



Absa Group Limited

Pillar 3 risk management report

for the reporting period ended 31 March 2020



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Introduction

The Pillar 3 risk management report provides the prescribed quarterly view of Absa Group Limited (the Group) regulatory capital, risk exposures, leverage and liquidity position. It complies with:

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Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), where not superseded by the Pillar 3 disclosure requirements.

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 information in this report is unaudited.

1. Key prudential metrics and RWA

In line with regulatory and accounting requirements, the capital and leverage position of the Group and the Bank in this document are reflected on a regulatory basis (which requires unappropriated profits to be excluded), and in accordance with IFRS accounting rules (which requires the impact of the contribution amounts received from Barclays PLC as part of the separation to be included). However, the capital and leverage position of the Group is also managed on a statutory, normalised basis (which includes unappropriated profits, and excludes the impact of the contribution amounts received from Barclays PLC). The summary table below provides key capital adequacy and liquidity information on both normalised and statutory, IFRS basis as at 31 March 2020.

1.1 Capital adequacy and liquidity

	Board target ranges %	Minimum RC requirements %	Normalised Group performance 31 Mar 2020	Normalised Group performance 31 Dec 2019	IFRS Group performance 31 Mar 2020	IFRS Group performance 31 Dec 2019
Statutory capital ratios (includes unappropriated profits) (%)						
Common equity tier 1 (CET1)	11.00 – 12.00		11.1	11.8	11.3	12.1
Tier 1	12.00 – 13.00		12.0	12.7	12.2	13.0
Total capital adequacy requirement (CAR)	14.50 – 15.50		14.8	15.5	15.0	15.8
Leverage	5.00 – 7.00		6.6	7.0	6.7	7.2
RC ratios (excludes unappropriated profits) (%)						
CET1		7.5			11.0	11.6
Tier 1		9.3			11.9	12.5
Total CAR		11.5			14.7	15.3
Leverage		4.0			6.6	6.9
Liquidity coverage ratio (LCR) (%)					120.8	134.4
Net stable funding ratio (%)					112.1	112.7

Capital

The capital adequacy ratios remain strong, above the minimum regulatory requirements and within Board target range. Absa Group's statutory CET1 ratio (calculated on a normalised basis) declined by 70bps over Q1 2020, driven by payment of the final 2019 dividend of R5.2bn or 55bps of the decrease. Higher capital deductions due to higher valuation reserves and a higher available for sale reserve, together with the IFRS 9 transitional adjustment contributed to the remaining reduction.

- Capital demand increased by R69.4bn, of which R40bn related to Rand weakness. The increased capital demand due to currency movements was offset by R6bn additional supply from Absa Regional Operations (ARO) entities due to the weaker exchange rate.
- Constant currency RWA growth of R29bn was primarily in Corporate and Investment Banking (CIB) due to asset growth, probability of default (PD) migration and FX volatility. Counterparty credit risk and market risk were also a drag on consumption, given the market dislocation in March. An offset of R9bn came from the sale of the Edcon storecard book which concluded in February 2020.
- Capital deductions reduced the capital ratio, as the stressed market environment in March resulted in a quarter-on-quarter (QoQ) increase in valuation reserves and available for sale reserve which increased from R0.6bn to R2.5bn combined.
- The IFRS 9 phasing adjustment reduced capital supply by R0.9bn and will be fully phased in by 2021.
- The Group redeemed R2.5bn and issued R2.7bn of Tier 2 capital during February 2020. The capital markets for further issuances are currently uncertain, although the Group has minimal redemptions for the remainder of 2020.

The leverage ratio (calculated on a normalised basis) has reduced from 7.0% to 6.6%. This is due to an increase in leverage exposures as the balance sheet grew due to customer and interbank lending in combination with the weaker currency, which was only partially offset by a growth in Tier 1 capital.

In response to the COVID-19 stress, the Prudential Authority issued Directive 2 of 2020, which temporarily reduces the current Pillar 2A minimum capital from 50bps at a CET1 level, 75bps at a Tier 1 level and 100bps at a total capital level to zero. The capital conservation buffer of 2.5% has also been made available for banks to utilize during the COVID-19 stress. The Prudential Authority Directive 2 of 2020 is effective from 6 April 2020.

