Absa Group Limited

Pillar 3 report for the reporting period ended 30 June 2018

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the Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), where not superseded by the revised Pillar 3 disclosure requirements.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.

Management and the members of the Group Risk and Capital Management Committee (GRCMC) reviewed the Pillar 3 report.

For the reporting period, the Board is satisfied that the Group's risk and capital management processes operated effectively, that 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.

The report is supplemented with additional disclosures, including the Group's financial results booklet and additional disclosure tables.

The full set of documents is available on www.absa.africa

Contents

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BCBS Pillar 3 disclosure requirements of sections and tables

References to disclosure requirements have been designated by a [ ]

Refer to the Additional disclosure tables on the Absa Capital and Risk Management website (https://www.absa.africa/absaafrica/investor-relations/capital-risk-management/) for detailed capital and liquidity disclosures for LR1, LR2, LIQ1, LIQ2 in terms of BCBS requirement and for directives requirements of Regulation 43 of the Regulations relating to Banks.

[1] Not applicable to the Group.


PIZANOS
DETOUR
ROAD
CONSTRUCT
AHEAD

1. Summary of capital position, risk profile and RWA

1. Summary of capital position, risk profile and RWA

1.1 Risk and capital performance over the current reporting period

Key metrics

Capital adequacy ratio (page 89)	
IFRS[1]	Normalised
16.7%	15.7%
June 2017: 16.1%	June 2017: 14.5%

Common equity tier 1 ratio (page 89)	
IFRS[1]	Normalised
13.3%	12.2%
June 2017: 13.7%	June 2017: 12.1

Economic capital (EC) coverage (page 96)	
IFRS[1]	Normalised
1.43%	1.32%
June 2017: 1.38	June 2017: 1.24

Leverage ratio (page 94)	
IFRS[1]	Normalised
7.6%	7.0%
June 2017: 8.1%	June 2017: 7.2%

Liquidity coverage ratio (LCR)[2] (page 87)
109.0%
June 2017: 118.9%

Net stable funding ratio (NSFR)[3] (page 83)
106.0%
June 2017: N/A

Credit loss ratio (CLR) (page 36)
0.83%
June 2017: 0.96%

Stage 3 ratio on gross loans and advances (%)[4, 5] (page 36)
5.3%
June 2017: N/A

Stage 1 and stage 2 coverage ratio[4] (page 36)
1.1%
June 2017: N/A

Stage 3 coverage ratio[4] (page 36)
42.1%
June 2017: N/A

Operational risk losses (page 102)
R176m
June 2017: R121m

Review of current reporting period

- The Group maintained a strong capital adequacy position with capital buffers sufficient to withstand stressed conditions.
- The liquidity position remained healthy.
- Operational resilience continues to improve due to investments in infrastructure, process engineering, people and technology.
- Overall growth in advances is a reflection of the current economic conditions in which the Group operates.
- CLR has improved with contributions from an improved performance in home loans, collections in the Card portfolio, and a lower default experience in the Rest of Africa.
- The coverage ratios reflect the impact of adopting IFRS9, with stage 3 coverage a function of a more conservative default definition compared to IAS39. Stage 1 and stage 2 coverage increased significantly compared to IAS39 performing loans coverage, in line with IFRS9. The performance of the portfolio has been consistent year-on-year.

Priorities

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

- Tight control and management of separation and execution risks by delivering a structured programme of work supported by ongoing monitoring of risks and independent quality assurance.
- Continuing to improve control, efficiency and operational resilience across critical processes including collections, cybersecurity and fraud, data management, disaster recovery and financial crime.
- Strengthening the employee value proposition to ensure the continued availability of risk professionals to enable the Group's strategy.
- Continued embedment of Risk Adjusted Performance Measurement approaches to ensure appropriate focus on achieving adequate levels of return in light of risks taken by the Group.
- Further enhancing risk data aggregation and reporting capabilities at all levels of the organisation.

1 IFRS basis results include the impact of the contribution amounts received as part of the Barclays PLC separation. All numbers include unappropriated profits.

2 The Group Liquidity coverage ratio (LCR) reflects an aggregation of the Absa Bank LCR and the LCR of the Rest of Africa Banking entities. For this purpose, a simple average of the relevant 3 month-end data points is used in respect of the Rest of Africa banking entities. In respect of Absa Bank, the June and December 2017 LCR was determined using a simple average of the relevant 3 month-end data points. As at 30 June 2018, the Absa Bank LCR is calculated as a simple average of 90 calendar-day LCR observations.

3 The net stable funding ratio, which became effective on 1 January 2018 (minimum regulatory requirement of 100%), is reported publicly with effect from 30 June 2018, therefore no comparatives are disclosed.

4 IFRS9 became effective on 1 January 2018, therefore no comparatives are disclosed.

5 With the implementation of IFRS9, the management of regulatory defaulted loans and stage 3 assets are the same. This has resulted in the stage 3 percentage of gross loans and advances being more stringent than previously measured NPL. For further detail, refer to the IFRS9 transitional disclosure.

1. Summary of capital position, risk profile and RWA

1.2 Current and emerging risks

Through its risk process of 'evaluate, respond and monitor', the Group identifies and assesses both external and internal risks, determines the appropriate response, and monitors the effectiveness of the response. The following table outlines the landscape of the material risks to the Group's strategic ambitions, and reflect how these risks are managed:

Themes	Key risks	Opportunities	Potential impacts	Mitigating actions
Macro-economic environment impact our ability to sustain business and achieve our market commitments	› Subdued local growth › International trade disputes › Emerging market sell-off increasing market volatilities › Banking sector stress in Rest of Africa › Customers facing headwinds – rising fuel prices, VAT hike	› Repositioning to capture market share in growth markets, products and segments › Strengthening our position in presence countries that are growth markets › Diversification into new growth markets › Involvement in the South African Government's drive to attract investment	› Reduced revenue › Pressure on the credit portfolio › Increased impairments › Earnings volatility	› Strong risk management ensuring monitoring of leading indicators combined with definitive steps › Hedging of interest rate and foreign exchange risks › Adapting strategy to manage the business in periods of slow economic growth
Social and political environment impacts our operating environment	› Socio and political risk › Political/policy uncertainty › Deteriorating fiscal position › Institutional uncertainty › Unemployment › Land expropriation › Mining charter	› Play an active role in society by building viable communities that enable intergenerational sustainability › Provide insights and thought leadership to help industry develop new and innovative ways to solve society's challenges	› Reduced revenue › Social pressure › Pressure on portfolio quality › Lower investor confidence	› Commitment to shared growth › Support community initiatives › Increased importance placed on knowing the client well
Strategic changes impact our ability to execute our plans	› Separation from Barclays PLC › Strategy execution risk › Reputation and brand risk › People risk	› Innovative ways of doing business › Diversification into new growth markets › Create infrastructure and governance that effectively manage resource constraints and execution priorities › Build a winning brand that is purposeful and drives customer advocacy › Attract and retain talented people	› Delayed completion of projects › Increased expenditure › Lack of focus on key strategic initiatives › Loss of customers/ revenue › Loss of key resources › Increased risk taking	› Address business-as-usual, transition and transformation change requirements through dedicated and integrated functions › Integrated combined assurance to provide governance and oversight of programme delivery

1. Summary of capital position, risk profile and RWA

1.2 Current and emerging risks (continued)

Theme	Key risks	Opportunities	Potential impacts	Mitigating actions
Technology and the pace of change impact competitiveness and operational risk	› Cyber risks › Fraud risk and financial crime › Technology disruptions › Data management failures › Disruption through Fintechs and new competitor banks	› Build a scalable digitally-led business › Competitive advantage through client-centred solutions › End-to-end digital transformation › Reduce costs in the long term › Utilise data to strengthen security measures and crime prevention › Solution for customers by creating unprecedented, seamless experiences	› Security breaches › Operational disruptions › Operational losses › Reputational damage › Erosion of market share	› Continue to invest in technology platforms, processes and controls › Maintain IT system's stability through monitoring, enhancements and prioritisation of key issues › Drive innovation
New and emerging regulations	› The volume and increasing complexity of regulatory requirements (e.g. Twin Peaks, Retail distribution review, Financial Intelligence Centre Amendment Act, Risk Data Aggregation and Risk Reporting) › Deposit Insurance › Model risk	› Client centric implementation of regulations improving customer experience › Utilisation of regulatory technology › Innovative ways of doing business	› Reduced revenue and/or increased expenses › Fines or penalties due to non-compliance › Reputational damage › Increase in financial and human resource requirements › Incorrect models informing decisions	› Maintain a coordinated, comprehensive and timely approach to identify, assess and respond to regulatory changes › Regulatory change team is in place › Empowered and effective regulatory function (Regulatory Oversight Committee) › Maintain a diversified business model that is sustainable and competitive
Climate change risks impact our clients, organisation and operating environment	› Adverse weather conditions (e.g. drought and floods) › Water stress › Resource depletion	› Value proposition for companies developing energy efficient items › New revenue streams › Enable intergenera-tional sustainability by creating innovative products that drive economic growth and development	› Impact on operational environment › Impact on ability to service clients › Increased impairments	› Business recovery plan is in place › Energy efficient buildings › Preventative and reactive credit risk mitigation

1. Summary of capital position, risk profile and RWA

1.3 Overview of RWA [OV1]

The following table provides the risk-weighted assets (RWA) as 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 that follow.

		a		b	c
	Group	**June 2018 RWA Rm**	June 2017 RWA Rm	March 2018 RWA Rm	**June 2018 Minimum capital requirements[1]**
1	Credit risk (excluding counterparty credit risk (CCR))	**552 556**	515 946	521 661	**61 472**
2	Of which standardised approach (SA)	**164 671**	146 408	137 606	**18 320**
3	Of which internal rating-based (IRB) approach	**387 885**	369 538	384 055	**43 152**
4	CCR	**29 064**	32 156	27 773	**3 233**
5	Of which standardised approach for CCR (SA-CCR)[2]	**29 064**	32 156	27 773	**3 233**
6	Of which internal model method (IMM)	**—**	—	—	**—**
7	Equity positions in banking book under market-based approach	**11 324**	9 223	9 606	**1 260**
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	**1 384**	583	1 908	**154**
12	Securitisation exposures in banking book	**435**	564	453	**48**
13	Of which IRB ratings-based approach (RBA)	**435**	564	453	**48**
14	Of which IRB Supervisory Formula Approach (SFA)	**—**	—	—	**—**
15	Of which SA/simplified supervisory formula approach (SSFA)	**—**	—	—	**—**
16	Market risk	**31 014**	32 284	29 129	**3 450**
17	Of which standardised approach (SA)	**13 035**	10 645	11 506	**1 450**
18	Of which internal model approaches (IMA)	**17 979**	21 639	17 623	**2 000**
19	Operational risk	**108 895**	103 487	105 730	**12 115**
20	Of which basic indicator approach (BIA)	**2 814**	3 528	3 432	**313**
21	Of which Standardised Approach	**28 724**	25 533	26 082	**3 196**
22	Of which Advanced Measurement Approach (AMA)	**77 357**	74 426	76 216	**8 606**
	Non-customer assets	**23 392**	24 904	24 871	**2 602**
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	**7 638**	5 633	5 388	**851**
	IFRS9 transitional adjustment	**5 566**	—	5 565	**619**
24	Floor adjustment	**—**	—	—	**—**
25	Total **(1+4+7+8+9+10+11+12+16+19+23+24+ non-customer assets + IFRS9 transitional adjustment)**	**771 268**	724 780	732 084	**85 804**

Key drivers of change in RWA consumption for 30 June 2017 to 30 June 2018 were as follows:

- **Credit risk:** The year-on-year increase in credit risk RWA of R36.6bn is due to exposure growth and the weakening of the Rand against foreign currencies in Rest of Africa. This was partially offset by data refinements and the implementation of IFRS9, which reduces RWAs held against non-performing credit exposures owing to higher provisions held against these exposures.
- **CCR:** The year-on-year decrease of R3.1bn is due to methodology refinements in relation to the duration of trades combined with changes in the composition of the portfolio.
- **Market risk:** The year-on-year decrease of R1.3bn is due to lower VaR and sVaR in the three-month averaging period, offset by increases in exposures measured under the SA.
- **Operational risk:** The year-on-year increase of R5.4bn is due to higher operating income in Rest of Africa resulting in a higher TSA capital requirement, and application of TSA floor in AMA entities.
- **IFRS9 transitional arrangement:** The adjustment of R5.6bn represents the portion of release of RWA on non-performing loans. This will be phased in over the transition period of three years.

[1] The 2018 minimum regulatory capital requirement is calculated at 11.13% 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.

1. Summary of capital position, risk profile and RWA

1.3 Overview of RWA [OV1] (continued)

	Absa Bank Limited[1]	a June 2018 RWA Rm	June 2017 RWA Rm	b March 2018 RWA Rm	c June 2018 Minimum capital requirements[2]
1	Credit risk (excluding CCR)	384 983	373 604	384 362	42 829
2	Of which standardised approach (SA)	11 429	13 545	12 050	1 271
3	Of which IRB approach	373 554	360 059	372 312	41 558
4	CCR	28 656	31 815	27 549	3 188
5	Of which standardised approach for CCR (SA-CCR)[3]	28 656	31 815	27 549	3 188
6	Of which IMM	—	—	—	—
7	Equity positions in banking book under market-based approach	2 137	2 493	2 598	238
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	1 323	583	1 847	147
12	Securitisation exposures in banking book	435	564	453	48
13	Of which IRB RBA	435	564	453	48
14	Of which IRM SFA	—	—	—	—
15	Of which SA/SSFA	—	—	—	—
16	Market risk	22 603	24 741	22 617	2 515
17	Of which standardised approach (SA)	4 624	3 102	4 994	515
18	Of which internal model approaches (IMA)	17 979	21 639	17 623	2 000
19	Operational risk	75 684	73 612	75 221	8 420
20	Of which BIA	2 735	3 439	3 348	304
21	Of which Standardised Approach	—	—	—	—
22	Of which AMA	72 949	70 173	71 873	8 116
	Non-customer assets	17 942	17 971	19 509	1 996
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	2 493	762	1 052	278
	IFRS9 transitional adjustment	5 566	—	5 565	619
24	Floor adjustment	—	—	—	—
25	Total **(1+4+7+8+9+10+11+12+16+19+23+24+ non customer assets + IFRS9 transitional adjustment)**	541 822	526 145	540 733	60 278

Key drivers of change in RWA consumption for 30 June 2017 to 30 June 2018 were as follows:

- **Credit risk:** Portfolios subject to the advanced internal ratings based (AIRB) approach increased year-on-year by R11.4bn due to exposure growth. This was partially offset by data refinements and the implementation of IFRS9, which reduces RWAs held against non-performing credit exposures owing to higher provisions held against these exposures. Portfolios subject to the standardised approach (SA) decreased by R2.1bn as a result of a reduction in the size of the portfolio.
- **CCR:** The year-on-year decrease is due to methodology refinements in relation to the duration of trades combined with changes in the composition of the portfolio.
- **Market risk:** The year-on-year decrease of R2.1bn is due to lower VaR and sVaR in the three-month averaging period, offset by increases in exposures measured under the SA.
- **Operational risk:** The year-on-year increase of R2.1bn is due to higher operating income attributable by AMA entities, which drove an increase in the regulatory floor.
- **IFRS9 transitional arrangement:** The adjustment of R5.6bn represents the portion of release of RWA on non-performing loans. This will be phased in over the transition period of three years.

[1] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
[2] The 2018 minimum regulatory capital requirement is calculated at 11.13% 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.

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2. Overview of the Group

2. Overview of the Group

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 Liquidity 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 derivatives and portfolio liabilities Hedging and trading derivatives and 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

2. Overview of the Group

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="5">A safe place to save, invest and to 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></td><td colspan="4">Cash management, payment systems and international trade services</td></tr>
<tr><td rowspan="4">Provide funds for purchases and growth</td><td rowspan="4">Residential home loans, vehicles 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 and 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 colspan="2"></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. Overview of the Group

2.2 Scope of consolidation

The holding company name changed from Barclays Africa Group Limited to Absa Group Limited in July 2018, post regulatory and shareholder's approval. The subsidiary banks on the continent will change their name over the transition period. This is the first step in the Group's journey to ultimately having one brand, Absa, across all operations (subject to regulatory approval).

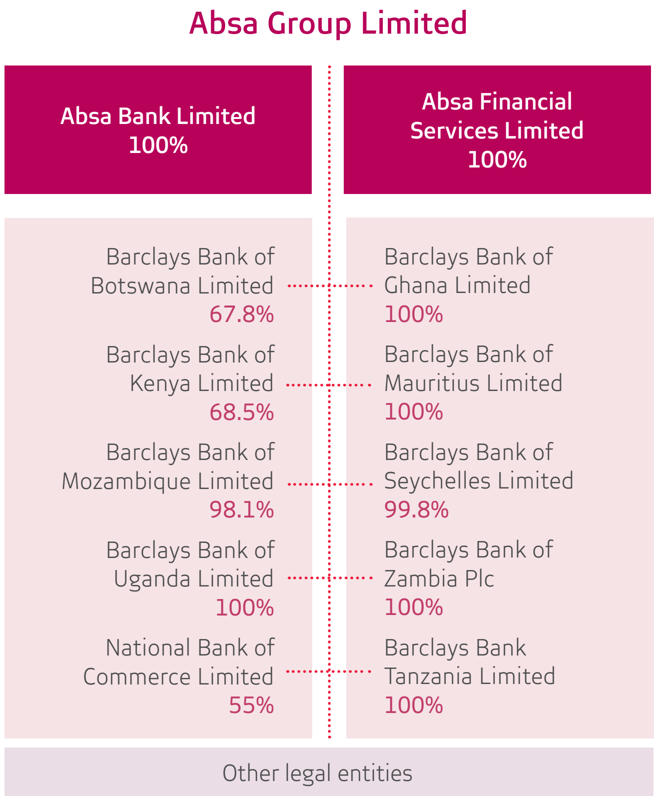
The Group's registered head office is in Johannesburg, South Africa with majority shareholding in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, South Africa, Tanzania (Barclays Bank Tanzania and National Bank of Commerce), Uganda and Zambia. The Group also has representative offices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

Barclays Bank Kenya and Barclays Bank Botswana are 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 principle holdings of the Group.



2. Overview of the Group

2.2 Scope of consolidation (continued)

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:

Absa Group Limited

RBB South Africa

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

Business Banking
- Debt Products
- Deposit Products
- Transactional Products
- Equities

CIB South Africa

Corporate Bank

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

Rest of Africa Banking

RBB

CIB
- Corporate
- Investment Bank

Head Office, Treasury and other operations

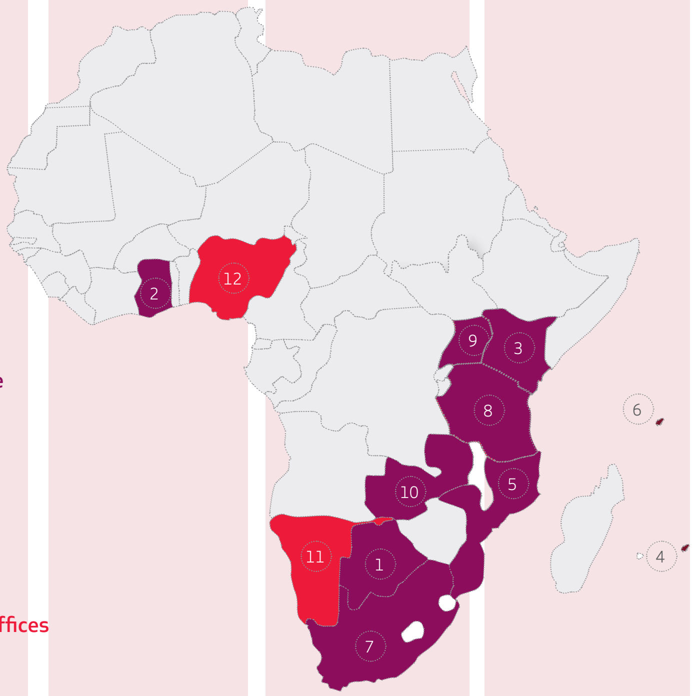
WIMI
- Continuing Business Lines
  - Life Insurance
  - Wealth and Investment Management[2]
  - Short-term Insurance
  - Fiduciary Services
  - Distribution
  - Other
- Terminating Business Lines

Head Office, Treasury and other operations in South Africa[1]
- Enterprise Functions
- Group Treasury
- Consolidation Centre

Barclays separation effects
- Financial impact of the Barclays 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
9 Uganda
10 Zambia

Representative offices
11 Namibia
12 Nigeria



Normalised
IFRS[3]

[1] Includes Absa Manx Insurance Company
[2] Includes the Wealth banking portfolio
[3] The results presented in this report are based on IFRS. Refer section 7.4.3.2 for the normalised impact on capital.

3. Basis of preparation

3. Basis of preparation

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, June 2018 (compared to June 2017), the Board is satisfied that the Group's risk and capital management processes operated effectively, that 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 Director, 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 (South Africa)	
› 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. Basis of preparation

3.4 Accounting policies and valuation methodologies

The principal accounting policies applied are set out in the Group's most recent audited annual financial statements, except for:

- The adoption of IFRS9 financial instruments and IFRS15 Revenue from contracts with customers as explained in the Reporting changes section (p152-179) of the interim results booklet; and
- Changes to the Group's operating segments and business portfolio changes.

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.

