Absa Group Limited

Interim financial results for the reporting period ended 30 June 2018

Report overview

This financial results booklet for the reporting period ended 30 June 2018 is one of the publications released at the time of the Absa Group Limited's (Absa Group or the Group) financial results announcement made on 6 August 2018. It is supplemented with additional disclosures, including the Group's JSE SENS announcement and the interim financial results presentation. The full set of documents is available on www.absa.africa

1. Reportable segment changes

The South Africa Banking segment has been removed in the Group's segmental disclosures to align with how the banking operations are now managed.

2. Business portfolio changes

The following business portfolio changes resulted in the restatement of financial results for the comparative periods. None of the restatements have impacted the overall financial position or net earnings of the Group.

> The Group refined its treasury allocation methodology, resulting in the restatement of net interest income, cash and cash equivalents and investment securities between and within segments.

> The Group continued refining its cost allocation methodology, resulting in the restatement of operating expenses between and within segments.

> Corporate and Investment Banking (CIB) South Africa aligned its customer portfolio to be more industry specific which resulted in a R16bn reallocation of loans and advances to customers from Corporate, to Investment Banking.

3. Accounting policy changes

The Group changed its accounting policies relating to the valuation of policyholder liabilities under the Group's life insurance contracts within WIMI, as well as the presentation of interest income and interest expense. Refer to pages 177 to 180 for additional information.

4. Adoption of new International Financial Reporting Standards (IFRS)

New IFRSs have been adopted of which IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue from Contracts with Customers (IFRS 15) have the most significant impact on the Group's results. Refer to pages 153 to 176 for more information.

The Board of Directors oversees the Group's activities and holds management accountable for adhering to the risk governance framework. To do so, directors review reports prepared by the businesses, risk, and others. They exercise sound independent judgement, and probe and challenge recommendations, as well as decisions made by management.

Finance is responsible for establishing a strong control environment over the Group's financial reporting processes and serves as an independent control function advising business management, escalating identified risks and establishing policies or processes to manage risk.

Finance is led by the Group's Financial Director who reports directly to the Chief Executive Officer. The Financial Director has regular and unrestricted access to the Board of Directors as well as to the Group Audit Compliance Committee (GACC).

Together with the GACC, the Board has reviewed and approved the reporting changes contained in the announcements released on Interim Financial Results on 6 August 2018. The GACC and the Board are satisfied that the changes disclosed in the Interim Financial Results result in fair presentation of the consolidated financial position and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides.

Absa Group Limited (1986/003934/06)

The term Absa Group or the Group, refers to Absa Group Limited and its subsidiaries.

Unaudited interim financial results for the reporting period ended 30 June 2018

Date of publication: 6 August 2018

These interim financial results were prepared by Absa Group Financial Control under the direction and supervision of the Absa Group Limited Financial Director, J P Quinn CA(SA).

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

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Dividend per share

Interim	490 cents

Key dates

Interim dividend payment	17 September 2018
Financial year-end	31 December 2018

Shareholder communications

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Icons used with this report

▲ ▼ ● Positive	= Remains the same
▲ ▼ ● Negative	▲ ▼ Increase/decrease
audited Audited	

About Absa Group

We are a diversified standalone African financial services group, delivering an integrated set of products and services across personal and business banking, corporate and investment banking, wealth, investment management and insurance.

Normalised headline earnings increased by 3%

(CCY +5%) to R8 043m as pre-provision profits increased by 1% (CCY +3%) and impairments were 9% lower.

Headline earnings increased by 8%

(CCY +20%) in Rest of Africa Banking as impairment charges reduced by 47% (CCY -46%).

Return on equity of 16.9% on a normalised basis

increased from 16.8% (31 December 2017: 16.5%) and has been supported by further improvements in Rest of Africa Banking returns and also reflects the impact of the IFRS 9 adoption on Capital and reserves.

Credit loss ratio reduced from 0.96% to 0.83%

mainly from lower losses in Rest of Africa Banking and South Africa Mortgages.

Income growth of 3%

(CCY +4%) has improved slightly despite the adverse impact of higher suspended interest following the implementation of IFRS 9 and also lower prevailing interest rates across the continent.

Cost-to-income increased from 55.5% to 56.2%

as sub-inflationary cost growth of 4% (CCY +5%) was 1% higher than Income growth.

WIMI headline earnings increased by 5% and RBB South Africa by 4%

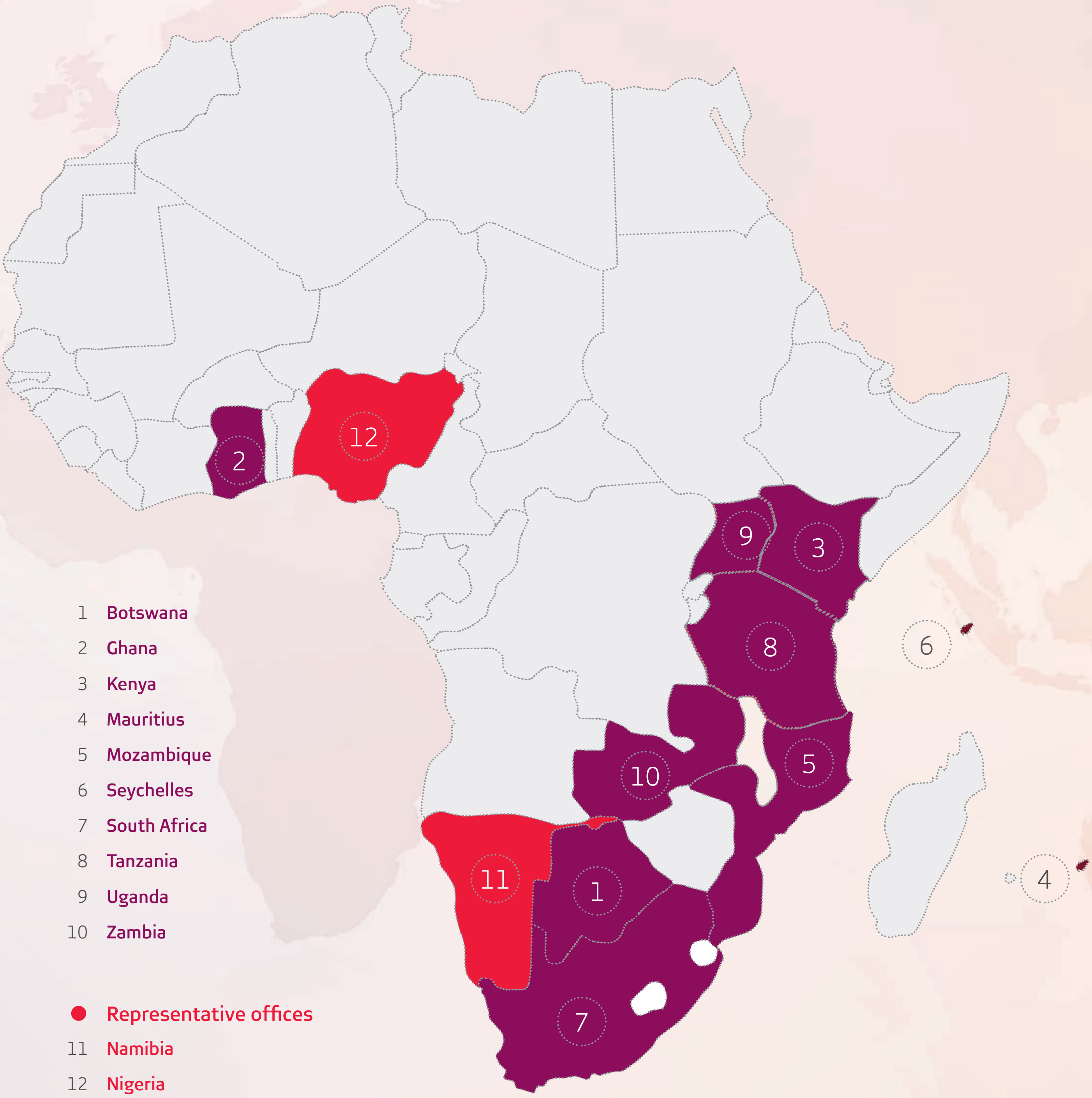
partially reflecting higher lending volumes in Retail and Business Banking (RBB).

CIB South Africa headline earnings reduced by 6%

largely reflecting a single name credit impairment in the current period.

The Group's Common Equity Tier 1 ratio of 12.2% and Capital Adequacy ratio of 15.7% remains ahead of Internal targets and has increased year on year following capital efficiency initiatives and Tier 2 issuances during the period.

Our purpose **Bring your possibility to life** means we are helping individuals, small businesses, corporates, economies, and society at large to grow.



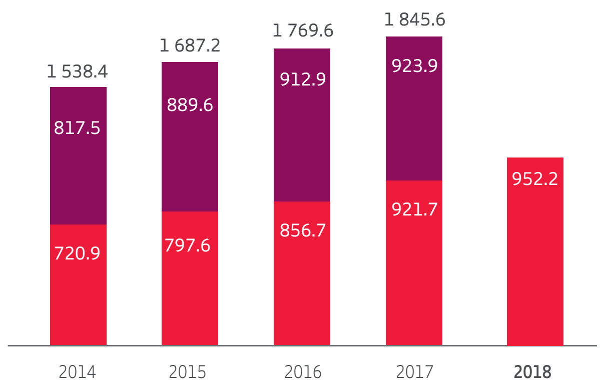
1 Botswana
2 Ghana
3 Kenya
4 Mauritius
5 Mozambique
6 Seychelles
7 South Africa
8 Tanzania
9 Uganda
10 Zambia

● Representative offices
11 Namibia
12 Nigeria

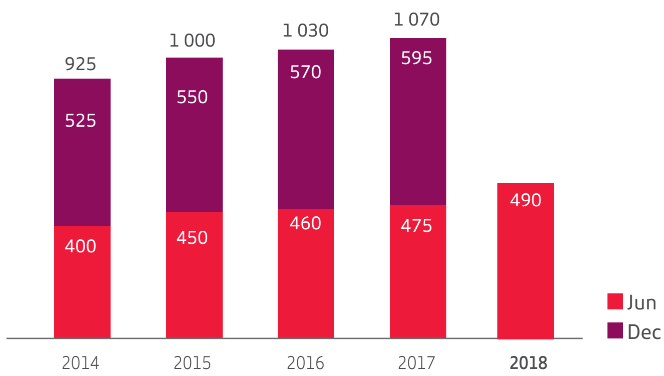
Normalised Group performance

Normalised Group performance overview

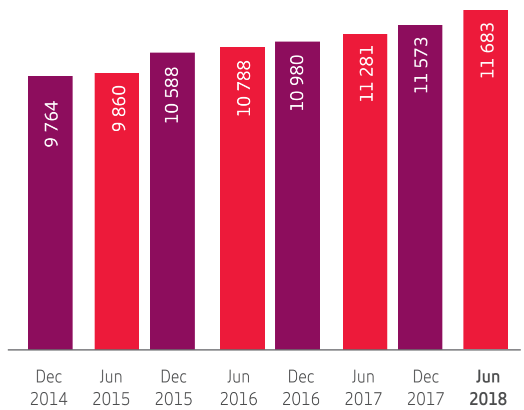
Headline earnings per ordinary share (HEPS) (cents)[1]