Liquidity

- The liquidity coverage ratio and net stable funding ratio remain strong, above the minimum regulatory requirements and within risk appetite.
- The QoQ decrease in the liquidity coverage ratio from 134.4% to 120.8% was mainly attributable to an increase in net cash outflows as a result of wholesale funding clients reducing the duration of their deposits, given the stressed financial market conditions in March 2020. The Prudential Authority released Directive 1 of 2020, reducing the LCR minimum from 100% to 80% due to the COVID-19 market stress. The Prudential Authority Directive 1 of 2020 is effective from 1 April 2020.
- The net stable funding ratio decreased slightly QoQ, from 112.7% to 112.1%, due to the above-mentioned shortening in duration of wholesale funding.

1. Key prudential metrics and RWA

1.2 KM1: Key metrics (at consolidated group level)

In line with the requirements of IFRS 9, which became effective on 1 January 2018, the Group moved from the recognition of credit losses on an incurred loss basis to an expected credit loss (ECL) basis. The Group elected to utilise the transition period of three years for phasing in the regulatory capital impact of IFRS 9, as afforded by Directive 5. The table below reflects the capital and leverage position of the Group on a fully loaded basis, as well as on a transitional basis.

The Prudential Authority have issued Directive 2 of 2020 which temporarily reduces Pillar 2A minimum capital requirement to zero. This relief is effective from 6 April 2020; therefore, the disclosures below do not include the Pillar 2A reduction.

Group	a 31 Mar 2020 Rm	b 31 Dec 2019 Rm	c 30 Sep 2019 Rm	d 30 Jun 2019 Rm	e 31 Mar 2019 Rm
Available capital (Rm)					
1 CET1 transitional basis	103 450	100 637	100 115	95 034	95 984
1a Fully loaded ECL accounting model	102 586	98 909	98 387	93 306	94 256
2 Tier 1 transitional basis	111 636	109 062	107 216	102 101	101 341
2a Fully loaded ECL accounting model Tier 1	110 772	107 334	105 488	100 373	99 613
3 Total capital transitional basis	137 789	133 411	130 726	124 669	122 187
3a Fully loaded ECL accounting model total capital	136 924	131 683	128 998	122 941	120 459
RWA (Rm)					
4 Total RWA transitional basis	939 800	870 406	884 742	844 332	832 028
4a Fully loaded RWA	936 226	863 260	877 595	837 186	824 882
Risk-based capital ratios as a percentage of RWA (%)					
5 CET1 ratio transitional basis ¹	11.0	11.6	11.3	11.3	11.5
5a Fully loaded ECL accounting model CET1 ¹	11.0	11.5	11.2	11.2	11.4
6 Tier 1 ratio transitional basis	11.9	12.5	12.1	12.1	12.2
6a Fully loaded ECL accounting model Tier 1 ratio	11.8	12.4	12.0	12.0	12.1
7 Total capital ratio transitional basis	14.7	15.3	14.8	14.8	14.7
7a Fully loaded ECL accounting model total capital ratio	14.6	15.2	14.7	14.7	14.6
Additional CET1 buffer requirements as a percentage of RWA (%)					
8 Capital conservation buffer requirement	2.5	2.5	2.5	2.5	2.5
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)	2.5	2.5	2.5	2.5	2.5
12 CET1 available after meeting the bank's minimum capital requirements	3.5	4.1	3.8	3.8	4.0
Basel III leverage ratio					
13 Total Basel III leverage ratio exposure measure (Rm)	1 703 322	1 572 845	1 638 103	1 597 486	1 586 022
14 Basel III leverage ratio (%) (row 2 / row 13) transitional basis	6.6	6.9	6.5	6.4	6.4
14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)	6.5	6.8	6.4	6.3	6.3
Liquidity coverage ratio⁴					
15 Total high-quality liquid assets (HQLA) (Rm)	176 982	182 093	183 757	179 203	187 500
16 Total net cash outflow (Rm)	146 514	135 510	149 051	141 104	160 559
17 LCR (%)	120.8	134.4	123.3	127.0	116.8
Net stable funding ratio					
18 Total available stable funding (ASF) (Rm)	928 531	866 368	868 808	834 432	827 614
19 Total required stable funding (RSF) (Rm)	828 278	768 850	769 183	749 331	750 073
20 Net stable funding ratio (NSFR) (%)	112.1	112.7	113.0	111.4	110.3

¹ The difference between the CET1 ratio on a transitional basis and the fully loaded ECL accounting model total capital ratio is less than 5bps, hence no difference is shown.

