



Absa Group Limited

Basel Pillar 3 disclosure report
for the quarter ended 30 September 2020



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Introduction

The Pillar 3 risk management report provides the quarterly view of Absa Group Limited (the Group) and Absa Bank Limited (the Bank) 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the Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), where not superseded by the Pillar 3 disclosure requirements.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 positions of the Group and the Bank in this document are reflected on a regulatory basis (which requires unappropriated profits to be excluded). However, the capital and leverage positions of the Group are also managed on a statutory basis (which includes unappropriated profits). The summary table below provides key capital adequacy and liquidity information on both a regulatory and statutory basis as at 30 September 2020. As at 30 September 2020 all profits in the Group and Bank were appropriated, with the result that regulatory and statutory basis were identical.

1.1 Capital adequacy and liquidity

	Board target ranges ¹ %	Minimum RC requirements ² %	Group		Bank	
			Actual 30 Sep 2020 %	Actual 30 Jun 2020 %	Actual 30 Sep 2020 %	Actual 30 Jun 2020 %
Statutory capital ratios (includes unappropriated profits)						
Common equity tier 1 (CET1)	11.00 – 12.00		11.3	11.0	10.7	10.6
Tier 1	12.00 – 13.00		12.2	11.9	11.7	11.7
Total capital adequacy requirement (CAR)	14.50 – 15.50		15.1	14.9	15.7	15.8
Leverage	5.00 – 7.00		6.5	6.5	5.0	5.1
Regulatory Capital ratios (excludes unappropriated profits)						
CET1		7.5	11.3	11.0	10.7	10.6
Tier 1		9.3	12.2	11.9	11.7	11.7
Total CAR		11.5	15.1	14.9	15.7	15.8
Leverage		4.0	6.5	6.5	5.0	5.1
Liquidity coverage ratio (LCR) (%)			139	127	147	133
Net stable funding ratio (%)			119	117	113	112

Capital

- The Group's CET1 capital position was well above minimum regulatory requirements as at 30 September 2020 and within the Board target range of 11 - 12%.
- Group RWAs decreased by R14.6bn from R935.7bn to R921.1bn from June 2020 to September 2020 mainly within the Absa Regional Operations. This was driven by rand strength combined with the impact of the Group deploying more of its surplus liquidity into low risk securities rather than deposits with banks.
- Group CET1 capital increased by R1.3bn due to higher capital supply supported by improved profitability. At a total capital level, this was offset by a decrease in Tier 2 capital of R1.5bn post the call of subordinated debt during September 2020.
- The Bank leverage ratio has decreased marginally from June 2020. This is due to an increase in leverage exposure as a result of balance sheet growth mainly in investment securities and loans to customers which was partially offset by improvements in capital supply. The Group leverage ratio remained flat due to additional capital supply generated by Group entities.

Liquidity

- The liquidity risk position of the Group is in line with risk appetite, and well above the minimum regulatory requirements.
- The Group liquidity coverage ratio increased to 139% (June 2020: 127%) as the liquidity resources of the Group strengthened over the third quarter of the year and included Absa Bank investing in alternative forms of high-quality liquid assets (HQLA) as the Bank reduces reliance on the committed liquidity facility (CLF), in line with the phase out requirements set out by the Prudential Authority.
- The Group net stable funding ratio strengthened to 119% (June 2020: 117%) with strong core deposit growth from retail and corporate clients.

¹ IFRS capital ratios (including unappropriated profits) are managed against Board capital target ranges.

² The 2020 minimum regulatory capital requirements of 11.5% includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2B add-on).

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 issued by the Prudential Authority. The table below reflects the capital and leverage position of the Group on a fully loaded basis, as well as on a transitional basis.

