 958**	144 695
Other liquid assets (outside South Africa)	**32 797**	33 201
Other sources of liquidity	**20 199**	13 776

Notes
[1] 1 December 2016 restated to incorporate a revised assumption relating to available interbank funding.
[2] The values disclosed represent the spot values of HQLA.

The Group's sources of liquidity amount to 30.9% of deposits due to customers.

Liquidity Coverage Ratio (LCR)

The objective of the LCR is to ensure that banks maintain an adequate stock of HQLA to survive a significant stress scenario lasting 30 days. The LCR minimum requirement in 2017 of 80% increases by 10% per annum until 1 January 2019 at which point the requirement reaches a level of 100%. The Group targets an LCR above the minimum regulatory requirement and consistently maintained a buffer above the 80% requirement during 2017. The table below represents the average LCR for the quarter:

	Barclays Africa Group Limited		Absa Bank Limited[1]	
	2017	2016	**2017**	2016
High quality liquid assets (Rm)[2]	**157 119**	142 758	**144 970**	134 142
Net cash outflows (Rm)	**146 104**	149 017	**129 845**	135 354
LCR (%)	**107.5**	95.8	**111.6**	99.1
Required LCR (%)	**80**	70	**80**	70

Notes
[1] Absa Bank Limited includes the South African banking operations.
[2] The values disclosed represent the simple average of the relevant three month-end data points

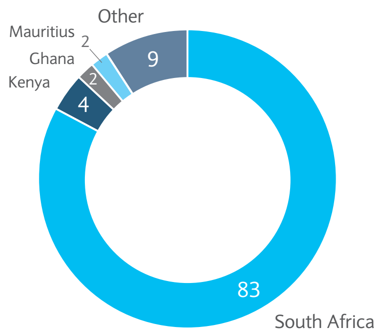
High Quality Liquid Assets (HQLA)

Each bank holds a stock of HQLA to meet any unexpected liquidity outflows. In the majority of locations, local regulators impose rules on the quantum of reserve liquidity to be held.

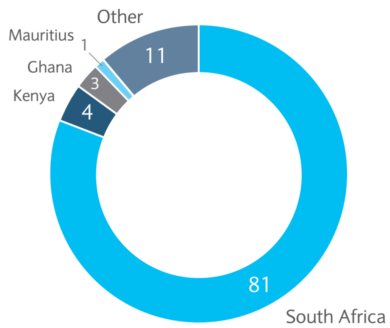
HQLA consists of cash and cash equivalents, deposits with central banks, government debt, and other qualifying instruments under the Basel III framework. Each entity within the Group maintains and demonstrates constant access to the relevant underlying asset market to avoid undue price movement if liquid assets need to be sold. Each operation ensures that its buffer can be liquidated at short notice.

Absa Bank Limited successfully applied for a Committed Liquidity Facility (CLF) from the SARB, which was included in HQLA for LCR purposes from January 2016.

Composition of liquid assets by country (%)



2017



2016

7.2 Capital risk

7.2.1 Review of the current reporting period

Key risk metrics	Y-o-Y trend	2017	2016
Total RWA (Rm)	^	**736 892**	703 785
CET1 capital adequacy ratio (%)[1,2]	=	**12.1**	12.1
Return on average risk-weighted assets (RoRWA)[2] (%)	^	**2.16**	2.14
Return on average EC[2] (%)	^	**18.4**	16.9
Return on equity (RoE)[2] (%)	v	**16.4**	16.6
Cost of Equity (CoE)[3] (%)	v	**13.75**	14.75

- The Group maintained a strong capital adequacy position above the minimum regulatory requirements and above the Board-approved capital target ranges, with capital buffers sufficient to withstand stressed conditions.
- The Board-approved capital target ranges were further increased in light of increased regulatory requirements, economic uncertainties and pending regulatory and accounting headwinds.
- Strong internal capital generation led to a final dividend of 595 cents per share, representing a full year increase of 3.9%.
- Receipt of the contribution amounts in June 2017 from Barclays PLC, arising from Separation resulted in an initial uplift in CET1 of c.160bps for Group and c.220bps for Absa Bank Limited. As at 31 December 2017 the uplift arising from contribution amounts received was c.140bps for Group and c.180bps for Absa Bank Limited.
- The Group issued R2.8bn bonds qualifying as new style Basel III Tier 2 capital to replace an equal amount of bonds that matured during the year.
- The Group issued R1.5bn new-style Basel III Additional Tier 1 capital instruments, which qualify as regulatory capital at a holding company and at an Absa Bank level, in its inaugural issuance of an instrument of this nature.
- RWAs increased by 4.7% to **R736.9bn** (2016: R703.8bn), mainly due to exposure growth in wholesale markets in line with asset growth. Strong RWA growth in Rest of Africa, in line with balance sheet growth, was materially offset by Rand strength towards the end of 2017.
- The enhancements that were made to the economic capital (EC) framework towards the end of 2016 were further embedded during the reporting period.

Notes

[1] Board target range 10.0 – 11.5%. Includes unappropriated profits.
[2] Reported on a normalised basis.
[3] The CoE is based on the capital asset pricing model.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

7.2.2 Priorities

- Maintain an optimal mix of high-quality capital, while continuing to generate sufficient capital in respect of the subsidiaries of the Group to support profitable growth and a sustainable dividend.
- Continue to focus on RWA precision and strong internal generation of equity.
- Ensure all entities remain adequately capitalised relative to minimum regulatory requirements and Board-approved capital target ranges.
- Continue to manage the capital position of the Group and its subsidiaries, throughout the period of Separation from Barclays PLC, allowing for the potential effects of economic uncertainty, regulatory and accounting developments, and actions taken by ratings agencies.
- Continue to focus on the management of capital supply, raising Additional Tier 1 and Tier 2 capital in local and foreign markets as appropriate.
- Further embed the EC framework across the Group.
- Continue engagement with the SARB to finalise the Resolution Framework for South Africa.
- Continuously monitor regulatory developments and changes that may affect the capital position, such as the standard entitled "Basel III: Finalising post-crisis reforms" published by the Basel Committee on Banking Supervision in December 2017.

7.2.3 General information about capital risk

7.2.3.1 Risk identification and management

The Group's capital management strategy, which is in line with and in support of the Group's strategy, is to create sustainable value for shareholders within the boundaries approved as part of the Group's risk appetite.

The Group's capital management objectives are to:

- Optimise the level and mix of capital resources and the utilisation of those resources.
- Meet RC requirements and the Board-approved capital target ranges.
- Maintain an adequate level of capital resources in excess of both RC and EC requirements and within Board-approved target ranges.
- Increase business and legal entity accountability for the use of capital and, where relevant, the use of allocated capital per client or portfolio.
- Assess, manage and efficiently implement regulatory changes to optimise capital usage.
- Maintain a strong credit rating.

Various processes play a role in ensuring that the Group's capital management objectives are met, including:

- The Internal Capital Adequacy Assessment Process (ICAAP).
- Stress testing.
- Recovery and Resolution Planning.

Further details can be found in the sections below.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP document is produced in accordance with the South African Reserve Bank's (SARB's) Guidance Note 4 of 2015.

The ICAAP forms an integral part of the management and decision-making of the Group. The ICAAP framework is a tool that requires 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 in order to remain within the risk appetite of the Group on an ongoing basis.

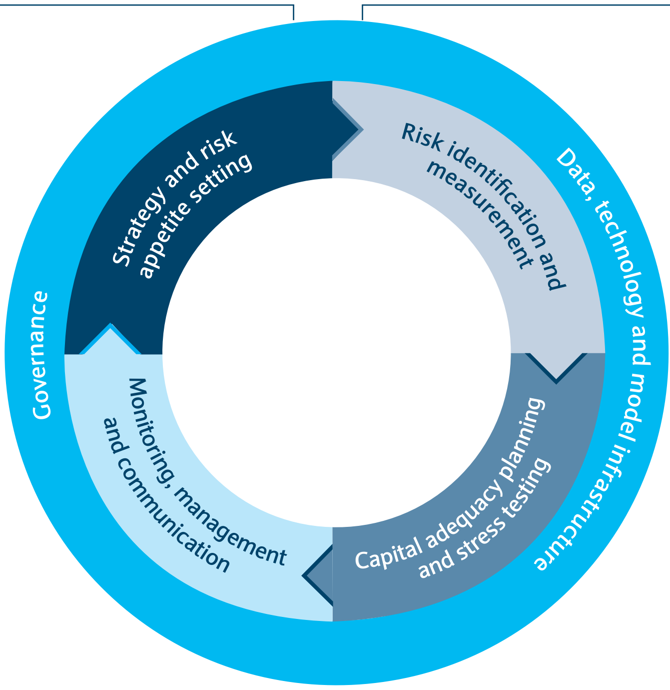
The Group uses the ICAAP in support of meeting its capital management objectives across the Group. The ICAAP is a documented risk-based assessment of the capital adequacy position of the Group and its subsidiaries on a RC and EC basis, reflecting not only the point-in-time position, but also the forward-looking and stressed position over the medium-term plan (MTP) period. Capital adequacy is not considered in isolation, but in the context of the broader set of financial plans of the Group. This is made possible by the integrated planning process. The ICAAP includes entities within the Group that are subject to consolidated supervision by the SARB. Insurance entities are excluded from SARB consolidated supervision, as these are regulated by the Financial Services Board (FSB).

The ICAAP reflects the expected level of capital required to be held against identified risks the Group may become exposed to as a result of executing its strategy. Board and senior management track changes in the economic environment, which may result in an adjustment to the business strategy.

The key components of the Group's ICAAP approach are as follows:

- Establish overall strategic direction for the Group acting on recommendation from management. Formulate a risk appetite consistent with Group-wide strategy incorporating requirements of all stakeholders such as regulators, debt holders and shareholders
- Translate risk appetite framework into limits and guidelines for clusters and strategic business units (SBUs)
- Financial planning and forecasting
- Review of RoE and other performance metrics

- Identification of key capital risks, including current and emerging risks
- Quantification risks: All key risks quantified appropriately.
- Level of sophistication tailored to size and complexity of risk
- Understanding of differences between internal EC and RC
- Management of non-quantified capital risks,



- Monitor and report: Appropriate information presented to the right people at the right time
- Monitoring of capital plan levers
- Regularly updated capital plans
- Communication of capital plan and rationale for management actions
- Monitoring of EWIs

- Forecasting, protection and stress testing of capital and key metrics
- Development of capital plans. Comprehensive suite of stress scenarios, appropriately parameterised and all forms of capital requirements availability reflected
- Management of capital based on appropriate target ranges: Tracking and analysis of capital adequacy level
- Identification and development of management actions

Management of excess capital

The Group's capital policy stipulates that capital held in the Group's entities in excess of Board-approved capital 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. Capital is not transferred to other subsidiaries unless there is a robust business, regulatory or tax reason to support it.

7.2.3.2 Governance

Refer to section 7.1.3.2 for the governance process in managing treasury and capital risk.

7.2.3.3 Reporting

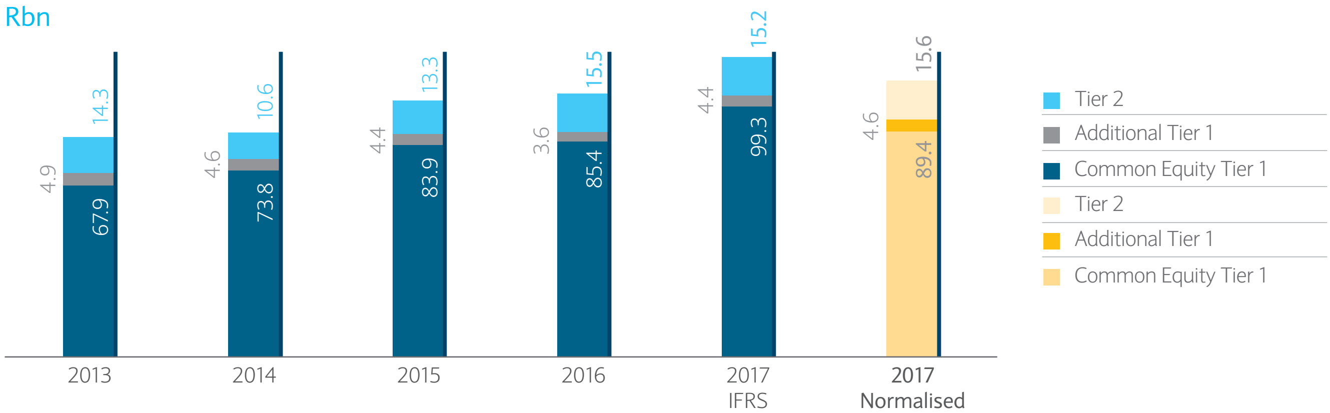
Capital adequacy

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Group's capital target ranges for the current reporting period were set after considering the following:

- Capital risk appetite.
- The preference of rating agencies for loss absorbing capital.
- Stress scenarios and their impact on the integrated plan, including the capital position of the Group.
- Current and future Basel III requirements and accounting developments.
- Peer analysis.

Group capital adequacy

Group	Board target ranges %	Minimum regulatory capital requirements[1] %	Y-o-Y trend	IFRS Group performance 2017	Total Group normalised performance 2017	IFRS Group performance 2016
Statutory capital ratios (includes unappropriated profits) (%)						
CET1	**10.0 – 11.5**		^	**13.5**	**12.1**	12.1
Tier 1	**11.5 – 13.0**		^	**14.1**	**12.8**	12.6
Total	**14.0 – 15.5**		^	**16.1**	**14.9**	14.8
Regulatory capital ratios (excludes unappropriated profits) (%)						
CET1		7.3	^	**12.4**	–	11.4
Tier 1		8.5	^	**13.0**	–	11.9
Total		10.8	^	**15.0**	–	14.1



Notes

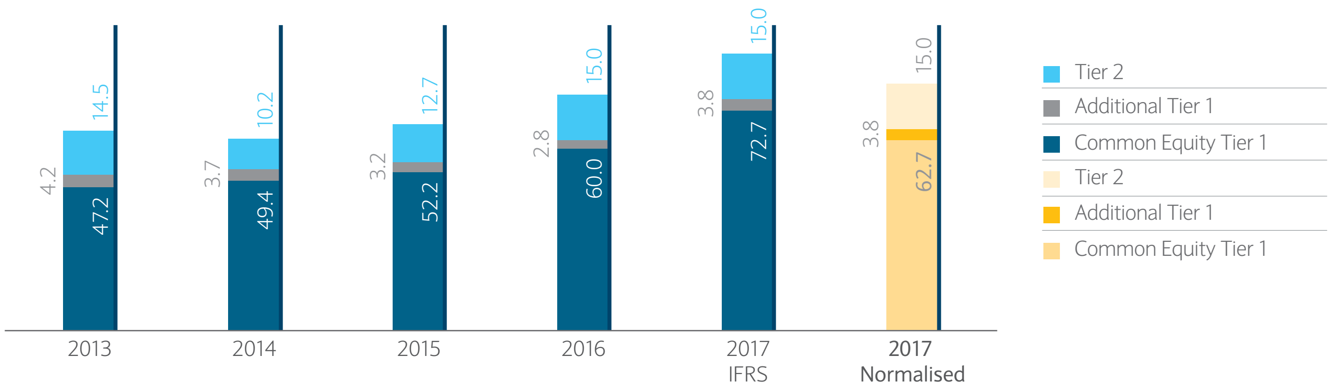
[1] The 2017 minimum regulatory capital requirements of 10.75% include the capital conservation buffer which is being phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the domestic systematically important bank (D-SIB) add-on.

2013	2014	2015	2016	IFRS 2017	Normalised 2017	
12.1	11.9	11.9	12.1	**13.5**	**12.1**	CET1 ratio (%)
15.5	14.4	14.5	14.8	**16.1**	**14.9**	Total capital adequacy ratio (%)

Absa Bank Limited capital adequacy

Absa Bank Limited[2]	Board target ranges %	Minimum regulatory capital requirements[1] %	Y-o-Y trend	IFRS Group performance 2017	Total Group normalised performance 2017	IFRS Group performance 2016
Statutory capital ratios (includes unappropriated profits) (%)						
CET1	**10.0 – 11.5**		^	**13.4**	**11.6**	11.6
Tier 1	**11.0 – 12.5**		^	**14.1**	**12.3**	12.2
Total	**13.5 – 15.0**		^	**16.9**	**15.0**	15.1
Regulatory capital ratios (excludes unappropriated profits) (%)						
CET1		7.3	^	**12.6**	–	10.5
Tier 1		8.5	^	**13.3**	–	11.0
Total		10.8	^	**16.1**	–	14.0

Rbn



2013	2014	2015	2016	IFRS 2017	Normalised 2017	
11.3	10.8	10.5	11.6	**13.4**	**11.6**	CET1 ratio (%)
15.8	13.9	13.8	15.1	**16.9**	**15.0**	Total capital adequacy ratio (%)

Notes

[1] The 2017 minimum regulatory capital requirements of 10.75% include the capital conservation buffer which is being phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the domestic systematically important bank (D-SIB) add-on.

[2] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.