² The countercyclical buffer is not required for banks in South Africa.

³ The D-SIB add on is not required to be disclosed.

⁴ The Group LCR reflects an aggregation of the Absa Bank LCR and the LCR of ARO. For this purpose, a simple average of the relevant 3 month-end data points is used in respect of ARO. In respect of Absa Bank, the LCR was calculated as a simple average of 90 calendar-day LCR observations.

1. Key prudential metrics and RWA

1.3 OV1: Overview of RWA

	Group			Bank ¹		
	a	b	c	a	b	c
	31 Mar 2020 RWA Rm	31 Dec 2019 RWA Rm	31 Mar 2020 MCR ² Rm	31 Mar 2020 RWA Rm	31 Dec 2019 RWA Rm	31 Mar 2020 MCR ² Rm
1 Credit risk (excluding counterparty credit risk (CCR))	692 173	632 682	79 600	463 177	444 506	53 266
2 Of which: standardised approach (SA)	216 319	183 801	24 877	266	9 083	31
3 Of which: foundation internal rating based (FIRB) approach	-	-	-	-	-	-
4 Of which: supervisory slotting approach	-	-	-	-	-	-
5 Of which: advanced internal ratings based (AIRB) approach	475 854	448 881	54 723	462 911	435 423	53 235
6 CCR	18 926	15 703	2 176	16 838	14 546	1 936
7 Of which: SA-CCR ³	18 926	15 703	2 176	16 838	14 546	1 936
8 Of which: internal model method (IMM)	-	-	-	-	-	-
9 Of which: other CCR	-	-	-	-	-	-
10 Credit valuation adjustment (CVA)	9 291	12 092	1 068	9 291	12 092	1 068
11 Equity positions under the simple risk weigh approach	4 822	4 252	555	1 798	1 865	207
12 Equity investments in funds – look-through approach	7 761	7 761	893	496	367	57
13 Equity investments in funds – mandate-based approach	-	-	-	-	-	-
14 Equity investments in funds – fall-back approach	-	-	-	-	-	-
15 Settlement risk	1 359	817	156	1 309	765	150
16 Securitisation exposures in banking book	232	232	27	232	232	27
17 Of which: IRB ratings-based approach (SEC-IRBA)	232	232	27	232	232	27
18 Of which: securitisation external RBA (SEC-ERBA), including internal assessment approach (IAA)	-	-	-	-	-	-
19 Of which: securitisation SA (SEC-SA)	-	-	-	-	-	-
20 Traded market risk	48 184	39 231	5 541	32 631	25 874	3 752
21 Of which: SA	23 322	18 540	2 682	7 769	5 183	893
22 Of which: internal model approach (IMA)	24 862	20 691	2 859	24 862	20 691	2 859
23 Capital charge for switch between trading book and banking book	-	-	-	-	-	-
24 Operational risk	102 915	102 915	11 835	63 105	63 105	7 257
Non-customer assets	28 444	27 331	3 271	19 897	20 381	2 288
25 Amounts below the thresholds for deduction (subject to 250% risk weight)	16 260	17 957	1 870	3 581	5 077	412
26 Floor adjustment ⁴	9 433	9 433	1 085	13 090	13 090	1 505
27 Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26+non-customer assets)	939 800	870 406	108 077	625 445	601 900	71 926

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

² The 2020 minimum regulatory capital requirement of 11.5% includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the domestically systemically important bank (D-SIB) add-on. The Pillar 2A reduction of 100bps per the guidance in the SARB directives has not been taken into account in determining the minimum regulatory capital requirement above as this is only effective from 1 April 2020.