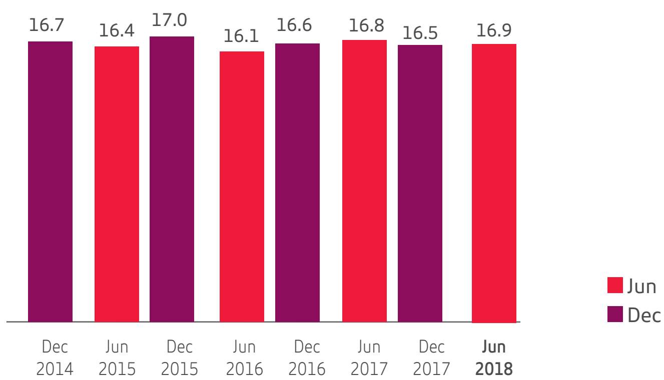
Dividend per share (DPS) (cents)[1]



Net asset value (NAV) per ordinary share (cents)[1]



Return on equity (RoE) (%)[1]



[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

The following table presents the items which have been excluded from the normalised financial results:

- **Barclays PLC contribution** (including the endowment benefit)
- **Hedging** linked to separation activities
- **Technology** and **brand separation projects**
- **Depreciation** and **amortisation on the afore-mentioned projects**
- **Transitional service payments to Barclays PLC**
- **Employee cost and benefits** linked to separation activities
- **Separation project execution and support costs**

Normalised Group performance overview

for the reporting period ended

Reconciliation of IFRS to normalised results

	IFRS Group performance 2018	30 June Barclays separation effects 2018	Normalised Group performance 2018
Statement of comprehensive income (Rm)			
Net interest income	21 363	175	21 188
Non-interest income	16 267	413	15 854
Total income	37 630	588	37 042
Impairment losses	(3 431)	—	(3 431)
Operating expenses	(22 198)	(1 364)	(20 834)
Other expenses	(964)	(76)	(888)
Share of post-tax results of associates and joint ventures	56	—	56
Operating profit before income tax	11 093	(852)	11 945
Tax expenses	(3 189)	133	(3 322)
Profit for the reporting period	7 904	(719)	8 623
Profit attributable to:			
Ordinary equity holders	7 253	(719)	7 972
Non-controlling interest – ordinary shares	379	—	379
Non-controlling interest – preference shares	176	—	176
Non-controlling interest – additional Tier 1	96	—	96
	7 904	(719)	8 623
Headline earnings	7 324	(719)	8 043
Operating performance (%)			
Net interest margin on average interest-bearing assets	4.75	n/a	4.76
Credit loss ratio on gross loans and advances to customers and banks	0.83	n/a	0.83
Non-interest income as % of total income	43.2	n/a	42.8
Income growth	3	n/a	3
Operating expenses growth	8	n/a	4
Cost-to-income ratio	59.0	n/a	56.2
Effective tax rate	28.7	n/a	27.8
Statement of financial position (Rm)			
Loans and advances to customers	783 116	—	783 116
Loans and advances to banks	62 843	—	62 843
Investment securities	127 437	—	127 437
Other assets	261 247	1 605	259 642
Total assets	1 234 643	1 605	1 233 038
Deposits due to customers	714 491	—	714 491
Debt securities in issue	140 782	—	140 782
Other liabilities	259 851	(8 496)[1]	268 347
Total liabilities	1 115 124	(8 496)	1 123 620
Equity	119 519	10 101[2]	109 418
Total equity and liabilities	1 234 643	1 605	1 233 038
Key performance ratios (%)			
RoA	1.26	n/a	1.40
RoE	13.9	n/a	16.9
Capital adequacy	16.7	n/a	15.7
Common Equity Tier 1	13.3	n/a	12.2
Share statistics (cents)			
Diluted headline earnings per ordinary share	877.8	n/a	949.5

1 This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loans from Barclays separation segment' in the Condensed consolidated normalised statement of financial position (refer to page 19).

2 The R12.1bn contribution received from PLC in 2017 has been recorded as equity.

Normalised salient features

for the reporting period ended

	30 June			31 December
	2018	2017[1]	Change %	2017
Statement of comprehensive income (Rm)				
Income[1]	**37 042**	36 085	3	72 990
Operating expenses	**20 834**	20 038	4	41 403
Profit attributable to ordinary equity holders[1]	**7 972**	7 813	2	15 370
Headline earnings[1]	**8 043**	7 802	3	15 623
Statement of financial position				
Loans and advances to customers (Rm)[2]	**783 116**	728 985	7	749 772
Total assets (Rm)[2]	**1 233 038**	1 137 892	8	1 165 067
Deposits due to customers (Rm)	**714 491**	696 362	3	689 867
Loans to deposits and debt securities ratio (%)	**91.6**	87.1		90.6
Financial performance (%)				
Return on equity (RoE)[1]	**16.9**	16.8		16.5
Return on average assets (RoA)	**1.40**	1.41		1.39
Return on risk-weighted assets (RoRWA)	**2.20**	2.22		2.17
Stage 3 loans ratio on gross loans and advances	**5.31**	n/a		n/a
Non-performing loans (NPL) ratio on gross loans and advances	**n/a**	3.73		3.75
Operating performance (%)				
Net interest margin on average interest-bearing assets[3]	**4.76**	4.81		4.83
Credit loss ratio on gross loans and advances to customers and banks[2]	**0.83**	0.96		0.87
Non-interest income as percentage of total income	**42.8**	42.4		42.0
Cost-to-income ratio	**56.2**	55.5		56.7
Jaws	**(1)**	(4)		(3)
Effective tax rate	**27.8**	27.7		27.5
Share statistics (million)				
Number of ordinary shares in issue	**847.8**	847.8		847.8
Number of ordinary shares in issue (excluding treasury shares)	**844.5**	847.1		845.6
Weighted average number of ordinary shares in issue[1]	**844.7**	846.5		846.5
Diluted weighted average number of ordinary shares in issue[1]	**847.1**	846.7		846.6
Share statistics (cents)				
Headline earnings per ordinary share[1]	**952.2**	921.7	3	1 845.6
Diluted headline earnings per ordinary share[1]	**949.5**	921.5	3	1 845.4
Basic earnings per ordinary share[1]	**943.8**	923.0	2	1 815.7
Diluted basic earning per ordinary share[1]	**941.1**	922.8	2	1 815.5
Dividend per ordinary share relating to income for the reporting period	**490**	475	3	1 070
Dividend cover (times)	**1.9**	1.9	—	1.7
NAV per ordinary share[1]	**11 683**	11 281	4	11 573
Tangible NAV per ordinary share[1]	**11 093**	10 843	2	11 030
Capital adequacy (%)				
Absa Group Limited	**15.7**	14.5		14.9
Absa Bank Limited	**16.3**	15.2		15.0
Common Equity Tier 1 (%)				
Absa Group Limited	**12.2**	12.1		12.1
Absa Bank Limited	**11.9**	11.9		11.6

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

[2] Current year figures have been prepared in accordance with IFRS 9 reporting standards, while comparatives (2017) had been prepared in accordance with IAS 39 reporting standards.

[3] Net interest margin for comparative prior periods have been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing, under the previous policy these assets were classified as non-interest bearing.

Normalised salient features by segment

for the reporting period ended

	30 June 2018	30 June 2017[1]	Change %	31 December 2017[1]
Headline earnings (Rm)				
RBB South Africa	**4 209**	4 039	4	8 748
CIB South Africa	**1 683**	1 783	(6)	3 411
Rest of Africa Banking	**1 636**	1 512	8	2 954
WIMI	**646**	616	5	1 231
Head Office, Treasury and other operations in South Africa	**(131)**	(148)	(11)	(721)
Return on average risk-weighted assets (%)				
RBB South Africa	**2.57**	2.57		2.72
CIB South Africa	**1.75**	1.93		1.82
Rest of Africa Banking	**1.97**	1.91		1.77
Return on regulatory capital (%)				
RBB South Africa	**23.0**	21.9		23.1
CIB South Africa	**15.9**	17.3		16.3
Rest of Africa Banking[2]	**19.6**	17.4		16.6
WIMI[3]	**22.5**	20.3		20.8
Credit loss ratio (%)				
RBB South Africa	**1.15**	1.28		1.10
CIB South Africa	**0.30**	0.18		0.24
Rest of Africa Banking	**0.72**	1.38		1.34
WIMI	**(0.49)**	0.09		1.58
Loans and advances to customers (Rm)				
RBB South Africa	**455 491**	439 157	4	446 894
CIB South Africa	**232 597**	204 693	14	219 065
Rest of Africa Banking	**88 719**	78 938	12	77 863
WIMI	**5 055**	5 485	(8)	5 004
Head Office, Treasury and other operations in South Africa	**1 254**	712	76	946
Deposits due to customers (Rm)				
RBB South Africa	**304 574**	289 473	5	300 725
CIB South Africa	**183 733**	183 526	0	177 255
Rest of Africa Banking	**127 459**	119 996	6	108 636
WIMI	**5 165**	4 904	5	5 150
Head Office, Treasury and other operations in South Africa	**93 560**	98 463	(5)	98 102

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

[2] As the Rest of Africa Banking consists primarily of a set of legal entities, the denominator in the RoRC for the Rest of Africa Banking is calculated as the sum of the average equity of the legal entities.

[3] As WIMI consists primarily of a set of legal entities with a smaller contribution from the Wealth division of Absa Bank Limited, the denominator in the RoRC for WIMI is calculated as the sum of average legal entities' equity including the regulatory capital (RC) contribution for the Wealth division.