4. Overview of risk management

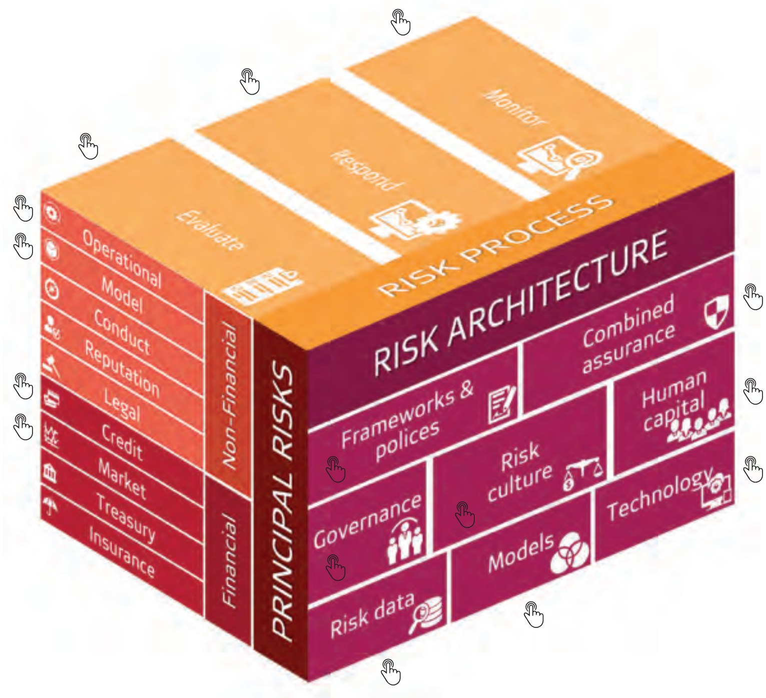
4. Overview of risk management

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 organisational 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, insurance, operational, model, conduct, reputation and legal risks as principal risks in recognition of their significance to the Group's strategic ambitions.

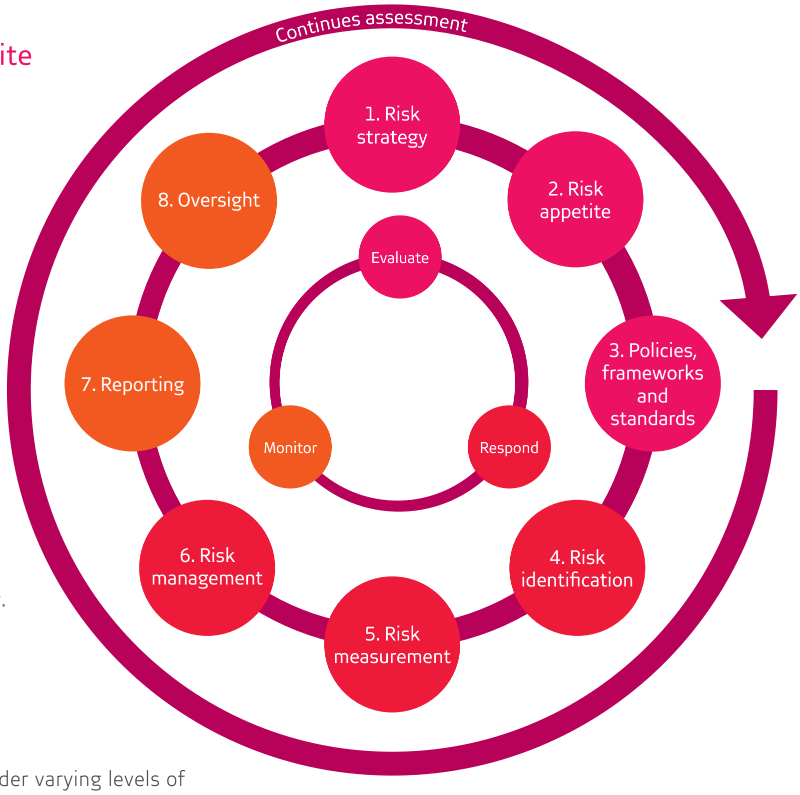
The Group Chief Risk Officer (GCRO) is the owner of the ERMF. Application of the ERMF in the Group is overseen by the Heads of applicable principal risk types, with the Head of Group Risk Strategy and Governance operating as the custodian and lead on ERMF matters. The Group Chief Risk Officer is the senior executive accountable for the creation, maintenance and implementation of the ERMF in the Group. All material changes are subject to review at the Risk Committees as well as the Board.

Hyperlink.

4. Overview of risk management

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 earnings, 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 CET1.
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[1] (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.

[1] In the revised risk appetite statement, the term 'loan loss rate' will be reworded to 'credit loss ratio'.

4. Overview of risk management

4.3 Strategy and risk appetite (continued)

4.3.1 Strategy, business model and risk appetite (continued)

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 operational, 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 risk 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 and resilience 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. Additionally, 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 at varying levels of severity and applying various projection techniques.

The following types of stress tests are performed:

Type of exercise	Purpose	Scenario type	Approach	Frequency
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.	At least annually
Supervisory 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.	As directed by the Regulator
Ad-hoc/Additional internal stress testing	Evaluates the impact of internally determined scenarios, typically focused on specific set of business drivers and/or risks to specific business lines, portfolios, risk type or legal entity.	Based on a combination of internally determined use case scenarios ranging from mild to severe stresses and sensitivity analyses.	Largely top-down approaches used.	Ad-hoc
Reverse stress testing	Assists the Group in understanding key risks and scenarios that may put business strategies and continuance as a 'going concern' at risk, as well as understanding the effectiveness and credibility of proposed recovery actions.	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.	Annually

4. Overview of risk management

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.
- Significant risk events undergo an independent root cause analysis

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. Overview of risk management

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 employees' 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 an 'identify and address' culture to mitigate potential loss to stakeholders.

Tone from the top is critical in achieving the desired culture. The Group continues to drive its values, with more specific oversight over leadership's role in risk and control management, encompassed in the management control approach (MCA) assessment.

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.

All colleagues have a specific responsibility for ensuring the group operates within its Risk Appetite. These responsibilities are defined in terms of the role of the employee in the 'Three lines of defence'.

Three lines of defence		
1st line of defence	2nd line of defence	3rd line of defence
Business units	Risk and Compliance Functions	Internal Audit
› Establish and operate proper governance. › Develop and implement standards and procedures. › Propose and agree risk appetite and supporting limits with the second line of defence (LOD). › Identify and manage risks in the activities and critical processes in which they are engaged, in line with the approved appetite and agreed limits.	› Framework and policy development and conformance. › Independent review and challenge of business unit risk appetite, underlying limits and profiles. › Operate as centres of excellence for specified risk types. › Primary responsibility for managing regulatory relationships for risk, and overseeing delivery of commitments. › Establish and operate proper governance.	› Internal Audit provides independent assurance to the Board and executive management over the effectiveness of governance, risk management and control over current, systemic and evolving risks. › The focus of Internal Audit is on the critical processes of the Group. › External Audit provides assurance over financial reporting and related risks.
All lines of defence support effective and efficient combined assurance.		

Regardless of their function, all teams who manage processes in the Group are responsible for designing, implementing, remediating, monitoring and testing the controls for those processes.

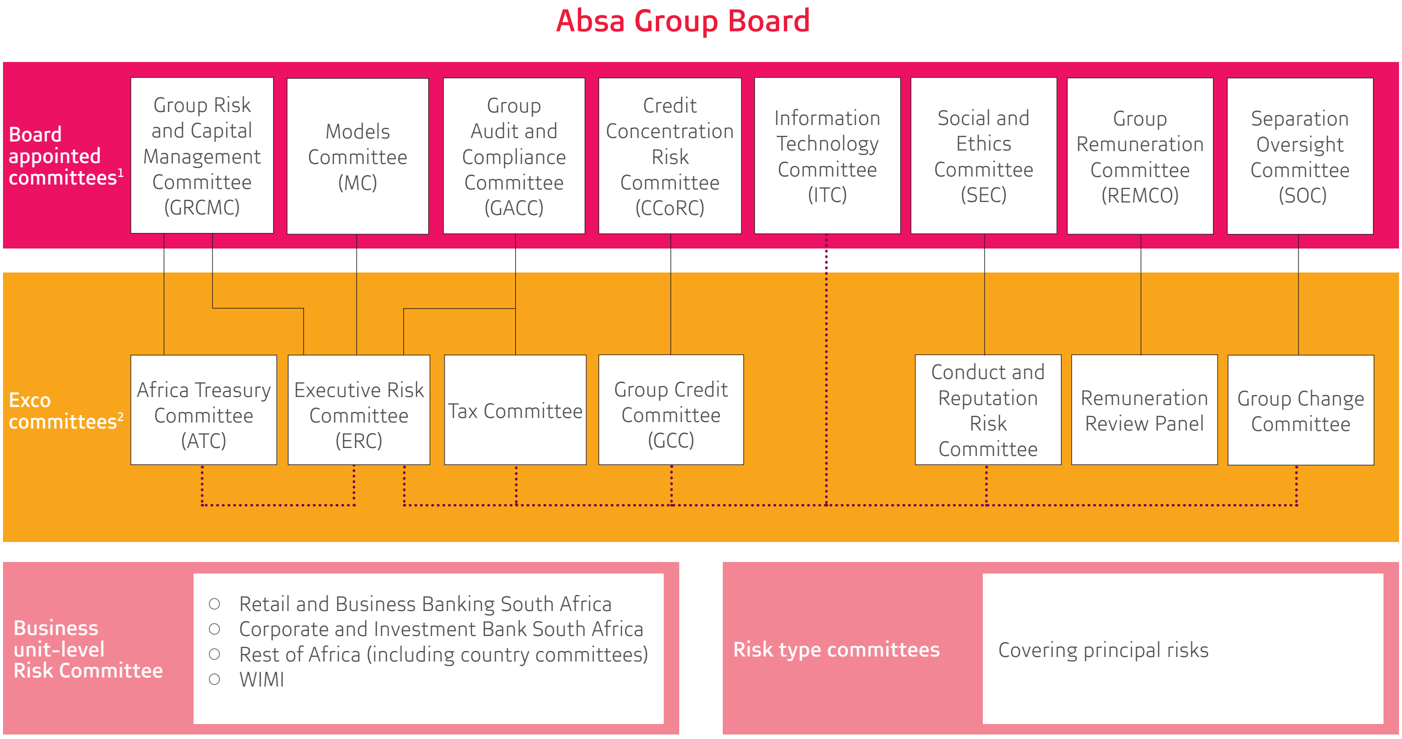
4. Overview of risk management

4.5 Risk architecture (continued)

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



.... Indirect reporting line
—— Direct reporting line

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 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

[1] In addition, other Board appointed committees in place are the Directors' Affairs Committee and the Board Finance Committee.

[2] In addition, other Exco appointed committees in place are the Regulatory Investigations Oversight Committee and the Group Investment committee.

4. Overview of risk management

4.5 Risk architecture (continued)

4.5.3 Governance (continued)

Committees	Key risk focus areas	Principal risk covered
Social and Ethics Committee (SEC)	Conduct, 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 approach, which requires coordinated assurance activity across the three lines of defence. The objective of combined assurance is to optimise overall assurance to enable a holistic and integrated view of the risk and control environment to management, the executive and Board. 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 risk-based approach, which focuses on those aspects that are most material to the Group. The Group's combined assurance model is aligned to King IV requirements.

Each business is expected to drive the coordination of assurance activities across the three lines of defence by implementing effective governance and oversight processes. The aim is for each business to demonstrate adequate coverage over critical process assessments, material control issue remediation, strategic change initiatives, as well as senior management, Board and regulatory requests. In addition, businesses are expected to demonstrate appropriate remedial responses to the identification of unacceptable residual risk exposure and control issues.

Combined assurance coverage and output is reported and tracked at the business and functional levels, and is reported to the Executive Risk Committee and the Group Audit and Compliance Committee.

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.

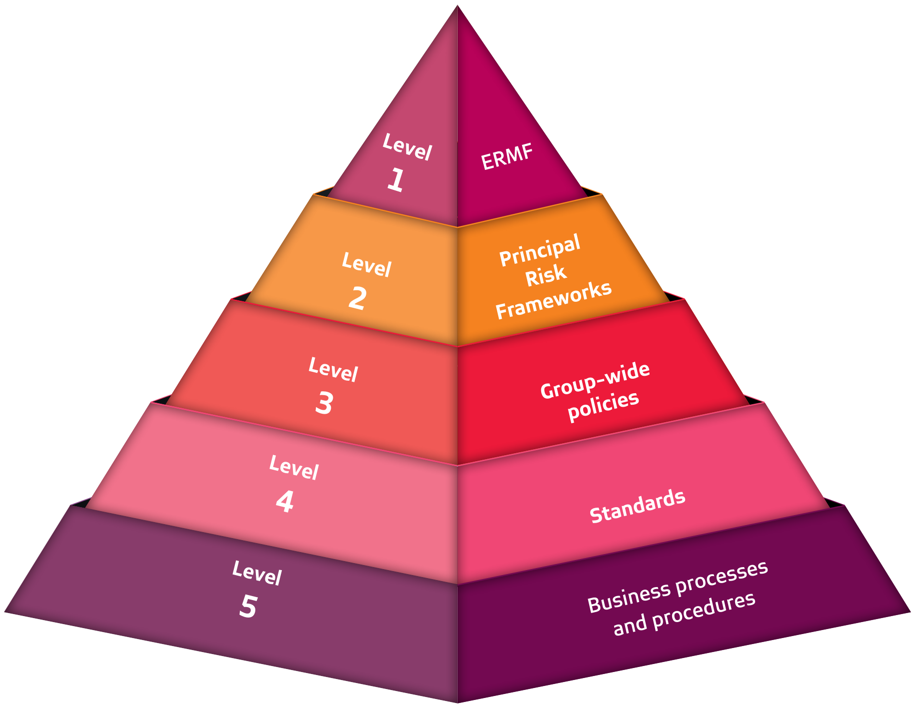
This drives consistency and efficiency and enables enhanced aggregation and risk oversight across the businesses and improved 'line of sight' to all levels of management.

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.

4. Overview of risk management

4.5 Risk architecture (continued)

4.5.5 Frameworks, policies and standards (continued)



- **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 within 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 are 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.

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 Risk architecture (continued)

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 through to the ERC; 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 Prudential Authority (PA) 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 PA 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 under way, 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.

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. Overview of risk management

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[1], which account for the vast majority of the total risk faced by the Group.

- Financial principal risks
  - Credit risk[2]
  - Market risk[2]
  - Treasury risk[2]
  - Insurance risk[1]
- Non-financial principal risks
  - Operational risk[2]
  - Model risk[2]
  - Conduct risk[1]
  - Reputation risk[1]
  - Legal risk[1]

The ERMF is reviewed and approved annually by the Board, on recommendation by the GRCMC. In its latest design review, the ERMF was amended to define treasury, 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 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, treasury risk and insurance 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.

[1] For more information on the nine principal risks, separate sections are dedicated to credit, market, treasury, operational and model risks. For details on insurance, conduct, reputation and legal risks, refer to the risk management section of the financial booklet.

[2] Hyperlink.

5. Credit risk

5. Credit risk

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.

5.1 Review of current reporting period

Key metrics	June 2018	June 2017	December 2017
Growth in gross loans and advances to customers (%)	**8**	2	4
Credit loss ratio (CLR) (%)	**0.83**	0.96	0.87
Stage 3 ratio on gross loans and advances (%)[1]	**5.3**	n/a	5.6
Non-performing loans (NPL) as a percentage of gross loans and advances (%)[2]	**n/a**	3.7	3.7
Stage 3 coverage ratio (%)[1]	**42.1**	n/a	40.7
NPL coverage ratio (%)[2]	**n/a**	43.5	43.1
Stage 1 and stage 2 coverage ratio (%)[1]	**1.1**	n/a	1.1
Performing loans coverage ratio (%)[2]	**n/a**	0.8	0.7
Total coverage ratio (%)	**3.2**	2.3	2.3
Weighted average probability of default (PD) (%)[3]	**2.4**	2.3	2.3
Weighted average loss-given-default (LGD) (%)[3]	**30.9**	30.5	30.6
Credit RWA (Rm)	**553.0**	516.5[4]	527.9
Counterparty credit risk RWA (CCR) (Rm)	**29.1**	32.2	38.1
Credit risk-weighted assets (RWA) as a percentage of EAD (%)	**43.2**	43.5	45.3

Key metrics – Wholesale	June 2018	June 2017	December 2017
Growth in gross loans and advances to customers (%)	**12.4**	4.9	6.9
Credit loss ratio (%)	**0.32**	0.36	0.41
Stage 3 ratio on gross loans and advances (%)[1]	**2.9**	n/a	3.1
Non-performing loans (NPL) as a percentage of gross loans and advances (%)[2]	**n/a**	2.0	2.5
Stage 3 coverage ratio (%)[1]	**49.7**	n/a	46.8
NPL coverage ratio (%)[2]	**n/a**	37.2	39.5
Stage 1 and stage 2 coverage ratio (%)[1]	**0.7**	n/a	0.7
Performing loans coverage ratio (%)[2]	**n/a**	0.5	0.5
Total coverage ratio (%)	**2.1**	1.5	2.2
Weighted average probability of default (PD) (%)[3]	**1.1**	0.9	1.0
Weighted average loss-given-default (LGD) (%)[3]	**34.0**	33.8	34.2
Credit RWA as a percentage of EAD (%)	**44.1**	46.3	48.0

Key metrics – Retail	June 2018	June 2017	December 2017
Growth in gross loans and advances to customers (%)	**3.2**	(0.5)	1.5
Credit loss ratio (%)	**1.28**	1.44	1.29
Stage 3 ratio on gross loans and advances (%)[1]	**3.2**	n/a	7.8
Non-performing loans (NPL) as a percentage of gross loans and advances (%)[2]	**n/a**	5.3	5.3
Stage 3 coverage ratio (%)[1]	**39.5**	n/a	38.7
NPL coverage ratio (%)[2]	**n/a**	45.7	44.5
Stage 1 and stage 2 coverage ratio (%)[1]	**1.5**	n/a	1.5
Performing loans coverage ratio (%)[2]	**n/a**	1.0	0.9
Total coverage ratio (%)	**4.4**	3.4	4.4
Weighted average probability of default (PD) (%)[3]	**3.9**	4.0	3.9
Weighted average loss-given-default (LGD) (%)[3]	**26.8**	26.2	26.1
Credit RWA as a percentage of EAD (%)	**42.1**	40.2	42.1

1 Current year figures have been prepared in accordance with IFRS9 reporting standards. December 2017 numbers are rebased to reflect the impact on IFRS9.
2 June and December 2017 numbers have been prepared in accordance with IAS39 reporting standards.
3 The percentages include only portfolios subject to the internal ratings-based (IRB) approaches.
4 June 2017 restated, excludes settlement risk.

5. Credit risk

5.1 Review of current reporting period (continued)

- Overall growth is a reflection of the current economic condition within which the Group operates. Customer advances growth of 8% was supported by strong growth in Wholesale South Africa and Retail South Africa as production improved and market share stabilised. The South African mortgage portfolio increased 1% for the first time after years of contraction due to Home Loans registrations increasing by 14%.
- IFRS 9 implementation was effective from 1 January 2018. For further detail, refer to the initial adoption of IFRS9 Financial Instruments section (page 153 – 174) of the interim results booklet.
- **Stage 3 ratio on gross loans and advances:** The overall performance of the book remains acceptable.
- **Coverage:** The coverage ratios reflect the impact of IFRS9, with stage 3 coverage a function of a more conservative default definition compared to IAS39. Stage 1 and stage 2 coverage in turn was significantly higher than IAS39 performing loans coverage, as a consequence of a higher provisioning requirement due to the application of a 12-month emergence period for stage 1 assets, and significant increase in credit risk on stage 2 assets as a result of a lifetime expected credit loss. The performance of the portfolio has been consistent year-on-year.
- **Credit loss ratio:** The impairment charge as a function of growth and performance of the book was lower at R3.4bn (June 2017: R3.8bn) with a consequent improved CLR of **0.83%** (June 2017: 0.96%). Positive contributions were from an improved performance in home loans, collections in the Store Card book, and a lower default experience in the Rest of Africa. This was offset by a higher impairment charge in Vehicle and Asset Finance, due to increased early arrears and legal book growth driven by an increased legal population, as well as higher single name impairments in Corporate and Investment Banking.
- **Credit risk consumption of risk-weighted assets:** The key drivers of growth in credit risk RWA are exposure growth, and the weakening of the rand against foreign currencies in Rest of Africa. This was partially offset by data refinements and the implementation of IFRS9, which reduces RWAs held against non-performing credit exposures.
- **Counterparty credit risk consumption of risk-weighted assets:** The decrease is due to methodology refinements in relation to the duration of trades combined with changes in the composition of the portfolio.

5.2 Priorities

- Closely monitor changes in the macro-economic, political and regulatory environment in South Africa in order to identify and manage risks at an early stage, with a focus on potential tail risk events.
- Maintain a credit portfolio that is diversified in terms of key concentration dimensions such as individual counterparties, geographies, industries, products and collateral, and ensure that concentration levels are in line with the Group's strategy and risk appetite.
- Maintain and further develop a team of qualified credit professionals.
- Retain focus on regulatory changes, including a proposed roll-out of a Standardised Counterparty Credit Risk Capital Approach, new regulatory large exposure rules and Basel III (finalising post-crisis reforms in terms of the BCBS standard) capital rules for credit risk.

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.

