



RISK AND CONDUCT

Our licence to operate, and our competitiveness, is a function of the trust our stakeholders have in us. Our ability to manage risk and uphold the letter and spirit of the laws, regulations, codes and standards applicable to our businesses – from regulatory capital requirements to the highest standards of ethical and responsible business practice – determines our reputation. The importance of this is growing, as financial crime and corruption become more pervasive, and the conduct of banks comes under increasing scrutiny.

WHAT SUCCESS LOOKS LIKE

- Doing the right business the right way, without exception.
- Contributing to safe financial systems in the markets in which we operate.
- No material breaches of legislation.
- No harm to our reputation.

HOW WE MEASURE OUR PROGRESS

RISK

We manage our capital levels to support business growth, maintain depositor and creditor confidence, create value for our shareholders and other stakeholders and promote regulatory compliance. Our risk measures are regulatory requirements and indicate our ability to withstand financial stress and unexpected losses, and the quality and liquidity of the assets we hold.

Our indicators

- **Common equity tier 1 ratio (CET 1):** a measure of solvency that assesses capital strength against our risk-weighted assets (RWA).
- **Liquidity coverage ratio (LCR):** measures our ability to manage a sustained outflow of client funds in an acute stress event over a 30-day period.
- **Return on risk-weighted assets (RoRWA):** the return we generate based on our average risk-weighted assets.
- **Net stable funding ratio (NSFR):** the amount of available stable funding relative to the amount of required stable funding, in accordance with Basel III.

CONDUCT

Our compliance with laws and regulations is non-negotiable. Any contravention comes at a cost in financial losses, fines or diminished reputational capital. We deal with such instances through well-developed disciplinary processes and appropriate action.

Our indicators

We are aiming to measure, understand and control risk and our conduct in even more detail. During the year, we worked to identify and develop appropriate metrics to assess our conduct and behaviours. We will continue to monitor these metrics to ensure that they enable us to track the extent to which we have embedded our desired culture and the effectiveness of our governance structures relating to conduct.

HOW WE PERFORMED

Risk

Our risk appetite measures are above our internal risk appetite targets and, where applicable, regulatory requirements.

CET 1

13.5%
(2016: 13.9%)
Target:
11% – 12.5%



LCR

135.1%
(2016: 117.1%)
Target: regulatory
minimum of 80%

RoRWA

3.1%
(2016: 2.7%)



NSFR

>100%
Target: regulatory
minimum of 100%



Key government, regulator and civil society concerns

- Addressing cyber risk and the impact on client safety.
- Enhancing trust and maintaining stability in the financial sector.
- Improving the control environment in the Africa Regions.
- Embedding compliance and risk-aware behaviour.
- Ethical and transparent supplier and vendor relationships.
- Debt intervention mechanisms for low-income, financially distressed consumers.

Related material issues

- Proactively responding to increased cybersecurity threats and protecting client information.
- Maintaining the stability, security and speed of our IT systems.
- Conducting our business in a responsible manner by doing the right business the right way.
- Responding to the pace, volume and scale of regulatory change.
- Supporting steps to combat financial crime, fraud and illicit financial flows.

KEY DEVELOPMENTS IN 2017

To address the key concerns of our government, regulator and civil society stakeholders and our material issues, we have:

- Enhanced our credit, risk management and compliance capabilities.
- Made significant improvements in compliance across the Africa Regions, including the completion of board compliance training.
- Continued to monitor reputational risk in South Africa.
- Invested in IT security capabilities which have reduced digital fraud losses.
- Successfully executed two Basel III compliant additional tier 1 bond issues.
- Analysed the funding impact of the Basel III NSFR and LCR requirements and positioned the group to meet them by January 2018.
- Assessed the impact of the transition to IFRS 9 and made the necessary model and process changes prior to implementation on 1 January 2018. More information on the impact of IFRS 9 can be found on page 52.

PRIORITIES IN 2018

To drive improvements in our risk and conduct measures, we will:

- Continue to regularly review and amend our risk appetite in response to changes in our operating environments, and manage our exposures responsibly.
- Continue to embed a culture of ethical behaviour and ensure that we keep doing the right business the right way.
- Continue to invest in our capabilities to mitigate financial crime and cyber risks.

AIR 86-97 Information technology report and risk report.

RCM Risk and capital management report.

KEY TRADE-OFFS

- In managing our exposures responsibly in line with both macroeconomic and socio-political realities, we are sometimes required to tighten our risk appetite in lending to vulnerable sectors and clients. This inhibits client growth and our revenue generation opportunities, but reduces the potential for operational losses and impairments.
- Managing the natural tension between client convenience and the speed with which we can fulfil their needs, and the parameters of our mature and continually evolving regulatory, supervisory and control environment.
- Managing the rising cost of compliance, including extensive employee training and adaptations to business systems to comply with new and forthcoming legislation, in line with the reputational benefit of being a trusted organisation.