³ SA-CCR amount is calculated using the current exposure method (CEM).

⁴ Includes the operational risk floor.

1. Key prudential metrics and RWA

1.4 CR8: RWA flow statements of credit risk exposures under IRB

	a 31 Mar 2020 RWA Rm ¹
1 RWA as at end of previous reporting period	441 374
2 Asset size	30 906
3 Asset quality	-
4 Model updates	-
5 Methodology and policy	-
6 Acquisitions and disposals	-
7 Foreign exchange movements	-
8 Other	-
9 RWA as at end of reporting period	472 280

1.5 MR2: RWA flow statements of market risk exposures under IMA

	31 Mar 2020						Total capital require- ment ³ Rm
	a VaR Rm	b sVaR Rm	c IRC ² Rm	d CRM Rm	e Other Rm	f Total RWA Rm	
1 RWA at previous quarter end	6 370	14 321	-	-	-	20 691	2 379
2 Movements in risk levels	2 298	1 873	-	-	-	4 171	480
3 Model updates/changes	-	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-	-
6 Other	-	-	-	-	-	-	-
7 RWA at end of reporting period	8 668	16 194	-	-	-	24 862	2 859

¹ Excludes R3.57bn relating to IFRS9 RWA impact phase in.

² IRC: incremental risk charge

³ Calculated at 11.5% of RWA

2. Leverage

Consistent with the treatment in table KM1, the leverage position below is shown on a regulatory, IFRS basis.

2.1 LR1: Summary comparison of accounting assets versus leverage ratio exposure measure

	Group		Bank	
	31 Mar 2020 Rm	31 Dec 2019 Rm	31 Mar 2020 Rm	31 Dec 2019 Rm
1 Total consolidated assets	1 587 583	1 399 175	1 310 417	1 159 827
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(35 779)	(37 820)	-	-
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-	-
4 Adjustments for derivative financial instruments	(54 450)	(3 887)	(52 966)	(3 381)
5 Adjustments for securities financing transactions (i.e. repos and similar secured lending)	-	-	-	-
6 Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	217 874	227 361	170 842	179 450
7 Other adjustments	(11 906)	(11 984)	(10 364)	(10 442)
8 Leverage ratio exposure measure	1 703 332	1 572 845	1 417 929	1 325 454

2. Leverage

2.2 LR2: Leverage ratio common disclosure template

	Group		Bank	
	a		a	
	31 Mar 2020 Rm	31 Dec 2019 Rm	31 Mar 2020 Rm	31 Dec 2019 Rm
On-balance sheet exposures				
1 On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1 354 128	1 229 978	1 114 431	1 028 847
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(11 236)	(11 752)	(9 899)	(9 911)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	1 342 892	1 218 226	1 104 532	1 018 936
Derivative exposures				
4 Replacement cost associated with all derivative transactions (where applicable net of eligible cash variation margin and/ or with bilateral netting)	33 974	21 909	33 974	21 909
5 Add-on amounts for PFE associated with all derivative transactions	30 156	26 228	30 156	26 228
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-	-	-
7 (Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-	-	-
8 (Exempted CCP leg of client-cleared trade exposures)	-	-	-	-
9 Adjusted effective notional amount of written credit derivative	9 458	8 925	9 458	8 925
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
11 Total derivative exposures (sum of rows 4 to 10)	73 588	57 062	73 588	57 062
Security financing transaction exposures				
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	68 968	70 196	68 967	70 004
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-
14 CCR exposure for SFT assets	-	-	-	-
15 Agent transaction exposures	-	-	-	-
16 Total securities financing transaction exposures (sum of rows 12 to 15)	68 968	70 196	68 967	70 004
Other off-balance sheet exposures				
17 Off-balance sheet exposures at gross notional amount	398 127	391 354	335 936	332 915
18 (Adjustments for conversion to credit equivalent amounts)	(180 253)	(163 993)	(165 094)	(153 465)
19 Off-balance sheet items (sum of rows 17 and 18)	217 874	227 361	170 842	179 450
Capital and total exposures				
20 Tier 1 capital (excluding unappropriated profits)	111 636	109 062	73 275	76 306
21 Total exposures (sum of lines 3, 11, 16 and 19) excluding IFRS 9 adjustment	1 703 322	1 572 845	1 417 929	1 325 454
Leverage ratio				
22 Basel III leverage ratio ¹	6.6	6.9	5.2	5.8