Group	a 30 Sep 2020 Rm	b 30 Jun 2020 Rm	c 31 Mar 2020 Rm	d 31 Dec 2019 Rm	e 30 Sep 2019 Rm
Available capital (Rm)					
1 Common equity tier 1 (CET1) transitional basis	104 119	102 818	103 450	100 637	100 115
1a Fully loaded ECL accounting model	103 255	101 954	102 586	98 909	98 387
2 Tier 1 transitional basis	112 189	110 885	111 636	109 062	107 216
2a Fully loaded ECL accounting model Tier 1	111 325	110 021	110 772	107 334	105 488
3 Total capital transitional basis	139 143	139 411	137 789	133 411	130 726
3a Fully loaded ECL accounting model total capital	138 279	138 547	136 924	131 683	128 998
RWA (Rm)					
4 Total RWA transitional basis	921 129	935 766	939 800	870 406	884 742
4a Fully loaded RWA	917 556	932 193	936 226	863 260	877 595
Risk-based capital ratios as a percentage of RWA (%)					
5 CET1 ratio transitional basis ¹	11.3	11.0	11.0	11.6	11.3
5a Fully loaded ECL accounting model CET1 ¹	11.3	10.9	11.0	11.5	11.2
6 Tier 1 ratio transitional basis	12.2	11.9	11.9	12.5	12.1
6a Fully loaded ECL accounting model Tier 1 ratio	12.1	11.8	11.8	12.4	12.0
7 Total capital ratio transitional basis ¹	15.1	14.9	14.7	15.3	14.8
7a Fully loaded ECL accounting model total capital ratio ¹	15.1	14.9	14.6	15.2	14.7
Additional CET1 buffer requirements as a percentage of RWA (%)					
8 Capital conservation buffer requirement (2.5% from 2019)	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	0.5	0.5	0.5	0.5	0.5
11 Total of bank CET1 specific buffer requirements (Row 8 + row 9 + row 10)	3.0	3.0	3.0	3.0	3.0
12 CET1 available after meeting the bank's minimum capital requirements ³	3.8	3.5	3.0	3.6	3.3
Basel III leverage ratio					
13 Total Basel III leverage ratio exposure measure (Rm)	1 733 777	1 707 091	1 703 322	1 572 845	1 638 103
14 Basel III leverage ratio (%) (row 2 / row 13) transitional basis	6.5	6.5	6.6	6.9	6.5
14a Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)	6.4	6.4	6.5	6.8	6.4
Liquidity coverage ratio⁴					
15 Total high-quality liquid assets (HQLA) (Rm)	235 845	215 229	176 982	182 093	183 757
16 Total net cash outflow (Rm)	169 516	169 966	146 514	135 510	149 051
17 LCR (%)	139	127	121	134	123
Net stable funding ratio					
18 Total available stable funding (ASF) (Rm)	951 963	952 906	928 531	866 368	868 808
19 Total required stable funding (RSF) (Rm)	800 811	813 876	828 278	768 850	769 183
20 Net stable funding ratio (NSFR) (%)	119	117	112	113	113

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

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

³ SARB Directive 4/2020 requires the D-SIB add on to be disclosed. Previously the disclosure of the D-SIB add on was not a disclosure requirement. Comparatives have been restated to allow for better comparability with prior period disclosures.

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
	30 Sep 2020 RWA Rm	30 Jun 2020 RWA Rm	30 Sep 2020 MCR ² Rm	30 Sep 2020 RWA Rm	30 Jun 2020 RWA Rm	30 Sep 2020 MCR ² Rm
1 Credit risk (excluding counterparty credit risk (CCR))	674 198	680 504	77 533	462 530	455 608	53 191
2 Of which: standardised approach (SA)	200 791	213 908	23 091	112	172	13
3 Of which: foundation internal rating based (FIRB) approach	-	-	-	-	-	-
4 Of which: supervisory slotting approach	-	-	-	-	-	-
5 Of which: advanced internal ratings based (AIRB) approach	473 407	466 596	54 442	462 418	455 436	53 178
6 CCR	17 638	17 719	2 028	15 662	15 701	1 801
7 Of which: SA-CCR ³	17 638	17 719	2 028	15 662	15 701	1 801
8 Of which: internal model method (IMM)	-	-	-	-	-	-
9 Of which: other CCR	-	-	-	-	-	-
10 Credit valuation adjustment (CVA)	9 225	9 469	1 061	9 225	9 469	1 061
11 Equity positions under the simple risk weigh approach	3 970	4 074	457	1 569	1 741	180
12 Equity investments in funds – look-through approach	7 894	8 435	908	508	507	59
13 Equity investments in funds – mandate-based approach	-	-	-	-	-	-
14 Equity investments in funds – fall-back approach	-	-	-	-	-	-
15 Settlement risk	789	1 359	91	717	792	82
16 Securitisation exposures in banking book	2 743	2 830	315	2 743	2 830	315
17 Of which: IRB ratings-based approach (SEC-IRBA)	2 743	2 830	315	2 743	2 830	315
18 Of which: securitisation external RBA (SEC-ERBA), including internal assessment approach (IAA)	-	-	-	-	-	-
19 Of which: securitisation SA (SEC-SA)	-	-	-	-	-	-
20 Traded market risk	43 429	48 759	4 994	30 933	34 786	3 557
21 Of which: SA	20 243	19 736	2 328	7 747	5 763	891
22 Of which: internal model approach (IMA)	23 186	29 023	2 666	23 186	29 023	2 666
23 Capital charge for switch between trading book and banking book	-	-	-	-	-	-
24 Operational risk	107 648	107 648	12 380	68 440	68 440	7 871
Non-customer assets	27 604	27 940	3 174	19 767	19 726	2 273
25 Amounts below the thresholds for deduction (subject to 250% risk weight)	17 993	19 031	2 069	4 328	4 049	498
26 Floor adjustment ⁴	7 998	7 998	920	5 763	5 763	663
27 Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26+non-customer assets)	921 129	935 766	105 930	622 185	619 412	71 551

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

² The 2020 minimum regulatory capital requirements of 11.5% includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2B add-on).