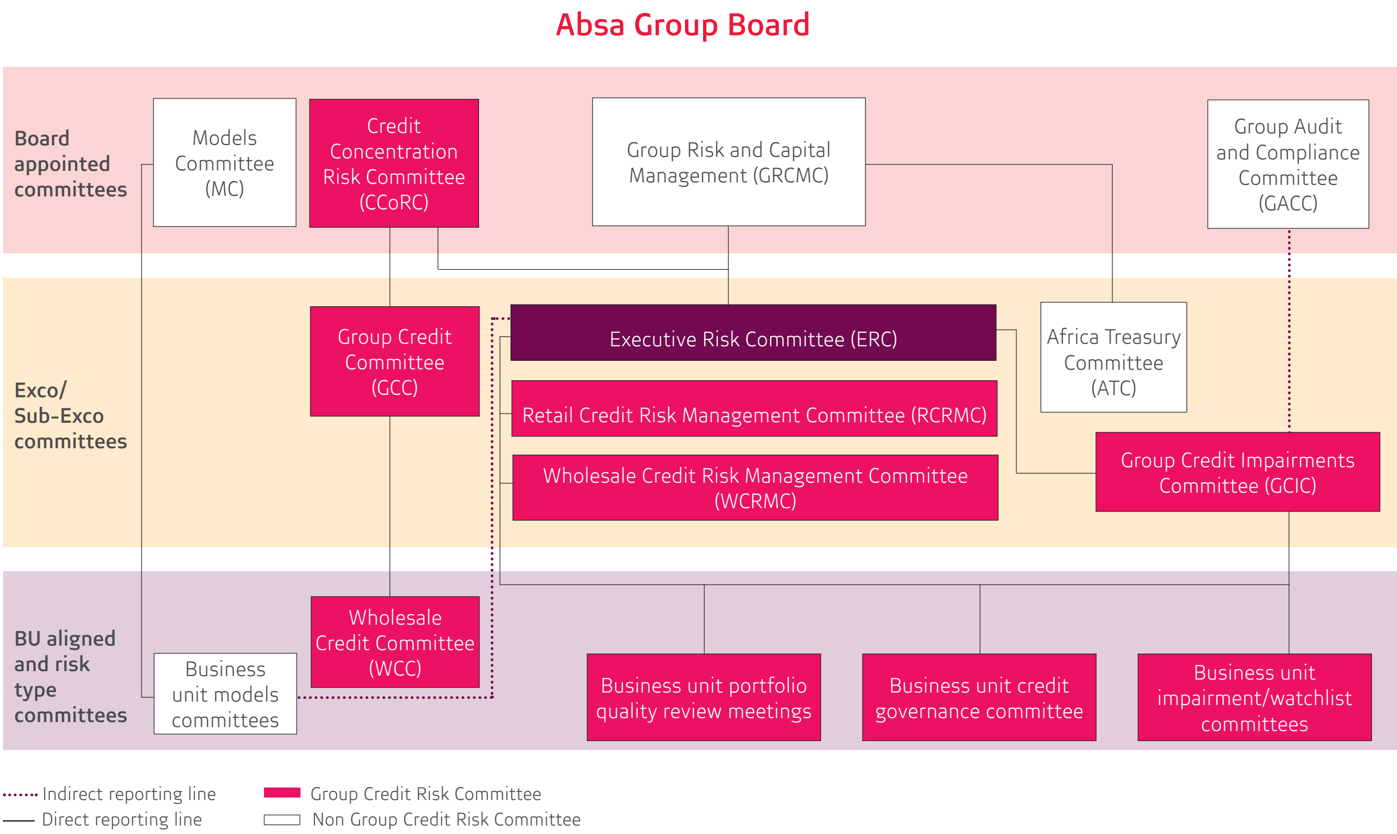
The management of credit risk is done in accordance with the Group's three lines of defence model that is depicted on page 28. This depicts the relationship between the credit risk function, compliance and internal audit. Both the Credit Risk function and Compliance are positioned in the second line 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. Credit risk

5.3 General information about credit risk (continued)

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:



- **Credit portfolio oversight:** The CCoRC is the primary Board sub-committee responsible for credit risk oversight. The Exco Risk Committee (ERC) 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 Group, 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

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

- To the CCoRC: The Group's credit risk profile, including key credit metrics, effective utilisation 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.

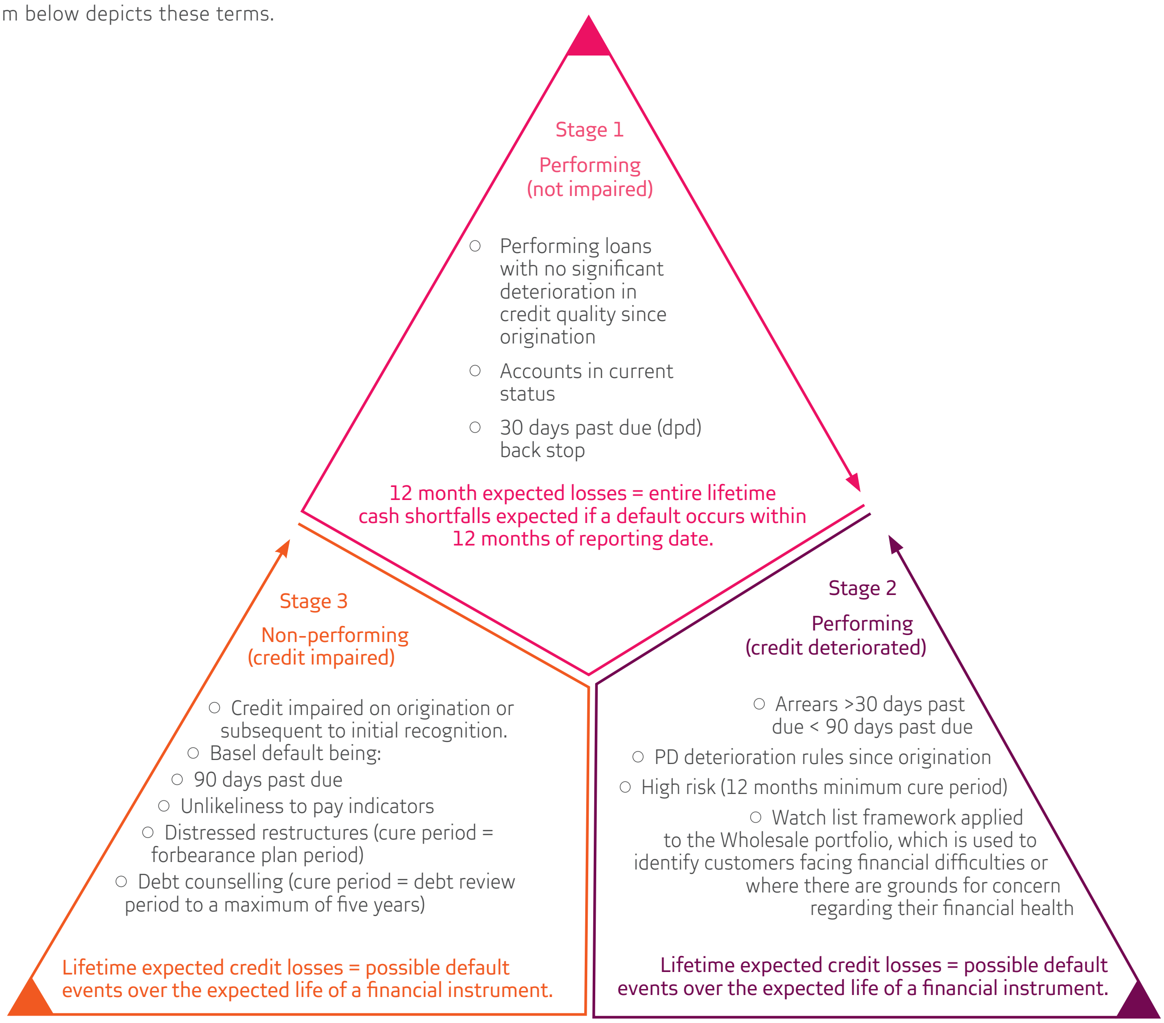
5. Credit risk

5.3 General information about credit risk (continued)

5.3.4 Credit quality of assets

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

The diagram below depicts these terms.



The tables below depict the credit quality of assets. [CR1]

		a	b	c	d
		June 2018			
		Gross carrying values[1,2] of Defaulted exposures[3] Rm	Gross carrying values[1,2] of Non-defaulted exposures Rm	Allowances/ impairments Rm	Net values (a+b-c) Rm
1	Loans	46 447	777 201	28 191	795 457
2	Debt securities	—	155 676	—	155 676
3	Off-balance sheet exposures	—	219 714	—	219 714
4	Total	46 447	1 152 591	28 191	1 170 847

[1] Carrying values exclude net carrying amount of R46.0 billion relating to loans and advances to customers and to banks relating to reverse repos which are included as part of counterparty risk for credit risk reporting purposes.
[2] Carrying values exclude net carrying amount of R2.5 billion relating to internal as well as structural assets and R1.9 billion relating to securitisation balances.
[3] The defaulted exposures are expressed in terms of statutory non-performing loans.

5. Credit risk

5.3 General information about credit risk (continued)

5.3.4 Credit quality of assets (continued)

		a	b	c	d
		June 2017			
		Gross carrying values of			
		Defaulted exposures[1] Rm	Non-defaulted exposures Rm	Allowances/ impairments Rm	Net values (a+b-c) Rm
1	Loans	30 252	717 800	19 067	728 985
2	Debt securities	—	138 119	—	138 119
3	Off-balance sheet exposures	—	192 897	—	192 897
4	Total	30 252	1 048 816	19 067	1 060 001

		a	b	c	d
		December 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

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	a	a
		June		December
		2018 Defaulted exposures[1]	2017 Defaulted exposures[1]	2017 Defaulted exposures[1]
1	Defaulted loans and debt securities at end of the previous reporting period	**30 890**	31 096	31 096
2	Loans and debt securities that have defaulted since the last reporting period	**19 854**	9 483	20 972
3	Returned to non-defaulted status	**(3 481)**	(4 856)	(9 597)
4	Amounts written off	**(3 484)**	(4 369)	(7 783)
5	Other changes	**2 668**	(1 103)	(3 798)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	**46 447**	30 251	30 890

- Loans and debt securities that have defaulted include wider definition of 'unlikely to pay' for wholesale portfolio (R887m), debt counselling accounts <90 days in arrears not previously treated as in default (R4 663m), performing forbearance (R2 025m) and additional accounts due to application of 12 months cure period applied to all retail defaulted assets (R2 360m).
- Amounts that returned to non-defaulted status include cured mortgage and card loans due to improved collections performance.
- Amounts written off lower than prior period due to improved legal portfolio.
- 'Other changes' include security realised and/or closed and interest in suspense previously excluded from loans. Under IFRS9 interest in suspense is included in the impairment allowance.

[1] The defaulted exposures are expressed in terms of statutory non-performing loans.

5. Credit risk

5.3 General information about credit risk (continued)

5.3.5 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 Group and approves material credit concentration risk limits. Credit concentration risk is managed from the following perspectives:

- **Large exposures and maximum exposure guidelines:** Review of 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 scales:** 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 this being the Group's home base.
- Banks, due to the Group's funding and hedging activities.

5.4 Credit risk mitigation (CRM)

Credit risk mitigation (CRM) is the technique used to reduce credit risk associated with an exposure, and consequently reduce potential losses in the event of obligor default or other specified credit events. Collateral is used to mitigate credit risk that the bank is exposed to and is applied internally for sanctioning purposes and externally for RWA and regulatory capital (RC) purposes.

Risk mitigants are classified as either funded or unfunded collateral. Funded collateral includes financial collateral (i.e. cash/deposits); physical collateral (i.e. fixed property) and other such as receivables. Unfunded collateral includes; guarantees, set-off (where appropriate), risk participations, etc.

Collateral is a secondary consideration for the protection of the Group's lending activities which are appropriate to the type of lending. The main consideration remain the primary exit from the exposure based on a cash flow basis.

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 standards, 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 is 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.

5. Credit risk

5.4 Credit risk mitigation (CRM) (continued)

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, the frequency of valuation review is based on the specific collateral type.

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
		June 2018				
		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	345 893	459 929	459 929	17 828	16 045
2	Debt securities	155 674	—	—	—	—
3	**Total**	501 567	459 929	459 929	17 828	16 045
4	Of which defaulted	13 953	31 782	31 782	—	—

		a	b	c	d	e
		June 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	314 257	416 613	416 613	17 182	15 464
2	Debt securities	138 119	—	—	—	—
3	**Total**	452 376	416 613	416 613	17 182	15 464
4	Of which defaulted	10 034	20 218	20 218	—	—

5. Credit risk

5.4 Credit risk mitigation (CRM) (continued)

5.4.2 Types of guarantor and credit derivative counterparties (continued)

		a	b	c	d	e
		December 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	—	—

The increase in unsecured exposures is driven by growth of 10% in Personal Loans and Retail overdrafts growth of 24%.

5.5 Credit risk under the standardised approach

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 & 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
		June 2018					
		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 %
1	Corporate	18 097	19 022	18 097	8 640	27 055	101
2	SME Corporate	35 803	14 546	35 803	8 105	44 846	102
3	Public sector entities	3 562	270	3 562	255	3 841	101
4	Local governments and municipalities	—	—	—	—	—	—
5	Sovereign (including central government and central bank)	51 529	1 927	51 529	1 708	45 367	85
6	Banks	30 374	610	30 374	391	4 899	16
7	Securities firms	—	—	—	—	—	—
8	Residential mortgages (including any home equity line of credit)	7 718	61	7 718	31	4 037	52
9	Retail – revolving credit	8 112	14 683	7 385	2 705	7 445	74
10	Retail – other	26 065	4	26 065	2	18 688	72
11	SME retail	783	15	783	15	619	78
12	**Total**	182 043	51 138	181 316	21 852	156 797	77

5. Credit risk

5.5 Credit risk under the standardised approach (continued)

Standardised approach – credit risk exposure and CRM effects [CR4] (continued)

		a	b	c	d	e	f
		June 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 %
1	Corporate	20 870	13 363	20 870	6 442	28 485	104
2	SME Corporate	25 046	8 593	25 046	5 212	30 159	100
3	Public sector entities	2 787	331	2 787	330	3 137	101
4	Local governments and municipalities	—	—	—	—	—	—
5	Sovereign (including central government and central bank)	40 292	1 231	40 292	1 029	37 900	92
6	Banks	30 174	446	30 174	206	8 213	27
7	Securities firms	—	—	—	—	—	—
8	Residential mortgages (including any home equity line of credit)	7 068	39	7 068	20	3 642	51
9	Retail – revolving credit	9 448	14 721	9 448	1 761	8 023	72
10	Retail – other	23 702	11	23 702	5	16 913	71
11	SME retail	810	16	810	16	622	75
12	**Total**	160 197	38 751	160 197	15 021	137 094	78

		a	b	c	d	e	f
		December 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 %
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

5. Credit risk

5.5 Credit risk under the standardised approach (continued)

Year-on-year the largest increases were attributed to SME Corporate as a result of business growth in Kenya, Mauritius and Uganda. The largest contribution to the reported sovereign increase came from Botswana, Mauritius, Kenya and Zambia. The total RWA density decreased in line with growth in SME Corporate that has a lower risk weight compared to corporate exposures.

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
		June 2018 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	—	—	—	—	427	38	22 422	3 849	—	—	26 736
2	SME Corporate	—	—	—	—	122	5	41 439	2 342	—	—	43 908
3	Public sector entities	—	—	—	—	—	—	3 661	156	—	—	3 817
4	Local governments and municipalities	—	—	—	—	—	—	—	—	—	—	—
5	Sovereign (including central government and central bank)	1 841	—	4 429	—	8 376	—	35 186	3 405	—	—	53 237
6	Banks	19 072	—	6 466	—	3 528	—	1 411	289	—	—	30 766
7	Securities firms	—	—	—	—	—	—	—	—	—	—	—
8	Residential mortgages (including any home equity line of credit)	—	—	—	2 855	1 678	3 208	8	—	—	—	7 749
9	Retail – revolving credit	—	—	—	—	85	9 905	37	63	—	—	10 090
10	Retail – other	—	—	—	—	1 002	25 045	14	7	—	—	26 067
11	SME retail	—	—	—	—	49	638	26	85	—	—	798
12	**Total**	20 913	—	10 895	2 855	15 267	38 839	104 204	10 196	—	—	203 168

		a	b	c	d	e	f	g	h	i	j	k
		June 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	—	—	—	—	123	2	24 011	3 176	—	—	27 312
2	SME Corporate	—	—	—	—	332	32	29 156	738	—	—	30 258
3	Public sector entities	—	—	—	—	—	—	3 011	107	—	—	3 118
4	Local governments and municipalities	—	—	—	—	—	—	—	—	—	—	—
5	Sovereign (including central government and central bank)	—	—	2 604	—	5 601	—	30 189	2 927	—	—	41 321
6	Banks	19 678	—	7	—	4 968	—	5 725	2	—	—	30 380
7	Securities firms	—	—	—	—	—	—	—	—	—	—	—
8	Residential mortgages (including any home equity line of credit)	—	—	—	2 139	2 244	2 673	31	—	—	—	7 087
9	Retail – revolving credit	—	—	—	—	913	10 215	35	46	—	—	11 209
10	Retail – other	—	—	—	—	1 126	22 525	15	41	—	—	23 707
11	SME retail	—	—	—	—	47	688	31	60	—	—	826
12	**Total**	19 678	—	2 611	2 139	15 354	36 135	92 204	7 097	—	—	175 218

5. Credit risk

5.5 Credit risk under the standardised approach (continued)

Standardised approach – exposures by asset classes and risk weights [CR5] (continued)

		a	b	c	d	e	f	g	h	i	j	k
		December 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

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

Refer to the model risk section (section 9) 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	PD	LGD	M	Correlation
Exposure at default	**Probability of default**	**Loss given default**	**Maturity**	**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.		

5. Credit risk

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

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	PD	LGD	M	Correlation
Exposure at default	Probability of default	Loss given default	Maturity	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 considering all contractual terms over the lifetime of the instrument, PD reflecting the current and future economic cycles to the extent relevant to the remaining life of the loan calculated at a point in time and a current or forward looking LGD reflecting impact of economic scenarios.				
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.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6]

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

June 2018

	a	b	c	d	e	f	g	h	i	j	k	l
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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
Corporate												
0.00 to <0.15	76 280	50 486	13	90 636	0.11	285	36	1.57	16 631	18	34	26
0.15 to <0.25	19 286	13 160	9	23 141	0.23	110	32	2.02	7 368	32	17	16
0.25 to <0.50	24 593	23 572	12	31 735	0.36	344	33	1.59	12 326	39	38	34
0.50 to <0.75	5 951	4 788	29	7 869	0.61	180	40	1.98	5 087	65	19	13
0.75 to <2.50	41 344	29 528	17	43 862	1.58	1 494	38	2.05	38 128	87	262	232
2.50 to <10.00	6 313	3 167	31	7 664	5.80	135	36	1.91	9 576	125	157	95
10.00 to <100.00	1 697	1 517	16	1 991	32.42	29	36	1.87	3 958	199	241	178
100.00 (Default)	2 442	1 081	4	2 555	100.00	19	27	—	2 871	112	1 255	1 255
Sub-total	177 906	127 299	14	209 453	1.01	2 596	35	1.76	95 945	46	2 023	1 849
Specialised lending[4]												
0.00 to <0.15	3 372	438	—	3 577	0.17	56	33	3.18	1 244	35	2	2
0.15 to <0.25	5 544	1 242	1	5 725	0.23	65	24	4.81	2 237	39	3	3
0.25 to <0.50	12 647	3 432	3	13 803	0.41	118	29	4.27	7 882	57	18	21
0.50 to <0.75	4 222	282	2	4 353	0.61	67	20	3.67	1 527	35	5	2
0.75 to <2.50	9 891	5 490	5	11 639	1.64	757	23	3.37	6 542	56	45	34
2.50 to <10.00	2 561	1 198	—	2 792	5.23	55	30	2.08	2 765	99	43	42
10.00 to <100.00	1 104	416	—	1 137	27.76	14	22	3.05	1 363	120	58	65
100.00 (Default)	1 602	134	—	1 606	100.00	41	59	—	654	41	1 089	1 089
Sub-total	40 943	12 632	3	44 632	1.76	1 173	27	3.78	24 214	54	1 263	1 258
SME Corporate												
0.00 to <0.15	1 395	462	27	1 604	0.13	134	28	2.56	267	17	1	—
0.15 to <0.25	470	610	40	894	0.22	208	38	2.99	330	37	1	1
0.25 to <0.50	9 609	3 239	56	11 837	0.42	2 299	34	2.84	5 033	43	17	17
0.50 to <0.75	6 130	1 859	64	7 624	0.64	1 405	37	2.94	4 444	58	18	19
0.75 to <2.50	38 230	9 287	64	45 456	1.74	31 641	34	3.0	32 564	72	268	286
2.50 to <10.00	10 371	2 090	68	12 247	5.26	1 452	39	2.69	13 255	108	251	241
10.00 to <100.00	2 183	255	71	2 430	25.99	357	35	2.80	3 876	160	214	218
100.00 (Default)	3 235	42	41	3 226	100.00	503	35	—	2 475	77	1 608	1 608
Sub-total	71 623	17 844	61	85 318	2.64	37 999	35	2.91	62 244	73	2 378	2 390
Public sector entities												
0.00 to <0.15	2 022	2 142	40	2 965	0.12	15	25	1.23	385	13	1	1
0.15 to <0.25	11 372	6 882	8	12 310	0.22	12	24	2.51	3 136	25	7	9
0.25 to <0.50	60	864	9	181	0.36	22	19	1.80	37	21	—	—
0.50 to <0.75	18	165	50	101	0.72	7	25	1.02	37	37	—	—
0.75 to <2.50	788	1 050	54	1 433	1.44	109	30	1.65	928	65	7	2
2.50 to <10.00	—	—	100	—	6.23	2	58	1.0	—	147	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	14 260	11 103	19	16 990	0.31	167	25	2.20	4 523	27	15	12