Profit commentary

Salient features

- Absa Group discloses International Financial Reporting Standards (IFRS) financial results and a normalised view, which adjusts for the financial consequences of separating from Barclays PLC.
- Diluted normalised HEPS grew 3% to 949.5 cents, while diluted IFRS HEPS, which includes R1.4bn of separation costs decreased 4% to 877.8 cents.
- An interim dividend of 490 cents was declared representing a 3.1% year-on-year increase.
- RBB South Africa headline earnings grew 4% to R4.2bn, CIB South Africa declined 6% to R1.7bn, Rest of Africa Banking rose 8% to R1.6bn and WIMI increased 5% to R646m.
- Normalised RoE increased slightly to 16.9%.
- Normalised revenue grew 3% to R37.0bn and operating expenses rose 4% to R20.8bn.
- On a constant currency basis normalised revenue grew 4% and diluted HEPS increased 5%.
- Normalised pre-provision profit increased 1% to R16.2bn.
- Credit impairments fell 9% to R3.4bn, resulting in a 0.83% credit loss ratio from 0.96%.
- Absa Group Limited's normalised Common Equity Tier 1 (CET 1) ratio of 12.2% remains above regulatory requirements and our board target range.
- Normalised NAV per share rose 4% to 11 683 cents.

Normalised reporting

Given the process of separating from Barclays PLC, Absa Group continues to report both IFRS compliant financial results and a normalised view. The latter adjusts for the consequences of the separation and better reflects its underlying performance. The Group will present normalised results for future periods where the financial impact of separation is considered material.

Normalisation adjusts for the following items: **R175m** of interest income on Barclays PLC's separation contribution (30 June 2017: R46m); hedging revenue linked to separation activities of **R413m** (30 June 2017: R238); operating expenses of **R1 364m** (30 June 2017: R460m) and **R76m** of other expenses (30 June 2017: R325m), plus a **R133m** tax impact of the aforementioned (30 June 2017: R111m) items. In total, these adjustments added **R719m** to the Group's normalised headline earnings during the period (30 June 2017: R152m). Since normalisation occurs at a Group level, it does not affect divisional disclosures.

Overview of results

On a normalised basis, Absa Group's headline earnings grew 3% to R8 043m from R7 802m and diluted HEPS rose 3% to 949.5 cents from 921.5 cents. The Group's normalised RoE was 16.9% from 16.8% and its return on assets was 1.40% from 1.41%. Revenue grew 3% to R37.0bn, with net interest income and non-interest income rising 2% and 4% respectively. Revenue grew 4% on a constant currency basis. The Group's net interest margin (on average interest-bearing assets) decreased to 4.76% from 4.81%. Gross loans and advances to customers grew 8% to R811bn, while deposits due to customers rose 3% to R714bn. With operating expenses growing 4%, the normalised cost-to-income ratio increased to 56.2% from 55.5%, and pre-provision profit rose 1% to R16.2bn. The stronger rand reduced Group revenue by 1% and headline earnings by 2%. In constant currency, pre-provision profit grew 3% and headline earnings 5%. Credit impairments fell 9% to R3.4bn, resulting in a 0.83% credit loss ratio from 0.96%. The Group's normalised NAV per share increased 4% to 11 683 cents and it declared a 3% higher half year DPS of 490 cents.

Absa Group's IFRS headline earnings declined 4% to R7 324m from R7 650m and diluted HEPS decreased 4% to 877.8 cents. The Group's RoE fell to 13.9% from 16.2%, largely due to the higher capital base from the Barclays PLC seperation contribution and costs, while its RoA declined to 1.26% from 1.38%. Net interest income increased 3% and non-interest income grew 5%, resulting in 3% higher total revenue. Operating expenses grew 8%, increasing the cost-to-income ratio to 59.0% from 56.4%. Pre-provision profit decreased 3% to R15.4bn. The Group's NAV per share rose 1% to 12 829 cents including Barclays PLC's remaining separation contribution in equity.

RBB South Africa's headline earnings rose 4% to R4 209m primarily due to 6% lower credit impairments. Retail Banking South Africa headline earnings grew 5% to R3 001m, while Business Banking South Africa increased 1% to R1 208m. CIB South Africa's earnings declined 6%, given a 1% lower pre-provision profits and 79% higher credit impairments. Corporate South Africa fell 3% to R556m and Investment Banking South Africa decreased 7% to R1 127m. Rest of Africa Banking headline earnings grew 8% to R1 636m, or 20% in constant currency. RBB Rest of Africa increased 38%, or 54% in constant currency, while CIB Rest of Africa grew 3% and 15% in constant currency. WIMI's headline earnings increased 5% to R646m, reflecting significant growth in Short-term Insurance.

South African earnings grew 2% to R6.4bn, while Rest of Africa rose 9% or 21% in constant currency to account for 20% of Group earnings.

Profit commentary

Operating environment

Global economic recovery continued during the period with the US leading the developed economies. Economic growth in Europe and Japan slowed, but domestic fundamentals remain solid giving confidence that growth will improve in the second half. Inflation in developed economies remains muted, while emerging markets saw an uptick due to currency pressures and higher commodity prices. Global monetary policy is still broadly accommodative, although the broad trend is toward tightening.

South Africa's GDP contracted by an annualised 2.2% in the first quarter after a strong annualised 3.1% in the last quarter of 2017. The contraction was due to weakness across key sectors including agriculture, mining, manufacturing and construction. Private sector fixed investment declined in contrast to the strong improvement in business confidence in the first quarter. Headline inflation bottomed at 3.8% in March before increasing slowly to 4.6% in June. As such, the Reserve Bank reduced interest rates 25 basis points in March, but left it unchanged in July.

Economic growth continued to improve in a number of our key Rest of Africa countries. The strengthening global economy, higher commodity prices and improved weather conditions supported growth with primary sector activities including mining, construction and agriculture standing out as the main drivers in many economies. Monetary policy easing continued in our markets as inflation trended lower. Key headwinds include the still weak fiscal positions in Mozambique, Zambia and Kenya.

Group performance

Statement of financial position

Normalised total assets increased 8% to R1 233bn at 30 June 2018, largely due to 8% growth in gross loans and advances to customers and trading portfolio assets which grew by 23%.

Loans and advances to customers

Gross loans and advances to customers increased 8% to R811bn. RBB South Africa loans rose 5% to R477bn. Retail Banking South Africa's loans grew 5% to R407bn, reflecting 12% growth in Vehicle and Asset Finance (VAF), 10% higher Personal Loans and 1% growth in Home Loans, while Card and Payments increased by 1% despite a reduction in the store card portfolio. Business Banking South Africa's loans rose 9% to R70bn, with Term Loans and Agri Loans increasing 13% and 14% respectively. CIB South Africa's loans grew 14% to R235bn, including 13% growth in Corporate South Africa and 14% in the Investment Bank South Africa. Rest of Africa Banking gross loans increased 14% to R94bn, or 10% in constant currency.

Funding

The Group's liquidity position remains strong, with liquid assets and other sources of liquidity growing 11% to R218bn, which equates to 31% of customer deposits. The Group's three-month average liquidity coverage ratio for the second quarter of 2018 was 109%, comfortably above the minimum regulatory hurdle of 90% during the first half of 2018. The Group's deposits due to customers grew 3% to R714bn. Its loans to deposit and debt securities ratio increased to 91.6% from 87.1%. Deposits due to customers constituted 76% of total funding. RBB South Africa's deposits grew 5% to R305bn, with Retail Banking South Africa up 7% to R193bn and Business Banking South Africa increasing 3% to R111bn. CIB South Africa's deposits were flat at R184bn. Rest of Africa Banking deposits increased 6% to R127bn, or 3% in constant currency.

Net asset value

The Group's normalised NAV rose 3% to R99bn despite a R4.2bn reduction on adoption of IFRS 9 on 1 January 2018 and its NAV per share grew 4% to 11 683 cents. During the year it generated retained earnings of R8.0bn, from which it paid R5.0bn in ordinary dividends. Its foreign currency translation reserve increased by R2.4bn from R1.8bn at the end of June 2017.

Capital to risk-weighted assets

Group risk-weighted assets (RWAs) increased 6% to R771bn at 30 June 2018, mainly due to increased credit risk RWAs. The Group remains well capitalised, comfortably above minimum regulatory capital requirements. The Group's normalised CET 1 and total capital adequacy ratios were 12.2% and 15.7% respectively (from 12.1% and 14.5%). The Group generated 2.0% of CET 1 capital internally over the past year. The day 1 impact from implementing IFRS 9 reduced the Group's CET 1 ratio by 5 basis points, as we opted to phase it in over three years. Declaring a 3% higher half year DPS of 490 cents on a dividend cover of 1.9 times took into account the operating environment, the Group's strong capital position, internal capital generation, strategy and growth plans.

Profit commentary

Group performance *(continued)*

Statement of comprehensive income

The commentary below refers to normalised financial results.

Net interest income

Net interest income increased 2% to R21 188m from R20 791m, while average interest-bearing assets grew 3%. The Group's net interest margin (to average interest-bearing assets) declined to 4.76% from 4.81%. Net interest income grew 3% on a constant currency basis.

Loan pricing reduced the Group's net interest margin by 6 bps, largely due to higher suspended interest in RBB South Africa after implementing IFRS9. Loan composition added 2 bps to the margin, given slower growth in Home Loans. Deposit pricing reduced the margin by 1 bp, primarily due to competitive pricing on fixed retail deposits in South Africa. Deposit composition increased the margin by 3 bps, as wholesale funding balances were flat. With lower interest rates in South Africa, the equity and deposit endowment reduced the Group margin by 4 bps. The structural hedge released R232m to the income statement, 3 bps more than in the prior reporting period, to largely offset the reduced endowment contribution. Rest of Africa reduced the margin by 1 bp due to the stronger rand.

Non-interest income

Non-interest income grew 4% to R15 854m from R15 294m to account for 43% of total revenue from 42%. On a constant currency basis, the growth was 5%.

Net fee and commission income grew 4% to R10 991m, which represented 69% of total non-interest income. Within this, cheque account fees increased 15% to R2 751m, electronic banking grew 3% to R2 576m, while credit cards and merchant income rose by 7% and 9% respectively. Investment, markets execution and investment banking fees decreased 8% to R266m.

Net trading excluding hedge accounting declined 6% to R2 510m, reflecting Markets in South Africa increasing 1%, while Rest of Africa Banking decreased 8%.

Within other operating income, sundry income increased significantly due to a non-headline gain on the disposal of some subsidiaries.

RBB South Africa's non-interest income grew 5% to R8 763m, as Retail Banking South Africa increased 6% and Business Banking South Africa was flat. Within Retail Banking, Transactional and Deposits rose 10%, reflecting price increases, cheque account growth and reclassifying fee write-offs to credit impairments. CIB South Africa increased 7% to R2 252m, with 10% growth in transactional revenue.