Operations	Regulator	2017 Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %
Local entities (South Africa)				
Group	SARB			
Including unappropriated profits[1]		118 899	14.1	16.1
Excluding unappropriated profits		110 874	13.0	15.0
Absa Bank Limited[3]	SARB			
Including unappropriated profits		91 478	14.1	16.9
Excluding unappropriated profits		87 030	13.3	16.1
Foreign banking entities[4]				
Barclays Bank of Mozambique	Banco de Mozambique	1 119	17.9	24.9
Barclays Bank of Botswana	Bank of Botswana	2 848	15.1	21.1
Barclays Bank of Ghana	Bank of Ghana	2 343	11.2	20.4
Barclays Bank of Kenya	Central Bank of Kenya	5 279	16.0	18.1
Barclays Bank of Mauritius	Bank of Mauritius	4 688	18.8	19.8
National Bank of Commerce	Bank of Tanzania	1 300	20.3	22.3
Barclays Bank of Tanzania	Bank of Tanzania	481	19.2	21.2
Barclays Bank of Uganda	Bank of Uganda	1 264	18.6	22.2
Barclays Bank of Seychelles	Bank of Seychelles	612	19.7	25.5
Barclays Bank of Zambia	Bank of Zambia	1 612	22.0	28.5
Insurance entities				
Absa Life Limited	FSB[5]	1 111		3.1xCAR[6]
Absa Insurance Company Limited	FSB[5]	1 135		51.85%xNWP[7]

Notes

1 Includes the contribution amounts received from Barclays PLC as part of the Separation.
2 The SARB 2017 minimum regulatory requirement of 10.75% include the RSA minimum of 8%, Pillar 2a of 1.5% and capital conservation buffer of 1.25% but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.
3 Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
4 The 2017 foreign banking entity disclosures are unaudited.
5 Financial Services Board of South Africa.
6 CAR: Actuarial calculation of VaR on insurance liabilities. 2.0 times (2016: 2.0 times) being the required capital level.
7 NWP: Net Written Premiums, 34% (2016: 36%) of NWP being the required capital level determined by Absa Insurance Company Limited.

2016			2017 Total target capital adequacy ratio	
Total qualifying capital Rm	Tier 1 ratio %	Total capital adequacy %	Regulatory minimum %	Board Target %
104 486	12.6	14.8		**14.0 – 15.5**
99 503	11.9	14.1	**10.8**[2]	
77 769	12.2	15.1		**13.5 – 15.0**
71 968	11.0	14.0	**10.8**[2]	
895	15.2	22.5	**8.0**	**13.0**
2 566	15.3	20.8	**15.0**	**17.5**
2 051	9.9	19.0	**10.0**	**13.5**
5 703	15.7	17.9	**14.5**	**16.5**
5 692	19.1	20.0	**10.0**	**13.1**
1 297	16.5	18.5	**14.5**	**16.0**
492	20.5	22.5	**14.5**	**17.0**
1 345	21.5	25.7	**14.5**	**17.5**
674	22.8	29.5	**12.0**	**13.5**
1 552	17.2	23.4	**10.0**	**12.0**
1 135		3.1xCAR[6]	**1.0xCAR**[6]	**2.0xCAR**[6]
1 087		44.31%xNWP[7]	**28%xNWP**[7]	**34%xNWP**[7]

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

Capital supply

Breakdown of qualifying capital

Group	2017 Rm	2017 %[1]	2016 Rm	2016 %[1]
Common Equity Tier 1	**91 297**	**12.4**	80 451	11.4
Ordinary share capital	**1 666**	**0.3**	1 693	0.2
Ordinary share premium	**10 498**	**1.4**	4 468	0.6
Reserves[2]	**85 048**	**11.5**	78 546	11.2
Non-controlling interest	**1 910**	**0.3**	2 084	0.3
Deductions	**(7 825)**	**(1.1)**	(6 340)	(0.9)
Goodwill	**(684)**	**(0.1)**	(715)	(0.1)
Amount by which expected loss exceeds eligible provisions	**(2 083)**	**(0.3)**	(2 128)	(0.3)
Other deductions	**(5 058)**	**(0.7)**	(3 497)	(0.5)
Additional Tier 1 capital	**4 364**	**0.6**	3 557	0.5
Tier 1 capital	**95 661**	**13.0**	84 008	11.9
Tier 2 capital	**15 213**	**2.0**	15 495	2.2
Instruments recognised as Tier 2 capital	**14 675**	**2.0**	14 911	2.1
General allowance for impairment losses on loans and advances – standardised approach	**538**	**0.0**	584	0.1
Total qualifying capital (excluding unappropriated profits)	**110 874**	**15.0**	99 503	14.1
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**103 686**	**14.1**	88 991	12.6
CET 1 (excluding unappropriated profits)	**91 297**	**12.4**	80 451	11.4
Unappropriated profits	**8 025**	**1.1**	4 983	0.7
Additional Tier 1	**4 364**	**0.6**	3 557	0.5
Tier 2 capital	**15 213**	**2.0**	15 495	2.2
Total qualifying capital (including unappropriated profits)	**118 899**	**16.1**	104 486	14.8
Normalised qualifying capital (including unappropriated profits)	**109 602**	**14.9**	104 486	14.8

Leverage

Group	2017 31 Dec	30 Sep	30 Jun	31 Mar
Leverage ratio exposure (Rm)	**1 311 893**	1 318 673	1 259 572	1 254 437
Tier 1 Capital (excluding unappropriated profits) (Rm)	**95 661**	98 736	96 225	82 249
Tier 1 Capital (including unappropriated profits) (Rm)	**103 686**	103 875	101 802	86 348
Leverage ratio (excluding unappropriated profits) (%)	**7.3**	7.5	7.6	6.6
Leverage ratio (including unappropriated profits) (%)	**7.9**	7.9	8.1	6.9
Normalised leverage ratio (including unappropriated profits) (%)	**7.2**	7.0	7.2	6.9
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0	4.0	4.0

Notes
1 Percentage of capital to RWAs.
2 Reserves exclude unappropriated profits.

Absa Bank Limited[1]	2017 Rm	2017 %[2]	2016 Rm	2016 %[1]
Common Equity Tier 1	**68 194**	**12.6**	54 185	10.5
Ordinary share capital	**304**	**0.1**	304	0.1
Ordinary share premium	**36 880**	**6.8**	24 964	4.8
Reserves[3]	**37 545**	**6.9**	33 560	6.5
Deductions	**(6 535)**	**(1.2)**	(4 643)	(0.9)
Amount by which expected loss exceeds eligible provisions	**(2 139)**	**(0.4)**	(1 983)	(0.4)
Other deductions	**(4 396)**	**(0.8)**	(2 660)	(0.5)
Additional Tier 1 capital	**3 812**	**0.7**	2 758	0.5
Tier 1 capital	**72 006**	**13.3**	56 943	11.0
Tier 2 capital	**15 024**	**2.8**	15 025	3.0
Instruments recognised as Tier 2 capital	**14 917**	**2.8**	14 881	2.9
General allowance for impairment losses on loans and advances – standardised approach	**107**	**0.0**	144	0.1
Total qualifying capital (excluding unappropriated profits)	**87 030**	**16.1**	71 968	14.0
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**76 454**	**14.1**	62 744	12.2
CET 1 (excluding unappropriated profits)	**68 194**	**12.6**	54 185	10.5
Unappropriated profits	**4 448**	**0.8**	5 801	1.1
Additional Tier 1	**3 812**	**0.7**	2 758	0.6
Tier 2 capital	**15 024**	**2.8**	15 025	2.9
Total qualifying capital (including unappropriated profits)	**91 478**	**16.9**	77 769	15.1
Normalised qualifying capital (including unappropriated profits)	**81 513**	**15.0**	77 769	15.1

Leverage

Absa Bank Limited[1]	2017 31 Dec	30 Sep	30 Jun	31 Mar
Leverage ratio exposure (Rm)	**1 153 338**	1 136 516	1 095 984	1 092 562
Tier 1 Capital (excluding unappropriated profits) (Rm)	**72 006**	72 860	71 613	55 656
Tier 1 Capital (including unappropriated profits) (Rm)	**76 454**	75 640	76 541	62 228
Leverage ratio (excluding unappropriated profits) (%)	**6.2**	6.4	6.5	5.1
Leverage ratio (including unappropriated profits) (%)	**6.6**	6.7	7.0	5.7
Normalised leverage ratio (including unappropriated profits) (%)	**5.8**	5.6	6.0	5.7
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0	4.0	4.0

Notes
[1] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
[2] Percentage of capital to RWAs.
[3] Reserves exclude unappropriated profits.

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Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

Movements in qualifying capital

	Group		Absa Bank Limited[1]	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Balance at the beginning of the reporting period (excluding unappropriated profits)	**99 503**	95 355	**71 968**	65 717
Share capital, premium and reserves	**12 505**[2]	6 343	**15 901**[2]	6 447
Non-controlling interest	**(174)**	(472)	**–**	–
Regulatory deductions – CET1	**(1 485)**	(3 060)	**(1 892)**	(2 070)
Additional Tier 1 capital instruments issued	**1 500**	–	**1 500**	–
Regulatory changes in Additional Tier 1	**(693)**	(857)	**(446)**	(475)
Tier 2 subordinated debt issued	**2 841**	2 381	**2 841**	2 381
Tier 2 subordinated debt matured	**(2 805)**	–	**(2 805)**	–
Regulatory changes in Tier 2	**(272)**	(229)	**–**	–
General allowances for impairment losses on loans and advances: standardised approach – SA	**(46)**	42	**(37)**	(32)
Balance at the end of the reporting period (excluding unappropriated profits)	**110 874**	99 503	**87 030**	71 968
Add: unappropriated profits	**8 025**	4 983	**4 448**	5 801
Qualifying capital including unappropriated profits	**118 899**	104 486	**91 478**	77 769

Economic capital adequacy

EC is an estimate of the maximum downward deviation from expectation in shareholder value, measured on an economic basis over a one year time horizon. In the table below EC demand is presented at a 99.9% confidence level. In practice, EC provides a common basis on which to aggregate and compare different risk types using a single measure. EC measures all Basel III Pillar 1 risks as well as additional risks such as IRRBB and Business Risk.

EC demand is compared to the Available Financial Resources (AFR), which is also referred to as EC supply, to evaluate the total EC excess. The Group ensures that there are sufficient AFR in order to meet this minimum demand requirement under severe yet plausible stress conditions.

Notes

[1] Absa Bank Limited includes subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings.

[2] The increase in share capital, premium and reserves is mainly due to the impact of the Separation from Barclays PLC.

EC demand	2017[1] Rm	2016[2] Rm
Retail credit risk	**13 451**	14 385
Securitisation	**31**	36
Wholesale credit risk	**36 370**	35 765
Residual value risk	**402**	375
Operational risk	**6 140**	6 092
Traded market risk	**2 732**	2 000
Non-traded market risk[3]	**5 397**	8 356
Equity investment risk	**1 548**	1 809
Property and equipment risk	**8 730**	7 101
Insurance risk	**3 104**	3 237
Business risk	**5 364**	6 343
Total EC Requirement	**83 269**	85 499
IFRS total EC AFR[4]	**118 873**	99 022
IFRS total EC excess	**35 604**	13 523
Normalised total EC AFR[5]	**109 037**	99 022
Normalised total EC excess	**25 768**	13 523

Credit ratings

	Standard and Poor's		Moody's	
	Barclays Africa Group	Absa Bank Limited[6]	Barclays Africa Group	Absa Bank Limited[6]
National				
Short-term	zaA -2	zaA -1 +	Prime -1.za	Prime -1.za
Long-term	zaBBB +	zaAA -	Aa3.za	Aa1.za
Local currency				
Short-term	–	–	Not – Prime	Prime -3
Long-term	–	–	Ba1	Baa3
Outlook	–	–	Review for downgrade	Review for downgrade
Foreign currency				
Short-term	–	–	Not – Prime	Prime -3
Long-term	–	–	Ba1	Baa3
Outlook	–	–	Review for downgrade	Review for downgrade
Baseline credit assessment				
Group credit profile	–	–	–	baa3
Counterparty risk	–	–	–	Baa2 (cr)/P – 2 (cr)

Notes
[1] EC demand and AFR reported on a spot basis as at December 2017.
[2] EC demand restated to show a 99.9% confidence interval on a spot basis, compared to the previous 99.95% confidence interval on an average basis. Insurance risk is shown at a 99.6% confidence interval.
[3] The decrease in EC demand for non-traded market risk is due to refinements made in the sourcing of market curves for Rest of Africa, together with the introduction of diversification between Rest of Africa countries.
[4] IFRS AFR methodology revised to exclude future earnings. The increase is mainly due to the contribution amounts received from Barclays PLC.
[5] Normalised AFR methodology revised to exclude future earnings. This excludes the contribution amounts received from Barclays PLC. The increase is due to growth in earnings as well as the issuance of new style Additional Tier 1 and Tier 2 capital instruments.
[6] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.

7.2.3.4 Additional disclosures

Recovery and resolution planning

The SARB has called on D-SIBs to identify the range of potential options available to restore their capital, liquidity and balance sheet positions during times of severe stress (recovery plans) and to enable an orderly restructure/wind-down (resolution plans) if required. To this effect, the Group has a Board-approved Recovery Plan in place that is reviewed annually for relevance and appropriateness, and is submitted annually to the SARB for compliance. The Recovery Plan assumes no reliance on Barclays PLC for funding, capital and liquidity.

The key objectives of the Recovery Plan are to:

- Set consistent and objective EWIs that allow the Group to monitor its capital and liquidity position, and to identify and respond timeously when the Group might come under severe stress.
- Provide the Group with plausible, timely and effective management actions to ensure the Group is adequately prepared when Contingency Funding Plan (CFP) actions may be inadequate for severe stressed conditions. This will be done through an approved execution approach and communication plan, and identification of risks and potential impacts of the recovery options.
- Provide the Group with an understanding of the potential effectiveness of recovery options under varying forms of severe stress, through determining estimates of the capital, liquidity and balance sheet impacts of the recovery options and by assessing their likely effectiveness under a range of severe stress scenarios.

EWIs provide a consistent, forward-looking, and objective approach to early identification of deviation from target capital, liquidity and leverage ratios, which might negatively impact the liquidity and capital plans. Statutory regulatory ratios are monitored against EWIs and Board target ranges, whilst RC ratios are monitored against regulatory minimum capital requirements. The Capital EWIs form the basis of the Group's Recovery Plan escalation and invocation process and are set at levels which provide sufficient notice to allow the Group to take corrective action.

The main objectives of an effective resolution regime are to minimise the cost of crisis resolution to the taxpayer, reduce moral hazard in the financial system and protect financial stability. The purpose of a resolution plan is to prepare and consider actions for the resolution of the financial institution without a systemic disruption or cost to the taxpayer.

The Group continues to engage with the SARB to finalise the requirements as part of the Resolution Framework for South Africa, as well as work with regulators and industry bodies in the formulation of Resolution Planning.

8. Insurance risk

Contents

8.1	Review of current reporting period		100
8.2	Priorities		101
8.3	General information about insurance risk		101
	8.3.1	Risk identification and management	102
	8.3.2	Governance	103
	8.3.3	Reporting	104
	8.3.4	Additional disclosures	105
		8.3.4.1 Own risk and solvency assessment	105

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns may be adversely different to the allowances made in measuring policyholder liabilities and in product pricing.

8.1 Review of current reporting period

Key risk metrics	Y-o-Y trend	2017	2016
Africa Life Insurance[1]			
Present Value of In-Force book (PVIF) (Rm)	^	**4 408**	3 763
New business margin (%)	^	**10.1**	5.0
Annualised return on shareholder funds (%)	^	**8.7**	7.2
YTD profit and loss impact of mismatch position (Rm)	^	**3**	(16)
Africa Short-term Insurance[1]			
Net Premium income (Rm)	v	**3 018**	3 559
Net underwriting margin (%)	^	**1.2**	(0.7)
Annualised return on shareholder funds (%)	^	**7.7**	6.9
WIMI Insurance			
Profit Before Tax (Rm)	^	**1 284**	1 189
Regulatory capital adequacy cover	^	**1.71**	1.69

Key performance indicators and key risk indicators are established during the annual planning and risk appetite setting process. For each insurance entity, these metrics include (at a minimum) the target regulatory and economic capital adequacy levels and the business performance targets (profit before tax) with associated levels of variability. Key metrics have associated thresholds defined.

- **PVIF:** The Present Value of In-Force business represents the discounted value of the expected future after tax profits in respect of business in force at the reporting period. The PVIF is sensitive to new business acquired, lapse rates and mortality rates. The increased PVIF in 2017 is attributed largely to business growth, as well as change in lapse assumptions driven by a decrease in both credit life and funeral product lapse rates.
- **Life insurance new business margin:** The new business margin represents the discounted value of the expected future after tax profits in respect of new business written during the reporting period less initial capital costs expressed as a percentage of the present value of projected premium income expected from new business written during the reporting period. The increase in margin is due to a change in the mix of business with a weighting more towards higher margin risk business compared to the previous year.
- **Annualised return on shareholder funds:** The fund return is expressed as investment income earned on shareholder funds. Performance differences for both life and short-term insurance are attributed to changes in financial market conditions as investment mandates have remained largely unchanged.
- **Short-term insurance premium income:** The decrease in premium income is attributed largely to the sale of the unprofitable commercial intermediated business book in South Africa, as well as pricing interventions which were implemented in the Rest of Africa. These pricing actions, together with improved claims process efficiencies and cost containment initiatives are expected to result in positive financial performance over the longer term.
- **Short-term insurance net underwriting margin:** The underwriting surplus is expressed as a percentage of net premiums. The increased margin is largely a result of focused portfolio management actions including: the implementation of best practice pricing methodology; sound underwriting practices; and specific claims cost containment initiatives across the business. There has, however, been an increase in both the severity and frequency of catastrophe events in South Africa, with these costs growing 148% year-on-year.
- **WIMI insurance profit before tax:** The profit before tax figure increased 8% versus the previous year mainly due to improved profits in Rest of Africa insurance entities, partly offset by lower profits in the South African short-term insurance businesses due to catastrophe events.