[1] CCF: Credit conversion factor.
[2] Post model adjustments (PMAs) not included.
[3] 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.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	June 2018											
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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
Local government and municipalities												
0.00 to <0.15	2 525	763	39	2 897	0.11	45	15	2.99	335	12	1	—
0.15 to <0.25	1 067	1 552	29	1 584	0.25	19	11	3.28	227	14	—	1
0.25 to <0.50	41	8	102	51	0.38	11	45	1.96	26	52	—	—
0.50 to <0.75	—	—	82	1	0.63	3	45	1.43	—	57	—	—
0.75 to <2.50	607	212	15	658	2.71	126	20	1.26	317	48	4	—
2.50 to <10.00	—	1	77	1	4.67	3	47	2.04	1	128	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	4 240	2 536	31	5 192	0.48	207	15	2.85	906	17	5	1
Sovereign (including central government and central bank)												
0.00 to <0.15	77 624	3 484	11	80 664	0.01	24	30	3.06	5 486	7	3	11
0.15 to <0.25	2 771	476	8	2 940	0.23	9	32	1.59	868	30	2	1
0.25 to <0.50	104	11	77	116	0.51	7	55	4.70	117	101	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	543	2	10	1.85	9	36	1.0	8	78	—	—
2.50 to <10.00	2	102	—	2	6.22	2	44	1.0	3	149	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	80 501	4 616	10	83 732	0.02	51	30	3.01	6 482	8	5	12
Banks												
0.00 to <0.15	22 264	5 879	36	16 568	0.05	83	41	1.25	2 423	15	4	4
0.15 to <0.25	2 163	1 335	39	2 897	0.23	2	44	1.06	1 296	45	3	2
0.25 to <0.50	2	33	53	19	0.37	4	44	1.35	9	47	—	—
0.50 to <0.75	1	19	11	11	0.54	3	44	1.0	6	56	—	—
0.75 to <2.50	2 261	286	31	2 469	1.43	32	44	1.12	2 201	89	16	9
2.50 to <10.00	3 040	1 771	55	3 983	6.93	18	44	1.01	4 977	125	121	40
10.00 to <100.00	17	10	57	23	14.71	3	44	1.21	49	213	1	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	29 748	9 333	40	25 970	1.27	145	42	1.18	10 961	42	145	55
Securities firms												
0.00 to <0.15	3 675	2 130	49	1 359	0.11	19	19	1.16	125	9	—	—
0.15 to <0.25	1 754	390	13	1 856	0.23	7	27	1.98	452	24	1	1
0.25 to <0.50	3 233	3 411	4	3 605	0.33	9	36	1.57	1 441	40	4	3
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	269	158	47	353	1.31	24	44	1.17	307	87	2	2
2.50 to <10.00	—	—	—	—	4.00	2	44	1.0	—	126	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	8 931	6 089	21	7 173	0.31	61	31	1.58	2 325	32	7	6

[1] CCF: Credit conversion factor.
[2] Post model adjustments (PMAs) not included.
[3] EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	June 2018											
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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
Retail mortgages (including any home equity line of credit)												
0.00 to <0.15	1 543	2 502	53	2 982	0.14	5 428	13	—	127	4	1	—
0.15 to <0.25	1 989	2 980	48	3 459	0.23	8 684	11	—	180	5	1	—
0.25 to <0.50	12 624	10 718	55	18 849	0.38	34 589	13	—	1 692	9	9	6
0.50 to <0.75	18 405	17 092	53	28 155	0.64	55 884	13	—	3 621	13	24	6
0.75 to <2.50	112 286	12 412	54	122 849	1.84	234 100	12	—	29 232	24	279	166
2.50 to <10.00	48 199	7 186	89	51 086	4.23	76 302	13	—	20 800	41	284	155
10.00 to <100.00	10 285	80	63	10 595	27.77	23 736	12	—	7 505	71	360	174
100.00 (Default)	19 861	92	—	19 861	100.00	36 847	21	—	37	—	4 426	4 426
Sub-total	225 192	53 062	58	257 836	3.21	475 570	13	—	63 194	25	5 384	4 933
Retail revolving credit												
0.00 to <0.15	440	6 053	52	5 190	0.10	388 588	56	—	189	4	3	5
0.15 to <0.25	645	2 388	51	2 172	0.23	136 404	58	—	159	7	3	2
0.25 to <0.50	2 380	4 517	53	5 376	0.40	313 039	57	—	604	11	12	15
0.50 to <0.75	1 740	1 935	53	3 070	0.65	181 968	57	—	504	16	11	7
0.75 to <2.50	9 054	5 602	58	13 155	1.62	748 589	56	—	4 191	32	118	188
2.50 to <10.00	17 032	14 892	94	23 846	4.99	684 264	57	—	17 127	72	673	1 218
10.00 to <100.00	2 608	357	60	3 098	26.86	230 689	55	—	4 466	144	458	719
100.00 (Default)	5 847	95	—	5 847	100.00	207 024	74	—	10 051	172	3 583	3 583
Sub-total	39 746	35 839	70	61 754	4.09	2 890 565	58	—	37 291	60	4 861	5 737
SME Retail												
0.00 to <0.15	163	1 070	75	1 490	0.04	98 010	78	—	45	3	—	—
0.15 to <0.25	45	46	100	101	0.20	221	56	—	24	24	—	—
0.25 to <0.50	387	781	84	1 345	0.38	28 400	74	—	270	20	4	2
0.50 to <0.75	242	284	85	590	0.62	3 916	74	—	174	29	2	1
0.75 to <2.50	8 863	3 593	79	12 880	1.81	73 167	46	—	5 627	44	110	52
2.50 to <10.00	4 420	715	89	5 305	5.25	24 981	59	—	4 576	86	170	62
10.00 to <100.00	913	145	89	1 104	26.96	5 543	63	—	1 882	171	181	97
100.00 (Default)	1 103	8	53	1 076	100.00	6 688	47	—	1 751	163	465	465
Sub-total	16 136	6 642	80	23 891	3.59	240 926	54	—	14 349	60	932	679
Retail – other												
0.00 to <0.15	537	137	98	770	0.11	16 516	55	—	111	14	—	—
0.15 to <0.25	840	924	73	3 643	0.20	6 617	20	—	311	9	1	1
0.25 to <0.50	2 305	158	96	2 598	0.47	26 294	37	—	708	27	5	4
0.50 to <0.75	2 275	33	100	2 338	0.68	22 221	40	—	832	36	6	—
0.75 to <2.50	23 548	678	79	24 441	1.98	175 509	37	—	12 003	49	176	153
2.50 to <10.00	37 571	718	82	37 785	5.47	355 796	41	—	25 247	67	897	759
10.00 to <100.00	12 862	2	99	12 886	20.26	141 106	45	—	13 275	103	1 201	1 001
100.00 (Default)	8 115	3	—	8 115	100.00	97 575	50	—	9 785	121	3 160	3 160
Sub-total	88 054	2 652	80	92 575	6.15	841 634	41	—	62 273	67	5 446	5 078
Total (all portfolios)	797 280	289 647	35	914 516	2.45	4 491 094	31	2.90	384 707	42	22 464	22 010

1 CCF: Credit conversion factor.
2 Post model adjustments (PMAs) not included.
3 EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6|] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	June 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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
Corporate												
0.00 to <0.15	73 163	24 399	43	83 482	0.11	232	39	1.86	19 193	23	34	47
0.15 to <0.25	27 192	13 374	28	34 038	0.23	208	33	2.16	11 509	34	26	38
0.25 to <0.50	31 098	20 956	45	40 836	0.37	371	35	2.02	18 367	45	53	60
0.50 to <0.75	5 274	2 231	46	6 443	0.63	162	39	2.15	4 163	65	16	12
0.75 to <2.50	35 734	33 637	24	45 619	1.68	883	38	2.20	41 073	90	292	236
2.50 to <10.00	6 215	3 054	36	7 606	5.10	161	40	2.09	10 407	137	155	139
10.00 to <100.00	403	1 945	39	1 174	21.83	23	44	1.49	2 722	232	112	59
100.00 (Default)	1 368	169	3	1 410	100.00	9	37	—	601	43	569	569
Sub-total	180 447	99 765	35	220 608	0.81	2 049	37	2.03	108 035	49	1 257	1 160
Specialised lending[3]												
0.00 to <0.15	501	287	9	543	0.15	57	17	4.05	86	16	—	—
0.15 to <0.25	326	212	11	361	0.22	50	11	4.26	48	13	—	—
0.25 to <0.50	4 584	547	5	4 748	0.34	130	20	4.07	1 563	33	3	3
0.50 to <0.75	1 906	144	4	1 970	0.57	56	20	4.61	774	39	2	—
0.75 to <2.50	9 067	4 325	10	9 793	2.06	804	19	3.61	4 830	49	37	11
2.50 to <10.00	1 463	281	—	1 508	5.86	54	25	4.43	1 489	99	23	10
10.00 to <100.00	106	44	—	109	24.26	18	33	4.86	178	163	8	—
100.00 (Default)	1 124	474	6	1 125	100.00	67	42	—	186	17	474	474
Sub-total	19 077	6 314	9	20 157	1.82	1 236	21	3.93	9 154	45	547	498
SME Corporate												
0.00 to <0.15	254	119	91	380	0.12	226	41	2.07	88	23	—	—
0.15 to <0.25	1 967	426	57	2 281	0.22	324	28	3.29	724	32	1	1
0.25 to <0.50	6 959	2 933	83	9 703	0.40	2 175	35	2.74	4 171	43	14	11
0.50 to <0.75	4 601	1 443	72	5 901	0.65	1 184	36	3.05	3 308	56	14	16
0.75 to <2.50	37 207	15 022	39	44 358	1.88	34 080	35	3.07	33 431	75	286	241
2.50 to <10.00	10 753	2 430	69	12 875	5.29	1 303	39	2.64	13 935	108	265	232
10.00 to <100.00	1 544	291	60	1 762	24.41	263	38	2.45	3 004	170	160	158
100.00 (Default)	2 918	541	30	2 954	100.00	546	27	—	2 386	81	846	846
Sub-total	66 203	23 205	50	80 214	2.63	40 101	35	2.94	61 047	76	1 586	1 505
Public sector entities												
0.00 to <0.15	5 629	4 376	112	11 248	0.11	20	28	1.89	2 083	19	3	3
0.15 to <0.25	5 698	256	92	6 060	0.22	14	25	3.66	2 050	34	3	4
0.25 to <0.50	10	12	64	18	0.46	12	34	3.57	12	64	—	—
0.50 to <0.75	—	—	85	—	0.62	5	36	4.33	—	74	—	—
0.75 to <2.50	989	1 339	49	1 680	1.46	67	26	1.58	908	54	7	5
2.50 to <10.00	—	1	81	1	5.69	5	13	4.29	—	50	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	12 326	5 984	97	19 007	0.27	123	27	2.43	5 053	27	13	12

[1] CCF: Credit conversion factor.

[2] 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.

[3] EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	June 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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
Local government and municipalities												
0.00 to <0.15	2 512	2 772	115	4 890	0.16	66	15	2.38	561	11	1	1
0.15 to <0.25	123	122	12	141	0.22	30	36	2.88	60	43	—	—
0.25 to <0.50	39	19	82	55	0.39	21	42	2.38	31	56	—	—
0.50 to <0.75	10	12	102	22	0.64	9	45	3.56	17	80	—	—
0.75 to <2.50	542	1 981	50	1 576	2.69	99	8	1.05	301	19	3	—
2.50 to <10.00	—	1	67	1	4.20	4	49	5.0	1	152	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	3 226	4 907	86	6 685	0.76	229	14	2.08	971	15	4	1
Sovereign (including central government and central bank)												
0.00 to <0.15	77 229	3 587	7	79 995	0.01	61	24	3.47	4 844	6	2	—
0.15 to <0.25	—	—	—	—	0.23	—	5	5.0	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	492	492	—	507	1.38	3	45	1.62	491	97	3	4
2.50 to <10.00	339	—	200	404	5.40	1	45	4.99	786	194	10	13
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	78 060	4 079	6	80 906	0.05	65	24	3.47	6 121	8	15	17
Banks												
0.00 to <0.15	23 756	8 128	32	27 230	0.07	69	42	1.05	4 391	16	8	2
0.15 to <0.25	2 514	2 888	40	1 978	0.22	12	44	1.0	740	37	2	—
0.25 to <0.50	—	65	53	35	0.34	9	44	1.0	15	43	—	—
0.50 to <0.75	4	16	50	12	0.55	2	44	1.0	7	57	—	—
0.75 to <2.50	2 505	384	30	2 404	1.45	31	44	1.26	2 152	89	15	4
2.50 to <10.00	1 657	1 990	50	2 694	6.70	21	44	1.0	3 656	136	80	4
10.00 to <100.00	35	221	51	148	13.76	7	44	1.0	306	207	9	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	30 471	13 692	37	34 501	0.75	151	43	1.05	11 267	33	114	10
Securities firms												
0.00 to <0.15	442	—	250	—	0.07	4	30	1.05	—	100	—	—
0.15 to <0.25	163	—	—	—	0.23	3	27	1.18	—	100	—	—
0.25 to <0.50	251	—	—	259	0.40	2	44	1.0	124	48	—	1
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	—	—	—	1.38	2	44	1.0	—	87	—	—
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	856	—	—	259	0.40	11	44	1.0	124	48	—	1

1 CCF: Credit conversion factor.
2 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.
3 EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	June 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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
Retail mortgages (including any home equity line of credit)												
0.00 to <0.15	1 453	2 198	52	2 696	0.14	5 134	13	—	111	4	—	1
0.15 to <0.25	1 824	2 839	49	3 235	0.23	8 359	11	—	174	5	1	1
0.25 to <0.50	12 055	11 437	57	19 023	0.39	34 220	14	—	1 847	10	10	9
0.50 to <0.75	19 078	16 642	52	28 287	0.64	58 816	13	—	3 474	12	23	13
0.75 to <2.50	116 554	11 934	54	127 139	1.84	248 288	12	—	29 055	23	276	343
2.50 to <10.00	42 467	5 014	84	45 135	4.20	70 113	12	—	17 080	38	233	267
10.00 to <100.00	10 220	79	62	10 533	28.32	25 186	12	—	6 977	66	344	415
100.00 (Default)	19 339	102	—	18 485	100.00	37 559	16	—	5 121	28	2 062	2 062
Sub-total	222 990	50 245	57	254 533	3.17	487 675	12	—	63 839	25	2 949	3 111
Retail revolving credit												
0.00 to <0.15	458	5 949	51	5 022	0.11	378 411	57	—	192	4	3	2
0.15 to <0.25	548	2 242	51	1 987	0.23	131 514	57	—	145	7	3	1
0.25 to <0.50	2 096	4 190	52	4 885	0.39	312 269	57	—	545	11	11	6
0.50 to <0.75	1 582	1 851	53	2 883	0.65	184 770	56	—	469	16	10	2
0.75 to <2.50	8 408	4 980	56	12 318	1.63	731 299	56	—	3 950	32	112	71
2.50 to <10.00	16 139	15 908	95	22 549	4.98	673 435	57	—	16 113	71	632	349
10.00 to <100.00	2 334	350	58	2 780	26.95	225 110	55	—	4 099	147	413	254
100.00 (Default)	5 281	90	—	5 276	100.00	212 264	73	—	5 848	111	3 403	3 403
Sub-total	36 846	35 560	72	57 700	4.04	2 849 072	58	—	31 361	54	4 587	4 088
SME Retail												
0.00 to <0.15	122	1 025	72	1 394	0.04	97 650	79	—	38	3	—	—
0.15 to <0.25	16	22	99	43	0.20	107	52	—	10	23	—	—
0.25 to <0.50	316	699	83	1 170	0.38	27 598	78	—	236	20	3	1
0.50 to <0.75	195	297	86	555	0.61	4 548	77	—	152	27	3	1
0.75 to <2.50	8 648	3 744	81	12 758	1.85	71 982	46	—	5 718	45	110	31
2.50 to <10.00	4 682	747	92	5 592	5.12	26 348	57	—	4 656	83	168	23
10.00 to <100.00	852	135	91	1 029	26.91	4 900	59	—	1 652	161	156	25
100.00 (Default)	851	104	38	824	100.00	3 737	40	—	888	108	238	238
Sub-total	15 682	6 773	81	23 365	3.58	236 870	53	—	13 350	57	678	319
Retail – other												
0.00 to <0.15	504	107	99	634	0.08	15 482	62	—	84	13	—	—
0.15 to <0.25	838	965	73	3 559	0.22	6 337	20	—	325	9	2	1
0.25 to <0.50	1 458	130	92	1 674	0.45	18 580	41	—	475	28	3	1
0.50 to <0.75	2 362	18	99	2 385	0.65	24 605	38	—	809	34	6	1
0.75 to <2.50	18 839	170	96	19 096	1.89	161 722	41	—	10 382	54	150	75
2.50 to <10.00	36 349	612	57	37 052	5.47	350 385	40	—	23 863	64	857	464
10.00 to <100.00	12 366	—	56	12 367	20.49	162 660	47	—	13 262	107	1 205	690
100.00 (Default)	6 762	2	—	6 504	100.00	95 726	50	—	10 752	165	2 105	2 105
Sub-total	79 478	2 004	73	83 271	6.45	835 497	41	—	59 952	72	4 328	3 337
Total (all portfolios)	745 662	252 528	49	881 206	2.36	4 453 079	30	—	370 274	42	16 078	14 059

[1] CCF: Credit conversion factor.

[2] 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.

[3] EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	December 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	RWA Rm	RWA density[2] %	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[3]												
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
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

[1] CCF: Credit conversion factor.

[2] 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.

[3] EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	December 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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
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)												
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
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

[1] CCF: Credit conversion factor.

[2] 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.

[3] EL: Expected loss.

5. Credit risk

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

Credit risk exposures by portfolio and PD range [CR6] (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
	December 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	RWA Rm	RWA density[2] %	EL[3] Rm	Provisions Rm
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
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

1 CCF: Credit conversion factor.

2 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.

3 EL: Expected loss.

5. Credit risk

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

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	a	b
		June 2018		December 2017	
		Pre-credit derivatives RWA Rm	Actual RWA Rm	Pre-credit derivatives RWA Rm	Actual RWA Rm
1	Corporate	95 950	95 944	99 756	99 737
2	Specialised lending	24 279	24 215	23 702	23 684
3	SME Corporate	62 244	62 244	60 700	60 700
4	Public sector entities	4 766	4 524	5 449	5 257
5	Local government and municipalities	907	907	1 320	1 320
6	Sovereign (including central government and central bank)	6 481	6 481	6 228	6 228
7	Banks	11 093	10 960	11 199	10 636
8	Securities firms	2 330	2 325	3 000	3 000
9	Retail mortgages (including any home equity line of credit)	63 195	63 195	66 193	66 193
10	Retail revolving credit	37 291	37 291	33 032	33 032
11	SME Retail	14 348	14 348	13 892	13 892
12	Retail – other	62 273	62 273	58 593	58 593
13	**Total**	**385 157**	**384 707**	383 064	382 272

RWA flow statements of credit risk exposures under IRB [CR8]

		a	a	a
		June 2018	June 2017	December 2017
		RWA amounts Rm	RWA amounts Rm	RWA amounts Rm
1	**RWA as at end of previous reporting period**	**369 538**	364 923	358 825
2	Asset size	22 949	3 104	15 408
3	Asset quality	2 525	—	6 672
4	Model updates	2 697	1 511	—
5	Methodology and policy	(683)	—	2 003
6	Acquisitions and disposals	—	—	—
7	Foreign exchange movements	—	—	—
8	Other	(9 141)	—	—
9	**RWA as at end of reporting period**	**387 885**	369 538	382 908

The increase in the RWA is attributable to exposure growth, changes in portfolio construct and credit deterioration due to ratings downgrades. This was off-set through data enhancements, specifically collateral.

5.7 Counterparty credit risk (CCR)

CCR risk arises from the failure of an obligor to meet their payment obligations under a derivative or securities financing agreement. This includes failure to pay a regular cash flow, make a specific payment or deliver an asset. 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 bank is the cost of replacing or closing out the contract and is recognised as a trading loss.

The Group uses two principal CCR exposure measures: Current exposure (CE) and potential future exposure (PFE). Both of these exposure measures must be measured, at a minimum, on a daily basis. PFEs are measured at a 98% confidence level.

The principle of 'No Limit, No Trade' is strictly applied and all limits are to be approved by the risk sanctioning unit. All CCR credit limits are considered uncommitted and are revocable at any time. Break clauses are used to establish early termination rights.

The following are considered in the management of CCR:

- Correlated risk (specific and general wrong way risk)
- Agent trading
- Cash trading
- Prime brokerage
- Deal contingent derivatives

5. Credit risk

5.7 Counterparty credit risk (CCR) (continued)

Stress testing is used to assess exposures to obligors or obligor groups, and potential losses under stress scenarios. Stress scenarios range from extreme but plausible events to less extreme but more probable stressed market conditions.

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
		June 2018					
		Replacement cost Rm	PFE Rm	EEPE[1] Rm	Alpha used for computing regulatory EAD Rm	EAD post-CRM Rm	RWA Rm
1	Current exposure method (for derivatives)	21 420	25 786		1.40	37 656	14 986
2	IMM (for derivatives and securities financing transactions (SFTs))			—	—	—	—
3	Simple approach for CRM (for SFTs)					—	—
4	Comprehensive approach for CRM (for SFTs)					10 399	2 749
5	VaR for SFTs					—	—
6	**Total**						**17 735**

		a	b	c	d	e	f
		June 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)	16 819	20 909		1.4	32 513	11 888
2	IMM (for derivatives SFTs)			—	—	—	—
3	Simple approach for CRM (for SFTs)					—	—
4	Comprehensive approach for CRM (for SFTs)					7 405	2 032
5	VaR for SFTs					—	—
6	**Total**						13 920

		a	b	c	d	e	f
		December 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 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

Year-on-year differences are due to increased business activity and market volatility, specifically exchange rate fluctuations.