Rest of Africa Banking's non-interest income declined 2% to R2 427m as the impact of a stronger rand offset constant currency growth of 5%. In constant currency, CIB Rest of Africa increased 2% and RBB Rest of Africa 7%.

WIMI's non-interest income increased 11% to R2 844m, including 11% higher Life insurance net premium income, 3% growth in Short-term insurance net premium income in South Africa and gains on the disposal of subsidiaries.

Impairment losses on loans and advances

IFRS 9 replaced IAS 39 on 1 January 2018, in terms of which credit impairments moved from an incurred basis to an expected credit loss approach. The Group has applied IFRS 9 prospectively, with an adjustment to retained earnings and other reserves as at 1 January 2018, and elected not to restate comparative periods.

Implementing IFRS 9 increased the Group's IAS 39 credit provisions and interest in suspense by R5.9bn or 27% at 1 January 2018 to R27.8bn. Previously reported IAS 39 impairment ratios in respect of performing and non-performing portfolios are not comparable to similar ratios under IFRS 9. At 30 June 2018 the Group's stage 3 (defaulted) loans were 5.3% of gross loans and advances from 5.5% at 1 January 2018 and the expected credit loss coverage ratios on these were 42.05% and 40.90% respectively.

Credit impairments decreased 9% to R3 431m from R3 773m, which improved the Group's credit loss ratio to 0.83% from 0.96% of gross loans and advances to customers and banks.

RBB South Africa credit impairments decreased 6% to R2 728m, resulting in a 1.15% credit loss ratio from 1.28%. Retail Banking South Africa credit impairments declined 7% to R2 517m, reducing its credit loss ratio to 1.24% from 1.39%. Home Loans' charge fell 61% to R181m resulting in a 0.16% credit loss ratio from 0.41%. Card and Payments' credit loss ratio declined to 4.23% from 5.36%, given 21% lower credit impairments of R897m. Vehicle and Asset Finance credit impairments grew 25% to R594m, increasing its credit loss ratio to 1.14% from 1.01%. Personal Loans' charge rose 3% to R568m and its credit loss ratio improved to 5.87% from 6.21%. Business Banking South Africa credit impairments increased 8% to R211m, in line with its loan growth, to produce a flat credit loss ratio of 0.62%.

Group performance *(continued)*

Statement of comprehensive income *(continued)*

CIB South Africa credit impairments increased 79% to R381m from R213m, due to a large single name exposure. Its credit loss ratio increased to 0.30% from 0.18%.

Rest of Africa Banking credit impairments fell 47% to R335m from R638m, reducing its credit loss ratio to 0.72% from 1.38%. RBB Rest of Africa's charge fell 39% to R318m, a 1.53% credit loss ratio, while CIB Rest of Africa decreased 91% to R11m or a 0.05% credit loss ratio.

Operating expenses

Group operating expenses grew 4% to R20 834m from R20 038m, resulting in a 56.2% cost-to-income ratio from 55.5%. Operating expenses increased 5% in constant currency.

Staff costs grew 4% and accounted for 56% of total operating expenses. Salaries rose 5% and total incentives fell 7%. Headcount decreased 1%, largely due to reductions in Rest of Africa and a disposal in WIMI.

Non-staff costs grew 4%. Professional fees fell 9% to R717m, while telephone and postage declined 9% and printing and stationary increased 6%. Operating leases on properties decreased 2% to R799m and property costs decreased 1% to R834m. Marketing costs were flat at R731m due to a delay into the second half for the new brand launch. Total IT-related spend grew 13% to R3 970m and constituted 19% of Group operating expenses. Amortisation of intangible assets rose 4% to R363m, while cash transportation increased 14% to R612m. The 20% growth in depreciation reflects investment in technology and optimisation of the corporate property portfolio and branch network.

RBB South Africa costs grew 7% to R12 593m. Retail Banking South Africa increased 7% and Business Banking South Africa 8%, due to salary increases, investment in physical and cyber security, higher cost of cash and amortisation of IT infrastructure.

CIB South Africa expenses grew 10% to R3 071m, after two years of low cost growth, as it continues to invest in systems and technology.

Rest of Africa Banking expenses increased 1%, or 7% in constant currency, to R4 333m. CIB Rest of Africa increased 4% and RBB Rest of Africa was flat. A continued focus on optimising the branch network and enhancing digital capabilities kept underlying cost growth below inflation.

WIMI's costs declined 3% to R1 776m, in part due to disposing of Employee Benefits. It achieved strongly positive operating Jaws, which improved its cost-efficiency ratio to 33.6%.

Other expenses increased 12% to R888m, due to higher 'other impairments' as a property in the Johannesburg city centre is held for disposal.

Taxation

The Group's taxation expense increased 4% to R3 322m, slightly above the 3% higher pre-tax profit, resulting in a 27.8% effective tax rate from 27.7%.

Segment performance

RBB South Africa

Headline earnings increased 4% to R4 209m, due to 6% lower credit impairments, as pre-provision profits were flat at R9 007m. Revenue grew 4% to R21 600m, with non-interest income increasing 5%. Costs rose 7% to R12 593m, resulting in a 58.3% cost-to-income ratio from 56.6%. Credit loss ratio improved to 1.15% from 1.28%. RBB South Africa generated a return on regulatory capital (RoRC) of 23.0% and constituted 52% of total normalised headline earnings excluding the Group centre.

Retail Banking South Africa

Headline earnings grew 5% to R3 001m, primarily due to lower credit impairments, as pre-provision profits were flat. Transactional and Deposits earnings fell 9% to R1 048m, largely due to significantly higher credit impairments. Home Loans earnings grew 16% to R901m, given 61% lower credit impairments which offset increased interest in suspense after implementing IFRS 9. Card and Payments earnings grew 19% to R717m, as a result of lower credit impairments and 14% growth in acquiring turnover. Vehicle and Asset Finance earnings fell 6% to R406m, as 25% higher credit impairments outweighed 9% higher net interest income. Personal Loans earnings increased 10% to R201m, largely due to 7% net interest income growth.

Retail Banking South Africa accounted for 37% of normalised headline earnings excluding the Group centre.

Profit commentary

Segment performance *(continued)*

Business Banking South Africa

Headline earnings increased 1% to R1 208m, as revenue grew 5% due to 7% net interest income growth. Pre-provision profits were flat, given 8% cost growth due to continued investment in frontline staff and systems. Credit impairments increased 8%, largely in line with loan growth. Business Banking South Africa generated 15% of overall normalised headline earnings excluding the Group centre.

CIB South Africa

Headline earnings decreased 6% to R1 683m, primarily due to 79% higher credit impairments. Pre-provision profits declined 1% as 10% higher costs exceeded 5% revenue growth. Despite 10% revenue growth, Corporate earnings fell 3% to R556m given 18% higher costs. Investment Bank earnings decreased 7% to R1 127m, due to 62% higher credit impairments. CIB South Africa contributed 21% of total normalised headline earnings excluding the Group centre and generated a 15.9% RoRC.

Rest of Africa Banking

Headline earnings grew 8%, or 20% in constant currency, to R1 636m, largely due to 47% lower credit impairments. Pre-provision profits increased 3% in constant currency. Revenue fell 1% to R7 565m, although it increased 5% in constant currency. Costs grew 1% to R4 333m, or 7% in constant currency, resulting in a 57,3% cost-to-income ratio. RBB Rest of Africa earnings increased 38% to R463m, or 54% in constant currency, given positive operating leverage and 39% lower credit impairments. CIB Rest of Africa earnings grew 3%, or 15% in constant currency, to R1 246m as its credit impairments dropped 91%. Rest of Africa Banking accounted for 20% of total normalised headline earnings excluding the Group centre and produced a 19.6% RoE.

Wealth, Investment Management and Insurance

Headline earnings grew 5% to R646m, with earnings from continuing business lines increasing 8% to R636m. Gross operating income grew 11% to R3 455m and costs fell 7% to R1 551m. Life insurance net operating income grew 26%, while earnings declined 4% due to a deferred tax benefit in the base. Its embedded value of new business increased 25% in South Africa, due to improved retail lending and sales through bank branches. Assets under management grew 8% to R319bn, despite declining 5% year to date. Wealth and Investment Management's earnings declined 15%, largely due to margin compression. Short-term insurance earnings grew 117%. South African underwriting margins increased to 9.8%. WIMI's South African earnings increased 3% to R682m, while Rest of Africa reported a loss of R36m. WIMI's RoE improved to 22.5% and it generated 8% of total earnings excluding the Group centre.

Prospects

In South Africa growth remains challenging given subdued business confidence and headwinds to household spending. We forecast real GDP growth of 1.2% this year and 2.0% next year. Fiscal policy remains a challenge as recent tax increases might not be enough to deliver the much needed consolidation. We expect the Reserve Bank to leave interest rates unchanged for some time.

We forecast real GDP growth of 5% in our Rest of Africa portfolio, although monetary policy easing may have bottomed. At current levels, the rand would dampen our earnings less in the second half than it did in the first half.

Based on these assumptions, and excluding any unforeseen major political, macroeconomic or regulatory developments, our guidance for 2018 is largely unchanged. We expect our loan and deposit growth to improve in 2018, with stronger loan growth in Rest of Africa, CIB and Retail South Africa. Our net interest margin is likely to decline slightly this year. Costs will remain well controlled and our operating Jaws should improve from last year's but is unlikely to be positive. We expect our credit loss ratio to improve in 2018. Our CET 1 ratio is expected to remain above board targets, which will allow us to maintain our current dividend cover. Lastly, our normalised RoE should improve slightly in 2018.

Profit and dividend announcement

Basis of presentation

The Group's interim financial results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act. The principal accounting policies applied are set out in the Group's most recent audited annual consolidated financial statements.

The Group's unaudited condensed consolidated interim financial statements comply with IAS 34 Interim Financial Reporting (IAS 34).

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. The accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policies are applied, and which involve a high degree of judgement, including the use of assumptions and estimation, are impairment of loans and advances, goodwill impairment, fair value measurements, impairment of available-for-sale financial assets, consolidation of structured or sponsored entities, post-retirement benefits, provisions, income taxes, share-based payments, liabilities arising from claims made under short-term and long-term insurance contracts and offsetting of financial assets and liabilities.

The directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the reporting period ahead. For this reason, the information in this report has been prepared on a going concern basis.

Accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial results are the same as those in place for the reporting period ended 31 December 2017 except for:

1. Changes of the Group's operating segments and business portfolios, which have been presented in the reporting overview on the inside front cover.
2. An accounting policy change with respect to the measurement of policyholder liabilities, and specifically, with regards to the calculation of discretionary margins held within policyholder reserves (refer to page 177 for more details).
3. Adoption of new International Financial Reporting Standards (IFRS), specifically IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) (refer to pages 153 to 176 for more details) as indicated in the reporting changes section on pages 152 to 157. This section includes the impact of the adoption of IFRS 9 and specifically the transitional disclosures as required by IFRS 7 *Financial Instruments Disclosures* (IFRS 7). All information marked as audited in this section has been audited by Ernst and Young who expressed an unmodified opinion thereon in terms of ISA 805 *Special Considerations* – Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statements.

Events after the reporting period

The directors are not aware of any events after the reporting date of 30 June 2018 and the date of authorisation of these consolidated financial statements (as defined per IAS 10 *Events after the Reporting Period* (IAS 10)).

Profit and dividend announcement

Declaration of interim dividend number 64

Shareholders are advised that an interim ordinary dividend of 490 cents per ordinary share was declared on 6 August 2018, for the period ended 30 June 2018. The interim ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 14 September 2018. The directors of Absa Group Limited have applied the solvency and liquidity test and reasonably concluded that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

The dividend will be subject to local dividends withholding tax at a rate of 20%. In accordance with paragraphs 11.17 (a) (i) to (ix) and 11.17 (c) of the JSE Listings Requirements, the following additional information is disclosed:

- The dividend has been declared out of income reserves.
- The local dividend tax rate is twenty per cent (20%).
- The gross local dividend amount is 490 cents per ordinary share for shareholders exempt from the dividend tax.
- The net local dividend amount is 392 cents per ordinary share for shareholders liable to pay the dividend tax.
- Absa Group Limited currently has 847 750 679 ordinary shares in issue (includes 16 009 837[1] treasury shares).
- Absa Group Limited's income tax reference number is 9150116714.

In compliance with the requirements of Strate, the electronic settlement and custody system used by the JSE Limited, the following salient dates for the payment of the dividend are applicable:

Last day to trade cum dividend	Tuesday, 11 September 2018
Shares commence trading ex dividend	Wednesday, 12 September 2018
Record date	Friday, 14 September 2018
Payment date	Monday, 17 September 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 September 2018 and Friday, 14 September 2018, both dates inclusive. On Monday, 17 September 2018, the dividend will be electronically transferred to the bank accounts of certificated shareholders. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will also be credited on Monday, 17 September 2018.

On behalf of the Board

N R Drutman
Group Company Secretary

Johannesburg

6 August 2018

Absa Group Limited is a company domiciled in South Africa. Its registered office is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

[1] Includes 13 089 157 shares to be utilised when establishing a BBBEE structure.

Condensed consolidated normalised statement of comprehensive income

for the reporting period ended

	Note	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Net interest income	2	**21 188**	20 791	2	42 319
Interest and similar income[2]		**43 454**	42 938	1	85 918
Effective interest income		**43 104**	42 341	2	84 645
Other interest income		**350**	597	(41)	1 273
Interest expense and similar charges[2]		**(22 266)**	(22 147)	1	(43 599)
Effective interest expense		**(22 266)**	(21 942)	1	(43 599)
Other interest expense		**—**	(205)	(100)	—
Non-interest income	3	**15 854**	15 294	4	30 671
Net fee and commission income		**10 991**	10 618	4	21 711
Fee and commission income	3.1	**12 604**	12 084	4	24 724
Fee and commission expense	3.1	**(1 613)**	(1 466)	10	(3 013)
Net insurance premium income	3.2	**3 465**	3 250	7	6 598
Net claims and benefits incurred on insurance contracts	3.3	**(1 741)**	(1 694)	3	(3 334)
Changes in investment and insurance contract liabilities[1]	3.4	**(114)**	(513)	(78)	(2 023)
Gains and losses from banking and trading activities	3.5	**2 664**	2 866	(7)	5 172
Gains and losses from investment activities	3.6	**243**	448	(46)	1 905
Other operating income	3.7	**346**	319	8	642
Total income		**37 042**	36 085	3	72 990
Impairment losses on loans and advances	4	**(3 431)**	(3 773)	(9)	(7 022)
Operating income before operating expenditure		**33 611**	32 312	4	65 968
Operating expenditure	5	**(20 834)**	(20 038)	4	(41 403)
Other expenses		**(888)**	(795)	12	(1 876)
Other impairments		**(184)**	(50)	>100	(322)
Indirect taxation	6	**(704)**	(745)	(6)	(1 554)
Share of post-tax results of associates and joint ventures		**56**	79	(29)	170
Operating profit before income tax		**11 945**	11 558	3	22 859
Taxation expense[1]	7	**(3 322)**	(3 204)	4	(6 290)
Profit for the reporting period		**8 623**	8 354	3	16 569
Profit attributable to:					
Ordinary equity holders[1]		**7 972**	7 813	2	15 370
Non-controlling interest – ordinary shares		**379**	361	5	789
Non-controlling interest – preference shares		**176**	180	(2)	362
Non-controlling interest – Tier 1 capital		**96**	—	100	48
		8 623	8 354	3	16 569
Earnings per share:					
Basic earnings per share (cents)	1	**943.8**	923.0	2	1 815.7
Diluted basic earnings per share (cents)	1	**941.1**	922.8	2	1 815.5

[1] These numbers have been restated, refer to the report overview on the inside cover page.

[2] An amendment was made to IAS 1 *Presentation of Financial Statements*, which is effective from 1 January 2018. The amendment requires interest and similar income which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income The Group has elected to apply the same approach in presenting interest expense and similar charges to achieve consistency.

Condensed consolidated normalised statement of comprehensive income

for the reporting period ended

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Profit for the reporting period[1]	8 623	8 354	3	16 569
Other comprehensive income				
Items that will not be reclassified to profit or loss	3	(31)	<(100)	(179)
Fair value gain on equity instruments measured at FVOCI	2	—	100	—
Movement of liabilities designated at FVTPL due to changes in own credit risk	5	(26)	<(100)	(147)
Fair value losses	(45)	(26)	73	(147)
Deferred tax	50	—	100	—
Movement in retirement benefit fund assets and liabilities	(4)	(5)	(20)	(32)
Decrease in retirement benefit surplus	(6)	(6)	—	(91)
Decrease in retirement benefit deficit	1	2	(50)	44
Deferred tax	1	(1)	<(100)	15
Items that are or may be subsequently reclassified to profit or loss	2 018	(414)	<(100)	(1 327)
Movement in foreign currency translation reserve	2 376	(675)	<(100)	(2 219)
Differences in translation of foreign operations	2 376	(623)	<(100)	(2 271)
Releases to profit or loss	—	(52)	(100)	52
Movement in cash flow hedging reserve	(588)	518	<(100)	794
Fair value (losses)/gains	(737)	874	<(100)	1 465
Amount removed from other comprehensive income and recognised in profit or loss	(80)	(157)	(49)	(365)
Deferred tax	229	(199)	<(100)	(306)
Movement in fair value of debt instruments measured at FVOCI	230	—	100	—
Fair value gains	331	—	100	—
Release to profit or loss	3	—	100	—
Deferred tax	(104)	—	100	—
Movement in available-for-sale reserve	—	(257)	(100)	98
Fair value gains/(losses)	—	(349)	(100)	154
Release to profit or loss	—	18	(100)	67
Deferred tax	—	74	(100)	(123)
Total comprehensive income for the reporting period	10 644	7 909	35	15 063
Total comprehensive income attributable to:				
Ordinary equity holders[1]	9 661	7 458	30	14 137
Non-controlling interest – ordinary shares	711	271	>100	516
Non-controlling interest – preference shares	176	180	(2)	362
Non-controlling interest – Tier 1 capital	96	—	100	48
	10 644	7 909	35	15 063

[1] These numbers have been restated, refer to the report overview on the inside cover page.

Condensed consolidated normalised statement of financial position

as at

	Note	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Assets					
Cash, cash balances and balances with central banks		**48 578**	45 078	8	48 669
Investment securities		**127 437**	115 834	10	111 409
Loans and advances to banks		**62 843**	63 451	(1)	55 426
Trading portfolio assets		**124 982**	101 595	23	132 183
Hedging portfolio assets		**2 325**	2 278	2	2 673
Other assets		**37 973**	36 087	5	20 959
Current tax assets		**1 018**	536	90	314
Non-current assets held for sale		**79**	2 601	(97)	1 308
Loans and advances to customers	8	**783 116**	728 985	7	749 772
Reinsurance assets		**905**	814	11	892
Investments linked to investment contracts		**19 194**	19 131	0	18 936
Investments in associates and joint ventures		**1 217**	1 144	6	1 235
Investment property		**420**	268	57	231
Property and equipment		**15 556**	15 023	4	15 178
Goodwill and intangible assets		**4 984**	3 714	34	4 591
Deferred tax assets		**2 411**	1 353	78	1 291
Total assets		**1 233 038**	1 137 892	8	1 165 067
Liabilities					
Deposits from banks		**88 466**	49 290	79	67 390
Trading portfolio liabilities		**67 697**	42 564	59	64 047
Hedging portfolio liabilities		**1 339**	1 478	(9)	1 123
Other liabilities		**42 348**	37 882	12	31 317
Provisions		**2 515**	1 974	27	2 945
Current tax liabilities		**481**	25	>100	352
Non-current liabilities held for sale		**7**	114	(94)	48
Deposits due to customers	9	**714 491**	696 362	3	689 867
Debt securities in issue	10	**140 782**	140 192	0	137 948
Loans from Barclays separation segment		**8 691**	11 820	(26)	9 950
Liabilities under investment contracts		**30 546**	29 918	2	30 585
Policyholder liabilities under insurance contracts[1]		**4 570**	4 264	7	4 342
Borrowed funds	11	**21 448**	15 963	34	15 895
Deferred tax liabilities[1]		**239**	1 264	(81)	752
Total liabilities		**1 123 620**	1 033 110	9	1 056 561
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	11	**1 689**	1 694	(0)	1 691
Share premium	11	**4 302**	4 452	(3)	3 949
Retained earnings[1]		**86 766**	84 666	2	87 982
Other reserves		**5 904**	4 750	24	4 240
		98 661	95 562	3	97 862
Non-controlling interest – ordinary shares		**4 613**	4 576	1	4 500
Non-controlling interest – preference shares		**4 644**	4 644	—	4 644
Non-controlling interest – Tier 1 capital		**1 500**	—	100	1 500
Total equity		**109 418**	104 782	4	108 506
Total liabilities and equity		**1 233 038**	1 137 892	8	1 165 067

[1] These numbers have been restated, refer to the report overview on the inside cover page.