Notes

[1] Results shown in the half-year disclosures were for South Africa except for PVIF and new business margin which were for Africa. The current set of results shows all metrics for Africa, therefore differs from previous disclosure.

- **Absa Financial Services regulatory capital adequacy cover:** The regulatory capital cover is calculated using the Solvency Assessment and Management's Deduction and Aggregation approach where the capital position for Absa Financial Services (as registered at the Financial Services Board) is calculated by adding together all the capital positions of the entities within the Group and deducting the intragroup exposures to avoid double-counting of capital. The capital cover position as at 31 December 2017 will be submitted to the Financial Services Board by 31 March 2018 and the figure shown for 2017 is as at 30 June 2017.
- **Key performance indicators:** Indicator levels are monitored on a monthly basis and compared with trigger levels. These indicators include most of the above metrics as well as numerous product-level sales performance, policyholder experience and profitability measures.
- **Key process enhancements**
  - Actuarial Centres of Excellence were established for Africa life insurance and Africa short-term insurance in order to provide consistent and prioritised actuarial support to Rest of Africa entities.
  - Life insurance and short-term insurance Chief Risk Officers were put in place to provide more effective and focused second line of defence for insurance entities.
  - An actuarial oversight function was formally established to strengthen actuarial practice and embed consistent standards, procedures and controls.
  - A WIMI Model Risk Standard was developed to address unique insurance requirements and subsequently implemented with all high materiality actuarial models being independently reviewed.

8.2 Priorities

- Ensure consistent risk and control standards across all African insurance entities.
- Develop Solvency Assessment and Management (SAM) insurance group reporting to the end state requirements, including revising dividend policies to target appropriate SAM regulatory capital levels once SAM is enacted.
- Continuous improvement in setting insurance risk appetites and stress scenario testing including use.
- Meeting the end state SAM requirements for the Head of Actuarial Control and the Actuarial Control Function for South African short-term insurance entities.
- Ongoing improvements to the insurance group internal economic capital methodology.
- Ongoing improvements of financial reporting data quality with a focus on SAM.
- Life insurance entities will continue to focus on sales and underwriting initiatives to increase revenues and attract high quality risks.
- Short-term insurance entities will continue to embed analytics, pricing and retention solutions to maintain claims ratios within targeted ranges.

8.3 General information about insurance risk

The insurance risk control environment governance is set out in the Insurance Principal Risk Control Framework (IPRCF). The framework and policies are aligned to the requirements of Board Notice 158 of 2014 (BN 158), released by the Financial Services Board (FSB). BN158 introduced a more formalised corporate governance, risk management and internal control framework for South African insurers. The framework aligns to the FSB's risk-based Solvency Assessment and Management (SAM) regime, expected to become effective on 1 July 2018.

The IPRCF applies the evaluate-respond-monitor process to the principal risk and applies across all regulated insurance entities. It requires each insurance entity to comply with a range of policies, namely Underwriting, Reserving, Reinsurance and Risk Transfer, Asset-Liability Management, and Investment Management.

8.3.1 Risk identification and management

In addition to the risks described in some of the other Principal Risk Frameworks, entities that conduct insurance business are specifically exposed to the following risk features of insurance activity:

- **Underwriting:** The underwriting process includes the assessment, pricing and acceptance of insurance contracts at inception and the subsequent process of planned and ongoing pricing reviews and policy renewals. Risk arises from inadequate pricing (to cover future claims and related expenses) or acceptance of unwanted insurance exposures (either in the nature of insured perils or in size or nature of individual exposures or aggregations of exposures). Underwriting seeks to ensure these risks are understood and adequately priced (as a portfolio of pooled exposures) or avoided and continuously reviewed.
- **Reserving:** Adequate provisioning or reserving for current and future claims and related expenses is a cornerstone of financial stability of insurance entities, given the variety of reserves, the complexity of actuarial techniques and the material impact fluctuations in reserves can have on the financial results of the entity. Risk arises from weaknesses in the actuarial processes of quantifying reserves and is mitigated through the appropriate application of the actuarial control cycle.
- **Reinsurance:** Reinsurance enables insurance entities to transfer risk, for which they do not have appetite or expertise, to professional reinsurance companies. While this is an extremely effective mechanism to manage risk to the balance sheet and income statement, and to obtain expertise through strategic partnerships, it does expose the entity to the performance of the reinsurance company.
- **Asset-Liability Management**: It is important that the profile (expected return, term, currency, etc.) of investments backing certain insurance liabilities is appropriate and sufficiently liquid, for the profile of related insurance liabilities. Asset liability mismatch risk arises when the value of liabilities and the value of assets backing those liabilities move differently as economic market conditions change.
- **Investment Management:** Adverse investment experience, either due to market dynamics or inadequate adherence to defined benchmarks, impacts the ability of the entity to provide for policy obligations and capital adequacy requirements, as well as the ability to provide shareholders with an acceptable return on surplus assets retained in the business.

Risk measurement and management techniques use both best practice and mandatory local and international actuarial methodologies.

- Assets and liabilities are quantified for local regulatory and financial reporting purposes. Depending on the purpose, asset and liability measurement techniques utilise either deterministic or stochastic methods and may include implicit or explicit margins, or be done on either market consistent or best estimate bases.
- Capital adequacy requirements are defined for local regulatory and internal solvency purposes.
  - Regulatory capital adequacy requirements are quantified using a prescribed methodology, whereas internal/economic capital adequacy requirements are based on approved internal methodology.
  - Regulatory capital adequacy results are derived at 99.5% confidence level (prescribed by SAM), whereas economic capital adequacy results are derived at a higher (currently 99.6%) confidence level.
- The forward-looking nature of insurance reserves requires a large number of assumptions to be made. These include demographic (e.g. mortality, morbidity), statistical (claims incidence, reporting and development patterns) and economic (interest rates, yield curves, market returns, etc.) assumptions.
- Scenario/Stress testing is used to isolate and examine the impact of specific, or combinations of, variables. These are either defined internally, by the Group or by regulators.

8.3.2 Governance

Absa Financial Services Limited (AFS), as registered with the FSB, resides in the management cluster Wealth, Investment Management and Insurance (WIMI). AFS currently has a number of entities that take on insurance risk. These are depicted in the table below.

Insurance risk	Legal entities
Life insurance	• Absa Life Limited (incorporating cell insurance arrangements for Woolworths Financial Services and Instant Life) • Barclays Life Botswana Limited • Barclays Life Zambia Limited • Barclays Life Assurance Kenya Limited • Global Alliance Seguros (Mozambique)
Short-term insurance	• Absa Insurance Company Limited • Absa idirect Limited • Absa Insurance Risk Management Services Limited • First Assurance Kenya • First Assurance Tanzania • Global Alliance Seguros (Mozambique)

Insurance risk is governed by various management and board structures. Relevant WIMI Executive Risk Committees are the WIMI Financial Risk Committee and the WIMI Control Review Committee. These management committees then report into the relevant group executive committees as well as the AFS Board Committees: the Group Actuarial Committee (GAC) and the Audit, Risk and Compliance Committee (ARCC).

The GAC's objectives are to review actuarial and technical matters, whereas the ARCC oversees internal controls, risk, compliance, internal and external audit matters. The AFS Board is accountable for oversight across a range of business components and relies on assurance from senior management and independent professional service providers e.g. appointed actuaries.

The WIMI FRC and WIMI CRC have been set up to provide oversight of the risk profiles of all entities in WIMI. The WIMI FRC focuses on the governance of the financial risk profile, including aggregation and concentration risk across WIMI, capital management, stress testing and risk appetite setting and monitoring.

Contents
Contents IFC
Summary of capital position, risk profile and risk-weighted assets (RWA) 4
Overview of the Group 11
Basis of preparation 16
Overview of risk management 21
Credit risk 33
Market risk 69
Treasury and capital risk 80
Insurance risk 99
Operational risk 106
Model risk 111
Conduct risk 117
Reputation risk 120
Legal risk 122
Annexures 126
Abbreviations and acronyms 148

The following schematic illustrates the various management and board forums and committees involved in the governance of insurance risk.

Grouping	Committees, Forums and Reporting Flow
AFS and Entity Boards	Absa Financial Services board; Absa Life Ltd; Absa Insurance Company Ltd; Absa idirect Ltd; AIRMS[1]; Investment Cluster Boards
Reports into Provides an update to	
AFS Group Board Sub-Committees	Group Actuarial Committee (GAC); Audit, Risk and Compliance Committee (ARCC)
Reports into	
WIMI Risk Committees	WIMI Financial Risk Committee (FRC); WIMI Control Review Committee (CRC)
Reports into	
Entity & WIMI Management Committees/ Forums	WIMI Models Committee Product Risk Committee Non-life Capital, Investment and Reinsurance Forum Non-life Underwriting and Reinsurance Forum Non-life Pricing Forum Life Underwriting Forum Life Reinsurance Forum Key Risk Scenario Validation Committee Entity Control Review committees Combined Assurance Forum Insurance Governance Control Forum Key Risk forums
Reports into	
Control Functions	2nd LOD: Risk Management Control Function, Compliance Control Function, Entity Actuarial Control Function
Principal Risks	Credit Risk; Market Risk; Treasury & Capital Risk; Operational Risk; Model Risk; Reputation Risk; Conduct Risk; Legal Risk; Insurance Risk
	1st Line of Defence

Barclays Internal Audit 3rd Line of Defence

In addition, the Group's insurance entities are required to comply with the IPRCF and the five insurance risk policies. Insurance risk policies describe key components of the insurance risk life cycle and define clear control principles which can then be expanded in the form of standards to articulate the specific controls required by local practice, regulation or business.

8.3.3 Reporting

Insurance risk reporting follows the qualitative (control environment reporting) and quantitative (against capital adequacy and earnings volatility appetites) processes described above. The adherence of insurance entities to the insurance risk policies is governed through the above structure, through ongoing monitoring and reporting. Assurance on the governance is achieved through combined assurance structures across the three lines of defence. The WIMI Models Committee, WIMI FRC, WIMI and entity level CRCs, and the Insurance Governance Control Forum provide oversight of the risk profile of the insurance entities.

Notes
[1] Absa Insurance Risk Management Services Limited

The table below provides a high-level overview on the monitoring and reporting requirements against the five insurance risk policies:

Policy	Coverage	Monitoring and reporting requirements
Underwriting	• Nature and classes of insurance risks and related pricing and underwriting criteria. • Appetites and limits for each class of business and monitoring adherence. • Principles underlying the process of underwriting and pricing.	• Defined risk appetites and performance monitoring metrics. • Adherence to applicable policies and mandates, and to technical/actuarial pricing levels. • Exposure levels, including concentration risk by product and distribution channel, geographies, aggregations. • Net and gross premium levels.
Reserving	• Requirements for setting reserves and related assumptions. • Other matters such as approximations, levels of sufficiency, and differences in reporting.	• Independent sign off on the adequacy of reserves. • Reserving adequacy levels and key assumptions. • Comparison of actual versus expected experience. • Reporting of reserves as required by Group Finance and relevant local regulation and best practice.
Reinsurance and Risk Transfer	• Setting strategy for reinsurance and other forms of risk transfer and monitoring the impact of these arrangements against appetite. • Assessment of economic impact, risks and effectiveness of these arrangements. • Principles and procedures for designing reinsurance programs and selecting reinsurance counterparties.	• Counterparty credit risk mandate setting and adherence. • Aggregate exposure levels, both gross and net of reinsurance. • Credit ratings, financial performance and liquidity exposure. • Contribution to regulatory capital requirements. • Review and adherence to reinsurance structures. • Stress testing and expected losses.
Asset-Liability Management	• Appropriate nature, term, currency and liquidity in the structuring of assets. • Plans for dealing with unexpected cash flows. • Identification and assessment of risk mitigation techniques (e.g. hedging).	• Defined risk appetites and approved limits and adherence. • Effectiveness of risk mitigation tools. • Monitoring and stress testing key drivers influencing asset-liability position. • Indicators set out in the Investment Management Policy.
Investment Management	• Optimising returns, setting asset allocations and diversification strategies, mandates and limits for investing policyholder and shareholder funds. • Inclusion and use of investment instruments. • Managing counterparty credit risk, concentration risk, liquidity and other risks in investment portfolios.	• Counterparty credit risk mandates, individual asset mandates and adherence. • Aggregate holdings and spread of assets against limits. • Investment-related regulatory and economic capital. • Indicators set out in the Asset-Liability Management Policy.

8.3.4 Additional disclosures

8.3.4.1 Own Risk and Solvency Assessment

The ORSA is a key component of the SAM regime. The ORSA is defined as "the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long-term risks an insurance undertaking (and insurance group) faces or may face and to determine the own funds necessary to ensure that insurers (and groups) overall solvency needs are met at all times and are sufficient to achieve its business strategy."
It is a regulatory requirement that an ORSA report is prepared at least annually and submitted to the FSB.

The ORSA report is the culmination and output of the ORSA processes undertaken in the entities throughout the year, with the ultimate aim of ensuring that the entity has adequate capital resources in place (or able to access further capital resources) to achieve its strategy. ORSA reports have been submitted to the FSB annually since 2015.

9. Operational risk

Contents

9.1	Review of current reporting period	107
9.2	Priorities	107
9.3	General information about operational risk	107
9.3.1	Risk identification and management	107
9.3.1.1	Risk mitigation	108
9.3.1.2	Management of operational risk	108
	Critical process assessments	109
	Internal risk events	109
	Lessons learnt reviews	109
	External risk events	109
	Key indicators (KIs)	109
	Key risk scenarios (KRS)	109
	Operational risk measurement	109
9.3.2	Insurance	110
9.3.3	Governance	110
9.3.4	Reporting	110
9.3.4.1	Operational risk events	110

Operational risk is the risk of direct and indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events.

9.1 Review of current reporting period

Key risk metrics	Y-o-Y trend	2017	2016
Total losses as a percentage of gross income (%)	∨	**0.3**	0.8
Total operational risk losses (Rm)	∨	**240**	582
Operational RWA (Rm)	∧	**105 730**	100 433

- **Total operational risk losses:** The reduction in losses is driven by a decrease in fraud and transaction processing related losses, as well as a significant recovery on a prior year payment related loss. In line with the nature of the business, the main contributors to operational losses remain fraud and transaction processing related issues.
- **Operational risk RWA:** Higher operating income in advanced measurement approach (AMA) entities drove an increase in the regulatory floor (SARB minimum capital requirement, which are influenced by gross income levels). This contributed to an overall increase in RWA of 5% compared to 2016 year end.
- **Key achievements:**
  - Improvement in operational resilience as migration to a new 'best-in-class' data centre gained traction.
  - Significant progress made in remediating customer records to meet financial crime control requirements.
  - Continued improvement in payment stability and processing.
  - The converged security strategy, target operating model and information security transformation programme has been designed, with implementation ongoing.
  - Improvement in fraud capability and controls in Digital Banking, Retail SA Branch Channels and Rest of Africa.
  - Common set of data management standards developed for utilisation across the organization.

9.2 Priorities

- Maintain the safe and controlled execution of the structured programme to deliver the Separation from Barclays PLC.
- Implementation and embedment of the security strategy, including cyber capability. This includes:
  - The transition of cyber services from Barclays PLC to Barclays Africa Group.
  - Further investment in tools and processes.
  - Recruitment of key resources.
  - Establishment of a cyber-training academy.
  - Strengthened collaboration with the industry and other external partners.
- Ongoing investment in data infrastructure and controls to support the increasing utilisation of data towards delivery of the Group's strategic objectives.
- Continue rollout and improvement to the risk-based-approach to financial crime management, in line with the Financial Intelligence Centre (FIC) Amendment Bill.
- Focus on people risk given the significant change agenda in the organisation.
- Ongoing oversight of tax risks across all geographies in which the Group operates, against a backdrop of tightening fiscal budgets and increasing tax obligations, particularly the reporting of client data to authorities. Tax risk is governed by a quarterly Tax Committee which reports into the GACC.

Further information on the Group's approach to tax and tax contribution is set out in the Global Reporting Initiative (GRI) Report.

9.3 General information about operational risk

Operational risk exists in the natural course of business activity. Therefore it is not possible 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.

9.3.1 Risk identification and management

The Group's operational risk management objectives are to:

- Articulate an appropriate level of risk appetite for operational risk, that supports the business strategy.

- Manage risk and control effectively, thus maintaining the operational risk profile within appetite.
- Embed a positive risk culture across the organisation.
- 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:

- Continuing with embedment of operational risk culture across the Group using the revised, fit for purpose, Management Control Approach (MCA) Methodology – an assessment which measures management's approach to the governance and execution of risk and control priorities.
- Setting and monitoring appropriate operational risk appetite and performance metrics at Group and business unit levels.
- Driving the roll-out of the enhanced ORMF and the new operational risk system (ConnectedRisk) as part of the Separation effort.
- Further embedment of comprehensive risk reviews of the Group's critical processes ensuring that the associated key controls are monitored effectively.
- Continued investment and remediation of specific Group priorities:
  - Strengthen resilience of critical processes and technology, including the migration of infrastructure to a fit-for-purpose data centre.
  - Resolution of remaining stock of financial crime control remediation, and streamlining of customer onboarding processes.
  - Management of data risks, including privacy, through improved data management policies and standards.
  - Further enhancement of the anti-fraud and cyber architecture, introducing additional tools to protect digital channels.
  - Governance and management of change and execution, particularly the operational separation from Barclays Group, and related people and project management risks.