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.

[1] EEPE: Effective expected positive exposure

5. Credit risk

5.7 Counterparty credit risk (CCR) (continued)

CVA capital charge [CCR2]

		a	b	a	b	a	b
		June 2018		June 2017		December 2017	
		EAD post-CRM Rm	RWA Rm	EAD post-CRM Rm	RWA Rm	EAD post-CRM	RWA
	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	37 656	10 414	32 513	16 741	35 980	21 329
4	Total subject to the CVA capital charge	37 656	10 414	32 513	16 741	35 980	21 329

The decrease in CVA RWA is due to the implementation of revised methodology, specifically the application of a weighted average cash flow maturity.

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
	June 2018						
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	2 574	0.10	76	34	2.32	626	24
0.15 to <0.25	1 463	0.22	34	38	1.91	536	37
0.25 to <0.50	1 521	0.39	100	38	2.51	792	52
0.50 to <0.75	52	0.58	38	43	1.00	29	56
0.75 to <2.50	4 793	1.64	348	29	1.42	3 079	64
2.50 to <10.00	341	4.84	34	41	1.10	426	125
10.00 to <100.00	65	19.15	8	63	1.87	212	324
100.00 (Default)	—	—	—	—	—	—	—
Sub-total	10 809	1.11	638	33	1.84	5 700	53
Banks/Securities firms							
0.00 to <0.15	30 908	0.05	36	43	1.43	5 351	17
0.15 to <0.25	311	0.23	3	43	1.54	161	52
0.25 to <0.50	1 110	0.35	10	35	2.65	553	50
0.50 to <0.75	11	0.68	5	44	1.13	7	66
0.75 to <2.50	2 147	1.80	26	44	1.38	2 174	101
2.50 to <10.00	2 424	5.99	13	44	1.00	3 526	145
10.00 to <100.00	1	18.10	1	44	1.00	1	88
100.00 (Default)	—	—	—	—	—	—	—
Sub-total	36 912	0.55	94	43	1.44	11 773	32
Total (all portfolios)	47 721	0.68	725	41	1.53	17 473	37

5. Credit risk

5.7 Counterparty credit risk (CCR) (continued)

IRB – CCR exposures by portfolio and PD scale [CCR4] (continued

	a	b	c	d	e	f	g
	June 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	2 421	0.08	64	39	2.48	597	25
0.15 to <0.25	8 174	0.22	40	28	4.42	3 477	43
0.25 to <0.50	1 353	0.42	107	38	3.45	904	67
0.50 to <0.75	155	0.59	37	40	2.64	107	69
0.75 to <2.50	1 747	1.87	318	41	2.05	1 731	99
2.50 to <10.00	235	3.72	72	44	0.51	272	116
10.00 to <100.00	7	19.0	11	44	1.46	16	226
100.00 (Default)	—	—	—	—	—	—	—
Sub-total	14 092	0.49	649	33	3.62	7 104	50
Banks/Securities firms							
0.00 to <0.15	22 145	0.06	32	42	1.83	3 599	16
0.15 to <0.25	371	0.22	3	44	1.76	165	44
0.25 to <0.50	1 050	0.35	9	44	4.53	871	83
0.50 to <0.75	—	0.63	1	44	2.98	—	86
0.75 to <2.50	1 812	2.04	19	44	0.73	1 726	95
2.50 to <10.00	107	5.21	17	44	1.45	115	107
10.00 to <100.00	—	20.80	1	44	1.00	1	121
100.00 (Default)	—	—	—	—	—	—	—
Sub-total	25 485	0.23	82	42	1.86	6 477	25
Total (all portfolios)	39 577	0.33	717	39	2.49	13 581	34

	a	b	c	d	e	f	g
	December 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	—

5. Credit risk

5.7 Counterparty credit risk (CCR) (continued)

IRB – CCR exposures by portfolio and PD scale [CCR4] (continued

Data enhancements specific to asset classification increased exposure to banks/securities firms and decreased exposure to corporates. RWA increased in line with increased business activity, offset by reduced maturity due to the implementation of average cash flow weighted maturities.

The table that follows provides a breakdown of the types of collateral posted or received by the Group 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
	June 2018					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	RWA fair value of posted collateral
	Segregated Rm	Unsegregated Rm	Segregated Rm	Unsegregated Rm	Rm	Rm
Cash – domestic currency	—	4 741	—	88	35 613	25 282
Cash – other currencies	—	2 234	—	8 089	—	21 462
Domestic sovereign debt	—	—	—	—	25 165	42 040
Other sovereign debt	—	—	—	—	1 268	—
Government agency debt	—	—	—	—	—	—
Corporate bonds	—	1 811	—	1 218	5 973	649
Equity securities	—	—	—	—	—	—
Other collateral	—	—	—	—	—	—
Total	—	8 786	—	9 395	68 019	89 433

	a	b	c	d	e	f
	June 2017					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	RWA fair value of posted collateral
	Segregated Rm	Unsegregated Rm	Segregated Rm	Unsegregated Rm	Rm	Rm
Cash – domestic currency	—	3 362	—	549	19 496	18 421
Cash – other currencies	—	1 177	—	5 214	—	15 400
Domestic sovereign debt	—	—	—	—	17 424	19 225
Other sovereign debt	—	—	—	—	—	—
Government agency debt	—	—	—	—	—	113
Corporate bonds	—	1 887	—	721	9 697	—
Equity securities	—	—	—	—	—	—
Other collateral	—	—	—	—	—	—
Total	—	6 426	—	6 484	46 617	53 159

	a	b	c	d	e	f
	December 2017					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	RWA fair value of posted collateral
	Segregated Rm	Unsegregated Rm	Segregated Rm	Unsegregated Rm	Rm	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

The increase in collateral is attributable to market volatility, and growth in the prime broking business.

5. Credit risk

5.7 Counterparty credit risk (CCR) (continued)

Credit derivatives exposures [CCR6]

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.

	a	b	a	b	a	b
	June 2018		June 2017		December 2017	
	Protection bought Rm	Protection sold Rm	Protection bought Rm	Protection sold Rm	Protection bought Rm	Protection sold Rm
Notionals						
Single-name credit default swaps	3 925	4 366	619	10 686	4 141	5 299
Index credit default swaps	—	—	—	—	—	—
Total return swaps	16 374	6 804	148 092	—	7 321	9 542
Credit options	—	—	—	—	—	—
Other credit derivatives	1 381	—	—	—	—	—
Total notionals	21 683	11 170	148 711	10 686	11 462	14 841
Fair values						
Positive fair value (asset)	—	2 752	215	131	1 435	—
Negative fair value (liability)	(1 057)	—	(8)	—	—	(1 370)

The difference between June 2017 and June 2018 numbers is due to the implementation of a new reporting platform in H2 of 2017.

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	a	b
		June 2018		June 2017		December 2017	
		EAD post-CRM Rm	RWA Rm	EAD post-CRM Rm	RWA Rm	EAD post-CRM Rm	RWA Rm
1	**Exposures to qualifying central counterparty (QCCPs) (total)**		915		1 494		949
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions), of which	—	—	—	—	—	—
3	i. OTC derivatives	—	—	—	—	—	—
4	ii. Exchange-traded derivatives	8 255	845	651	288	13 893	826
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	3 481	70	6 024	1 205	5 350	56
9	Pre-funded default fund contributions	66	—	59	1	135	67
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. Credit risk

5.8 Securitisation

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 risks are considered regularly.

Securitisation exposures in the banking book [SEC1]

		a	b	c	e	f	g
		June 2018					
		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)**	2 215	—	2 215	189	—	189
2	Residential mortgage	2 215	—	2 215	189	—	189
6	**Wholesale (total)**	—	—	—	—	—	—

		a	b	c	e	f	g
		June 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)	2 565	—	2 565	662	—	662
2	Residential mortgage	2 565	—	2 565	662	—	662
6	Wholesale (total)	—	—	—	—	—	—

		a	b	c	e	f	g
		December 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)	—	—	—	—	—	—

5. Credit risk

5.8 Securitisation (continued)

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

June 2018

		Exposure values (by risk-weight (RW) bands)					Exposure values (by regulatory approach)			
		≤20% RW Rm	>20% to 50% RW Rm	50% to 100% RW Rm	>100% to <1 250% RW Rm	1 250% RW Rm	IRB RBA[1] incl. IAA[2]) Rm	IRB SFA[3] Rm	SA[4]/SSFA[5] Rm	1 250% Rm
1	**Total exposures**	2 404	—	—	—	—	—	2 404	—	—
2	Traditional securitisation	2 404	—	—	—	—	—	2 404	—	—
3	Of which securitisation	2 404	—	—	—	—	—	2 404	—	—
4	Of which retail underlying	2 404	—	—	—	—	—	2 404	—	—
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	—	—	—	—	—	—	—	—	—

June 2017

		Exposure values (by risk-weight (RW) bands)					Exposure values (by regulatory approach)			
		≤20% RW Rm	>20% to 50% RW Rm	50% to 100% RW Rm	>100% to <1 250% RW Rm	1 250% RW Rm	IRB RBA[1] incl. IAA[2]) Rm	IRB SFA[3] Rm	SA[4]/SSFA[5] Rm	1 250% Rm
1	**Total exposures**	3 227	—	—	—	—	—	3 227	—	—
2	Traditional securitisation	3 227	—	—	—	—	—	3 227	—	—
3	Of which securitisation	3 227	—	—	—	—	—	3 227	—	—
4	Of which retail underlying	3 227	—	—	—	—	—	3 227	—	—
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	—	—	—	—	—	—	—	—	—

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.

5. Credit risk

June 2018

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
—	435	—	—	—	35	—	—
—	435	—	—	—	35	—	—
—	435	—	—	—	35	—	—
—	435	—	—	—	35	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—

June 2017

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
—	564	—	—	—	45	—	—
—	564	—	—	—	45	—	—
—	564	—	—	—	45	—	—
—	564	—	—	—	45	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—

5. Credit risk

5.8 Securitisation (continued

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

		December 2017								
		Exposure values (by risk-weight (RW) bands)					Exposure values (by regulatory approach)			
		≤20% RW Rm	>20% to 50% RW Rm	50% to 100% RW Rm	>100% to <1 250% RW Rm	1 250% RW Rm	IRB RBA[1] incl. IAA[2]) Rm	IRB SFA[3] Rm	SA[4]/SSFA[5] Rm	1 250% Rm
1	**Total exposures**	2 558	—	—	—	—	—	2 558	—	—
2	Traditional securitisation	2 558	—	—	—	—	—	2 558	—	—
3	Of which securitisation	2 558	—	—	—	—	—	2 558	—	—
4	Of which retail underlying	2 558	—	—	—	—	—	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	—	—	—	—	—	—	—	—	—

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.

5. Credit risk

December 2017							
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
—	461	—	—	—	37	—	—
—	461	—	—	—	37	—	—
—	461	—	—	—	37	—	—
—	461	—	—	—	37	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—

5. Credit risk

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.

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]

The higher RWA is due to increased listed investments in Absa Financial Services.

June 2018	On-balance sheet amount Rm	Off-balance sheet amount Rm	Risk weight %	Exposure amount Rm	RWA Rm
Exchange-traded equity exposures	612		300	612	1 946
Private equity exposures	2 212		400	2 212	9 378
Total	**2 824**			**2 824**	**11 324**

June 2017	On-balance sheet amount Rm	Off-balance sheet amount Rm	Risk weight %	Exposure amount Rm	RWA Rm
Exchange-traded equity exposures	116		300	116	369
Private equity exposures	2 219		400	2 219	9 408
Total	2 335			2 335	9 777

December 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

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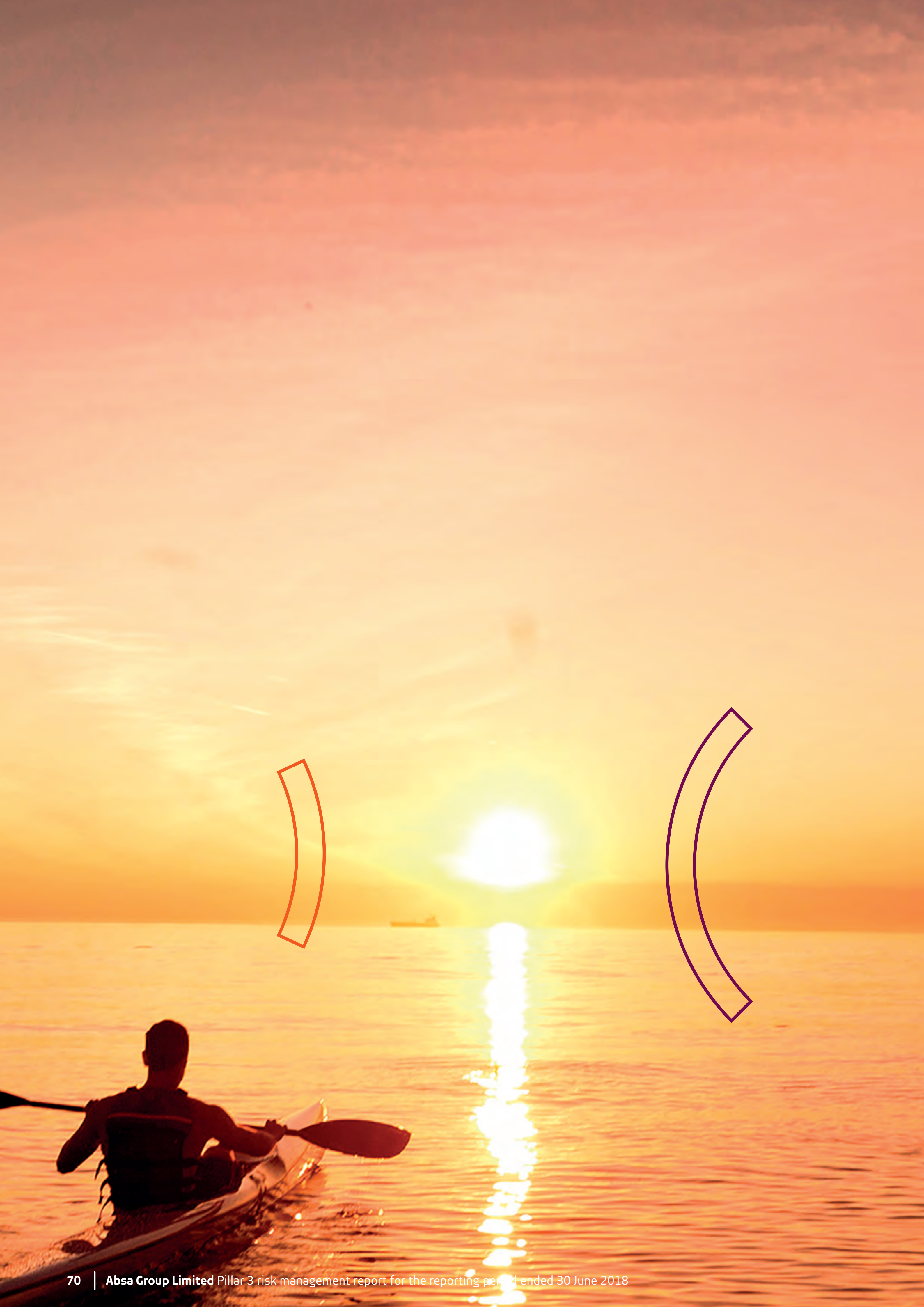


6. Market risk

6. Market risk

Market risk is the risk of loss arising from potential adverse changes in the value of the firm's assets and liabilities from fluctuations in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities and asset correlations.[1]

6.1 Review of current reporting period

Key risk metrics	June 2018	June 2017	December 2017
Average traded market risk – 95% daily value at risk (DVaR) (Rm)	**25.2**	28.0	26.5
Traded market risk RWA (Rbn)	**31.0**	32.3	24.8

- Trading exposures were managed within overall risk appetite, with the 95% value at risk (VaR) decreasing marginally over the period. The strategy going into 2017 year-end was to reduce risk significantly and position the trading book defensively due to lower liquidity driven by heightened political and economic uncertainty.
- In early 2018, when the market stabilised and positive sentiment returned, positional risk was increased back to normal levels. However, in the second quarter of 2018 there was a return to increased market uncertainty, driven by the emerging market sell off and international trade disputes. Positional risk was reduced, resulting in a net reduction in VaR and RWA compared to the second quarter of 2017 which saw a period of sustained market stability.

6.2 Priorities

- Continue to ensure market risk is managed within risk appetite in volatile and event driven conditions.
- Improve impact analysis and define the project plan in response to regulatory changes, specifically preparing for the adoption of the Fundamental Review of the Trading Book (FRTB).

6.3 General information about market risk

6.3.1 Risk identification and management

The first line of defence for market risk management resides with business unit heads. An independent market risk team, which reports to the Chief Risk Officer, is responsible for the oversight of the business units ensuring that they remain within the set limits, including 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 reviewed and managed in accordance with an action plan approved by Market Risk or brought back in line when they occur. Excesses and actions are reported to the Market Risk Committees (MRC).

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:

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

The business model for traded market risk is focused on client flow. The risk profile is maintained so that it is aligned with the near-term demands of the Group's clients whilst overlaying macro hedging to protect the portfolio against adverse market movements.

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.
- 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 Internal Model used for the calculation of South Africa Market Risk regulatory capital.

[1] Refer to the interest rate risk in the banking book section 7.3 under treasury risk for non-traded market risk.

6. Market risk

6.3 General information about market risk (continued)

6.3.1 Risk identification and management (continued)

6.3.1.1 Traded market risk (continued)

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 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 two-year data history of unweighted historical market moves and a holding period of one day with a confidence interval of 95% for risk management purposes.

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. 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 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 PA to calculate the RC for all trading book exposures, including certain banking book exposures. The PA has assigned a DVaR model multiplier to be used in the calculations. 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 calculated as a standalone charge. In addition, 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 rates/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 PA. The PA 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 follow the same approach as VaR (refer to disclosure above). The sVaR historical period remained as the 2008/2009 volatile period.

Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Group performs two main types of stress/scenario testing:

- 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 and illiquid 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.

[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.

6. Market risk

6.3 General information about market risk (continued)

6.3.1 Risk identification and management (continued)

6.3.1.1 Traded market risk (continued)

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.

Risk sensitivity

The risk sensitivity 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 risk sensitivity 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 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.

6.3.2 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. The Head of Market Risk is responsible for oversight of all traded market risk across the Group.

The Traded Market Risk Function 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 or country risk analysts (where appropriate). Daily reports are sent to the CIB Chief Risk Officer and front office detailing limit utilisation, 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 month's risk utilisation, limit breaches, independent valuation results and capital utilisation. 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. Market risk

6.3 General information about market risk (continued)

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	b	c
		June		December
		2018 RWA Rm	2017 RWA[1] Rm	2017 RWA Rm
	Outright products			
1	Interest rate risk (general and specific)[2]	**11 907**	9 681	6 710
2	Equity risk (general and specific)	**646**	411	573
3	Foreign exchange risk	**482**	554	407
4	Commodity risk	—	—	—
	Options			
5	Simplified approach	—	—	—
6	Delta-plus method	—	—	—
7	Scenario approach	—	—	—
8	Securitisation	—	—	—
9	**Total**	**13 035**	10 645	7 689

Traded market risk standardised RWA increased by **R2 389m** (22%) from June 2017 (to R13 035m). The move was driven by an increase in standardised specific risk exposure, particularly on interest rate products, across the Rest of Africa businesses supported in line with country strategies to increase market share.

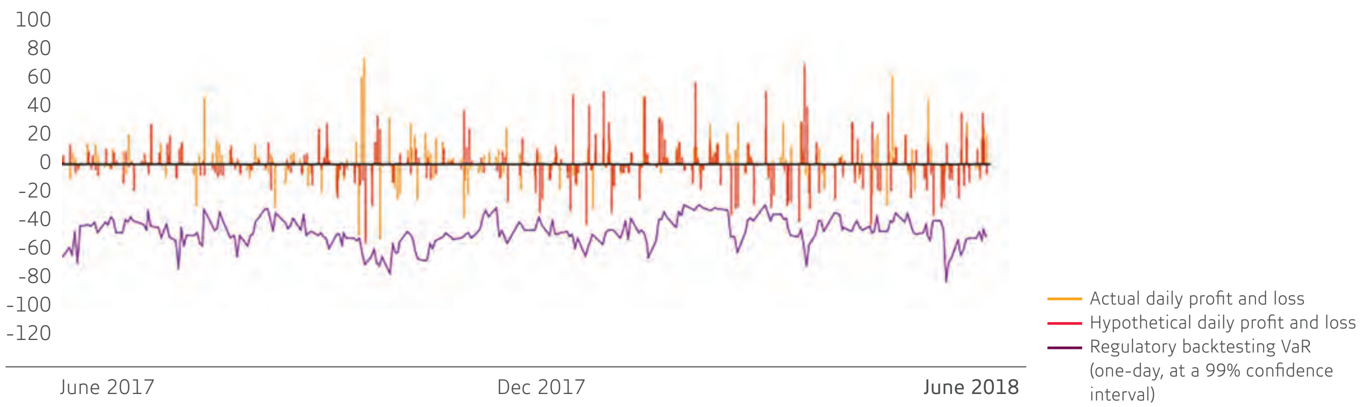
Traded market risk under the IMA

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 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 backtested against regulatory VaR (Rm) [MR4]



[1] 1 June 2017 RWAs restated to include the full amount.