Condensed consolidated normalised statement of changes in equity

for the reporting period ended

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Restated balance at the end of the previous reporting period[1]	**845 554**	**1 691**	**3 949**	**87 982**	**4 240**	**779**
Impact of adopting new accounting standards at 1 January 2018						
IFRS 9	—	—	—	(4 106)	(95)	—
IFRS 15	—	—	—	(44)	—	—
Adjusted balance at the beginning of the reporting period	**845 554**	**1 691**	**3 949**	**83 832**	**4 145**	**779**
Total comprehensive income	—	—	—	7 973	1 688	—
Profit for the period	—	—	—	7 972	—	—
Other comprehensive income	—	—	—	1	1 688	—
Dividends paid during the reporting period	—	—	—	(4 962)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(236)	(44)	—	—
Elimination of the movement in treasury	(1 097)	(2)	353	—	—	—
Movement in share-based payment reserve	—	—	236	—	38	—
Transfer from share-based payment reserve	—	—	236	—	(236)	—
Value of employee services	—	—	—	—	302	—
Deferred tax	—	—	—	—	(28)	—
Movement in general credit-risk reserve	—	—	—	24	(24)	(24)
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(1)	1	—
Share of post-tax results of associates and joint ventures	—	—	—	(56)	56	—
Balance at the end of the reporting period	**844 457**	**1 689**	**4 302**	**86 766**	**5 904**	**755**

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm
Balance as reported at the end of the previous reporting period	846 675	1 693	4 467	81 604	5 293
Restatement owing to the change in life insurance accounting policy	—	—	—	134	—
Restated balance at the beginning of the reporting period	846 675	1 693	4 467	81 738	5 293
Total comprehensive income	—	—	—	7 782	(324)
Profit for the period	—	—	—	7 813	—
Other comprehensive income	—	—	—	(31)	(324)
Dividends paid during the reporting period	—	—	—	(4 832)	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(525)	27	—
Elimination of the movement in treasury shares held by Group entities	395	1	(15)	—	—
Movement in share-based payment reserve	—	—	525	—	(268)
Transfer from share-based payment reserve	—	—	525	—	(525)
Value of employee services	—	—	—	—	276
Deferred tax	—	—	—	—	(19)
Movement in general credit-risk reserve	—	—	—	30	(30)
Share of post-tax results of associates and joint ventures	—	—	—	(79)	79
Disposal of non-controlling interest[2]	—	—	—	—	—
Restated balance at the end of the reporting period	847 070	1 694	4 452	84 666	4 750

[1] The 'Retained earnings' balance at the beginning of the reporting period has been restated, owing to the change in life insurance accounting policy. As a result, 'Capital and reserves attributable to ordinary equity holders' and 'Total equity' at the beginning of the reporting period have also been restated. Refer to the report overview on the inside cover page.

[2] The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

30 June 2018

Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – additional Tier 1 capital Rm	Total equity Rm
445	650	431	6	707	1 222	97 862	4 500	4 644	1 500	108 506
(22)	—	—	—	—	(73)	(4 201)	(131)	—	—	(4 332)
—	—	—	—	—	—	(44)	—	—	—	(44)
423	650	431	6	707	1 149	93 617	4 369	4 644	1 500	104 130
227	(588)	2 049	—	—	—	9 661	711	176	96	10 644
—	—	—	—	—	—	7 972	379	176	96	8 623
227	(588)	2 049	—	—	—	1 689	332	—	—	2 021
—	—	—	—	—	—	(4 962)	(467)	(176)	—	(5 605)
—	—	—	—	—	—	—	—	—	(96)	(96)
—	—	—	—	—	—	(280)	—	—	—	(280)
—	—	—	—	—	—	351	—	—	—	351
—	—	—	—	38	—	274	—	—	—	274
—	—	—	—	(236)	—	—	—	—	—	—
—	—	—	—	302	—	302	—	—	—	302
—	—	—	—	(28)	—	(28)	—	—	—	(28)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	1	—	—	—	—	—	—	—
—	—	—	—	—	56	—	—	—	—	—
650	62	2 480	7	745	1 205	98 661	4 613	4 644	1 500	109 418

30 June 2017

General credit-risk reserve Rm	Available-for-sale reserves Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
757	377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	102 280
—	—	—	—	—	—	—	134	—	—	134
757	377	(144)	2 353	6	892	1 052	93 191	4 579	4 644	102 414
—	(313)	518	(529)	—	—	—	7 458	271	180	7 909
—	—	—	—	—	—	—	7 813	361	180	8 354
—	(313)	518	(529)	—	—	—	(355)	(90)	—	(445)
—	—	—	—	—	—	—	(4 832)	(243)	(180)	(5 255)
—	—	—	—	—	—	—	(498)	—	—	(498)
—	—	—	—	—	—	—	(14)	—	—	(14)
—	—	—	—	—	(268)	—	257	(8)	—	249
—	—	—	—	—	(525)	—	—	(8)	—	(8)
—	—	—	—	—	276	—	276	—	—	276
—	—	—	—	—	(19)	—	(19)	—	—	(19)
(30)	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	79	—	—	—	—
—	—	—	—	—	—	—	—	(23)	—	(23)
727	64	374	1 824	6	624	1 131	95 562	4 576	4 644	104 782

Condensed consolidated normalised statement of changes in equity

for the reporting period ended

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Balance as reported at the end of the previous reporting period	846 675	1 693	4 467	81 604	5 293	757
Restatement owing to the change in life insurance accounting policy	—	—	—	134	—	—
Restated balance at the beginning of the reporting period	846 675	1 693	4 467	81 738	5 293	757
Total comprehensive income	—	—	—	15 197	(1 060)	—
Profit for the period	—	—	—	15 370	—	—
Other comprehensive income	—	—	—	(173)	(1 060)	—
Dividends paid during the reporting period	—	—	—	(8 822)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Shares issued	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(742)	13	—	—
Elimination of the movement in treasury shares held by Group entities	(1 121)	(2)	(518)	—	—	—
Movement in share-based payment reserve	—	—	742	—	(185)	—
Transfer from share-based payment reserve	—	—	742	—	(742)	—
Value of employee services	—	—	—	—	525	—
Deferred tax	—	—	—	—	32	—
Movement in general credit risk reserve	—	—	—	(22)	22	22
Share of post-tax results of associates and joint ventures	—	—	—	(170)	170	—
Disposal of non-controlling interest[1]	—	—	—	—	—	—
Shareholder contribution – fair value of investment[2]	—	—	—	48	—	—
Restated balance at the end of the reporting period	845 554	1 691	3 949	87 982	4 240	779

[1] The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

[2] CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound Sterling (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

31 December 2017

Available-for-sale reserves Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest - Additional Tier 1 capital	Total equity Rm
377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	—	102 280
—	—	—	—	—	—	134	—	—	— —	134
377	(144)	2 353	6	892	1 052	93 191	4 579	4 644	—	102 414
68	794	(1 922)	—	—	—	14 137	516	362	48	15 063
—	—	—	—	—	—	15 370	789	362	48	16 569
68	794	(1 922)	—	—	—	(1 233)	(273)	—	—	(1 506)
—	—	—	—	—	—	(8 822)	(568)	(362)	—	(9 752)
—	—	—	—	—	—	—	—	—	(48)	(48)
—	—	—	—	—	—	—	—	—	1 500	1 500
—	—	—	—	—	—	(729)	—	—	—	(729)
—	—	—	—	—	—	(520)	—	—	—	(520)
—	—	—	—	(185)	—	557	(4)	—	—	553
—	—	—	—	(742)	—	—	—	—	—	—
—	—	—	—	525	—	525	(4)	—	—	521
—	—	—	—	32	—	32	—	—	—	32
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	170	—	—	—	—	—
—	—	—	—	—	—	—	(23)	—	—	(23)
—	—	—	—	—	—	48	—	—	—	48
445	650	431	6	707	1 222	97 862	4 500	4 644	1 500	108 506

Condensed consolidated normalised statement of cash flows

for the reporting period ended

	Note	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Net cash (utilised in)/generated from operating activities		**(2 184)**	1 076	>(100)	10 655
Net cash utilised in investing activities		**(993)**	(1 455)	(32)	(1 718)
Net cash (utilised in)/generated from financing activities		**(141)**	6 721	>(100)	(9 512)
Net (decrease)/increase in cash and cash equivalents		**(3 318)**	6 342	<(100)	(575)
Cash and cash equivalents at the beginning of the reporting period	1	**17 320**	17 734	(2)	17 734
Effect of foreign exchange rate movements on cash and cash equivalents		**361**	57	>100	161
Cash and cash equivalents at the end of the reporting period	2	**14 363**	24 133	(40)	17 320

Notes to the condensed consolidated normalised statement of cash flows

1. Cash and cash equivalents at the beginning of the reporting period

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Cash, cash balances and balances with central banks[1]	**13 518**	13 141	3	13 141
Loans and advances to banks[2]	**3 802**	4 593	(17)	4 593
	17 320	17 734	(2)	17 734

2. Cash and cash equivalents at the end of the reporting period

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Cash, cash balances and balances with central banks[1]	**10 428**	10 924	(5)	13 518
Loans and advances to banks[2]	**3 935**	13 209	(70)	3 802
	14 363	24 133	(40)	17 320

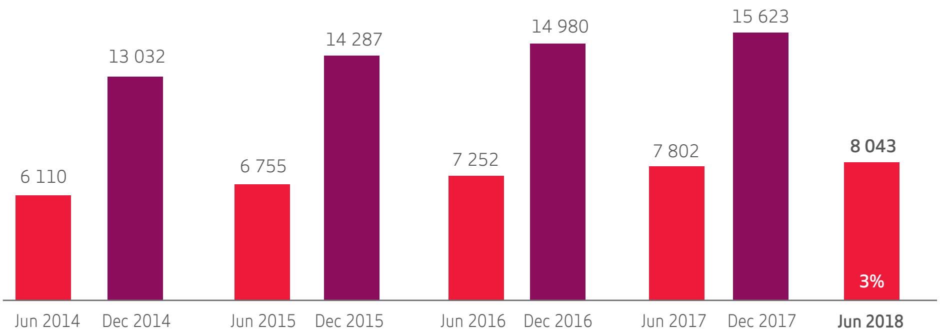
[1] Includes coins and bank notes.
[2] Includes call advances, which are used as working capital by the Group.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

1. Headline earnings and earnings per ordinary share

Headline earnings (Rm and change %)