9.3.1.1 Risk mitigation

It is recognised that operational risk is part of doing business. It is not always possible or cost effective to eliminate all operational risks, nor is this the objective of operational risk management.

Achieving the correct balance of focus and effort is pivotal to the Group's risk management strategy and is underpinned by operational risk limits, established governance and oversight structures, monitoring and escalation criteria, clarity of roles across the three lines of defence and clear direction and tone from the top, driving a transparent and accountable risk culture in the organisation.

Operational risk must be managed within the defined risk appetite. An understanding of how much risk is tolerable must be defined in the context of the business strategy. This is the level of risk that the Group is willing to accept in pursuit of the business objectives and recognises that outcomes are not always as planned.

Operational risk appetite is a statement of the types of operational risk that the Group will not take, those that it will take, and how much. The Group Board sets the appetite in aggregate for operational risk and management is required to observe these.

For risks that are 'outside appetite', risk treatment decisions must be made to bring the risk back to acceptable levels. Risks that are at appetite should also have appropriate responses. Risk treatment decisions must be consistent with the risk management strategy and approved operational risk appetite of the Group.

This is achieved by one or a combination of the following responses depending on the defined risk appetite:

- Tolerate (accept) the risk: If residual risk is inside appetite, accept the risk and maintain the control environment.
- Treat (mitigate) the risk: Implement actions and strategies to reduce the residual risk level.
- Terminate (avoid) the risk: Do not take the risk and stop the related activity.
- Transfer the risk: This involves a third party sharing some part of the risk, or taking over all of the risk. This could be in the form of insurance, partnerships and joint ventures.

9.3.1.2 Management of operational risk

The Operational Risk Management Framework (ORMF) comprises a number of elements that allow 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 standards. All businesses and functions are required to implement and operate the ORMF that meets, as a minimum, the requirements detailed in these operational risk standards.

The Group is committed to the management and measurement of operational risk and was granted approval for 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 BIA or TSA is being applied for the remaining entities.

The primary responsibility for the management of operational risk lies with the business and functional units where the risk arises. Operational risk managers are widely distributed throughout the organisation and support these areas. The heads of operational risk for each of the business lines are responsible for ensuring the implementation of and compliance with the operational risk framework, policies and standards.

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

Critical process assessments

Critical process assessment (CPA) is an integrated assessment that enables the business to focus on processes which are essential to executing on strategy and delivering for customers and stakeholders. This approach ensures that material risks and rewards are holistically understood and decisively managed, resulting in consistent monitoring of the operational risk profile in the context of business objectives and limits.

The approach requires that businesses conduct risk and control assessment in critical processes on and end-to-end basis, enabling a view across functions and supporting enablers, such as systems and suppliers. Utilising key indicators which monitor risks, controls and process performance, this approach promotes performance and service efficiencies.

Further, a comprehensive understanding of all business enablers is obtained, by considering all supporting dependencies and the end-to-end resilience of processes and capabilities. CPA enables management of the prioritised enablers and a focus on the most material risks and key controls.

The outcome of CPA is a consolidated view of all material risks in the critical business processes and information on the drivers of risk, such as risk events, root causes, indicators, issues, and management responses.

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 customer detriment, 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 reviews

Lessons learnt is targeted root cause analysis of significant events experienced within the Group. This process enables the sustained and shared learning across the organisation continuously to promote strong risk management.

The outcomes of such reviews include:

- To find out what really went wrong.
- To prevent or detect systemic issues early.
- To address thematic concerns.
- To determine whether cultural, operating model, governance or risk practices may have contributed to the event.

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 (KIs)

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 (KRS)

KRS 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 KRS assessments are a key input to the AMA calculation of RC and EC requirements (see following section on operational risk measurement) and are a management tool of the ORMF. The assessment is performed by business management with the Key Risk Officers providing expert input, review and challenge. The process takes into account the analysis of internal and external loss experience, KRIs, CPAs and other risk information.

Business management analyses 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).
- The controls and other mitigants that seek to limit the likelihood of such an event occurring, and the actions that would be taken if the event were to occur (e.g. crisis management procedures, business continuity or disaster recovery plans, etc).

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

Operational risk measurement

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

The potential frequency and severity of losses are estimated for each operational key risk in each business and function. The estimation is based on internal loss data, extreme scenarios (from the KRS Process) as well as external loss data from ORX.

The capital calculation also takes into account the possibility of correlations between operational risk losses occurring in a year.

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

9.3.2 Insurance

The Group utilises insurance to mitigate certain operational risks. The cover and associated cost is regularly reviewed, and is presented annually to the BERC. Insurance is however not used to offset operational risk capital.

9.3.3 Governance

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

In addition, business unit Risk Committees monitor risk management and control effectiveness. In-country governance and risk committees are aligned to the requirements of the BERC and the overarching principles of the ERMF.

9.3.4 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.

9.3.4.1 Operational risk events

The SARB expects the Group to record all single events that exceed a R10k threshold. Processes are implemented to monitor compliance to this requirement.

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 (64%). 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 2017 occurred in external fraud (60%) and execution, delivery and process management (mainly transaction processing related issues) (27%).

Total risk events by count (%)

Total risk events by value (%)

10. Model risk

Contents

10.1	Review of current reporting period		112
10.2	Priorities		112
10.3	General information about model risk		112
	10.3.1	Risk identification and management	112
		Risk Management	113
	10.3.2	Governance	114
	10.3.3	Reporting	116

Model risk is the risk of potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.

10.1 Review of current reporting period

- The combined assurance assessments over the period confirmed the operating effectiveness of the Model Risk Framework and the Group Model Risk Policy that direct and govern the use of models within the Group.
- Several important model development initiatives were concluded in 2017, such as new IFRS9 credit impairment models and several regulatory model suites.
- Significant progress has been made in the design and implementation of the strategic model implementation platform and migration to this platform is underway.

10.2 Priorities

- Define and approve the risk appetite, previously included in operational risk, for model risk as a principal risk.
- Continue to focus on the enhancement of the current model suites that support the Group risk appetite assessment.
- Migration of model suites to the new platform will continue in 2018.

10.3 General information about model risk

10.3.1 Risk identification and management

Model risk has been identified as a principal risk to be managed under the Enterprise Risk Management Framework (ERMF), with specific guidelines set out in the Group Model Risk Policy (GMRP) and relevant standards covering model ownership, model development, model approval, model implementation, model monitoring and model validation.

A model is defined as a quantitative method, system or approach that applies statistical, economic, financial, or mathematical theories, techniques, parameters and assumptions to process input data into outputs. A model comprises inputs, parameters and calculations that produce outputs. A model is considered as an end-to-end concept, including the sourcing of inputs, the selection and specification of methodology, the calibration of parameters, the implementation of the model and the usage of the outputs.

The model risk process is a structured, practical set of three steps, evaluate, respond and monitor, 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 Group defines model risk as including the following components:

- Models in use are not identified and correctly registered to facilitate appropriate and effective governance.
- Models are poorly designed, developed, documented and implemented, resulting in model error.
- Models are not monitored, reviewed and updated to assess ongoing fitness for purpose, resulting in model error or misuse.

The elements of model risk are assessed through evaluating critical controls and framework compliance:

- Annual inventory attestation.
- The Group Model Database (GMD) which records the model inventory and tracks the elements of the model lifecycle.
- Model validation and approval, where the model performance is assessed relative to its objectives and for compliance with the governance framework.
- Risk Control Self Assessments performed by control owners.
- Conformance reviews.
- Model monitoring including backtesting.
- Breaches and failures to meet remediation plans are recorded.
- Regulatory and audit issues are identified.

Risk Management

Model risk is governed and defined by the GMRP which also establishes requirements for assessing model risk for all models in use, assigns clear responsibilities and accountabilities for the management of model risk, mitigates model risk through controlled model design, development, implementation, use and change processes, and institutionalizes independent validation and approval of models. The GMRP is supported by Standards addressing the requirements of the following:

- Model documentation.
- Model validation and approval.
- Model complexity and materiality.
- Model testing, monitoring and annual review.
- Model overlays.
- Vendor models.
- Model inventory, workflow and taxonomy.
- Benchmark and challenger models.

As a matter of principle, the Group has no tolerance for:

- Newly developed models being used without being in compliance with the Group Model Risk Policy (GMRP).
- Models identified as being in use and not accurately recorded in the GMD.
- Models with material regulatory findings.

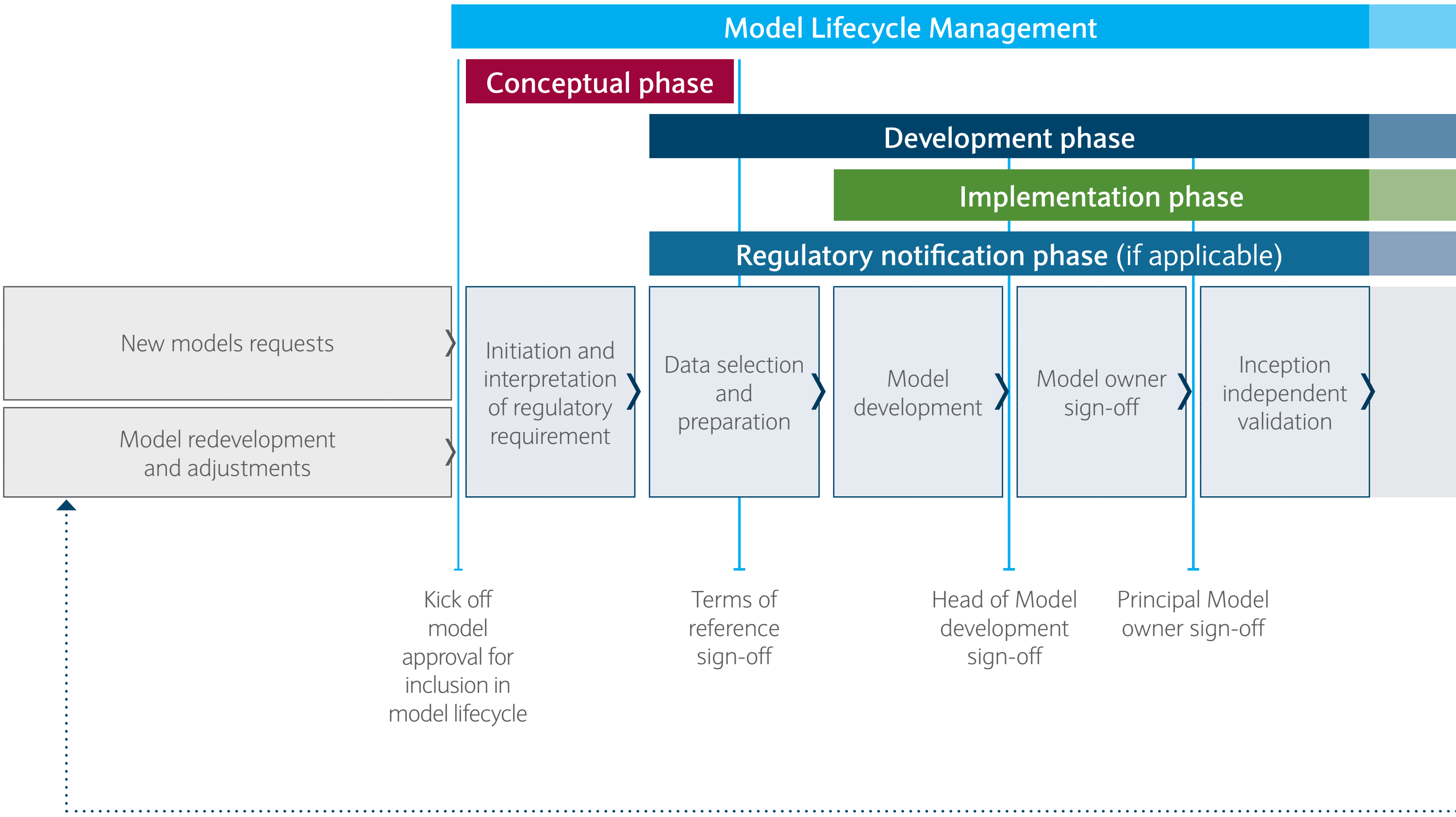
A control framework is established and overseen by the Model Risk and Development Group (MRaD) to manage model risk in accordance with the bank's risk tolerance. In addition to policies and standards, the control framework identifies risks and controls to establish a consistent approach to managing risk across the Group. Compliance to controls is assessed through Risk and Control Self Assessments (RCSAs) and control testing is conducted to provide assurance around the effective design and operation of controls.

The second line of defence in relation to model risk is MRaD. MRaD comprises Model Governance and Control (MGC) and the Independent Validation Unit (IVU). MGC establishes the framework, policy and standards to manage model risk, sets limits consistent with the Group's risk appetite and monitors performance of the model ownership areas against these limits. It also performs conformance reviews to provide assurance around control effectiveness.

IVU is responsible for independently validating each model, assessing whether it is fit for purpose. Models are validated and approved prior to use.

10.3.2 Governance

Model risk is managed throughout the model lifecycle. The model lifecycle and associated controls are depicted in the diagram below. These controls are in line with the GMRP.



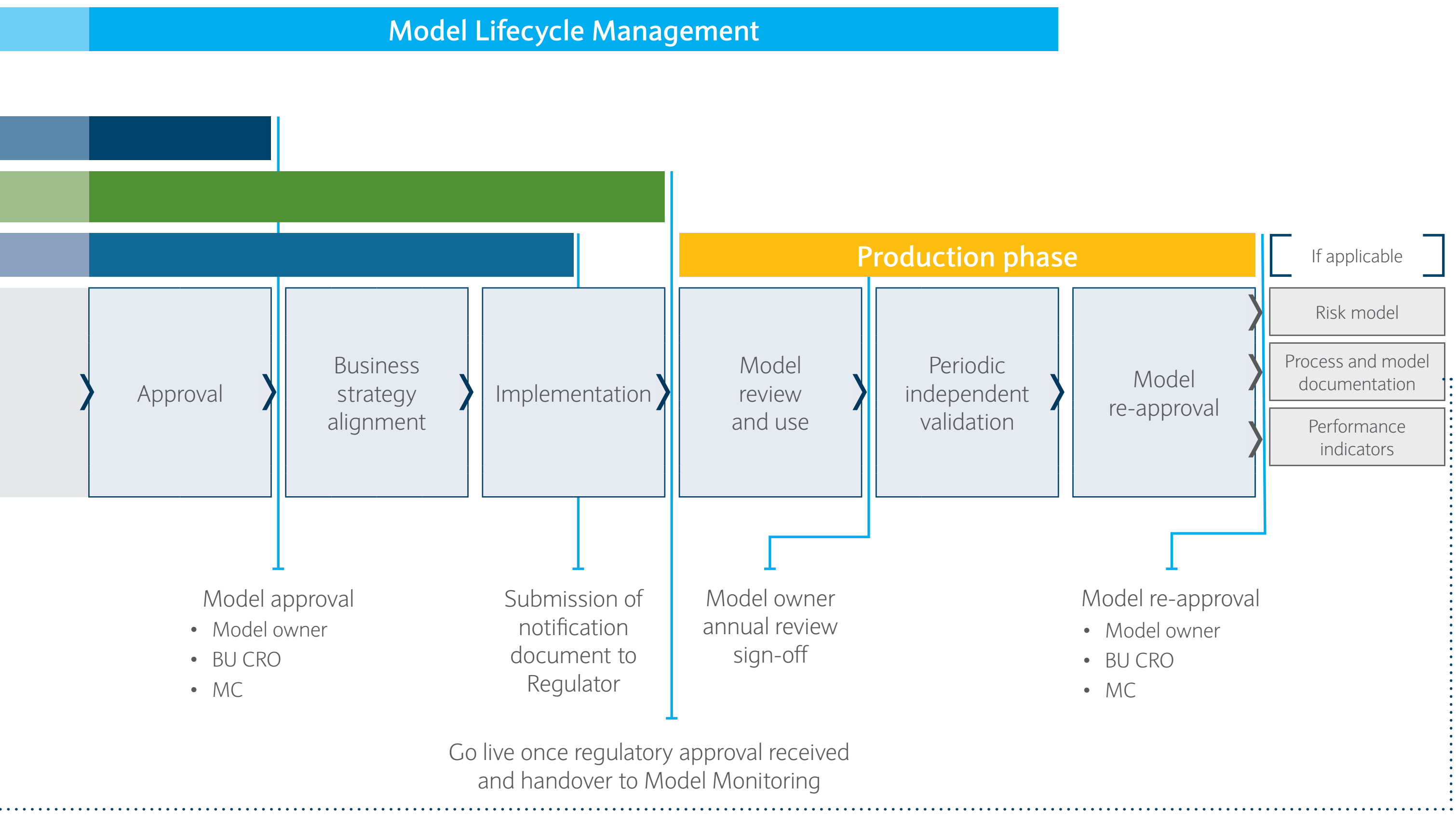
The GMRP sets out the accountabilities and controls pertaining to this risk, and relevant standards have been developed for risk types. The GMRP identifies Model Approvers based on the materiality of models. Material models are designated by the MC (Board Committee) for approval while models of lesser materiality are approved by the Business Unit Chief Risk Officers (BU CROs) through a governance forum or committee.

The scope of the GMRP includes models such as RC, EC, stress testing, impairment and scorecards for both the bank and insurance businesses. Model risk controls have been documented in Risk and Control Self-Assessment (RCSA) and are tested on an annual basis.

In accordance with the GMRP, model ownership vests with the businesses which use the output of models to quantify risk. The BU CRO of each business takes responsibility for model approval and compliance with the policy.