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

6. Market risk

6.3 General information about market risk (continued)

6.3.3 Reporting (continued)

6.3.3.1 Risk reporting: Traded market risk (continued)

RWA flow statements of market risk exposures under IMA [MR2]

June 2018

		a	b	c	d	e	f	
		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 (31 March 2018)	6 332	11 292	—	—	—	17 624	1 895
2	Movements in risk levels	59	397				373	40
3	Model updates/changes	(24)	(77)				(18)	(2)
4	Methodology and policy							
5	Acquisitions and disposals							
6	Other							
7	RWA at end of reporting period (30 June 2018)	6 368	11 612	—	—	—	17 979	1 933

› **VaR and sVaR:** Whilst position risk was reduced, increased market volatility resulted in a marginal increase in DVaR at the 99% confidence level. sVaR remained largely in line with the end of the first quarter 2018 due to a switch in the direction of the net open risk, offset by model data input refinements.

June 2017

		a	b	c	d	e	f	
		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 (31 March 2017)	7 050	10 993	—	—	—	18 044	1 443
2	Movements in risk levels	3 754	(159)				3 595	288
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals							
6	Other							
7	RWA at end of reporting period (30 June 2017)	10 805	10 835				21 639	1 731

December 2017

		a	b	c	d	e	f	
		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[3])	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[3])	7 501	9 571				17 072	1 835

[1] IRC: incremental risk charge.
[2] Calculated at 10.75% of RWA.
[3] Refer to the last workday of the month.

6. Market risk

6.3 General information about market risk (continued)

6.3.3 Reporting (continued)

6.3.3.1 Risk reporting: Traded market risk (continued)

IMA values for trading portfolios [MR3]

		a	a	a
		June		December
		2018 Rm	2017 Rm	2017 Rm
	VaR (10-day 99%)[1]			
1	Maximum value	**265.62**	301.26	301.26
2	Average value	**136.70**	164.73	158.59
3	Minimum value	**83.27**	95.28	94.26
4	Period end	**136.86**	198.59	129.71
	Stressed VaR (10-day 99%)[1]			
5	Maximum value	**496.46**	367.30	367.30
6	Average value	**246.23**	203.60	196.67
7	Minimum value	**153.33**	122.04	121.34
8	Period end	**214.85**	133.82	209.84
	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, decreased to **R136.7m** (2017: R164.7m) for the reporting period, which is a 17% decrease on the prior year average balance. This was principally due to reduced positional risk over the period.

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

6. Market risk

6.3 General information about market risk (continued)

6.3.4 Additional disclosures

6.3.4.1 Analysis of market risk exposure

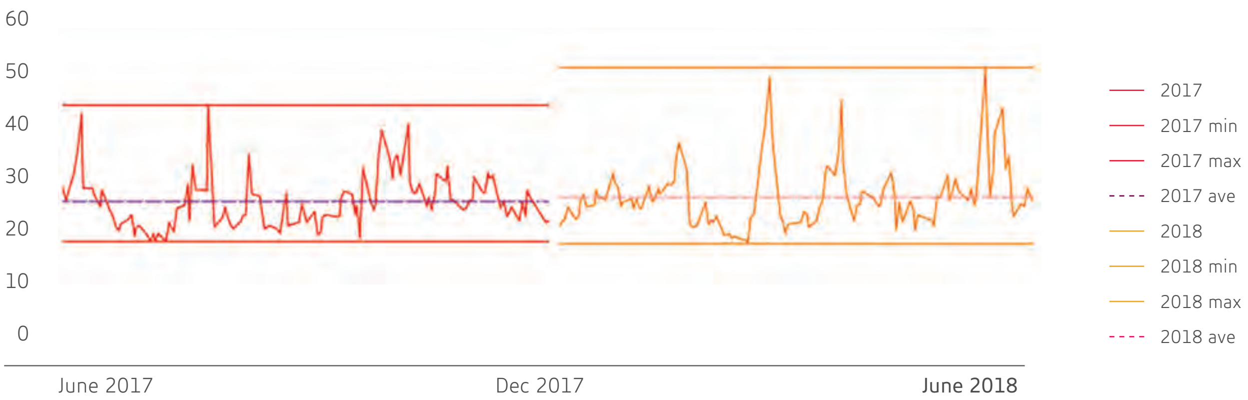
The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, decreased to **R24.9m** (2017: R27.6m) for the reporting period, which is a 10% reduction on the prior year balance. This was principally due to reduced risk positioning across the period.

Trading book DVaR summary

	June 2018				June 2017				December 2017			
	Average Rm	**High[1] Rm**	**Low[1] Rm**	**At the reporting date Rm**	Average Rm	High[1] Rm	Low[1] Rm	At the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	At the reporting date Rm
Interest rate risk	**21.88**	**37.96**	**13.81**	**14.33**	23.95	33.48	18.80	22.70	25.96	36.84	18.80	31.85
Foreign exchange risk	**12.74**	**34.92**	**4.10**	**9.59**	7.63	28.51	2.45	3.50	8.58	32.98	2.16	12.23
Equity risk	**8.24**	**26.58**	**2.30**	**17.86**	7.91	2.84	2.84	10.27	6.78	29.70	1.33	3.32
Commodity risk	**0.58**	**1.53**	**0.21**	**0.53**	0.46	1.47	0.05	0.41	0.58	1.59	0.05	0.82
Inflation risk	**9.31**	**21.34**	**5.07**	**7.90**	6.08	9.91	3.21	5.21	10.29	20.84	3.21	14.04
Credit spread risk	**2.83**	**3.53**	**2.41**	**2.74**	5.03	6.08	3.85	4.03	4.38	6.08	3.21	3.54
Diversification effect	**(30.71)**	**n/a**	**n/a**	**(28.52)**	(23.44)	n/a	n/a	(21.80)	(30.70)	n/a	n/a	(45.09)
Total DVaR[2]	**24.88**	**48.32**	**16.52**	**24.43**	27.61	43.24	19.92	24.33	25.86	n/a	n/a	20.71
Expected shortfall	**36.65**	**76.29**	**22.85**	**34.87**	44.87	79.50	29.72	45.89	43.00	79.50	26.83	34.16
Regulatory VaR[3]	**43.23**	**84.00**	**26.33**	**43.28**	52.09	95.27	30.13	62.80	50.15	95.27	29.81	41.02
Regulatory sVaR[3]	**77.87**	**156.99**	**48.49**	**67.94**	64.39	116.15	38.59	42.32	62.19	116.15	38.37	66.36

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)



[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 one-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 ongoing review for appropriateness.

6. Market risk

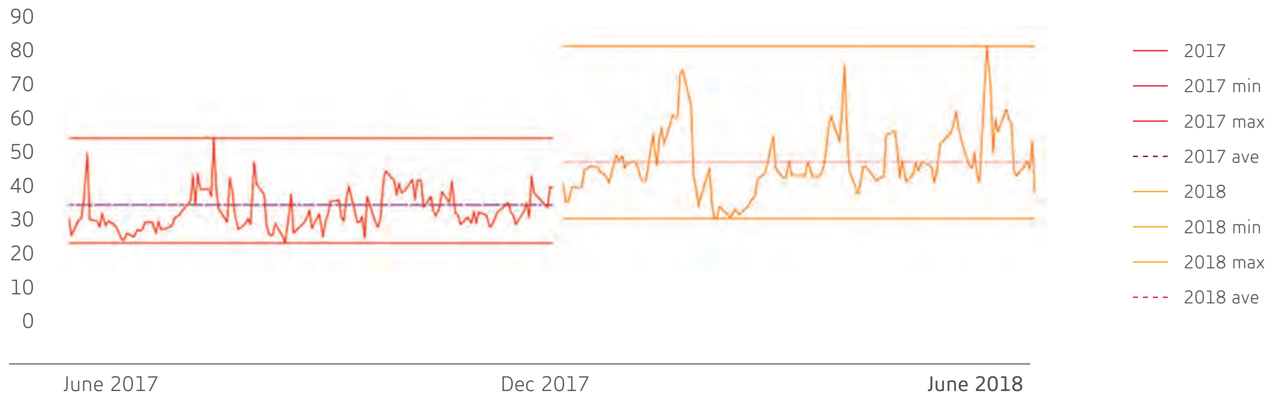
6.3 General information about market risk (continued)

6.3.4 Additional disclosures (continued)

6.3.4.1 Analysis of market risk exposure (continued)

The following graph depicts the daily history of the trading book sVaR. Average sVaR noted an increase over H1 2018, driven by an increase in the average FX net open position and interest rate risk being held as well as the ongoing refinement of model input data.

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



7. Treasury risk

7. Treasury risk

Treasury risk comprises liquidity risk, capital risk and interest rate risk in the banking book.

- **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 while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- **Interest rate risk in the banking book (IRRBB):** The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

7.1 Key BCBS metrics (at consolidated group level)[1] [KM1]

		a	b	c	d	e
		30 Jun 18	31 Mar 18	31 Dec 17	30 Sep 17	30 Jun 17
	Available capital (amounts)					
1	Common equity tier 1 (CET1)	**96 655**	90 368	91 297	94 489	93 560
1a	Fully loaded ECL accounting model	**95 152**	88 737	—	—	—
2	Tier 1	**100 926**	94 317	95 661	98 736	96 225
2a	Fully loaded ECL accounting model Tier 1	**99 424**	92 686	—	—	—
3	Total capital	**122 788**	110 307	110 874	115 148	110 884
3a	Fully loaded ECL accounting model total capital	**121 020**	108 676	—	—	—
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	**771 268**	732 084	736 892	732 893	724 780
4a	Fully loaded RWA	**765 702**	728 609	—	—	—
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	**12.5**	12.3	12.4	12.9	12.9
5a	Fully loaded ECL accounting model common equity Tier 1 (%)	**12.4**	12.2	—	—	—
6	Tier 1 ratio (%)	**13.1**	12.9	13.0	13.5	13.3
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**13.0**	12.7	—	—	—
7	Total capital ratio (%)	**15.9**	15.1	15.0	15.7	15.3
7a	Fully loaded ECL accounting model total capital ratio (%)	**15.8**	14.9	—	—	—
	Additional CET 1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	**1.9**	1.9	1.3	1.3	1.3
9	Countercyclical buffer requirement (%)[2]	**—**	—	—	—	—
10	Bank G-SIB and/or D-SIB additional requirements (%)[3]	**—**	—	—	—	—
11	Total of bank CET1 specific buffer requirements (%) (Row 8 + row 9 + row 10)	**1.9**	1.9	1.3	1.3	1.3
12	CET1 available after meeting the bank's minimum capital requirements (%)	**5.1**	4.9	5.1	5.6	5.6
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	**1 407 707**	1 332 584	1 311 893	1 318 673	1 259 572
14	Basel III leverage ratio (%) (row 2/row 13)	**7.2**	7.1	7.3	7.5	7.6
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row13)	**7.1**	7.0	—	—	—
	Liquidity coverage ratio					
15	Total HQLA	**173 195**	172 477	157 119	155 794	155 075
16	Total net cash outflow	**160 150**	158 523	146 104	131 195	130 416
17	LCR (%)	**108.6**	108.8	107.5	118.8	118.9
	Net stable funding ratio					
18	Total available stable funding	**755 870**	—	—	—	—
19	Total required stable funding	**713 291**	—	—	—	—
20	NSFR (%)	**106.0**	n/a	n/a	n/a	n/a

[1] Numbers reported are on a regulatory basis, and include the contribution amounts received from Barclays PLC as part of the separation.
[2] The countercyclical buffer is not required for banks in South Africa.
[3] The D-SIB add-on is not required to be disclosed.

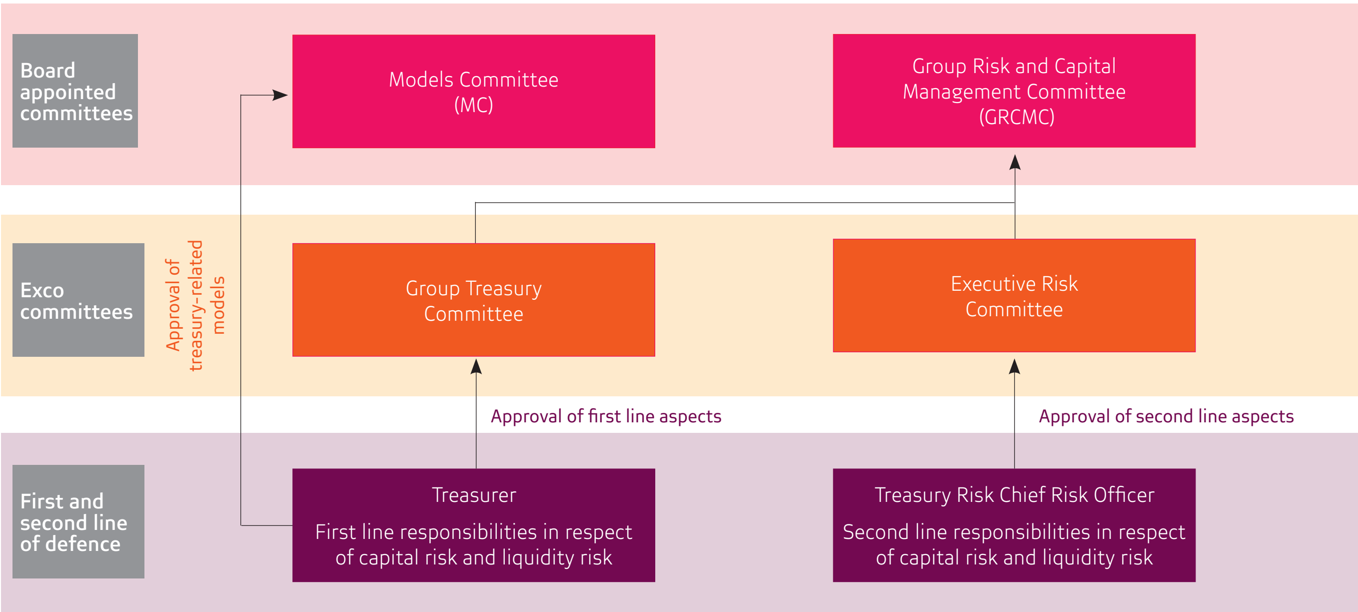
7. Treasury risk

7.2 Governance

The three lines of defence model is followed in respect of treasury 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 audit serves 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 risks. The Treasury 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 risk is outlined below:



7.3 Liquidity risk

7.3.1 Review of the current reporting period

Key risk metrics	June 2018	June 2017	December 2017
Sources of liquidity (Rbn)	**218.1**	195.9[1]	213.0
Net stable funding ratio (NSFR) (%)[2]	**106**	n/a	n/a
Liquidity coverage ratio (%)[3]	**108.6**	118.9	107.5
Loan-to-deposit ratio (%)	**91.6**	87.1	90.6
Loans and advances to customers	**783.1**	728.9	749.8
South Africa	**694.4**	650.0	671.9
Rest of Africa	**88.7**	78.9	77.9
Deposits from customers and debt securities	**855.3**	836.6	827.8
South Africa	**727.0**	716.1	718.8
Rest of Africa	**128.3**	120.5	109

[1] June 2017 restated to incorporate revised assumptions relating to available sources of funding.

[2] NSFR which became effective on 1 January 2018 (minimum regulatory requirement of 100%) is reported publicly with effect from 30 June 2018, therefore no comparatives are disclosed.

[3] The Group liquidity coverage ratio (LCR) reflects an aggregation of the Absa Bank LCR and the LCR of the Rest of Africa Banking entities. For this purpose, a simple average of the relevant three-month-end data points is used in respect of the Rest of Africa banking entities. In respect of Absa Bank, the June and December 2017 LCR was determined using a simple average of the relevant three-month-end data points. As at 30 June 2018, the Absa Bank LCR was calculated as a simple average of 90 calendar-day LCR observations.

7. Treasury risk

7.3 Liquidity risk (continued)

7.3.1 Review of the current reporting period (continued)

- **Liquidity risk position:** The liquidity position of the Group remained strong, in line with risk appetite, and above the minimum regulatory requirements, with sources of liquidity of **R218.1bn** (June 2017: R195.9bn), amounting to 30.5% of deposits due to customers, demonstrating the strength of the Group's liquidity resources.
- 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 liquidity risk appetite (LRA), regulatory limits and reporting requirements.
- **Long-term balance sheet structure:**
  - The NSFR became effective 1 January 2018. Both the Group and Absa Bank are above the regulatory minimum requirement of 100%.
  - 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 is raised with appropriate tenor to support the growth in long-term assets, through a combination of funding instruments and capital market issuances.
- **Short-term balance sheet structure and liquidity buffers:**
  - The Group targets an LCR above the minimum regulatory requirement, and consistently maintained a buffer in excess of the regulatory minimum requirement of 90% during the first half of 2018. The Group's average high-quality liquid assets (HQLA) of R173.9bn 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 Group is required to hold in order to meet internally defined stress requirements.
- **Diversification:** The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of funding are managed in order to maintain a wide diversity of depositor, product, tenor and currency.

7.3.2 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.
- Continue to focus on the growth of core Retail, Business Bank, Corporate and Public Sector deposits.
- Continue to work with regulatory authorities and other stakeholders on resolution planning and the introduction of a Deposit Insurance Scheme in South Africa.

7.3.3 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 liquidity risk appetite (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.

7.3.3.1 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 together with 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.

7. Treasury risk

7.3 Liquidity risk (continued)

7.3.3 General information about liquidity risk (continued)

7.3.3.1 Risk identification and management (continued)

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

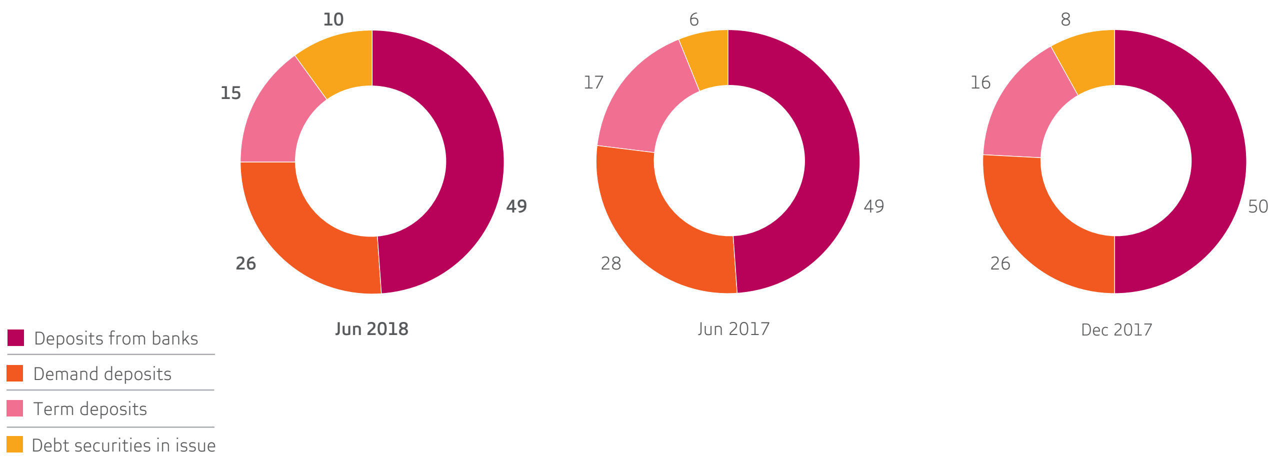
Funding planning	Liquidity risk monitoring	Execution and intra-day liquidity risk	Contingent funding planning	Regulatory compliance
› Funding plan › Concentration risk › Client behaviour › Pricing liquidity risk through funds transfer pricing	› Liquidity framework and policies › LRA › Stress testing › 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 have remained stable over the last 12 months.



Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities on an ongoing structural basis.

	Absa Group Limited June 2018	Absa Bank Limited June 2018
Available stable funding (ASF) (Rm)	755 870	619 050
Required stable funding (ASF) (Rm)	713 291	602 867
Actual NSFR (%)	106	103
Required NSFR (%)	100	100

7. Treasury risk

7.3 Liquidity risk (continued)

7.3.3 General information about liquidity risk (continued)

7.3.3.1 Risk identification and management (continued)

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 banking entity 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.

7.3.3.2 Reporting

Short-term liquidity stress

The Group's sources of liquidity

	June		December
	2018 Rm	2017 Rm	2017 Rm
The Group sources of liquidity	**218 149**	195 908	212 954
High-quality liquid assets[1]	**162 102**	142 960	159 958
Other liquid assets (outside South Africa)	**40 055**	39 698	32 797
Other sources of liquidity	**15 992**	13 250[2]	20 199

The Group's sources of liquidity amount to 30.5% of deposits due to customers.

[1] The values disclosed represent the spot values of HQLA.

[2] June 2017 restated to incorporate revised assumptions relating to available sources of funding.

7. Treasury risk

7.3 Liquidity risk (continued)

7.3.3 General information about liquidity risk (continued)

7.3.3.2 Reporting (continued)

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 2018 of 90% 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 90% requirement during 2018. The table below represents the average LCR for the quarter:

	Absa Group Limited			Absa Bank Limited[1]		
	June 2018	June 2017	December 2017	**June 2018**	June 2017	December 2017
High-quality liquid assets (Rm)[2]	**173 915**	155 075	157 119	**159 667**	144 168	144 970
Net cash outflows (Rm)	**160 150**	130 416	146 104	**144 318**	115 876	129 845
LCR (%)	**108.6**	118.9	107.5	**110.6**	124.4	111.6
Required LCR (%)	**90**	80	80	**90**	80	80

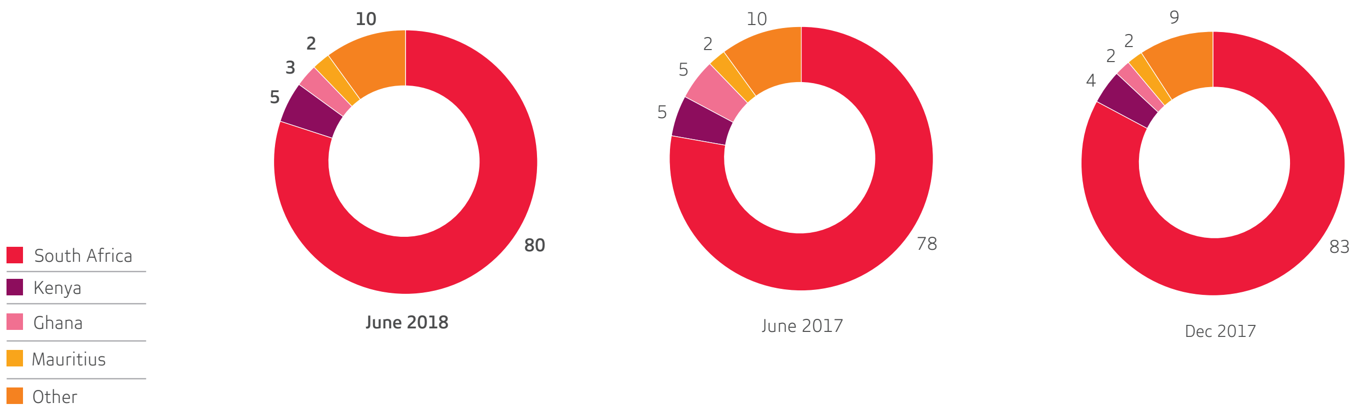
High Quality Liquid Assets (HQLA)

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 CLF from the SARB, which has been included in HQLA for LCR purposes from January 2016.