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 30 Sep 2020 RWA amounts ¹ Rm
1 RWA as at end of previous reporting period	466 596
2 Asset size	12 777
3 Asset quality	(4 046)
4 Model updates	-
5 Methodology and policy	-
6 Acquisitions and disposals	(954)
7 Foreign exchange movements	(966)
8 Other	-
9 RWA as at end of reporting period	473 407

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

	30 Sep 2020					
	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	11 483	17 540	-	-	-	29 023
2 Movements in risk levels	(2 882)	(2 955)	-	-	-	(5 837)
3 Model updates/changes	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-
6 Other	-	-	-	-	-	-
7 RWA at end of reporting period	8 601	14 585	-	-	-	23 186

¹ IFSR9 RWA phase excluded

² IRC: incremental risk charge

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	
	a	b	a	b
	30 Sep 2020 Rm	30 Jun 2020 Rm	30 Sep 2020 Rm	30 Jun 2020 Rm
1 Total consolidated assets	1 582 826	1 566 319	1 303 520	1 291 777
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(35 524)	(36 368)	-	-
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	(30 213)	(42 372)	(29 181)	(41 501)
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)	229 009	231 791	184 967	186 116
7 Other adjustments	(12 321)	(12 279)	(9 626)	(10 933)
8 Leverage ratio exposure measure	1 733 777	1 707 091	1 449 680	1 425 459

2. Leverage

2.2 LR2: Leverage ratio common disclosure template

	Group		Bank	
	a	b	a	b
	30 Sep 2020 Rm	30 Jun 2020 Rm	30 Sep 2020 Rm	30 Jun 2020 Rm
On-balance sheet exposures				
1 On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1 378 220	1 328 473	1 136 861	1 090 805
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(11 471)	(11 909)	(9 964)	(9 918)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	1 366 749	1 316 564	1 126 897	1 080 887
Derivative exposures				
4 Replacement cost associated with all derivative transactions (where applicable net of eligible cash variation margin and/ or with bilateral netting)	26 634	27 955	26 634	27 955
5 Add-on amounts for PFE associated with all derivative transactions	29 494	29 109	29 494	29 109
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	8 854	9 262	8 854	9 262
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
11 Total derivative exposures (sum of rows 4 to 10)	64 982	66 326	64 982	66 326
Security financing transaction exposures				
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	73 037	92 410	72 834	92 130
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)	73 037	92 410	72 834	92 130
Other off-balance sheet exposures				
17 Off-balance sheet exposures at gross notional amount	374 591	376 196	312 787	313 631
18 (Adjustments for conversion to credit equivalent amounts)	(145 582)	(144 405)	(127 820)	(127 515)
19 Off-balance sheet items (sum of rows 17 and 18)	229 009	231 791	184 967	186 116
Capital and total exposures				
20 Tier 1 capital (excluding unappropriated profits)	112 189	110 885	73 043	72 176
21 Total exposures (sum of lines 3, 11, 16 and 19) excluding IFRS 9 adjustment	1 733 777	1 707 091	1 449 680	1 425 459
Leverage ratio				
22 Basel III leverage ratio ¹	6.5	6.5	5.0	5.1

¹ Numbers reported are on a regulatory quarter-end basis.

3. Liquidity

3.1 LIQ1: Liquidity coverage ratio (LCR)

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

	Group		Bank	
	a	b	a	b
	30 Sep 2020		30 Sep 2020	
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	Rm	Rm	Rm	Rm
High-quality liquid assets (HQLA)				
1 Total HQLA		235 845		219 074
Cash outflows				
2 Retail deposits and deposits from small business customers of which:	382 379	28 905	302 078	22 130
3 Stable deposits	-	-	-	-
4 Less stable deposits	382 379	28 905	302 078	22 130
5 Unsecured wholesale funding of which:	432 181	227 887	347 506	190 271
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	135 609	33 902	135 609	33 902
7 Non-operational deposits (all counterparties)	288 743	186 156	205 196	149 668
8 Unsecured debt	7 829	7 829	6 701	6 701
9 Secured wholesale funding		523		523
10 Additional requirements of which:	312 180	40 936	281 843	38 143
11 Outflows related to derivative exposures and other collateral requirements	18 610	18 610	18 422	18 422
12 Outflows related to loss of funding on debt products	-	-	-	-
13 Credit and liquidity facilities	293 570	22 326	263 421	19 721
14 Other contractual funding obligations	-	-	-	-
15 Other contingent funding obligations	194 696	9 428	171 486	8 431
16 Total cash outflows		307 679		259 498
Cash inflows				
17 Secured lending (e.g. reverse repos)	40 503	5 833	40 503	5 833
18 Inflows from fully performing exposures	138 060	116 844	114 653	98 740
19 Other cash inflows	16 350	15 486	7 235	6 372
20 Total cash inflows	194 913	138 163	162 391	110 945
	Total weighted value		Total weighted value	
High-quality liquid assets (HQLA)				
21 Total HQLA (Rm)		235 845		219 074
22 Total net cash outflows (Rm)		169 516		148 553
23 LCR (%)		139		147

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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