MRaD was created as a centralised function to enable the process for the management of model risk. A primary objective of the function is to ensure that all controls required by the GMRP receive increased senior management oversight and clear focus. Control areas have all been elevated and strengthened to achieve this goal. Clear functional handovers between controls and processes are in place.

To ensure independence, the IVU reports to the MC Chair.


Model Lifecycle Management
Production phase
If applicable
Risk model
Process and model documentation
Performance indicators
Approval
Business strategy alignment
Implementation
Model review and use
Periodic independent validation
Model re-approval
Model approval
• Model owner
• BU CRO
• MC
Submission of notification document to Regulator
Model owner annual review sign-off
Model re-approval
• Model owner
• BU CRO
• MC
Go live once regulatory approval received and handover to Model Monitoring

10.3.3 Reporting

A model risk report is produced on a monthly basis and submitted to a number of committees attended by senior management as well as to the MC. The report focuses on the following:

- Progress on regulatory and other model development.
- Adherence to policy and standards including any model related audit findings and control issues.
- Models in governance coverage, i.e. models monitored, reviewed and validated.
- Model risk assessment (Red, Amber, Green) including intrinsic and residual ratings (reflecting mitigating actions).

The Group has approval to use the AIRB approach for all its South African credit portfolios with the exception of the Edcon retail portfolio, while all the Rest of Africa credit portfolios are on the Standardised Approach. The feasibility of developing AIRB model suites for the Edcon portfolio will be investigated during 2018. There are no immediate plans to migrate the Rest of Africa portfolios to an IRB approach. The Group has SARB approval for the use of the AMA for operational risk and the IMA for market risk.

The EAD coverage per approach and subject to a roll-out plan is listed below:

	2017			2016		
	AIRB %	**AIRB roll-out plan %**	**Standardised %**	AIRB %	AIRB roll-out plan %	Standardised %
Retail South Africa	**38.9**	**0.9**	**–**	35.8	2.4	–
Wholesale South Africa	**45.7**	**–**	**–**	46.3	–	–
Rest of Africa	**–**	**–**	**14.5**	–	–	15.6
Total	**84.6**	**0.9**	**14.5**	82.1	2.4	15.6

The number of key models used with respect to PD, EAD and LGD in AIRB calculations is depicted below:

	2017			2016		
	PD #	**LGD #**	**EAD #**	PD #	LGD #	EAD #
Retail South Africa	**9**	**8**	**8**	7	6	6
Wholesale South Africa	**13**	**4**	**1**	11	1	1
Rest of Africa	**–**	**–**	**–**	–	–	–
Total	**22**	**12**	**9**	18	7	7

PD, EAD and LGD models are in place for each Retail product. In the case of Wholesale, there are PD models for each portfolio, an EAD model catering for the entire Wholesale portfolio and an LGD model covering the entire Wholesale portfolio except for Local and Foreign Currency Sovereigns and Municipalities where separate LGD models have been implemented. New portfolio-specific EAD and LGD models are being developed.

11. Conduct risk

Contents

11.1	Review of current reporting period	118
11.2	Priorities	118
11.3	General information about conduct risk	118
	11.3.1 Risk Identification and Risk Management	119
	11.3.2 Governance	119
	11.3.3 Reporting	119
	11.3.3.1 Measurement of conduct risk	119
	11.3.3.2 Internal events reporting	119

Conduct risk is the risk of detriment to customers, clients, market integrity, effective competition or the Group from the inappropriate supply of financial services, including instances of willful/negligent misconduct and the failure to meet regulatory requirements[1].

11.1 Review of current reporting period

Key risk metrics	Y-o-Y trend	2017	2016
% of complaints resolved at first point of contact (%)		66[2]	N/A
Overall Conduct Index (%)	↓	61	64

- The percentage of complaints resolved at first point of contact is reflective of the Group's ongoing investment into the complaints management processes. An improvement has been noted, with **66%** in December 2017 (above the target of 65%). Contributing to this is the change in methodology of calculating the metric, which was informed by the need to align with the requirements of Basel Committee on Banking Supervision 239 which relates to Risk Data Aggregation and Risk Reporting principles.
- The Overall Conduct Index which measures the internal and external perception of the Group's performance on the individual conduct risk outcomes is inclusive of the Treating Customers Fairly outcomes. The metric is rated out of a score of 100. Risks relating to Cyber Crime and Protection of Customer Information remain a key focus due to increased regulatory change on personal information protection and cyber threats. The implementation of an enhanced control framework which includes collaboration with the South Africa Banking Risk Information Centre (SABRIC) commenced in 2017. This will further aid the protection of confidential data and customer interests. Active management of issues remains the lowest performing category on the scorecard. This will be addressed through the cultural transformation journey being undertaken across the organisation.
- Thematic inherent risks identified through the application of the Conduct Risk Framework, which is monitored continuously through rigorous controls, relate to:
  - Information risk management (data retention and retrieval).
  - Sales practices and customer treatment
  - IT stability and functionality (across the Group).
  - Complaints management systems.
  - Use and protection of customer Information.
  - Continued focus on the up-skilling of new product knowledge.
  - Lending practices.

11.2 Priorities

- Continued focus on cultural change across the Group to enhance integrated decision-making in the management of the conduct risk outcomes.
- Implementation of the revised Conduct Risk Framework which was enhanced to incorporate the G30 recommendations on conduct and culture. This looks to strengthen good practices in banking culture and governance.
- The development and implementation of a conduct dashboard to provide senior management and the Board with better insights to enable more informed business decision making and accountability for the conduct of employees.
- Use of data analytics and digital platforms to improve customer service.
- Implementation and embedment of new regulatory requirements across the continent.

11.3 General information about conduct risk

Managing conduct risk effectively is a key part of the organisation's journey to building trust, improving customer loyalty and building a sustainable business. This 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 principles. It recognises that due to the importance of financial services to people's lives, product complexity and the power and information asymmetry between customers and banks, conscious actions need to be taken which prevent or mitigate the risk of poor conduct. All colleagues have personal accountability for living the values and managing conduct risk.

The Group's conduct risk management objectives are to:

- Enhance conduct risk management across the organisation.
- Ensure fair treatment and positive customer outcomes through the identification and management of conduct risks within the Group's strategy and business models.
- Continue to engage with regulators and industry bodies to identify and implement regulatory change.

Notes

[1] Amendments were made to the Conduct Risk Framework; the definition of conduct risk has been amended with the removal of reputation risk as a key risk and the incorporation of Financial Crime under conduct risk. The revised framework was approved by the Social and Ethics Committee in November 2017.

[2] The methodology for calculation of the metric has been revised to ensure alignment across all conduct metrics. Comparatives not disclosed due to inconsistency.

The conduct of banks is under increased scrutiny from regulators globally and in Africa, and the Group is committed to enhancing the measurement and management thereof. The Financial Sector Regulation Act was enacted in South Africa in November 2017. This will allow for a single supervision approach of conduct risk by the Market Conduct Authority across the Group. Similar changes to regulatory approach have been observed in Mozambique and Kenya. Execution of the existing conduct risk management framework positions the Group to meet any enhanced requirements that will result from the changes. An effective Conduct Risk Framework supports the Group-wide programme that aims to develop a strong culture in which 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.

11.3.1 Risk Identification and Risk Management

Conduct risk is managed through an associated Conduct Risk Management Framework (CRMF). The CRMF is supported by Conduct Risk Global Policies and Standards, which detail the mandatory minimum control requirements. These take into account regulatory requirements which are continuously monitored and assessed within the group. The policies and standards are grouped into the following risk categories to support effective risk management, measurement and reporting;

- **Culture and Strategy:** The risk that Barclays Africa fails to take reasonable steps to ensure its culture, strategy and governance promote positive customer and client outcomes, market integrity, effective competition and regulatory compliance. Overseen by the Group Social and Ethics Committee, employee conduct is monitored through surveys and reviews of the number and root causes of disciplinary cases, grievances, risk events and whistleblowing statistics.
- **Product Lifecycle:** The risk that Barclays Africa fails to take reasonable steps to ensure the design, sales and execution of our products and services promote positive customer and client outcomes, market integrity and effective competition.
- **Financial Crime:** The risk that Barclays Africa's employees, third parties or products and services are used to facilitate financial crime. This may undermine market integrity, resulting in regulatory breaches and/or detriment to clients, customers, counterparties or employees. Financial crime risk events may also result in financial penalties, diminished market performance and damage to Barclays' reputation.

The key principles used in the management of conduct risk provide that:

- Conduct risk must be an integral part of our strategic and financial planning, new business and product approval, performance management, promotion, remuneration and all other decision making processes.
- Conduct risks and issues must be identified and mitigated in a timely manner.
- Each of the three lines of defence must understand its role in managing conduct risk which are as follows:
  - Businesses and Functions are accountable for the effective management of conduct risk and implementation of the CRMF.
  - Compliance as the second line of defence provides Businesses and Functions with guidance, insight and independent challenge in relation to conduct risk management.
  - Internal Audit as the third line of defence provides independent assurance on the effectiveness of conduct risk management to the Board and senior management.

11.3.2 Governance

The Group Chief Compliance Officer has been appointed by the Group Chief Risk Officer to manage Barclays conduct risk. The Group Compliance function is responsible for establishing, owning and maintaining the CPRF and for overseeing the portfolio of conduct risk in the Group. The Conduct and Reputation Risk Committee (CRRC) which is chaired by the Chief Compliance Officer, is the senior executive body responsible for the oversight and challenge of conduct and reputation risk in the Group. It provides relevant risk profile information to the BERC, Social and Ethics Committee (SEC), Group Audit and Control Committee (GACC), and the GRCMC.

11.3.3 Reporting

11.3.3.1 Measurement of conduct risk

Key indicators (KIs) are used to monitor conduct risk against measurable targets. Prescribed Key Indicators have been drafted to allow businesses to identify underlying processes and data relevant to their businesses or function's key risk profile. Predictive key indicators are used to measure forward looking risk exposures. To enable a forward looking measurement of the risk the Group performs Conduct Material Risk Assessments to ensure that when developing business models and strategy it considers customer/client outcomes and market integrity, and identifies the management actions required to avoid customer detriment or damage to market integrity.

11.3.3.2 Internal events reporting

Conduct risk is a non-financial risk type and intrinsic to all of the Group's activities. The Group recognises that from time to time conduct risks (including detriment) will crystallise and become conduct incidents and in some instances have an impact on our reputation. Customers of a bank may experience detriment, e.g. due to adverse economic and market conditions. Nevertheless the Group has a low level of tolerance for customer detriment and conduct incidents. Internal thresholds based on: the size of impacted customer base; the likelihood of a regulatory fine or penalty; and financial impact, are used to ensure that likely and probable conduct risks and realised conduct incidents are escalated to various governance forums on a monthly and quarterly basis.

Interdependent risks are managed in a way that ensures potential and actual causes and impacts are considered from a conduct perspective. Root cause analysis and lessons learnt from events are key to the Group's understanding of its risk and control environment.

12. Reputation risk

Contents

12.1	Review of current reporting period	121
12.2	Priorities	121
12.3	General Information about reputation risk	121
12.3.1	Risk Identification and Risk Management	121
12.3.2	Governance	121
12.3.3	Reporting	121

Reputation risk is the risk that an action, transaction, investment or event will reduce trust in the Group's integrity and competence by clients, counterparties, investors, regulators, employees or the public.

12.1 Review of current reporting period

Key risk metrics	Y-o-Y trend	**2017**	2016
Africa YouGov	^	**6.6**	6.3

- Africa YouGov: This measures the external perception of the brand from various stakeholders including customers and regulators. The metric is a rating out of a score of 10. The metric continues to improve, with an increase noted particularly with the perception of the quality of products and services and delivery of value for money to customers by Barclays Africa.
- Significant progress was achieved towards definition and implementation of the Reputation Risk Framework across the Group in support of the elevation to a principal risk.

12.2 Priorities

- Increased internal awareness of reputation risk, and its association with other risk types.
- A focus on organisational culture to ensure that employee conduct is aligned to organisational values.
- Enhance the capability to identify issues that may impact the Group's reputation, including the use of data analytics.
- Embed additional metrics to support the measurement of reputation risk.

12.3 General Information about reputation risk

Reputation risk is managed through the Reputation Risk Framework and associated policies.

The framework supports, and should be applied in the context of the 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. Understanding that this risk may arise from all business activities or decisions, the framework complements other risk frameworks.

The definition of the risk is articulated in our internal policies to manage our engagements with amongst others the Defence Sector and the Environment, as well as providing guidance on the use of the brand and how external communications should be conducted.

As a general principle, Barclays Africa does not seek to impose value judgements on customers that are involved in legal business activities nor does the Group seek to limit the freedom of individuals wishing to access products and services. However, the Group reserves the right to turn aside business if, in our judgement, it operates on the margins of legality or in an inappropriate fashion, and would cause offence to a significant proportion of our employees, customers and/or other stakeholders and as a consequence adversely affect our reputation.

12.3.1 Risk Identification and Risk Management

Issues are identified through various mechanisms including media queries, customer complaints and social media platforms. Assessments are made on what may cause reputation risk based on socio-political factors and the extent to which there is interest in a matter. The defined reputation risk drivers include customer service issues, infrastructure failures and conduct issues.

In the absence of issues, there is a fair amount of forward planning to enable identification of potential issues. This is enabled by the Rapid Response Framework which provides guidance to business on how to deal with matters as they arise. The Communications team has an extensive media engagement and stakeholder management plan to ensure management of crystallized and potential issues

12.3.2 Governance

Reputation risk is managed through existing business committees that assess the reputational impact of transactions and associations.

The Conduct and Reputation Risk Committee of the BERC is the most senior executive body responsible for independent oversight and challenge of the appropriate management of the control environment. The committee also makes recommendations on the related risk appetite.

The SEC is the Board sub-committee mandated to provide guidance and oversight to the Conduct and Reputation Risk Committee, as deemed necessary. In doing so, the committee is required to review the effectiveness of the processes by which the Group identifies and manages reputation risk against risk appetite.

12.3.3 Reporting

Each business submits quarterly reports to the Group Communications team, highlighting their most significant current and potential reputation risks and issues and how they are being managed. The reports are aggregated to inform the production of a quarterly reputation risk horizon scan report for the CRRC and SEC

13. Legal risk

Contents

13.1	Review of the current reporting period	123
13.2	Priorities	123
13.3	General information about legal risk	123
	13.3.1 Risk Identification and Risk Management	124
	13.3.2 Governance	124
	13.3.3 Reporting	125
	13.3.3.1 Legal risk limits and measuring legal risk	125
	Quantitative Criteria	125
	Qualitative Criteria	125

Legal risk is the risk of loss or imposition of penalties, damages or fines from the failure of the Group to meet its legal obligations including regulatory or contractual requirements.

13.1 Review of the current reporting period

- Legal risk is managed with reference to five key focus areas, namely Contractual Arrangements, Competition Law, Intellectual Property Law, Litigation and the Use of Law Firms.
- For the period under review, the Group's overall legal risk has been rated as "at appetite", with a stable trend.
- Although showing a declining trend in respect of policy breaches across the reporting period, compliance with the Contractual Arrangements Policy has remained a challenge in certain areas of the business.
- In respect of Competition Law, the Group is continuing to cooperate with the South African Competition Commission in its referral of a complaint to the South African Competition Tribunal that eighteen banks (of which Absa is one) allegedly colluded at some time between 2007 and 2013 in the trading of USD/ZAR currency pairs in alleged contravention of South Africa's Competition Act. The Commission has granted Absa leniency under the Commission's corporate leniency program.
- The Group did not face any significant issues in respect of the legal risk associated with Intellectual Property laws or the Group's use of law firms.
- Exposure to litigation risk has improved over the period and the Litigation Team's focus on reducing the age of matters in the portfolio and resolving matters without resorting to litigation, has yielded positive results, both in respect of the Group's total exposure and the provisions held for contingent liabilities.
- The Group was successful in a major litigious matter concerning the report issued by the Public Protector in respect of the Bankorp investigation. The Court ruled in Absa's favour and set the remedial action aside, with a punitive costs order against the Public Protector's office.
- The Legal Function has continued to play a key role in ensuring the Group's readiness to comply with various pieces of new international and South African legislation and regulation, including the Protection of Personal Information Act, and the Financial Markets Act.

13.2 Priorities

- Drive improved levels of compliance with the Contractual Arrangements Policy in relation to the signing and issuing of standard documentation supporting certain credit products.
- Remediate known instances of inadequate legal documentation.
- Embed additional legal controls in the businesses outside South Africa to improve compliance with the Contractual Arrangements Policy.
- Review and optimise the Legal Function Target Operating Model for post-Separation implementation.
- Review and embed the Level 2 Legal Risk Policies and Standards, in support of the newly adopted Legal Principal Risk Control Framework.

13.3 General information about legal risk

Legal risk is further defined by a series of supporting sub-risk categories:

- Legal documentation used in business transactions is not enforceable as intended.
- Litigation involving Barclays Africa as either claimant or defendant is not identified or managed adequately.
- Barclays Africa's intellectual property is not protected or the Group infringes another entity's intellectual property.
- Failure to comply with Competition/antitrust law or failure to manage relationships with competition and antitrust authorities.
- Inappropriate legal advice. Inappropriate selection and use of external counsel.

The Group entrusts the management of legal risk to a fully-fledged, in-house Legal Function. The capacity and capabilities of the Legal Function are augmented by access to select external legal experts through a preferred panel arrangement. The panel is reviewed on a periodic basis to ensure the best fit from an expertise, performance and cost perspective.

The Legal Function consists of around 216 qualified professionals and support staff across Barclays Africa, divided into various logical and geographical teams. In South Africa, the structure of the Legal Function follows the Group structure, to ensure optimal line of sight of legal risk and optimal delivery of legal risk management services.