Composition of liquid assets by country (%)



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.

7. Treasury risk

7.4 Capital risk

7.4.1 Review of the current reporting period

Key risk metrics	June 2018	June 2017	December 2017
Total RWA (Rbn)	**771.3**	724.8	736.9
CET1 capital adequacy ratio (%)[1,2]	**12.2**	12.1	12.1
Return on average risk-weighted assets (RoRWA)[2] (%)	**2.20**	2.22	2.17[3]
Economic capital (EC) coverage[2]	**1.32**	1.24[4]	1.29
Return on average EC[2] (%)	**18.8**	16.9	18.4
Return on equity (RoE)[2] (%)	**16.9**	16.8	16.5[3]
Cost of equity (CoE)[5]	**14.00**	13.75	13.75

- The Group's capital position was above minimum regulatory requirements as at 30 June 2018, with capital buffers sufficient to withstand stressed conditions.
- The CET1 ratio increased year-on-year due to the generation of capital. This was partially offset by the 2017 interim and final ordinary dividends declared during the period, net growth in RWAs, and the implementation of IFRS9.
- An interim dividend of 490 cents per share was declared, representing an increase of 3% on the 2017 interim dividend of 475 cents per share.
- Receipt of the contribution amounts from Barclays PLC in June 2017 arising from the separation resulted in an initial uplift in CET1 of c.160 bps for Group. As at 30 June 2018, the uplift reduced to c.110 bps for Group, mainly as a result of the separation costs incurred to date.
- The Group issued USD400m of Basel III compliant Tier 2 capital in April 2018 in the international capital markets in its inaugural issuance of this nature, strengthening the capital position of the Group.
- RWAs increased by 6% year-on-year due to an increase in exposure growth, in line with balance sheet growth, and the weakening of the Rand against currencies in Rest of Africa. This was partially offset by data refinements, and the implementation of IFRS9, which reduced RWAs held against non-performing credit exposures.

7.4.2 Priorities

- Maintain an optimal mix of high-quality capital while continuing to generate sufficient capital to support profitable growth and a sustainable dividend.
- Continue to manage the capital position of the Group and its subsidiaries, throughout the period of the separation from Barclays PLC.
- Continue engagement with the SARB to finalise the Resolution Framework for South Africa.
- Continuously monitor and assess regulatory developments 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.
- Contribute at industry level to the development of a financial conglomerate capital framework for South Africa.

7.4.3 General information about capital risk

7.4.3.1 Risk identification and management

The Group's capital management strategy, which supports and aligns with the Group's strategy, is to create sustainable value for shareholders within approved risk appetite through effective balance sheet management.

The Group's capital management objectives are to:

- Maintain an adequate level of capital resources in excess of regulatory requirements and within capital targets, by optimising capital resources and raising capital where required.
- Ensure efficient deployment of capital to legal entities within the Group.
- Assess, manage and efficiently implement regulatory changes to optimise capital usage.

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.

1 Includes unappropriated profits.
2 Reported on a normalised basis.
3 These numbers have been restated, refer to the reporting changes overview on the ninsider cover of the financial booklet.
4 June 2017 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.
5 The CoE is based on the capital asset pricing model. The increase in June 2018 was driven by higher inflation forecasts in a number of countries.

7. Treasury risk

7.4 Capital risk (continued)

7.4.3 General information about capital risk (continued)

7.4.3.2 Reporting

Capital adequacy

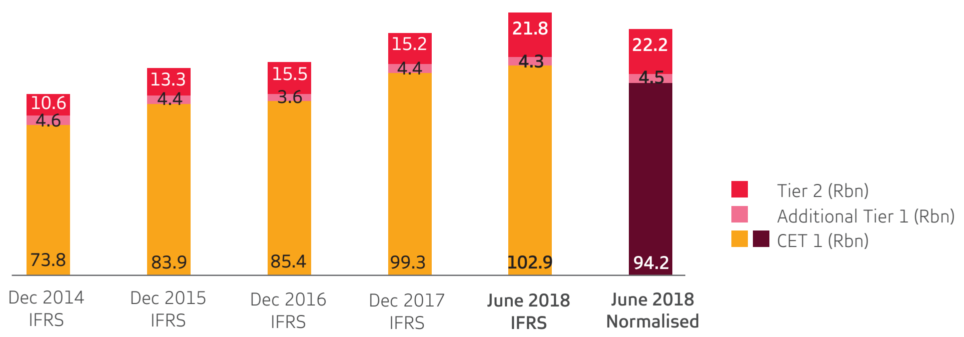
The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures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

- The capital risk appetite of the Group.
- 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[1] %	Minimum regulatory capital requirements[2] %	Normalised Group performance June 2018	IFRS Group performance June 2018	IFRS Group performance June 2017	IFRS Group performance December 2017
Statutory capital ratios (include unappropriated profits) (%)						
CET1	10.00 – 11.50		12.2	13.3	13.7	13.5
Tier 1	11.75 – 13.25		12.8	13.9	14.0	14.1
Total capital adequacy requirement (CAR)	14.25 – 15.75		15.7	16.7	16.1	16.1
Regulatory capital ratios (exclude unappropriated profits) (%)						
CET1		7.4	—	12.5	12.9	12.4
Tier 1		8.9	—	13.1	13.3	13.0
Total CAR		11.1	—	15.9	15.3	15.0

Group qualifying capital (including unappropriated profits)



IFRS December 2014	IFRS December 2015	IFRS December 2016	IFRS December 2017	IFRS June 2018	Normalised June 2018	
11.9	11.9	12.1	13.5	13.3	12.2	CET1 ratio (%)
14.4	14.5	14.8	16.1	16.7	15.7	Total capital adequacy ratio (%)

[1] Normalised capital ratios (including unappropriated profits) are managed against Board capital target ranges.

[2] The 2018 minimum regulatory capital requirements of 11.13% (2017: 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.

7. Treasury risk

7.4 Capital risk (continued)

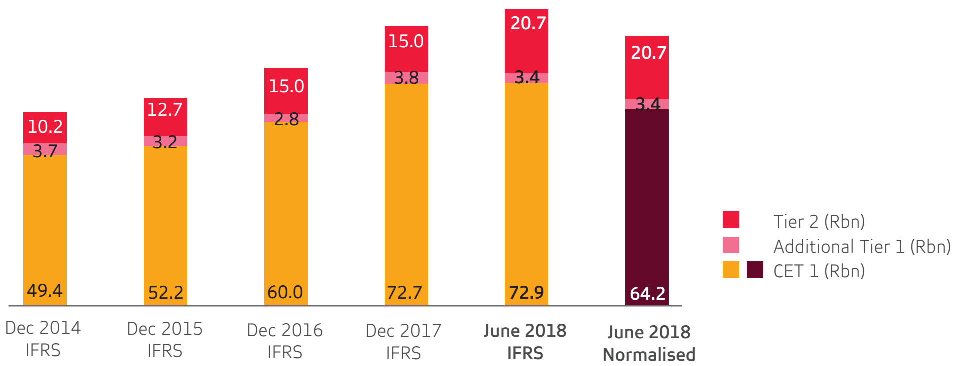
7.4.3 General information about capital risk (continued)

7.4.3.2 Reporting (continued)

Absa Bank Limited capital adequacy

Absa Bank Limited[3]	Board target ranges[1] %	Minimum regulatory capital requirements[2] %	Normalised performance June 2018	IFRS performance June 2018	IFRS performance June 2017	IFRS performance December 2017
Statutory capital ratios (include unappropriated profits) (%)						
CET1	10.00 – 11.50		**11.9**	**13.5**	14.1	13.4
Tier 1	11.75 – 13.25		**12.5**	**14.1**	14.5	14.1
Total CAR	14.25 – 15.75		**16.3**	**17.9**	17.4	16.9
Regulatory capital ratios (exclude unappropriated profits) (%)						
CET1		7.4	—	**12.7**	13.2	12.6
Tier 1		8.9	—	**13.3**	13.6	13.3
Total CAR		11.1	—	**17.1**	16.5	16.1

Absa Bank qualifying capital (including unappropriated profits)



IFRS December 2014	IFRS December 2015	IFRS December 2016	IFRS December 2017	IFRS June 2018	Normalised June 2018	
10.8	10.5	11.6	13.4	**13.5**	**11.9**	CET1 ratio (%)
13.9	13.8	15.1	16.9	**17.9**	**16.3**	Total capital adequacy ratio (%)

[1] Normalised capital ratios (including unappropriated profits) are managed against Board capital target ranges.
[2] The 2018 minimum regulatory capital requirements of 11.13% (2017: 10.75%) include the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 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.

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7. Treasury risk

7.4 Capital risk (continued)

7.4.3 General information about capital risk (continued)

7.4.3.2 Reporting (continued)

Operations	Regulator	June 2018 Total qualifying capital Rm	June 2018 Tier 1 ratio %	June 2018 Total capital adequacy %
Local entities (South Africa)				
Group	SARB			
Including unappropriated profits[1]		129 003	13.9	16.7
Excluding unappropriated profits[1]		122 788	13.1	15.9
Absa Bank Limited[3]	SARB			
Including unappropriated profits[1]		96 994	14.1	17.9
Excluding unappropriated profits[1]		92 684	13.3	17.1
Foreign banking entities[4]				
Barclays Bank of Mozambique	Banco de Mozambique	1 050	12.8	18.6
Barclays Bank of Botswana	Bank of Botswana	2 788	14.0	19.4
Barclays Bank of Ghana	Bank of Ghana	2 350	20.2	24.3
Barclays Bank of Kenya	Central Bank of Kenya	5 904	15.1	17.0
Barclays Bank of Mauritius	Bank of Mauritius	5 118	18.4	19.2
National Bank of Commerce	Bank of Tanzania	1 424	18.5	20.5
Barclays Bank of Tanzania	Bank of Tanzania	502	15.4	17.4
Barclays Bank of Uganda	Bank of Uganda	1 269	20.8	24.6
Barclays Bank of Seychelles	Bank of Seychelles	601	16.7	18.8
Barclays Bank of Zambia	Bank of Zambia	1 783	29.2	36.0
Insurance entities				
Absa Life Limited	FSB[6]	1 128		2.6xCAR[7]
Absa Insurance Company Limited	FSB[6]	1 174		52.29%xNWP[8]

[1] Includes the contribution amounts received from Barclays PLC as part of the separation.
[2] The SARB 2018 minimum regulatory requirement of **11.13%** (2017: 10.75%) include the RSA minimum of 8%, Pillar 2a of **1.25%** (2017: 1.50%) and capital conservation buffer of **1.88%** (2017: 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 2018 foreign banking entity disclosures are unaudited.
[5] December 2017 numbers updated post audit.
[6] Financial Services Board.
[7] CAR: Actuarial calculation of VaR on insurance liabilities. **2.0 times** (2017: 2.0 times) being the required capital level.
[8] NWP: Net written premiums, **34%** (2017: 36%) of NWP being the required capital level determined by Absa Insurance Company Limited.

7. Treasury risk

June 2017 Total qualifying capital Rm	June 2017 Tier 1 ratio %	June 2017 Total capital adequacy %	December 2017 Total qualifying capital Rm	December 2017 Tier 1 ratio %	December 2017 Total capital adequacy %	Regulatory minimum %
116 461	14.0	16.1	118 899	14.1	16.1	
110 884	13.3	15.3	110 874	13.0	15.0	**11.1**[2]
91 695	14.5	17.4	91 478	14.1	16.9	
86 767	13.6	16.5	87 030	13.3	16.1	**11.1**[2]
994	15.3	22.8	1 119	17.9	24.9	**9.0**
2 698	15.5	20.2	2 598[5]	16.6[5]	19.4[5]	**15.0**
2 448	17.6	23.5	2 343	11.2	20.4	**10.0**
5 644	15.9	18.0	5 264[5]	15.9[5]	18.0[5]	**14.5**
4 916	16.3	17.1	5 300[5]	22.2[5]	23.1[5]	**10.0**
1 381	20.2	22.2	1 300	20.3	22.3	**14.5**
489	20.3	22.3	511[5]	20.7[5]	22.7[5]	**14.5**
1 334	21.2	25.3	1 314[5]	19.5[5]	23.1[5]	**14.5**
575	20.7	23.8	576[5]	19.7[5]	24.0[5]	**12.0**
1 857	24.4	30.9	1 621	22.0	28.5	**10.0**
1 121		3.4xCAR[7]	1 111		3.1xCAR[7]	**1.0xCAR**[7]
1 069		44.05%xNWP[8]	1 135		51.85%xNWP[8]	**28%xNWP**[8]

7. Treasury risk

7.4 Capital risk (continued)

7.4.3 General information about capital risk (continued)

7.4.3.2 Reporting (continued)

Capital supply

Breakdown of qualifying capital

Group	June 2018 Rm	June 2018 %[1]	June 2017 Rm	June 2017 %[1]	December 2017 Rm	December 2017 %[1]
Common equity Tier 1	**96 655**	**12.5**	93 560	12.9	91 297	12.4
Ordinary share capital	**1 664**	**0.2**	1 694	0.2	1 666	0.3
Ordinary share premium	**10 850**	**1.4**	12 868	1.8	10 498	1.4
Reserves[2]	**86 384**	**11.2**	83 681	11.2	85 048	11.5
Non-controlling interest	**2 251**	**0.3**	1 831	0.3	1 910	0.3
Deductions	**(4 494)**	**(0.6)**	(6 514)	(0.9)	(7 825)	(1.1)
Goodwill	**(792)**	**(0.1)**	(690)	(0.1)	(684)	(0.1)
Amount by which expected loss exceeds eligible provisions	**—**	**(0.0)**	(2 073)	(0.3)	(2 083)	(0.3)
Other deductions	**(3 702)**	**(0.5)**	(3 751)	(0.5)	(5 058)	(0.7)
Additional Tier 1 capital	**4 271**	**0.6**	2 665	0.4	4 364	0.6
Tier 1 capital	**100 926**	**13.1**	96 225	13.3	95 661	13.0
Tier 2 capital	**21 862**	**2.8**	14 659	2.0	15 213	2.0
Instruments recognised as Tier 2 capital	**19 583**	**2.5**	14 163	2.0	14 675	2.0
General allowance for impairment losses on loans and advances – standardised approach	**2 279**	**0.3**	496	0.0	538	0.0
Total qualifying capital (excluding unappropriated profits)	**122 788**	**15.9**	110 884	15.3	110 874	15.0
Qualifying capital (including unappropriated profits)						
Tier 1 capital	**107 141**	**13.9**	101 802	14.0	103 686	14.1
CET 1 (excluding unappropriated profits)	**96 655**	**12.5**	93 560	12.9	91 297	12.4
Unappropriated profits	**6 215**	**0.8**	5 577	0.8	8 025	1.1
Additional Tier 1	**4 271**	**0.6**	2 665	0.3	4 364	0.6
Tier 2 capital	**21 862**	**2.8**	14 659	2.1	15 213	2.0
Total qualifying capital (including unappropriated profits)	**129 003**	**16.7**	116 461	16.1	118 899	16.1
Normalised qualifying capital (including unappropriated profits)	**120 793**	**15.7**	104 746	14.5	109 602	14.9

Leverage

Group	June 2018	March 2018	December 2017	September 2017
Leverage ratio exposure (Rm)	**1 407 707**	1 332 584	1 311 893	1 318 673
Tier 1 capital (excluding unappropriated profits) (Rm)	**100 926**	94 317	95 661	98 736
Tier 1 capital (including unappropriated profits) (Rm)	**107 141**	100 963	103 686	103 875
Leverage ratio (excluding unappropriated profits) (%)	**7.2**	7.1	7.3	7.5
Leverage ratio (including unappropriated profits) (%)	**7.6**	7.6	7.9	7.9
Normalised leverage ratio (including unappropriated profits) (%)	**7.0**	6.9	7.2	7.0
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0	4.0	4.0

[1] Percentage of capital to RWAs.

[2] Reserves exclude unappropriated profits.

7. Treasury risk

7.4 Capital risk (continued)

7.4.3 General information about capital risk (continued)

7.4.3.2 Reporting (continued)

Capital supply

Breakdown of qualifying capital

Absa Bank Limited[1]	June 2018 Rm	June 2018 %[2]	June 2017 Rm	June 2017 %[2]	December 2017 Rm	December 2017 %[2]
Common equity Tier 1	68 609	12.7	69 320	13.2	68 194	12.6
Ordinary share capital	304	0.1	304	0.1	304	0.1
Ordinary share premium	36 880	6.8	36 880	7.0	36 880	6.8
Reserves[3]	35 219	6.5	37 068	7.0	37 545	6.9
Deductions	(3 794)	(0.7)	(4 932)	(0.9)	(6 535)	(1.2)
Goodwill	(144)	(0.0)	(112)	(0.0)	(112)	(0.0)
Amount by which expected loss exceeds eligible provisions	(273)	(0.1)	(1 924)	(0.4)	(2 139)	(0.4)
Other deductions	(3 377)	(0.6)	(2 896)	(0.5)	(4 284)	(0.8)
Additional Tier 1 capital	3 357	0.6	2 293	0.4	3 812	0.7
Tier 1 capital	71 966	13.3	71 613	13.6	72 006	13.3
Tier 2 capital	20 718	3.8	15 154	2.9	15 024	2.8
Instruments recognised as Tier 2 capital	20 401	3.7	15 023	2.9	14 917	2.8
General allowance for impairment losses on loans and advances – standardised approach	317	0.1	131	0.0	107	0.0
Total qualifying capital (excluding unappropriated profits)	92 684	17.1	86 767	16.5	87 030	16.1
Qualifying capital (including unappropriated profits)						
Tier 1 capital	76 276	14.1	76 541	14.5	76 454	14.1
CET 1 (excluding unappropriated profits)	68 609	12.7	69 320	13.2	68 194	12.6
Unappropriated profits	4 310	0.8	4 928	0.9	4 448	0.8
Additional Tier 1	3 357	0.6	2 293	0.4	3 812	0.7
Tier 2 capital	20 718	3.8	15 154	2.9	15 024	2.8
Total qualifying capital (including unappropriated profits)	96 994	17.9	91 695	17.4	91 478	16.9
Normalised qualifying capital (including unappropriated profits)	88 297	16.3	79 980	15.2	81 513	15.0

Leverage

Absa Bank Limited[1]	June 2018	March 2018	December 2017	September 2017
Leverage ratio exposure (Rm)	1 210 529	1 178 080	1 153 338	1 136 516
Tier 1 capital (excluding unappropriated profits) (Rm)	71 966	71 971	72 006	72 860
Tier 1 capital (including unappropriated profits) (Rm)	76 276	75 233	76 454	75 640
Leverage ratio (excluding unappropriated profits) (%)	6.0	6.1	6.2	6.4
Leverage ratio (including unappropriated profits) (%)	6.3	6.4	6.6	6.7
Normalised leverage ratio (including unappropriated profits) (%)	5.6	5.6	5.8	5.6
Board target leverage ratio (%)	≥4.5	≥4.5	≥4.5	≥4.5
Minimum required leverage ratio (%)	4.0	4.0	4.0	4.0

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.

7. Treasury risk

7.4 Capital risk (continued)

7.4.3 General information about capital risk (continued)

7.4.3.2 Reporting (continued)

Economic capital adequacy

Economic capital (EC) provides a common basis on which to aggregate and compare different risks using a forward-looking, single measure of risk. It is a critical input into the internal capital adequacy assessment process and in capital allocation decisions, which supports shareholder value creation. EC considers risk types, which not only lead to potential operating losses but can also result in lower than expected earnings.

In the table below EC demand is presented at a 99.9% confidence level. 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.

EC demand	June 2018[1] Rm	June 2017[2] Rm	December 2017[1] Rm
Retail credit risk	**14 887**	14 502	13 451
Securitisation	**30**	34	31
Wholesale credit risk	**40 221**	35 516	36 370
Residual value risk	**395**	353	402
Operational risk	**6 569**	6 097	6 140
Traded market risk	**2 756**	2 249	2 732
Non-traded market risk	**5 398**	5 999	5 397
Equity investment risk	**1 555**	1 722	1 548
Property and equipment risk	**10 320**	8 828	8 730
Insurance risk	**2 921**	2 799	3 104
Business risk	**5 364**	5 398	5 364
Total EC requirement	**90 416**	83 497	83 269
IFRS total EC AFR	**127 914**	115 316	117 129[3]
IFRS total EC excess	**37 498**	31 819	33 860
IFRS EC coverage ratio	**1.41**	1.38	1.41
Normalised total EC AFR	**119 222**	103 602	107 292[3]
Normalised total EC excess	**28 806**	20 105	24 023
Normalised EC coverage ratio	**1.32**	1.24	1.29

7.5 Interest rate risk in the banking book (IRRBB)

7.5.1 Review of current reporting period

Key risk metrics	June 2018	June 2017	December 2017
Banking book net interest income (NII) sensitivity for a 2% downward shock in interest rates (Rm)	**(2 517)**	(2 703)	(1 934)

- Banking book NII sensitivity decreased year-on-year, remaining within risk appetite. The Group remained positively exposed to increases in interest rates after the impact of hedging.