Headline earnings	30 June 2018 Gross Rm	30 June 2018 Net Rm	30 June 2017 Gross Rm	30 June 2017 Net[1] Rm	Net change %	31 December 2017 Gross Rm	31 December 2017 Net[1] Rm
Headline earnings are determined as follows:							
Profit attributable to ordinary equity holders		**7 972**		7 813	2		15 370
Total headline earnings adjustment		**71**		(11)	<(100)		253
IFRS 3 – Goodwill impairment	**—**	**—**	—	—	—	38	38
IFRS 5 – (Gain)/loss on disposal of non-current assets held for sale	**(121)**	**(73)**	(7)	(5)	>100	36	39
IAS 16 – Loss/(profit) on disposal of property and equipment	**5**	**3**	(28)	(23)	<(100)	(43)	(34)
IAS 21 – Recycled foreign currency translation reserve	**—**	**—**	52	52	(100)	52	52
IAS 36 – Impairment of property and equipment	**182**	**141**	—	—	100	221	159
IAS 36 – Impairment of intangible assets	**—**	**—**	50	36	(100)	59	42
IAS 39 – Release of available-for-sale reserves	**—**	**—**	18	12	(100)	67	49
IAS 40 – Change in fair value of investment properties	**—**	**—**	(95)	(78)	(100)	(105)	(87)
IAS 40 – Profit on disposal of investment property	**—**	**—**	(5)	(5)	(100)	(5)	(5)
		8 043		7 802	3		15 623

Notable adjustments to headline earnings

- The 'Loss/gain on disposal of non-current assets held for sale' relates to the disposal of subsidiaries. The disposals were mainly from WIMI relating to Absa Consultants and Actuaries, a subsidiary of Absa Financial Services and a portion of the business in Absa Insurance and Financial Advisers, as well as Absa Technology Financial Solutions, a subsidiary in Retail Banking South Africa under Vehicle and Asset Finance.
- The 'Profit on disposal of property and equipment' in the current reporting period is attributable to the sale of freehold property and equipment.
- The 'Impairment of property and equipment' relates to an impairment on property located in the Johannesburg city centre, following a decision to dispose of the asset.
- The 'Impairment of intangible assets' relates to a deferred tax adjustment on assets which were fully impaired in the prior reporting period.

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

1. Headline earnings and earnings per ordinary share (continued)

	30 June 2018 Rm	30 June 2017[1] Rm	Change value/ %	31 December 2017[1] Rm
Basic earnings per ordinary share				
Basic earnings attributable to ordinary equity holders (Rm)	**7 972**	7 813	2	15 370
Weighted average number of ordinary shares in issue (million)	**844.7**	846.5	(1.8)	846.5
Issued shares at the beginning of the reporting period (million)	**847.8**	847.8	—	847.8
Treasury shares held by Group entities (million)	**(3.1)**	(1.3)	(1.8)	(1.3)
Basic earnings per ordinary share (cents)	**943.8**	923.0	2	1 815.7
Diluted basic earnings per ordinary share				
Basic earnings attributable to ordinary equity holders (Rm)	**7 972**	7 813	2	15 370
Diluted weighted average number of ordinary shares in issue (million)	**847.1**	846.7	0.4	846.6
Weighted average number of ordinary shares in issue (million)	**844.7**	846.5	(1.8)	846.5
Adjustments for share options issued at no value (million)	**2.4**	0.2	2.2	0.1
Diluted basic earnings per ordinary share (cents)	**941.1**	922.8	2	1 815.5
Headline earnings per ordinary share				
Headline earnings attributable to ordinary equity holders (Rm)	**8 043**	7 802	3	15 623
Weighted average number of ordinary shares in issue (million)	**844.7**	846.5	(1.8)	846.5
Headline earnings per ordinary share (cents)	**952.2**	921.7	3	1 845.6
Diluted headline earnings per ordinary share				
Headline earnings attributable to ordinary equity holders (Rm)	**8 043**	7 802	3	15 623
Diluted weighted average number of ordinary shares in issue (million)	**847.1**	846.7	0.4	846.6
Diluted headline earnings per ordinary share (cents)	**949.5**	921.5	3	1 845.4

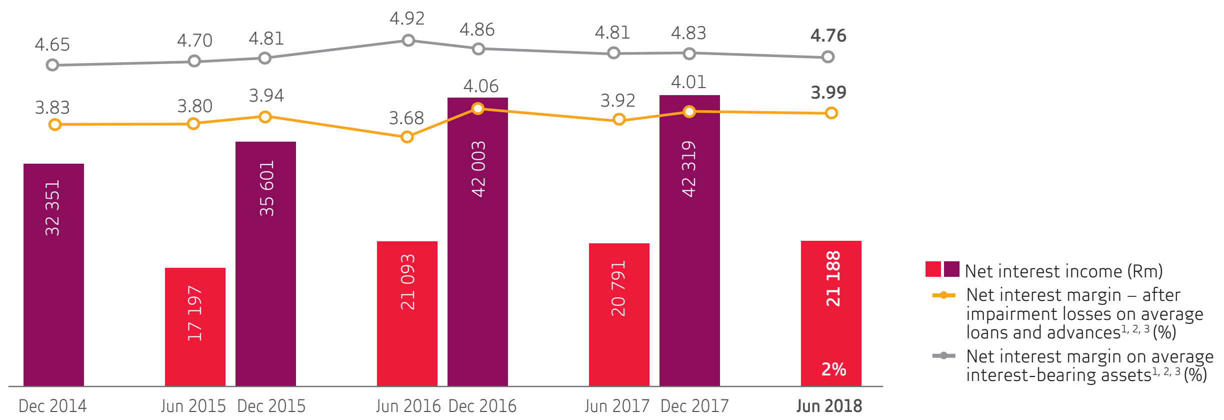
[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

2. Net interest income

Net interest income and net interest margin (Rm and year on year change %)



Group average statement of financial position	30 June 2018 Average balance[1] Rm	30 June 2018 Average rate %	30 June 2018 Interest income/ (expense) Rm	30 June 2017[4] Average balance[1,2,3] Rm	30 June 2017[4] Average rate %	30 June 2017[4] Interest income/ (expense)[2] Rm	31 December 2017 Average balance[1,3] Rm	31 December 2017 Average rate %	31 December 2017 Interest income/ (expense) Rm
Assets									
Cash, cash balances and balances with central banks	**4 530**	**0.40**	**9**	3 821	0.42	8	3 217	0.53	17
Investment securities	**105 257**	**8.79**	**4 587**	106 531	9.27	4 895	108 630	8.93	9 699
Loans and advances to banks and customers	**787 888**	**9.95**	**38 858**	761 957	10.01	37 819	764 186	9.97	76 202
Other interest	**—**	**—**	**—**	—	—	216	—	—	—
Interest-bearing assets	**897 675**	**9.76**	**43 454**	872 309	9.93	42 938	876 033	9.81	85 918
Non-interest-bearing assets	**262 501**	**—**	**—**	248 323	—	—	248 497	—	—
Total assets	**1 160 176**	**7.55**	**43 454**	1 120 632	7.73	42 938	1 124 530	7.64	85 918
Liabilities									
Deposits due to banks and customers	**652 876**	**(4.92)**	**(15 919)**	633 194	(5.08)	(15 936)	636 279	(4.92)	(31 320)
Debt securities in issue	**133 135**	**(8.21)**	**(5 419)**	120 031	(8.58)	(5 107)	120 692	(8.71)	(10 517)
Borrowed funds	**17 090**	**(10.95)**	**(928)**	15 563	(11.05)	(853)	15 680	(11.24)	(1 762)
Other interest	**—**	**—**	**—**	—	—	(251)	—	—	—
Interest-bearing liabilities	**803 101**	**(5.59)**	**(22 266)**	768 788	(5.81)	(22 147)	772 651	(5.64)	(43 599)
Non-interest-bearing liabilities	**251 232**	**—**	**—**	247 995	—	—	247 430	—	—
Total liabilities	**1 054 333**	**(4.26)**	**(22 266)**	1 016 783	(4.39)	(22 147)	1 020 081	(4.27)	(43 599)
Total equity	**105 843**	**—**	**—**	103 849	—	—	104 449	—	—
Total equity and liabilities	**1 160 176**	**(3.87)**	**(22 266)**	1 120 632	(3.99)	(22 147)	1 124 530	(3.88)	(43 599)
Net interest margin on average interest-bearing assets		**4.76**			4.81			4.83	

[1] Average balances are calculated based on daily weighted average balances.

[2] These numbers have been normalised.

[3] Net interest margin for comparative prior periods has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing; under the previous policy these assets were classified as non-interest bearing.

[4] In the previous reporting period, interest on the Group's defined-benefit plans was reallocated from 'Other interest' to 'Operating expenses'. This is a prospective change to more appropriately reflect the economic substance of the item.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

2. Net interest income (continued)

Change in net interest margin	30 June 2018 bps	2017[1] bps
Loans and advances to customers (i)	**(4)**	(8)
Change in customer rates (pricing)	**(6)**	(5)
Change in composition	**2**	(3)
Deposits due to customers (ii)	**(1)**	(1)
Change in customer rates (pricing)	**(1)**	3
Change in composition	**3**	(4)
Endowment (iii)	**(3)**	—
Equity endowment (iii)	**(1)**	7
Interest rate risk management (hedging strategy) (iii)	**3**	(3)
Rest of Africa (iv)	**(1)**	(4)
Other (v)	**(1)**	(2)
	(5)	(11)

Performance

The Group's net interest margin is 5 bps lower than the previous reporting period (2017: decreased by 11 bps) and reflects the following:

(i) Loans and advances to customers

- Margins declined primarily due to higher suspended interest in RBB South Africa post implementation of IFRS 9.
- Slower growth in the Home Loans portfolio relative to the Group's overall loans and advances growth created a positive composition impact.

(ii) Deposits due to customers

- Margins declined in Retail Banking South Africa reflecting competitive pricing on fixed deposits.
- Average wholesale funding balances remained stable year on year relative to the Group's overall loans and advances growth creating a positive composition impact. This was partially offset by faster relative growth in lower margin deposit balances in Retail Banking South Africa.

[1] Net interest margin for comparative prior periods has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing; under the previous policy these assets were classified as non-interest bearing.