Specialist Legal teams are aligned with the client facing franchises, namely:

- Retail and Business Bank (RBB).
- Corporate and Investment Bank (CIB).
- Wealth, Investment Management and Insurance (WIMI).

A Central Legal team is aligned to the Enterprise Core Functions. This team also houses the specialist legal teams that provide legal shared services across the Group, for example litigation, competition law, mergers and acquisitions and financial crime compliance.

13.3.1 Risk identification and risk management

The Legal Principal Risk Control Framework applies the evaluate-respond-monitor process to legal risk and applies it across all businesses to ensure legal risk is managed effectively and efficiently, in line with the approved legal risk thresholds.

The Legal Principal Risk Control Framework includes a list of policies that augment the framework and contain detailed control objectives that must be met. These policies are set out in the table below:

Policy Name	Summary
Contractual Arrangements	The Contractual Arrangements Policy is designed to minimise the risk of Barclays Africa's contractual arrangements not being enforceable as intended.
Litigation	The Litigation Policy is designed to ensure consistency and best practice across Barclays Africa in the management of litigation and accurate and timely reporting of information on litigation by and against Barclays Africa.
Intellectual Policy	The Policy on Intellectual Property (IP) is designed to ensure that all reasonable endeavours are used to protect Barclays Africa's IP in all relevant markets including countries in which the Group does business or is likely to do business and to ensure that Barclays Africa does not infringe the valid intellectual rights of third parties.
Competition/Antitrust Law	The Policy on Competition / Antitrust Law is designed to ensure that the risk of mismanagement of relationships with competition / antitrust authorities is mitigated in all countries in which Barclays Africa does business or is likely to do business.
Use of Law Firms	The Policy on the Use of Law Firms is designed to ensure that appropriate control is exercised over the selection and use of external law firms.

Group-wide and business/function specific standards may be put in place to support the implementation of the Legal Policies. The standards are aligned to one of the policies and are implemented by businesses/functions.

In line with their corresponding policy, the Standards set out the legal risk taking activities that businesses/functions are authorised to undertake and detail how relevant key controls and processes specified in policies must be implemented and operated. This includes where the business is empowered to take risk via delegated authority, or where risk decisions must be escalated to the Principal Risk Officer (or delegated individual or committee).

Mandatory legal processes and controls that must be operated are detailed within the Legal Policies and Standards, and these form part of the Legal Principal Risk Control Framework and support managing legal risk within the legal risk thresholds.

13.3.2 Governance

The Group General Counsel, as Legal Principal Risk Owner, is responsible for the overall legal risk of the Group.

The Legal Executive Committee (LExCo) is responsible for the overseeing the management of the legal principal risk in the Group.

LExCo is accountable to the BERC and the GRCMC and reports and escalates matters concerning legal risk to the GRCMC as agreed between the GRCMC and the Group General Counsel.

13.3.3 Reporting

13.3.3.1 Legal risk limits and measuring legal risk

Barclays Africa has established legal risk thresholds for limited adverse financial and/or reputational impacts arising from failures in legal-related processes while following its business strategy and legal and regulatory obligations. The limit is considered to be reached where the achievement of business objectives may not be met, or the achievement is diluted as a result of a failure to comply with the Legal Principal Risk Control Framework and policies.

Legal risk thresholds include both quantitative and qualitative criteria and are reviewed on an annual basis.

Quantitative Criteria

The Legal Function monitors Barclays Africa's exposure to legal risk via the regular review and challenge of relevant management information, including principal risk assessments, the number of un-remediated, material policy breaches and open audit items, using the set legal risk limit thresholds.

Qualitative Criteria

Any assessment of legal risk must further ensure that qualitative factors are duly considered to identify the potential implications on Barclays Africa of material legal risk control weaknesses, or upcoming changes in the control environment, forthcoming changes in the external legal and regulatory environment and/or prevailing decisions from courts and enforcing authorities as they relate to defined legal risks. Due to the qualitative nature of this information, defined risk limits for these criteria are not prescribed. Following assessment of the qualitative criteria, respective General Counsel must apply its judgement to determine whether an override should be applied to legal risk limit assessments.

The monitoring and oversight of legal risk is an essential component of the risk management process. This ensures Barclays Africa is managing legal risk within set limits, and that legal risk management processes are working effectively. Monitoring also ensures action is taken to address any potential breaches and/or legal risk control weaknesses. Primary monitoring activities include:

- The monitoring of legal risk against risk limits, including the use of risk limit thresholds.
- Legal risk reporting processes.
- Legal risk governance and oversight, Lessons Learnt processes and the Conformance Testing Framework.

Annexures

Contents

Annexure A:	127
Composition of capital disclosure template (Group and Bank)	127
Reconciliation of accounting capital to regulatory capital template (Group and Bank)	133
Leverage ratio common disclosure template and summary (Group and Bank)	137
Main features of capital instruments disclosure template (Group and Bank)	141
Annexure B: Liquidity risk: LCR common disclosure template	145
Annexure C: Basel Pillar 3 remuneration disclosures	146

Composition of capital disclosure template (Barclays Africa Group Limited)

		Amount subject to Basel III Rm[1]	Amount subject to Pre-Basel III treatment Rm[2]	Reference[2]
	CET1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	12 164		(e)
2	Retained earnings	81 313		(f)
3	Accumulated other comprehensive income (and other reserves)	3 735		(g)
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	–		
	Public sector capital injections grandfathered until 1 January 2018	–		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	1 910	–	(h) – (i)
6	**CET1 capital before regulatory adjustments**	99 122		
	CET1 capital: regulatory adjustments			
7	Prudential valuation adjustments	5	–	
8	Goodwill (net of related tax liability)	684	–	(b)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	3 792	–	(c)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	139	–	
11	Cash-flow hedge reserve	650		
12	Shortfall of provisions to ELs	2 083	–	
13	Securitisation gain on sale	–	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	–	
15	Defined-benefit pension fund net assets	472	–	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–	
17	Reciprocal cross-holdings in common equity	–	–	
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)	–	–	
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)	–	–	
20	Mortgage servicing rights (amount above 10% threshold)	–	–	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	–	
22	Amount exceeding the 15% threshold	–	–	
23	of which: significant investments in the common stock of financials	–	–	
24	of which: mortgage servicing rights	–	–	
25	of which: deferred tax assets arising from temporary differences	–	–	
26	National specific regulatory adjustments	–	–	
27	Regulatory adjustments applied to CET1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–		
28	**Total regulatory adjustment to CET1**	7 825		
29	CET1 capital (CET1)	91 297		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	6 144		
31	of which: classified as equity under applicable accounting standards	6 144		
32	of which: classified as liabilities under applicable accounting standards	–		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	–		
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 Additional Tier 1)	2 943		
35	of which: instruments issued by subsidiaries subject to phase out	2 322		
36	**Additional Tier 1 capital before regulatory adjustments**	4 443		(j)

Notes
[1] Numbers reported are on a regulatory basis and include the contribution amounts received from Barclays PLC as part of the Separation.
[2] References refer to the reconciliation of accounting capital to regulatory capital.

		Amount subject to Basel III Rm[1]	Amount subject to Pre-Basel III treatment Rm	Reference[2]
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	–	–	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	–	–	
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)	79	–	
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)	–	–	
41	National specific regulatory adjustments	–		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–		
43	Total regulatory adjustments to Additional Tier 1 capital	79		(k)
44	Additional Tier 1 capital (AT1)	4 364		(j)– (k)
45	Tier 1 capital (T1 = CET1 + AT1)	95 661		
	Tier 2 capital and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	10 222		(d)
47	Directly issued capital instruments subject to phase out from Tier 2	4 695		(d)
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)	(242)		(d)
49	of which: instruments issued by subsidiaries subject to phase out	4 695		
50	Provisions	538		(d)
51	Tier 2 capital before regulatory adjustments	15 213		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	–	–	
53	Reciprocal cross-holdings in Tier 2 instruments		–	
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)	–	–	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
56	National specific regulatory adjustments	–		
57	**Total regulatory adjustments to Tier 2 capital**	–		
58	**Tier 2 capital (T2)**	15 213		
59	**Total capital (TC = T1 + T2)**	110 874		
	RWA IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	–		
	of which: Basel III amendments	–		
60	**Total RWA**	736 892		
	Capital ratios			
61	CET1 (as a percentage of RWA)	12.4		
62	Tier 1 (as a percentage of RWA)	13.0		
63	Total capital (as a percentage of RWA)	15.0		
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 RWA)	7.3		
65	of which: capital conservation buffer requirement	1.3		
66	of which: bank specific countercyclical buffer requirement	–		
67	of which: G-SIB buffer requirement	–		
68	CET1 available to meet buffers (as a percentage of RWA)	5.1		

Notes
1 Numbers reported are on a regulatory basis and include the contribution amounts received from Barclays PLC as part of the Separation.
2 References refer to the reconciliation of accounting capital to regulatory capital.

		Amount subject to Basel III Rm[1]	Amount subject to Pre-Basel III treatment Rm	Reference[2]
	National minima (if different from Basel 3)			
69	National CET1 minimum ratio (if different from Basel 3 minimum)	7.3		
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	8.5		
71	National total capital minimum ratio (if different from Basel 3 minimum)	10.8		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	–		
73	Significant investments in the common stock of financials	1 065		
74	Mortgage servicing rights (net of related tax liability)	–		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	1 073		
	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)	538		(a)
77	Cap on inclusion of provisions in Tier 2 under standardised approach	538		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (IRBA) (prior to application of cap)	–		
79	Cap for inclusion of provisions in Tier 2 under IRBA	–		
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2018 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	–		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–		
82	Current cap on AT1 instruments subject to phase out arrangements	–		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–		
84	Current cap on T2 instruments subject to phase out arrangements	–		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–		

Notes

[1] Numbers reported are on a regulatory basis and include the contribution amounts received from Barclays PLC as part of the Separation.

[2] References refer to the reconciliation of accounting capital to regulatory capital.

Composition of capital disclosure template (Absa Bank Limited)[1]

		Amount subject to Basel III Rm[2]	Amount subject to Pre-Basel III treatment Rm	Reference[3]
	CET1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	37 184		(d)
2	Retained earnings	33 547		(e)
3	Accumulated other comprehensive income (and other reserves)	3 998		(f)
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	–		
	Public sector capital injections grandfathered until 1 January 2018	–		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–	–	
6	**CET1 capital before regulatory adjustments**	74 729		
	CET1 capital: regulatory adjustments			
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of related tax liability)	112	–	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	3 168	–	(b)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–	–	
11	Cash-flow hedge reserve	650	–	
12	Shortfall of provisions to ELs	2 139	–	
13	Securitisation gain on sale	–	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	–	
15	Defined-benefit pension fund net assets	466	–	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–	
17	Reciprocal cross-holdings in common equity	–	–	
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)	–	–	
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)	–	–	
20	Mortgage servicing rights (amount above 10% threshold)	–	–	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	–	
22	Amount exceeding the 15% threshold	–	–	
23	of which: significant investments in the common stock of financials	–	–	
24	of which: mortgage servicing rights	–	–	
25	of which: deferred tax assets arising from temporary differences	–	–	
26	National specific regulatory adjustments	–	–	
27	Regulatory adjustments applied to CET1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–		
28	**Total regulatory adjustment to CET1**	6 535		
29	CET1 capital (CET1)	68 194		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	6 144		
31	of which: classified as equity under applicable accounting standards	6 144		
32	of which: classified as liabilities under applicable accounting standards	–		
33	Directly issued capital instruments subject to phase out from Additional Tier 1	2 322		
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)	–		
35	of which: instruments issued by subsidiaries subject to phase out	–		
36	Additional Tier 1 capital before regulatory adjustments	3 822		(g)

Notes
1 Absa Bank Limited includes subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings.
2 Numbers reported are on a regulatory basis and include the contribution amounts received from Barclays PLC as part of the Separation.
3 References refer to the reconciliation of accounting capital to regulatory capital.

		Amount subject to Basel III Rm[1]	Amount subject to Pre-Basel III treatment Rm	Reference[2]
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	–	–	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	–	–	
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)	10	–	
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)	–	–	
41	National specific regulatory adjustments	–		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–		
43	**Total regulatory adjustments to Additional Tier 1 capital**	10		
44	**Additional Tier 1 capital (AT1)**	3 812		
45	**Tier 1 capital (T1 = CET1 + AT1)**	72 006		
	Tier 2 capital and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	10 222		(c)
47	Directly issued capital instruments subject to phase out from Tier 2	4 695		(c)
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)	–		
49	of which: instruments issued by subsidiaries subject to phase out	4 695		
50	Provisions	107		(c)
51	Tier 2 capital before regulatory adjustments	14 917		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	–	–	
53	Reciprocal cross-holdings in Tier 2 instruments	–	–	
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)	–	–	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	–	
56	National specific regulatory adjustments	–		
57	**Total regulatory adjustments to Tier 2 capital**	107		
58	**Tier 2 capital (T2)**	15 024		
59	**Total capital (TC = T1 + T2)**	87 030		
	RWA IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	–		
	of which: Basel III amendments	–		
60	**Total RWA**	542 199		
	Capital ratios			
61	CET1 (as a percentage of RWA)	12.6		
62	Tier 1 (as a percentage of RWA)	13.3		
63	Total capital (as a percentage of RWA)	16.1		
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 RWA)	7.3		
65	of which: capital conservation buffer requirement	1.3		
66	of which: bank specific countercyclical buffer requirement	–		
67	of which: G-SIB buffer requirement	–		
68	CET1 available to meet buffers (as a percentage of RWA)	5.3		

Notes
[1] Numbers reported are on a regulatory basis and include the contribution amounts received from Barclays PLC as part of the Separation.
[2] References refer to the reconciliation of accounting capital to regulatory capital.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

		Amount subject to Basel III Rm[1]	Amount subject to Pre-Basel III treatment Rm	Reference[2]
	National minima (if different from Basel 3)			
69	National CET1 minimum ratio (if different from Basel 3 minimum)	7.3		
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	8.5		
71	National total capital minimum ratio (if different from Basel 3 minimum)	10.8		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	–		
73	Significant investments in the common stock of financials	208		
74	Mortgage servicing rights (net of related tax liability)	–		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	–		
	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)	107		(a)
77	Cap on inclusion of provisions in Tier 2 under standardised approach	107		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to IRBA (prior to application of cap)	–		
79	Cap for inclusion of provisions in Tier 2 under IRBA	–		
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2018 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	–		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–		
82	Current cap on AT1 instruments subject to phase out arrangements	–		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–		
84	Current cap on T2 instruments subject to phase out arrangements	–		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–		

Notes
[1] Numbers reported are on a regulatory basis and include the contribution amounts received from Barclays PLC as part of the separation.
[2] References refer to the reconciliation of accounting capital to regulatory capital.

Reconciliation of accounting capital to regulatory capital template (Barclays Africa Group Limited)

As at 31 December 2017	Accounting balance sheet per published financial statements[1, 2] Rm	Balance sheet per regulatory scope of consolidation[2, 3] Rm	Reference[4]
Assets			
Cash, cash balances and balances with central banks	48 669	45 347	
Investment securities	111 409	107 502	
Loans and advances to banks	55 426	53 742	
Trading portfolio assets	132 183	132 178	
Hedging portfolio assets	2 673	2 673	
Other Assets	20 960	19 415	
Current tax assets	314	262	
Non-Current assets held for sale	1 308	1 308	
Loans and advances to customers	768 646	768 473	
Less Impairments	(18 874)	(18 874)	
of which gross amount of eligible provisions: standardised approach	–	4 369	
of which general allowance for credit impairment, after deferred tax: standardised approach	–	538	(a)
of which gross amount of eligible provisions: IRB approach	–	14 488	
of which gross amount of eligible provisions: Securitisation	–	18	
Reinsurance assets	892	81	
Investment linked to Investment contracts	18 936	–	
Investments in associates and joint ventures	1 235	1 235	
Goodwill and intangible assets	5 377	4 476	
of which goodwill	791	684	(b)
of which other intangibles	4 586	3 792	(c)
Investment properties	231	53	
Property and equipment	15 303	15 193	
Deferred tax assets	1 291	916	
Total Assets	1 165 979		

Notes
1 Relates to Barclays Africa Group Limited balance sheet, including insurance entities.
2 Includes the contribution amounts received from Barclays PLC as part of the Separation.
3 Relates to Barclays Africa Group Limited excluding insurance entities.
4 References to composition of capital disclosure table.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

As at 31 December 2017	Accounting balance sheet per published financial statements[1, 2] Rm	Balance sheet per regulatory scope of consolidation[2, 3] Rm	Reference[4]
Liabilities			
Deposits from banks	67 390	67 390	
Trading portfolio liabilities	64 047	64 043	
Hedging portfolio liabilities	1 123	1 123	
Other liabilities	31 744	30 066	
Provisions	3 041	2 967	
Current tax liabilities	57	0	
Non-current liabilities held for sale	48	48	
Deposits due to customers	689 867	689 561	
Debt securities in issue	137 948	137 948	
Liabilities under investment contracts	30 585	9 604	
Policyholder liabilities under insurance contracts	4 617	–	
Borrowed funds	15 895	15 213	
of which Tier 2 instruments subject to phase out	4 695	4 695	(d)
of which directly issued qualifying Tier 2 instruments	10 222	10 222	(d)
of which relates to general allowance for credit impairments	–	538	(d)
of which relates to minority interest	–	(242)	(d)
of which relates to accrued interest and fair value adjustments	978	–	
Deferred tax liabilities	557	466	
Total Liabilities	1 046 919		
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Paid-in share capital	12 164	12 164	
of which amount eligible for CET1	12 164	12 164	(e)
Retained earnings including unappropriated profits	91 882	81 313	(f)
Accumulated other comprehensive income	4 370	4 510	
of which amount eligible for CET1	3 735	3 735	(g)
of which amount related to non-qualifying reserves	635	775	
Non-controlling Interest – Ordinary shares	4 500	4 302	(h)
of which relate to Surplus Deduction CET1	–	2 392	(i)
Non-controlling Interest – Preference shares	6 144	4 364	
of which AT1 instruments subject to phase out	4,644	2 322	(j)
of which directly issued qualifying AT1 instruments	1,500	1 500	(j)
of which relates to minority interest	–	621	(j)
of which relates to regulatory adjustments	–	(79)	(k)
Total Equity	119 060		
Total liabilities and equity	1 165 979		

Notes
[1] Relates to Barclays Africa Group Limited balance sheet, including insurance entities.
[2] Includes the contribution amounts received from Barclays PLC as part of the Separation.
[3] Relates to Barclays Africa Group Limited excluding insurance entities.
[4] References to composition of capital disclosure table.