7.5.2 Priorities

- Retain focus on regulatory changes, specifically preparing for the adoption of 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.

[1] EC demand and AFR reported on a spot basis.
[2] June 2017 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.
[3] December 2017 IFRS and normalised total EC AFR was restated post the release of the 2017 year-end financial results, due to the enhancement of the EC framework.

7.5 Interest rate risk in the banking book (IRRBB) (continued)

7.5.3 General information about 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 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.

The techniques that are used to measure IRRBB include:

- Re-pricing profiles.
- Annual earnings at risk (AEaR)/net interest income (NII) sensitivity.
- Daily value at risk (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 approved by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk teams with oversight provided by in-country ALCO, together with Market Risk at the Group.

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 is used for measuring IRRBB. 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.

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.

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.

7. Treasury risk

7.5 Interest rate risk in the banking book (IRRBB) (continued)

7.5.3 General information about IRRBB (continued)

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 **R2.52bn** (30 June 2017: R2.7bn). A similar increase would result in an increase in projected 12-month net interest income of **R2.4bn** (30 June 2017: R2.5bn). On this basis AEaR expressed as a sensitivity to a 200 bps parallel decrease in all market interest rates decreased by 1% to **5.8%** of the Group's net interest income.

AEaR for 100 and 200 bps changes in market interest rates

	June 2018			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	**(1 911)**	**(804)**	**897**	**1 789**
Foreign subsidiaries' bank books[2] (Rm)	**(606)**	**(303)**	**303**	**606**
Total (Rm)	**(2 517)**	**(1 107)**	**1 200**	**2 395**
Percentage of the Group's NII (%)	**(5.8)**	**(2.6)**	**2.8**	**5.5**
Percentage of the Group's equity (%)	**(2.1)**	**(0.9)**	**1.0**	**2.0**

	June 2017			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book[1] (Rm)	(2 117)	(863)	961	1 928
Foreign subsidiaries' bank books[2] (Rm)	(586)	(293)	293	586
Total (Rm)[2]	(2 703)	(1 156)	1 254	2 514
Percentage of the Group's NII (%)	(6.8)	(2.9)	3.2	6.4
Percentage of the Group's equity (%)	(3.3)	(1.4)	1.6	3.1

	December 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' bank books[2] (Rm)	(530)	(265)	265	530
Total (Rm)[2]	(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

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

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

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8. Operational risk

8. Operational risk

Operational risk is the risk of loss to the Group from inadequate or failed processes or systems, human factors or due to external events where the root cause is not due to credit or market risks.

8.1 Review of current reporting period

	June		December
Key risk metrics	**2018**	2017	2017
Total losses as a percentage of gross income (%)	**0.5**	0.3	0.3
Total operational risk losses (Rm)	**176**	121	240
Operational RWA (Rm)	**108 895**	103 487	105 730

- **Total operational risk losses:** Losses for the year are driven mainly by fraud (cards and electronic channels), whilst also noting that the prior period was offset by a significant recovery on a payment related loss incurred in 2015. In line with the nature of the business, the main contributors to operational losses remain fraud and transaction processing-related issues.
- **Operational risk RWA:** RWA increased by R5.4bn due to higher operating income in Rest of Africa resulting in a higher capital requirement under the standardised approach (TSA), and application of TSA floor in advanced measurement approach (AMA) entities.
- Key achievements:
  - Migration of critical systems to a new data centre, with enhanced resilience capability.
  - Development of a converged security strategy and improved fraud capability in our Digital Business.
  - Articulation of a set of data standards to manage key datasets across the organisation.
  - Further strengthening of the new and amended product approval governance and process.
  - Delivery of a number of National Credit Act commitments, including in duplum and external debt collector cost remediation.

8.2 Priorities

- Continued focus on the Group's cyber strategy, specifically implementing core security infrastructure.
- Continued focus on improving our technology disaster recovery capability.
- Implementation of the risk-based approach to financial crime and protection of our customers against fraud threats, particularly in online channels.
- Roll-out of the infrastructure, capability and control processes over key datasets, in line with our data standards.
- Improved privacy controls, including requirements of the draft Protection of Personal Information Act (PoPIA).
- Further information on the Group's approach to tax and tax contribution is set out in the Global Reporting Initiative (GRI) Report.

8.3 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.

8.3.1 Risk identification and management

The Group's operational risk management objectives are to:

- Articulate an appropriate level of risk appetite for operational risk, which 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 that 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 on-boarding 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 PLC, and related people and project management risks.

8. Operational risk

8.3 General information about operational risk (continued)

8.3.1 Risk identification and management (continued)

8.3.1.1 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 is managed within the defined risk appetite. An understanding of how much risk is tolerable is 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.

8.3.1.2 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 an 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.

8. Operational risk

8.3 General information about operational risk (continued)

8.3.1 Risk identification and management (continued)

8.3.1.2 Management of operational risk (continued)

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.

8.3.2 Insurance

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

8.3.3 Governance

The Executive Risk Committee (ERC) is the executive body responsible for the oversight and challenge of operational risk in the Group. The ERC presents relevant risk profile information to the GRCMC and GACC. The ERC 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 ERC and the overarching principles of the ERMF.

8. Operational risk

8.3 General information about operational risk (continued)

8.3.4 Reporting

The ongoing 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.

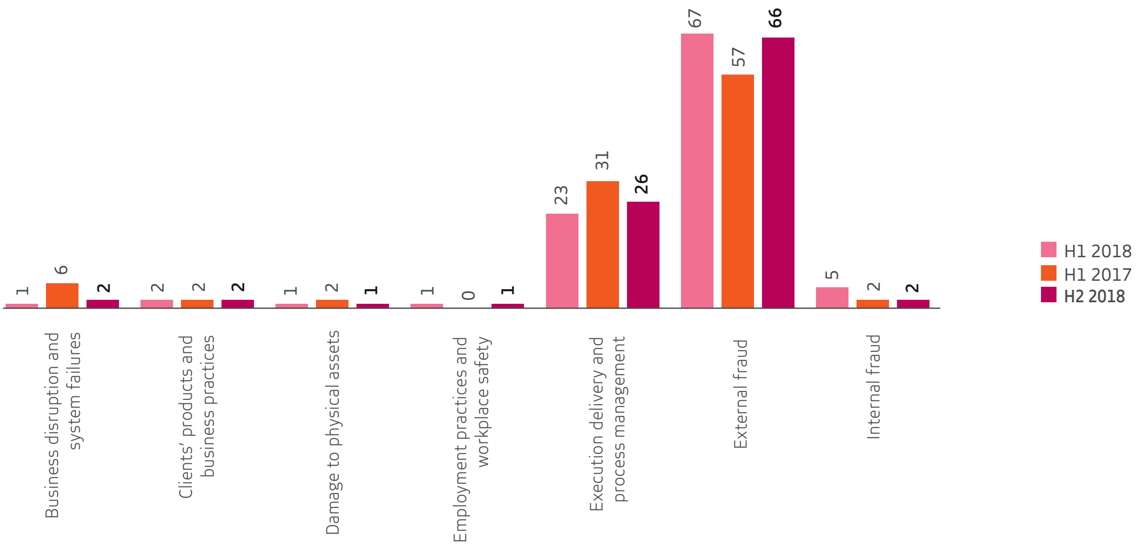
8.3.4.1 Operational risk events

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

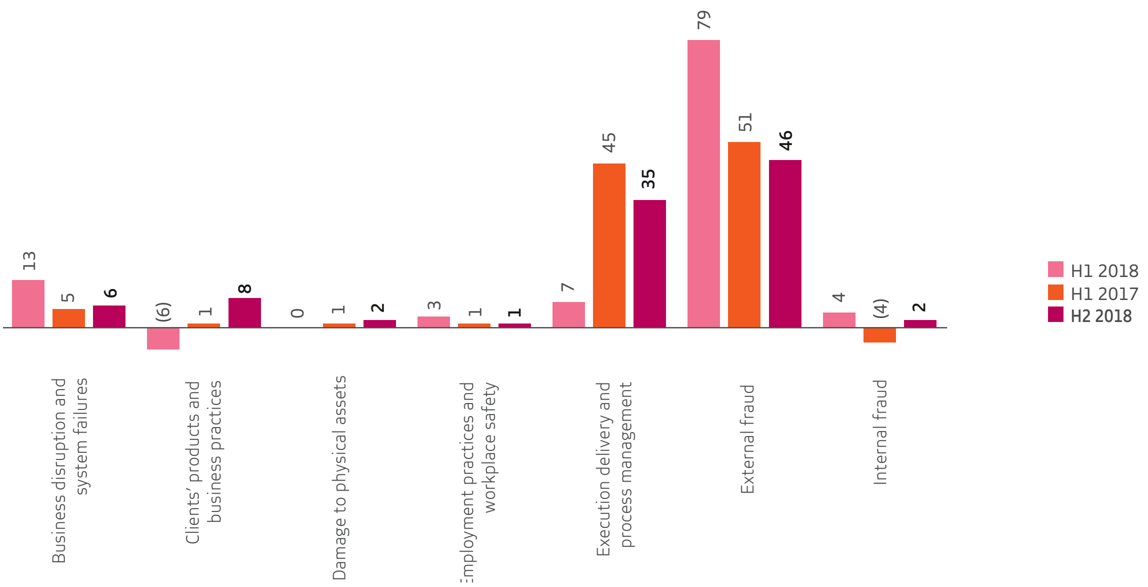
The Group monitors trends in operational risk events by size (count and value), product line and internal risk categories (including key risk). For comparative purposes, the analysis below presents the operational risk events by Basel II category. The highest frequency of events for the period occurred in external fraud (66%). This pattern is in line with the nature of operational risk and the environment in which the Group operates.

The highest portion of losses by value during H1 2018 occurred in external fraud (46%) and execution, delivery and process management (mainly transaction processing related issues) (35%).

Total risk events by count (%)



Total risk events by value (%)



9. Model risk

9. Model risk

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

9.1 Review of current reporting period

- In light of the Barclays PLC separation the following Absa Group documents were formalised: Model Risk Management Framework; Group Model Risk Policy (GMRP); and supporting standards.
- Model development initiatives completed in 2017 were implemented in early 2018, namely new IFRS9 credit impairment models and several regulatory model suites.
- Significant progress made in the design and implementation of the strategic model implementation platform and migration to this platform is under way.

9.2 Priorities

- 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 be completed during the second half of 2018.

9.3 General information about model risk

9.3.1 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 institutionalises independent validation and approval of models. The GMRP is supported by standards addressing the requirements of the following:

- Model development and documentation.
- Model validation.
- Model materiality.
- GMD and workflow.
- Model monitoring.
- Model implementation.
- Model annual review.
- Post model adjustment.
- Vendor models.

9. Model risk

9.3 General information about model risk (continued)

9.3.1 Risk identification and management (continued)

Risk Management (continued)

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 Group'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 the 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.

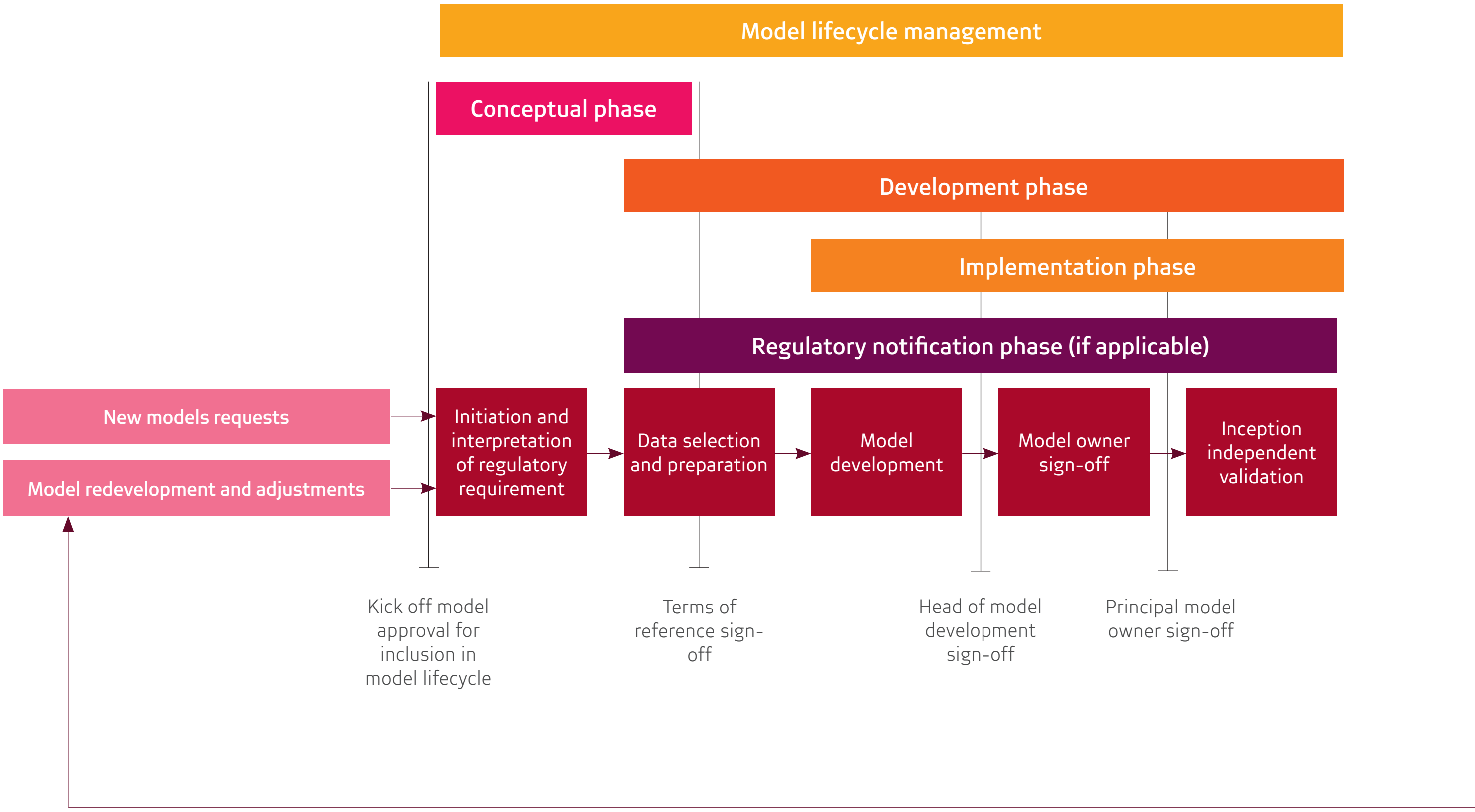
IVU is responsible for independently validating each model, assessing whether it is fit for purpose. Models are validated and approved prior to use.

9. Model risk

9.3 General information about model risk (continued)

9.3.2 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 model approval forum.

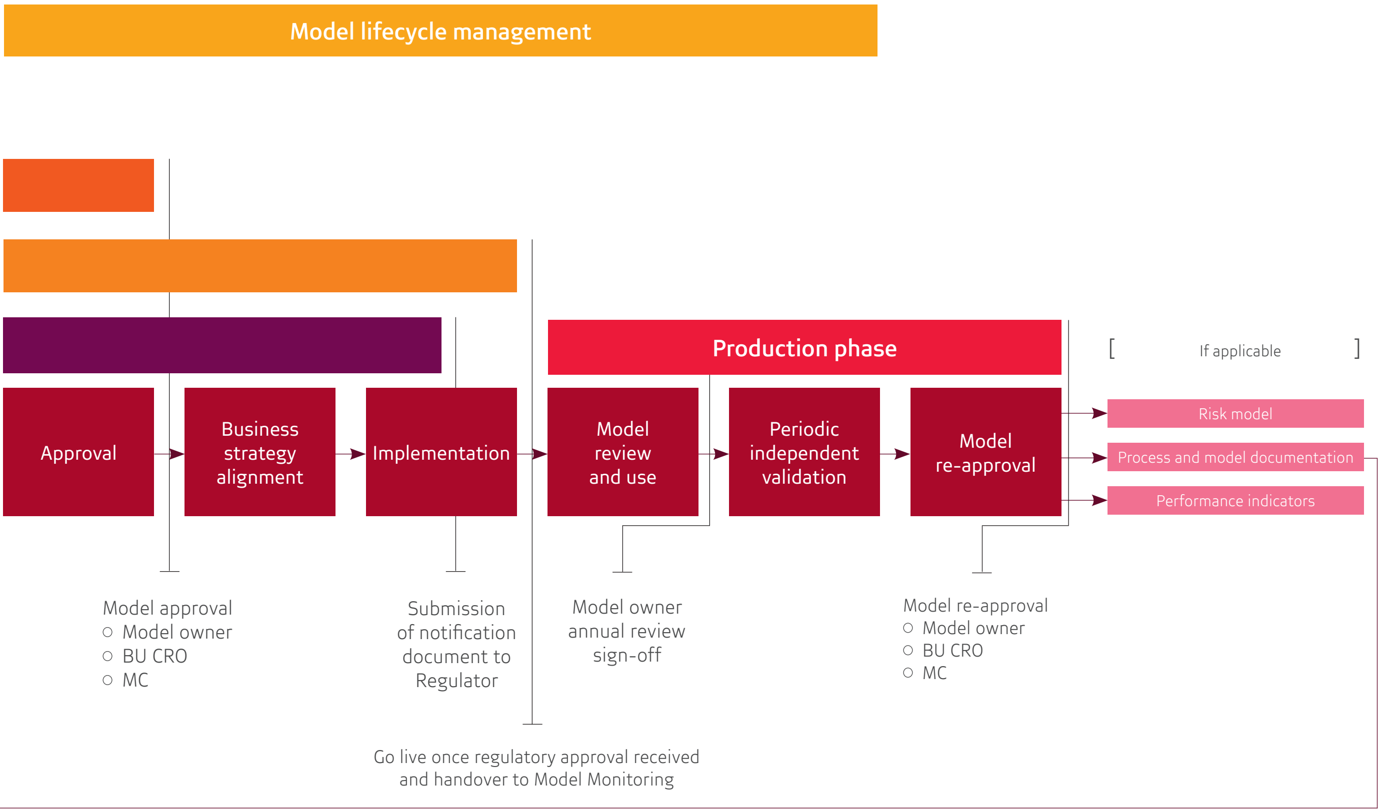
The scope of the GMRP includes models such as RC, EC, stress testing, impairment and scorecards for both the bank and insurance businesses. Model risk controls have been documented in Risk and Control Self-Assessment (RCSA) and are tested on an annual basis.

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.

9. Model risk


Model lifecycle management
Production phase
[If applicable]
Approval
Business strategy alignment
Implementation
Model review and use
Periodic independent validation
Model re-approval
Risk model
Process and model documentation
Performance indicators
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

9. Model risk

9.3 General information about model risk (continued)

9.3.3 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:

	June 2018			June 2017			December 2017		
	AIRB %	AIRB roll-out plan %	Standardised %	AIRB %	AIRB roll-out plan %	Standardised %	AIRB %	AIRB roll-out plan %	Standardised %
Retail South Africa	37.6	0.7	—	38.3	0.9	—	38.9	0.9	—
Wholesale South Africa	45.3	—	—	45.9	—	—	45.7	—	—
Rest of Africa	—	—	16.4	—	—	14.9	—	—	14.5
Total	82.9	0.7	16.4	84.2	0.9	14.9	84.6	0.9	14.5

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

	June 2018			June 2017			December 2017		
	PD #	LGD #	EAD #	PD #	LGD #	EAD #	PD #	LGD #	EAD #
Retail South Africa	9	8	8	8	7	7	9	8	8
Wholesale South Africa	13	4	1	12	3	1	13	4	1
Rest of Africa	—	—	—	—	—	—	—	—	—
Total	22	12	9	20	10	8	22	12	9

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84.17
0.02
0.03%
Open 93.49
Close
Prev Open 92.17
Prev Close 93.14
Volume 3.56M
Avg Volume 6.41M
Market Cap 17.2B
News
Quarterly Report Published
New Line Of Products Announced
Company Change Revenue Projections

10. Abbreviations and acronyms

Abbreviations and acronyms

A

AEaR	Annual earnings at risk
AFR	Available financial resources
AFS	Absa financial statements
AIRB	advanced internal ratings-based approach
AMA	advanced measurement approach

B

Basel	Basel Capital Accord
BCBS	Basel Committee on Banking Supervision
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
CET 1	Common Equity Tier 1
CFP	contingency 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 Reputational Risk Committee
CSA(s)	collateral support annexure(s)
CVA	credit valuation adjustment

D

dpd	days past due
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
ERC	Executive Risk Committee
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

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	Absa Group Limited
G-SIBs	global systemically important banks

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	interest models method
IP	intellectual property
IPRCF	Insurance Principal Risk Control Framework
IRB	interest 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 indicator
KRI	key risk indicator
KRO	Key Risk Officer
KRS	Key Risk Scenarios

L

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

Abbreviations and acronyms

M

MC	Models Committee
MCA	management control approach
MCI	material 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

PA	Prudential Authority
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	Social and Ethics Committee
SFA	supervisory formula approach
SFTs	securities financing transactions
SL	specialised lending
SME	small and medium-sized enterprises
SOC	Separation Oversight Committee
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

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