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

3. Liquidity

3.1 LIQ1: Liquidity coverage ratio (LCR)

	Group ¹		Bank ²	
	a	b	a	b
	31 Mar 2020		31 Mar 2020	
	Total unweighted value (average) Rm	Total weighted value (average) Rm	Total unweighted value (average) Rm	Total weighted value (average) Rm
High-quality liquid assets (HQLA)				
1 Total HQLA		176 982		159 547
Cash outflows				
2 Retail deposits and deposits from small business customers, of which:	372 168	28 033	282 317	20 380
3 Stable deposits	-	-	-	-
4 Less stable deposits	372 168	28 033	282 317	20 380
5 Unsecured wholesale funding, of which:	366 102	194 684	299 835	164 491
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	109 109	27 277	109 109	27 277
7 Non-operational deposits (all counterparties)	249 672	160 086	185 635	132 123
8 Unsecured debt	7 321	7 321	5 091	5 091
9 Secured wholesale funding		1 855		1 855
10 Additional requirements, of which:	318 501	35 528	288 511	32 116
11 Outflows related to derivative exposures and other collateral requirements	13 158	13 158	12 440	12 440
12 Outflows related to loss of funding on debt products	-	-	-	-
13 Credit and liquidity facilities	305 343	22 370	276 071	19 676
14 Other contractual funding obligations	467	467	467	467
15 Other contingent funding obligations	194 508	9 423	155 320	7 591
16 Total cash outflows		269 990		226 900
Cash inflows				
17 Secured lending (e.g. reverse repos)	29 364	7 821	29 364	7 821
18 Inflows from fully performing exposures	131 331	106 262	100 118	84 260
19 Other cash inflows	9 912	9 393	6 259	5 740
20 Total cash inflows	170 607	123 476	135 741	97 821
		Total weighted value		Total weighted value
High-quality liquid assets (HQLA)				
21 Total HQLA (Rm)		176 982		159 547
22 Total net cash outflows (Rm)		146 514		129 079
23 LCR (%)		120.8		123.6

¹ The Group LCR reflects an aggregation of the Absa Bank LCR and the LCR of Absa Regional Operations (ARO). For this purpose, a simple average of the relevant 3 month-end data points is used in respect of ARO. In respect of Bank, the LCR was calculated as a simple average of 90 calendar-day LCR observations.

² The Bank LCR is calculated on a simple average of 90 calendar-day LCR observations.

4. Abbreviations and acronyms

A	
AIRB	advanced internal ratings-based approach
ARO	Absa Regional Operations
ASF	available stable funding

B	
Bank	Absa Bank Limited
Basel	Basel Capital Accord
BCBS	Basel Committee on Banking Supervision
bps	basis points

C	
CAR	capital adequacy requirement
CCP	central counterparty
CCR	counterparty credit risk
CEM	current exposure method
CET1	common equity tier 1
CIB	Corporate and Investment Banking
CVA	credit valuation adjustment

D	
D-SIBs	domestic systemically important banks

F	
FIRB	foundation internal ratings-based
FX	foreign exchange

G	
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
IFRS	International Financial Reporting Standard(s)
IMA	internal models approach
IMM	internal model method
IRB	internal ratings-based
IRBA	internal ratings-based approach
IRC	incremental risk charge

L	
LCR	liquidity coverage ratio

M	
MCR	minimum capital requirements

N	
NSFR	net stable funding ratio

P	
PFE	potential future exposure

Q	
QoQ	quarter-on-quarter

R	
RBA	ratings-based approach
RSF	required stable funding
RWA	risk-weighted assets

S	
SA	standardised approach
SA-CCR	standardised approach for counterparty credit risk
SEC	securitisation
SFTs	securities financing transactions
sVaR	stressed value at risk

V	
VaR	value at risk

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