Reconciliation of accounting capital to regulatory capital (Absa Bank[1])

As at 31 December 2017	Accounting balance sheet per published financial statements[1, 2] Rm	Balance sheet per regulatory scope of consoli-dation[2, 3] Rm	Reference[4]
Assets			
Cash, cash balances and balances with central banks	28 792	28 792	
Investment securities	76 524	76 524	
Loans and advances to banks	43 217	43 217	
Trading portfolio assets	104 781	104 781	
Hedging portfolio assets	2 667	2 667	
Other Assets	15 513	15 513	
Current tax assets	57	57	
Non-Current assets held for sale	1 119	1 119	
Loans and advances to customers	674 115	674 115	
Less Impairments	(13 623)	(13 623)	
of which gross amount of eligible provisions: Standardised Approach	–	952	
of which general allowance for credit impairment, after deferred tax: standardised approach	–	11	
of which gross amount of eligible provisions: IRB approach	–	12 671	
of which gross amount of eligible provisions: securitisation	–	–	
Loans to Absa Group Companies	36 530	36 530	
Investments linked to investment contracts	–	–	
Investments in associates and Joint ventures	1 235	1 235	
Property and equipment	13 519	13 519	
Goodwill and intangible assets	3 861	3 280	
of which goodwill	112	112	
of which other intangibles (excluding MSRs)	3 749	3 168	(b)
Deferred tax assets	51	51	
Total Assets	988 358		

Notes
[1] Includes the contribution amounts received from Barclays PLC as part of the Separation
[2] Relates to Absa Bank Limited.
[3] References to composition of capital disclosure table.

As at 31 December 2017	Accounting balance sheet per published financial statements[1, 2] Rm	Balance sheet per regulatory scope of consolidation[2, 3] Rm	Reference[4]
Liabilities			
Deposits from banks	74 110	74 110	
Trading portfolio liabilities	59 834	59 834	
Hedging portfolio liabilities	1 117	1 117	
Other liabilities	27 824	27 824	
Provisions	2 073	2 073	
Current tax liabilities	55	55	
Non-current liabilities held for sale	–	–	
Deposits due to customers	583 825	583 825	
Debt securities in issue	137 942	137 942	
Borrowed funds	15 866	15 024	
of which Tier 2 instruments subject to phase out	4,695	4 695	(c)
of which directly issued qualifying Tier 2 instruments	10,222	10,222	(c)
of which relates to general allowance for credit impairments	–	107	(a)
of which relates to accrued interest and fair value adjustments	949	–	
Deferred tax liabilities	383	383	
Total Liabilities	903 029		
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Paid-in share capital	37 184	37 184	
of which amount eligible for CET1	–	37 184	(d)
Retained earnings including unappropriated profits	37 855	33 547	(e)
Accumulated other comprehensive income	4 145	4 145	
of which amount eligible for CET1	–	3 998	(f)
of which amount related to non-qualifying reserves	–	147	
Non-Controlling interest – Ordinary shares	2	2	
of which relate to surplus deduction CET1	–	–	
Non-Controlling interest – Preference shares	6 143	3 811	
of which AT1 instruments subject to phase out	4 643	2 322	(g)
of which directly issued qualifying AT1 instruments	1 500	1 500	(g)
of which relates to regulatory adjustments	–	(11)	
Total Equity	85 329		
Total liabilities and equity	988 358		

Notes
1 Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
2 Includes the contribution amounts received from Barclays PLC as part of the Separation
3 Relates to Absa Bank Limited.
4 References to composition of capital disclosure table.

Leverage ratio common disclosure template and summary

Barclays Africa Group Limited

	Summary comparison of accounting assets versus leverage ratio exposure Item	Table 1 Rm[1]
1	Total consolidated assets as per published financial statements	1 165 979
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulator consolidation	(37 808)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Adjustments for derivative financial instruments	(8 142)
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	–
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(120 946)
7	Other adjustments	312 810
8	**Leverage ratio exposure**	**1 311 893**

	Item	Table 2 Leverage ratio framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1 035 107
2	(Assets amounts deducted in determining Basel III Tier 1 capital)	(7 249)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs (sum of lines 1 and 2)**	1 027 858
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	18 461
5	Add-on amounts for PFE associated with all derivatives transactions	22 359
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	–
8	(Exempted CCP leg of client-cleared trade exposures)	–
9	Adjusted effective notional amount of written credit derivatives	10 340
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–
11	**Total derivative exposures (sum of lines 4 to 10)**	51 160
	Security financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	34 595
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–
14	CCR exposure for SFT assets	–
15	Agent transaction exposures	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	34 595
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	319 227
18	(Adjustments for conversion to credit equivalent amounts)	(120 947)
19	**Off-balance sheet items (sum of lines 17 to 18)**	198 280
	Capital and total exposure	
20	**Tier 1 capital**	**95 661**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**1 311 893**
	Leverage ratio	
22	**Basel III leverage ratio**	**7.3%**

Notes

[1] Numbers reported are on a regulatory basis, and include the contribution amounts received from Barclays PLC as part of the Separation.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

Explanation of each row of the common disclosure template

Table 3

Row number	Explanation
1	On-balance sheet assets according to paragraph 15.
2	Deductions from Basel III Tier 1 capital determined by paragraphs 9 and 16 and excluded from the leverage ratio exposure measure, reported as negative amounts.
3	**Sum of lines 1 and 2.**
4	Replacement cost (RC) associated with all derivatives transactions (including exposures resulting from transactions described in paragraph 28), net of cash variation margin received and with, where applicable, bilateral netting according to paragraphs 19 – 21 and 26.
5	Add-on amount for all derivative exposures according to paragraphs 19 – 21.
6	Grossed-up amount for collateral provided according to paragraph 24.
7	Deductions of receivables assets from cash variation margin provided in derivatives transactions according to paragraph 26, reported as negative amounts.
8	Exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared transactions according to paragraph 27, reported as negative amounts.
9	Adjusted effective notional amount (i.e. the effective notional amount reduced by any negative change in fair value) for written credit derivatives according to paragraph 30.
10	Adjusted effective notional offsets of written credit derivatives according to paragraph 30 and deducted add- on amounts relating to written credit derivatives according to paragraph 31, reported as negative amounts.
11	**Sum of lines 4 – 10.**
12	Gross SFT assets with no recognition of any netting other than novation with QCCPs as set out in footnote 19, removing certain securities received as determined by paragraph 33(i) and adjusting for any sales accounting transactions as determined by paragraph 34.
13	Cash payables and cash receivables of gross SFT assets netted according to paragraph 33 (i), reported as negative amounts.
14	Measure of CCR for SFTs as determined by paragraph 33 (ii).
15	Agent transaction exposure amount determined according to paragraphs 35 to 37.
16	**Sum of lines 12 – 15.**
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for CCFs according to paragraph 39.
18	Reduction in gross amount of off-balance sheet exposures due to the application of CCFs in paragraph 39.
19	**Sum of lines 17 and 18.**
20	Tier 1 capital as determined by paragraph 10.
21	**Sum of lines 3, 11, 16 and 19.**
22	Basel III leverage ratio according to paragraph 54.

Leverage ratio common disclosure template and summary

Absa Bank Limited [1]

Summary comparison of accounting assets vs leverage ratio exposure — **Table 1**

	Item	**Rm[2]**
1	Total consolidated assets as per published financial statements	988 358
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulator consolidation	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Adjustments for derivative financial instruments	(7 779)
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	–
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(105 577)
7	Other adjustments	278 336
8	**Leverage ratio exposure**	**1 153 338**

Table 2

	Item	**Leverage ratio framework**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	894 706
2	(Assets amounts deducted in determining Basel III Tier 1 capital)	(5 896)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs (sum of lines 1 and 2)**	**888 810**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	18 461
5	Add-on amounts for PFE associated with all derivatives transactions	22 359
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	–
8	(Exempted CCP leg of client-cleared trade exposures)	–
9	Adjusted effective notional amount of written credit derivatives	10 340
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–
11	**Total derivative exposures (sum of lines 4 to 10)**	51 160
	Security financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	34 595
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–
14	CCR exposure for SFT assets	–
15	Agent transaction exposures	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	34 595
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	284 351
18	(Adjustments for conversion to credit equivalent amounts)	(105 578)
19	**Off-balance sheet items (sum of lines 17 to 18)**	178 773
	Capital and total exposure	
20	Tier 1 capital	**72 006**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**1 153 338**
	Leverage ratio	
22	**Basel III leverage ratio**	**6.2%**

Notes
[1] Absa Bank Limited includes subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings.
[2] Numbers reported are on a regulatory basis, and include the contribution amounts received from Barclays PLC as part of the Separation.

Explanatory table for the common disclosure template

Explanation of each row of the common disclosure template

Table 3

Row number	Explanation
1	On-balance sheet assets according to paragraph 15.
2	Deductions from Basel III Tier 1 capital determined by paragraphs 9 and 16 and excluded from the leverage ratio exposure measure, reported as negative amounts.
3	**Sum of lines 1 and 2.**
4	Replacement cost (RC) associated with all derivatives transactions (including exposures resulting from transactions described in paragraph 28), net of cash variation margin received and with, where applicable, bilateral netting according to paragraphs 19 – 21 and 26.
5	Add-on amount for all derivative exposures according to paragraphs 19 – 21.
6	Grossed-up amount for collateral provided according to paragraph 24.
7	Deductions of receivables assets from cash variation margin provided in derivatives transactions according to paragraph 26, reported as negative amounts.
8	Exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared transactions according to paragraph 27, reported as negative amounts.
9	Adjusted effective notional amount (i.e. the effective notional amount reduced by any negative change in fair value) for written credit derivatives according to paragraph 30.
10	Adjusted effective notional offsets of written credit derivatives according to paragraph 30 and deducted add- on amounts relating to written credit derivatives according to paragraph 31, reported as negative amounts.
11	**Sum of lines 4 –10.**
12	Gross SFT assets with no recognition of any netting other than novation with QCCPs as set out in footnote 19, removing certain securities received as determined by paragraph 33(i) and adjusting for any sales accounting transactions as determined by paragraph 34.
13	Cash payables and cash receivables of gross SFT assets netted according to paragraph 33 (i), reported as negative amounts.
14	Measure of CCR for SFTs as determined by paragraph 33 (ii).
15	Agent transaction exposure amount determined according to paragraphs 35 to 37.
16	**Sum of lines 12 – 15.**
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for CCFs paragraph 39.
18	Reduction in gross amount of off-balance sheet exposures due to the application of CCFs in paragraph 39.
19	**Sum of lines 17 and 18.**
20	Tier 1 capital as determined by paragraph 10.
21	**Sum of lines 3, 11, 16 and 19.**
22	Basel III leverage ratio according to paragraph 54.

Main features of capital instruments disclosure template (Barclays Africa Group Limited)

Disclosure template for main features of RC instruments		1	2	3	4	5	6	7	8	9	10	11
1	Issuer	Barclays Africa Group Limited	Absa Bank Limited	Barclays Africa Group Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	National Bank of Commerce Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ZAE000174124	ZAE000079810	ZAG000146531	ZAG000073669	ZAG000101239	ZAG000101254	N/A	ZAG000121476	ZAG000121484	ZAG000123100	ZAG000123118
3	Governing law(s) of the instrument	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	Tanzania	South Africa	South Africa	South Africa	South Africa
	Regulatory treatment											
4	Transitional Basel III rules	Common Equity Tier 1	Additional 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	Additional Tier 1	Ineligible	Ineligible	Ineligible	Ineligible	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/group/ Group and solo	Group	Solo and Group	Group	Solo and Group	Solo and Group	Solo and Group	Group	Group	Group	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share capital and premium	Preference share capital and premium	Additional Tier 1 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)	R12 164	R2 322	R1 500	R1 500	R2 007	R1 188	R0	R370	R130	R1 693	R807
9	Par value of instrument	R1 694	R2	R1 500	R845	R2 007	R1 188	R29	R370	R130	R1 693	R807
10	Accounting classification	Shareholders' equity	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	11 Sep 2017	10 Dec 2009	21 Nov 2012	21 Nov 2012	29 Jan 2014	18 Nov 2014	18 Nov 2014	04 Feb 2015	04 Feb 2015
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	NA	NA	NA	07 Dec 2028	21 Nov 2023	21 Nov 2023	29 Jan 2024	19 Nov 2024	19 Nov 2024	05 Feb 2025	05 Feb 2025
14	Issuer call subject to prior supervisory approval	NA	NA	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	12 Sep 2022, R1 500	07 Dec 2023, R845	21 Nov 2018, R2 007	21 Nov 2018, R1 188	29 Jan 2019, TZS5 000	19 Nov 2019, R370	19 Nov 2019, R130	05 Feb 2020, R1 693	05 Feb 2020, R807
16	Subsequent call dates, if applicable	NA	NA	Quarterly after the first optional call date until maturity	NA	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity
	Coupons/dividends											
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Fixed	Fixed	Floating	Fixed	Floating	Fixed
18	Coupon rate and any related index	NA	70% of the prime overdraft lending rate	3M JIBAR+565bps	5.5% indexed to ZAR revised CPI	3M JIBAR+205bps	8.2950%	16.44%	3M JIBAR+330bps	10.835%	3M JIBAR+350bps	10.05%
19	Existence of a dividend stopper	No	Yes	Yes	No	No	No	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NA	No	No	Yes	No	No	No	No	No	No	No
22	Non-cumulative or 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
24	If convertible, conversion trigger (s)	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
26	If convertible, conversion rate	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
28	If convertible, specify instrument type convertible into	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
30	Write-down feature	No	No	Yes	No	No	No	No	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	NA	NA	At SARB's discretion	NA	NA	NA	NA	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion
32	If write-down, full or partial	NA	NA	Full or partial	NA	NA	NA	NA	Full or partial	Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	NA	NA	Permanent	NA	NA	NA	NA	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	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 4 to 26, then Columns 2 and 3	Columns 4 to 26	Columns 4 to 26	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	NA	Yes	Yes	Yes	Yes	NA	NA	NA	NA
37	If yes, specify non-compliant features	NA	Loss absorbency criteria and point of non-viability	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	NA	NA	NA	NA

Main features of capital instruments disclosure template (Barclays Africa Group Limited) continued

12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited	Barclays Africa Group Limited
ZAG000129354	ZAG000129362	ZAG000129388	ZAG000129396	ZAG000129966	ZAG000135997	ZAG000136003	ZAG000138801	ZAG000138819	ZAG000140203	ZAG000142746	ZAG000144254	ZAG000146002	ZAG000147018	ZAG000147026
South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa
Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Group	Group	Group	Group	Group	Group	Group	Group	Group	Group	Group	Group	Group	Group	Group
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	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes
R508	R437	R737	R30	R288	R31	R200	R1 510	R140	R500	R642	R500	R390	R295	R1 014
R508	R437	R737	R30	R288	R31	R200	R1 510	R140	R500	R642	R500	R390	R295	R1 014
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	Liability – fair value option	Liability – fair value option	Liability – fair value option
03 Sep 2015	03 Sep 2015	03 Sep 2015	03 Sep 2015	28 Sep 2015	4 May 2016	4 May 2016	19 Aug 2016	19 Aug 2016	02 Nov 2016	16 Mar 2017	24 May 2017	14 Aug 2017	29 Sep 2017	29 Sep 2017
Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
04 Sep 2025	04 Sep 2025	03 Sep 2027	03 Sep 2027	29 Sep 2025	5 May 2026	5 May 2026	20 Aug 2026	20 Aug 2026	03 Nov 2026	17 Mar 2027	25 May 2027	14 Aug 2029	30 Sep 2027	29 Sep 2029
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
04 Sep 2020, R508	04 Sep 2020, R437	03 Sep 2022, R737	03 Sep 2022, R30	29 Sep 2020, R288	5 May 2021, R31	5 May 2021, R200	20 Aug 2021, R1 510	20 Aug 2021, R140	03 Nov 2021, R500	17 Mar 2022, R642	25 May 2022, R500	14 Aug 2024, R390	30 Sep 2022, R295	29 Sep 2024, R1 014
Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity
Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Floating	Floating	Floating	Floating	Floating
11.365%	3M JIBAR+350bps	11.810%	3M JIBAR+360bps	11.400%	3M JIBAR+400bps	12.430%	3M JIBAR+400bps	11.740%	3M JIBAR+400bps	3M JIBAR+378bps	3M JIBAR+385bps	3M JIBAR+385bps	3M JIBAR+315bps	3M JIBAR+345bps
No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
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	Non-cumulative
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	Non-convertible	Non-convertible
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion
Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial
Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
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	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
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Main features of capital instruments disclosure template (Absa Bank Limited)[1]

Disclosure template for main features of regulatory capital instruments		1	2	3	4	5	6	7	8	9	10	11
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	Absa Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ZAE000079810	ZAE000079810	ZAG000146465	ZAG000073669	ZAG000101239	ZAG000101254	ZAG000121492	ZAG000121500	ZAG000123126	ZAG000123134	ZAG000129412
3	Governing law(s) of the instrument	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa
	Regulatory treatment											
4	Transitional Basel III rules	Common Equity Tier 1	Additional 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	Additional Tier 1	Ineligible	Ineligible	Ineligible	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/group/group and solo	Solo	Solo and Group	Solo	Solo and Group	Solo and Group	Solo and Group	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share capital and premium	Preference share capital and premium	Additional Tier 1 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)	R37 184	R2 322	R1 500	R1 500	R2 007	R1 188	R370	R130	R1 693	R807	R508
9	Par value of instrument	R304	R2	R1 500	R845	R2 007	R1 188	R370	R130	R1 693	R807	R508
10	Accounting classification	Shareholders' equity	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	11 Sep 2017	10 Dec 2009	21 Nov 2012	21 Nov 2012	18 Nov 2014	18 Nov 2014	04 Feb 2015	04 Feb 2015	03 Sep 2015
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	NA	NA	NA	07 Dec 2028	21 Nov2023	21 Nov 2023	19 Nov 2024	19 Nov 2024	05 Feb 2025	05 Feb 2025	04 Sep 2025
14	Issuer call subject to prior supervisory approval	NA	NA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	12 Sep 2022, R1 500	07 Dec 2023, R845	21 Nov 2018, R2 007	21 Nov 2018, R1 188	19 Nov 2019, R370	19 Nov 2019, R130	05 Feb 2020, R1 693	05 Feb 2020, R807	04 Sep 2020, R508
16	Subsequent call dates, if applicable	NA	NA	Quarterly after the first optional call date until maturity	NA	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Semi annually after the first optional call date until maturity
	Coupons/dividends											
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Fixed	Floating	Fixed	Floating	Fixed	Fixed
18	Coupon rate and any related index	NA	70% of the prime overdraft lending rate	3M JIBAR+565bps	5.5% indexed to ZAR revised CPI	3M JIBAR+205bps	8.295%	3M JIBAR+330bps	10.835%	3M JIBAR+350bps	10.05%	11.365%
19	Existence of a dividend stopper	No	Yes	Yes	No	No	No	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	NA	No	No	Yes	No	No	No	No	No	No	No
22	Non-cumulative or 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
24	If convertible, conversion trigger (s)	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
26	If convertible, conversion rate	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
28	If convertible, specify instrument type convertible into	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
30	Write-down feature	No	No	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	NA	NA	At SARB's discretion	NA	NA	NA	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion
32	If write-down, full or partial	NA	NA	Full or partial	NA	NA	NA	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	NA	NA	Permanent	NA	NA	NA	Permanent	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	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 4 to 25, then Columns 2 and 3	Columns 4 to 25	Columns 4 to 25	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	NA	Yes	Yes	Yes	NA	NA	NA	NA	NA
37	If yes, specify non-compliant features	NA	Loss absorbency criteria and point of non-viability	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	NA	NA	NA	NA	NA

Notes

[1] Absa Bank Limited includes subsidiary undertakings, special purpose entities, joint ventures, associates and offshore holdings.

Main features of capital instruments disclosure template (Absa Bank Limited)[1] continued

12	13	14	15	16	17	18
Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited
ZAG000129420	ZAG000129438	ZAG000129446	ZAG000129958	ZAG000136045	ZAG000136052	ZAG000138835
South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa
Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Solo	Solo	Solo	Solo	Solo	Solo	Solo
Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes
R437	R737	R30	R288	R31	R200	R1 510
R437	R737	R30	R288	R31	R200	R1 510
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
03 Sep2015	03 Sep2015	03 Sep2015	28 Sep2015	4 May2016	4 May 2016	19 Aug 2016
Dated	Dated	Dated	Dated	Dated	Dated	Dated
04 Sep 2025	03 Sep 2027	03 Sep 2027	29 Sep 2025	5 May 2026	5 May 2026	20 Aug 2026
Yes	Yes	Yes	Yes	Yes	Yes	Yes
04 Sep 2020, R437	03 Sep 2022, R737	03 Sep 2022, R30	29 Sep 2020, R288	5 May 2021, R31	5 May 2021, R200	20 Aug 2021, R1 510
Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity
Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating
3M JIBAR+350bps	11.810%	3M JIBAR+360bps	11.400%	3M JIBAR+400bps	12.430%	3M JIBAR+400bps
No	No	No	No	No	No	No
Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
No	No	No	No	No	No	No
Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
Yes	Yes	Yes	Yes	Yes	Yes	Yes
At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion
Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial
Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
NA	NA	NA	NA	NA	NA	NA
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
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA

19	20	21	22	23	24	25
Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited	Absa Bank Limited
ZAG000138827	ZAG000140211	ZAG000142753	ZAG000144247	ZAG000146010	ZAG000147042	ZAG00014 7034
South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa
Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Solo	Solo	Solo	Solo	Solo	Solo	Solo
Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes	Subordinated Callable Notes
R140	R500	R642	R500	R390	R295	R1 014
R140	R500	R642	R500	R390	R295	R1 014
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
19 Aug 2016	02 Nov2016	16 Mar 2017	24 May 2017	14 Aug 2017	29 Sep 2017	29 Sep 2017
Dated	Dated	Dated	Dated	Dated	Dated	Dated
20 Aug 2026	03 Nov2026	17 Mar 2027	25 May 2027	14 Aug 2029	30 Sep 2027	29 Sep 2029
Yes	Yes	Yes	Yes	Yes	Yes	Yes
20 Aug 2021, R140	03 Nov 2021, R500	17 Mar 2022, R642	25 May 2022, R500	14 Aug 2024, R390	30 Sep 2022, R295	29 Sep 2024, R1 014
Semi annually after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity	Quarterly after the first optional call date until maturity
Fixed	Floating	Floating	Floating	Floating	Floating	Floating
11.740%	3M JIBAR+400bps	3M JIBAR+378bps	3M JIBAR+385bps	3M JIBAR+385bps	3M JIBAR+315bps	3M JIBAR+345bps
No	No	No	No	No	No	No
Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
No	No	No	No	No	No	No
Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA
Yes	Yes	Yes	Yes	Yes	Yes	Yes
At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion	At SARB's discretion
Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial
Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
NA	NA	NA	NA	NA	NA	NA
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
NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA

LCR common disclosure template[1] and summary

		Absa Bank Limited[2]		Barclays Africa Group Limited	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	High-quality liquid assets				
1	Total high-quality liquid assets (HQLA)		144 970		157 119
	Cash outflows				
2	Retail deposits and deposits from small business customers, of which:	247 371	18 900	316 372	24 886
3	Stable deposits	–	–	–	–
4	Less stable deposits	247 371	18 900	316 372	24 886
5	Unsecured wholesale funding, of which:	260 175	142 868	308 642	165 245
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	89 926	22 481	89 926	22 481
7	Non-operational deposits (all counterparties)	164 267	114 405	211 231	135 279
8	Unsecured debt	5 982	5 982	7 485	7 485
9	Secured wholesale funding	–	1 379	–	1 379
10	Additional requirements, of which:	207 678	27 526	260 121	30 878
11	Outflows related to derivative exposures and other collateral requirements	17 033	10 749	17 084	10 800
12	Outflows related to loss of funding on debt products	–	–	–	–
13	Credit and liquidity facilities	190 645	16 777	243 037	20 078
14	Other contractual funding obligations	0	0	0	0
15	Other contingent funding obligations	154 430	7 300	160 839	7 539
16	**Total cash outflows**	–	197 973	–	229 927
	Cash inflows	0		0	0
17	Secured lending (eg reverse repos)	24 560	8 734	24 560	8 734
18	Inflows from fully performing exposures	76 368	53 498	106 259	67 327
19	Other cash inflows	5 788	5 896	7 654	7 762
20	**Total cash inflows**	106 716	68 128	138 473	83 823
			Total adjusted value		**Total adjusted value**
21	**Total HQLA**		144 970		157 119
22	**Total net cash outflows**		129 845		146 104
23	**LCR (%)**		111.6		107.5

Notes
[1] The values disclosed represent the simple average of the relevant 3 month-end data points.
[2] Absa Bank Limited includes the South African banking operations.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
Summary of capital position, risk profile and risk-weighted assets (RWA)	4	Credit risk	33	Operational risk	106	Legal risk	122
Overview of the Group	11	Market risk	69	Model risk	111	Annexures	126
Basis of preparation	16	Treasury and capital risk	80	Conduct risk	117	Abbreviations and acronyms	148

Basel Pillar 3 remuneration disclosures REMA

The Group's remuneration policy which describes the Group's key features of the remuneration system is outlined in the remuneration report in section 2 of the integrated report.

In the following three tables, senior managers are defined as members of the Executive Committee and other individuals with management responsibility for a material portion of the Group's business. Other material risk takers are defined in accordance with the PRA Remuneration Code classification which is in line with the European Banking Authority's Regulatory Technical Standard.

In 2017, a total of 13 individuals were classified as senior managers and 59 individuals as other material risk takers (2016: 28 senior managers and 67 material risk takers). Given the changes to the classification of material risk takers in 2016, the composition of the material risk taker population has changed year-on-year.

Remuneration awarded during the financial year REM1

			a	b
			2017	
Aggregate remuneration for senior managers and material risk takers			Senior managers Rm	Other material risk takers Rm
1	Fixed remuneration	Number of employees	13	59
2		Total fixed remuneration (includes Role base pay)	134	259
3		Of which: cash based	134	259
4		Of which: deferred	–	–
5		Of which: shares or other share linked instruments	–	–
6		Of which: deferred	–	–
7	Variable remuneration	Number of employees	13	59
8		Total variable remuneration	396	596
9		Of which: cash based[1]	53	104
10		Of which: deferred[2]	31	50
11		Of which: shares or other share linked instruments[3]	343	492
12		Of which: deferred	343	492
13	**Total**		530	855

Special payments REM2

		a	b	c	d	e	f
		2017					
		Guaranteed bonus		Sign-on awards		Severance payments	
		Number of employees Rm	Total amounts Rm	Number of employees Rm	Total amounts Rm	Number of employees Rm	Total amount Rm
1	Senior management	–	–	–	–	–	–
2	Other material risk-takers	–	–	–	–	–	–

Notes
1 This includes the cash bonus and cash value plan award during 2017
2 The deferred portion is released in three equal annual tranches (five equal tranches for certain material risk takers, including executive directors and prescribed officers), subject to continued service and malus provisions.
3 This amount includes the Share Incentive Award, Share Value Plan, restricted shares and LTIP awards during the 2017 financial year

Deferred remuneration REM3

Deferred and retained remuneration		a Total amount of outstanding deferred remuneration as at the end December 2017 Rm	b Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment Rm	c 2017 Total amount of amendment during the year due to ex post explicit adjustments[1] Rm	d Total amount of amendment during the year due to ex post implicit adjustments[2] Rm	e Total amount of deferred remuneration paid out in the financial year Rm
1	**Senior management**					
2	Cash[3]	44	44	3		24
3	Shares[4]	459	459	12	57	110
4	Cash linked instruments	–	–	–	–	–
5	Other	–	–	–	–	–
6	**Other material risk takers**					
7	Cash[2]	77	77	3		34
8	Shares[3]	641	641	23	74	193
9	Cash linked instruments	–	–	–	–	–
10	Other	–	–	–	–	–
11	**Total**	1 221	1 221	41	131	360

Ex post implicit adjustments are comprised as follows:

	2017 Senior management Rm	Other material risk takers Rm	Total Rm
Long-term incentive plan (LTIP)	24	38	62
Restricted shares and Share Value Plan	33	39	72
Other Share Instruments	0	(3)	(3)

Notes

[1] Ex post explicit adjustments reflect service credits and dividend equivalents determined and paid on vesting for the Cash Value Plan and Share Value Plan respectively.

[2] Ex post implicit adjustments were determined using each individual's award dates, award values (accounting value for LTIPs) and vesting dates.

[3] Cash is the Cash Value Plan, which is deferred over three years in equal tranches (or five equal tranches for certain material risk takers, including executive directors and prescribed officers), subject to continued service and malus provisions.

[4] Shares include Share Incentive Awards, the Share Value Plan, restricted shares and the LTIP.

Contents	IFC	Overview of risk management	21	Insurance risk	99	Reputation risk	120
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15. Abbreviations and acronyms

A

AEaR	annual earnings at risk
AFR	available financial resources
AFS	Absa Financial Services
AIRB	advanced internal ratings-based approach
AMA	advanced measurement approach

B

Basel	Basel Capital Accord
BCBS	Basel Committee on Banking Supervision
BERC	Barclays Africa Group Executive Risk Committee
BIA	basic indicator approach
bps	basis points
BU	business unit

C

CAR	capital adequacy requirement
CCF	credit conversion factor
CCoRC	Credit Concentration Risk Committee
CCP	central counterparty
CCR	counterparty credit risk
CEM	current exposure method
CET1	Common Equity Tier 1
CFP	contingent funding plan
CIB	Corporate and Investment Bank
CLF	committed liquidity facility
CoE	Cost of equity
CPA	critical process assessment
CPRF	Conduct Principal Risk Framework
CR	credit risk
CRC	Control Review Committee
CRM	credit risk mitigation
CRMF	Conduct Risk Management Framework
CRO	Chief Risk Officer
CRRC	Conduct and Reputation Risk Committee
CSA(s)	collateral support annexure(s)
CVA	credit valuation adjustment

D

D-SIBs	domestic systemically important banks
DVaR	daily value at risk

E

EAD	Exposure at default
EC	economic capital
Edcon	Edcon Store Card Portfolio
EEPE	effective expected positive exposure
EL	expected loss
ERMF	Enterprise Risk Management Framework
EVE	economic value of equity
EWIs	early warning indicators

F

FIC	Financial Intelligence Centre
FRTB	Fundamental Review of the Trading Book
FSB	Financial Services Board

G

GAC	Group Actuarial Committee
GACC	Group Audit and Compliance Committee
GCC	Group Credit Committee
GCCO	Group Chief Credit Officer
GCRO	Group Chief Risk Officer
GMD	Group Model Database
GMRA	Global Master Repurchase Agreement
GMRC	Group Market Risk Committee
GMRP	Group Model Risk Policy
GMSLA	Global Master Securities Lending
GRCMC	Group Risk and Capital Management Committee
Group	Barclays Africa Group Limited
G-SIBs	globally systemically important banks
GWWR	general wrong way risk

H

HQLA	high quality liquid assets

I

IAA	internal assessment approach
ICAAP	internal capital adequacy assessment process
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standard(s)
IMA	internal models approach
IMM	internal model method
IP	intellectual property
IPRCF	Insurance Principal Risk Control Framework

IRB	internal ratings-based
IRBA	internal ratings-based approach
IRC	incremental risk charge
IRRBB	interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
IT	information technology
IVU	Independent Valuation Unit

J

JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange

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

3LOD	three lines of defence
LCR	liquidity coverage ratio
LExCo	Legal Executive Committee
LGD	loss-given-default
LOD	lines of defence
LRA	liquidity risk appetite
LTIP	long term incentive plan
LTV	loan-to-value

M

MC	Models Committee
MCA	management control approach
MCI	materials control issue
MGC	Models Governance and Control
MR	market risk
MRaD	Model Risk and Development Group
MRC	Market Risk Committee
MTP	medium-term plan

N

NCWO	no-creditor-worse-off
NII	net interest income
NPL	non-performing loans
NSFR	net stable funding ratio
NWP	net written premiums

O

ORMF	Operational Risk Management Framework
ORSA	own risk and solvency assessment
ORX	operational risk data exchange
OTC	over-the-counter

P

PD	probability of default
PF	project finance
PFE	potential future exposure
PIT	point-in-time
PKIs	predictive key indicators
PnL	profit and loss
PRA	Prudential Regulation Authority
PRO	principal risk officer
PSE	public sector entity
PVIF	present value of in-force book

Q

QCCP	qualifying central counterparty

R

RBA	ratings-based approach
RBB	Retail and Business Banking
RC	regulatory capital
RCSA	Risk and Control Self-Assessment
RDARR	Risk data aggregation and risk reporting
RoE	return on average equity
RoRWA	return on average risk-weighted assets
RSU	Risk Sanctioning Unit
RW	risk-weight
RWA	risk-weighted assets
RWR	right way risk

S

SA	standardised approach
SABRIC	South Africa Banking Risk Information Centre
SA-CCR	standardised approach for counterparty credit risk
SAM	Solvency Assessment and Management
SARB	South African Reserve Bank
SEC	securitisations
SFA	supervisory formula approach
SFTs	securities financing transactions
SL	specialised lending
SME	small- and medium-sized enterprises
SPV	special purpose vehicle
SSFA	simplified supervisory formula approach
sVaR	stressed value at risk
SWWR	specific wrong way risk

T

TLAC	total loss-absorbing capacity
TRC	Trading Risk Committee
TSA	the standard approach
TTC	through-the-cycle

V

VaR	value at risk

W

WIMI	Wealth, Investment Management and Insurance
WL	watch list
WWR	wrong way risk

Y

Y-o-Y	year-on-year