Performance indicators and condensed normalised notes to the consolidated financial statements

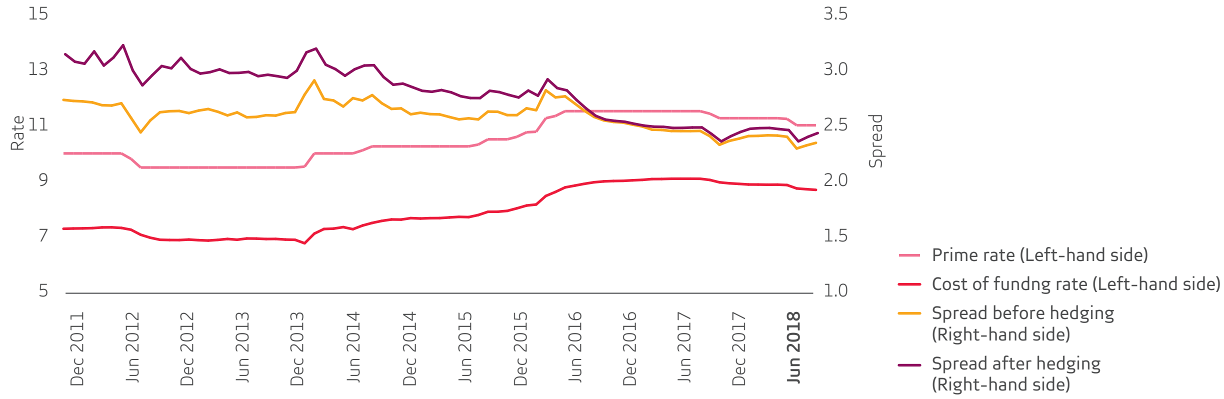
for the reporting period ended

2. Net interest income (continued)

Performance (continued)

(iii) Hedging strategy and equity endowment

Hedging impact on net interest margin[1] (%)



- Absa Bank Limited employs a governed interest rate strategy (hedging programme) through the interest rate cycle to reduce margin volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity).
- Qualification criterion for balances to be treated as structural is well defined and tested. As at 30 June 2018 an aggregate of **13%** (30 June 2017: 15%) of Absa Bank Limited's total capital and liabilities constituted structural balances.
- Cash flow hedge accounting is applied to account for the interest rate swaps executed as part of the hedging programme. The after tax 'cash flow hedging reserve' relating to the hedging programme moved from a credit balance of R446m on 30 June 2017 to a credit balance of **R142m** on 30 June 2018. The benefit realised in the current reporting period of 5 bps was 3 bps higher than the previous reporting period, releasing **R232m** (30 June 2017: R97m) to the statement of comprehensive income following a 50 bps decrease in the prime rate since 1 July 2017.
- Endowment on equity and liabilities, after hedging had a largely neutral impact on Group margin.

(iv) Rest of Africa

- Rest of Africa had a 1 bp negative impact on Group margin from the negative composition effect of weaker average exchange rates in these markets during the reporting period. The negative pricing impact of lower benchmark interest rates across markets was offset by an improved balance sheet construct from a lower reliance on wholesale funding and higher average endowment balances.

(v) Other

- Other items have had a cumulative 1 bp negative impact, mainly representing:
  - The negative impact on margin of prime rate decreases (-2 bps) as well as a reduction in the basis differential between prime and JIBAR (-1 bp);
  - Increased cost of liquidity including the costs associated with the Committed Liquidity Facility (-1 bp), partially offset by improving asset and liability construct in Treasury South Africa (+3 bps).

[1] Absa Bank Limited hedging strategy:
- The hedging programme provides greater margin stability from an interest rate risk perspective over the entire cycle.
- In a decreasing rate scenario, the hedging programme enhances the net interest margin while the opposite is true for an increasing rate scenario.
- Basis risk still remains between prime assets and the three-month Johannesburg Interbank Agreed Rate (JIBAR) repricing liabilities after hedging.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

3. Non-interest income

3.1 Net fee and commission income

	30 June			31 December
	2018 Rm	2017[1] Rm	Change %	2017 Rm
Asset management and other related fees	**108**	97	11	140
Consulting and administration fees	**302**	373	(19)	708
Transactional fees and commissions	**9 667**	9 069	7	18 462
Cheque accounts	**2 751**	2 391	15	4 943
Credit cards (includes card issuing fees)	**1 343**	1 256	7	2 624
Electronic banking	**2 576**	2 512	3	5 185
Other (includes fees on mortgage loans and foreign currency transactions)	**1 955**	1 843	6	3 648
Savings accounts	**1 042**	1 067	(2)	2 062
Insurance commission received	**390**	479	(19)	966
Investment, markets execution and investment banking fees	**266**	289	(8)	568
Merchant income	**969**	889	9	1 890
Other fee and commission income	**201**	176	14	557
Trust and other fiduciary services fees	**701**	712	(2)	1 433
Portfolio and other management fees	**541**	562	(4)	1 121
Trust and estate income	**160**	150	7	312
Fee and commission income	**12 604**	12 084	4	24 724
Fee and commission expense	**(1 613)**	(1 466)	10	(3 013)
Brokerage fees	**(54)**	(46)	17	(99)
Cheque processing fees	**(63)**	(58)	9	(125)
Clearing and settlement charges	**(416)**	(308)	35	(645)
Insurance commission paid	**(536)**	(528)	2	(1 065)
Notification fees	**(98)**	(103)	(5)	(198)
Other	**(409)**	(368)	11	(806)
Valuation fees	**(37)**	(55)	(33)	(75)
	10 991	10 618	4	21 711
Segment split[2]				
RBB South Africa	**8 327**	7 875	6	16 134
Retail Banking South Africa	**6 512**	6 125	6	12 589
Business Banking South Africa	**1 815**	1 750	4	3 545
CIB South Africa	**987**	927	6	1 935
Rest of Africa Banking	**1 396**	1 362	2	2 779
WIMI	**468**	634	(26)	1 261
Head Office, Treasury and other operations in South Africa	**(187)**	(180)	4	(398)
	10 991	10 618	4	21 711

[1] Included in June 2017 'Transactional related fees and commissions – Others' are R68m of fees that were previously included in 'Investment, markets execution and investment banking fees.' These fees have been restated to more accurately reflect their nature.

[2] These numbers have been restated, refer to the report changes overview on the inside cover page.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

3. Non-interest income (continued)

3.2 Net insurance premium income

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Gross insurance premiums	**3 990**	3 727	7	7 560
Premiums ceded to reinsurers	**(525)**	(477)	10	(962)
	3 465	3 250	7	6 598
Segment split				
Retail Banking South Africa, including Woolworths Financial Services (WFS)	**154**	148	4	300
WIMI	**3 334**	3 126	7	6 348
Head Office, Treasury and other operations in South Africa	**(23)**	(24)	(4)	(50)
	3 465	3 250	7	6 598

3.3 Net claims and benefits incurred on insurance contracts

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Gross claims and benefits incurred on insurance contracts	**(2 022)**	(2 155)	(6)	(3 994)
Reinsurance recoveries	**281**	461	(39)	660
	(1 741)	(1 694)	3	(3 334)
Segment split				
Retail Banking South Africa, including WFS	**(28)**	(24)	17	(52)
WIMI	**(1 656)**	(1 649)	(0)	(3 235)
Head Office, Treasury and other operations in South Africa	**(57)**	(21)	>100	(47)
	(1 741)	(1 694)	3	(3 334)

3.4 Changes in investment and insurance contract liabilities

	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
Change in insurance contract liabilities	**99**	85	16	(47)
Change in investment contract liabilities[2]	**(213)**	(598)	(64)	(1 976)
	(114)	(513)	(78)	(2 023)
Segment split				
Retail Banking South Africa, including WFS	**1**	(2)	<(100)	(6)
WIMI	**(118)**	(514)	(77)	(2 023)
Head Office, Treasury and other operations in South Africa	**3**	3	—	6
	(114)	(513)	(78)	(2 023)

[1] These numbers have been restated, refer to the report changes overview on the inside cover page.

[2] One of the main drivers to the movement of the Group's 'Liabilities under investment contracts' is the underlying performance of the related assets. 'Change in investment contract liabilities' should therefore be read in conjunction with 'Net gains on investments from insurance activities: Policyholder investment contracts' reported in 'Gains and losses from investment activities'.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

3. Non-interest income (continued)

3.5 Gains and losses from banking and trading activities

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Net gains on investments	**272**	163	67	227
Debt instruments designated at fair value through profit or loss	**190**	151	26	190
Equity instruments designated at fair value through profit or loss	**81**	30	>100	104
Available-for-sale unwind from reserves	**1**	(18)	<(100)	(67)
Net trading result	**2 433**	2 646	(8)	4 807
Net trading income excluding the impact of hedge accounting	**2 510**	2 677	(6)	4 855
Ineffective portion of hedges	**(77)**	(31)	>100	(48)
Cash flow hedges	**(72)**	9	<(100)	17
Fair value hedges	**(5)**	(40)	(88)	(65)
Other gains	**(41)**	57	<(100)	138
	2 664	2 866	(7)	5 172
Segment split[1]				
RBB South Africa	**227**	147	54	322
Retail Banking South Africa	**217**	138	57	302
Business Banking South Africa	**10**	9	11	20
CIB South Africa	**1 264**	1 164	9	2 207
Rest of Africa Banking	**1 009**	1 094	(8)	2 055
Head Office, Treasury and other operations in South Africa[2]	**164**	461	(64)	588
	2 664	2 866	(7)	5 172

3.6 Gains and losses from investment activities

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Net gains on investments from insurance activities	**240**	446	(46)	1 863
Policyholder insurance contracts	**26**	57	(54)	293
Policyholder investment contracts[3]	**(2)**	159	<(100)	1 144
Shareholders' funds	**216**	230	(6)	426
Other gains	**3**	2	50	42
	243	448	(46)	1 905
Segment split				
WIMI	**564**	934	(40)	2 899
Head Office, Treasury and other operations in South Africa[2]	**(321)**	(486)	(34)	(994)
	243	448	(46)	1 905

[1] The numbers have been restated, refer to the report changes overview on the inside cover page.

[2] This includes the elimination of investment returns of Absa Life Limited in the WIMI segment for funds invested with Treasury South Africa. The elimination is recognised between 'Gains and losses from investment activities' recognized by WIMI, and 'Net interest income' and 'Gains and losses from banking and trading activities' recognised by Treasury South Africa.

[3] One of the main drivers to the movement of the Group's 'Liabilities under investment contracts' is the underlying performance of the related assets. 'Net gains on investments from insurance activities: Policyholder investment contracts' should therefore be read in conjunction with 'Change in investment contracts' reported in 'Changes in investment and insurance contract liabilities'.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

3. Non-interest income (continued)

3.7 Other operating income

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Property-related income	**30**	228	(87)	293
Income from investment properties	**5**	166	(97)	182
Change in fair value	**—**	95	(100)	105
Rentals	**5**	71	(93)	77
Property-related income arising from contracts with customers	**25**	62	(60)	111
(Loss)/profit on disposal of property and equipment	**(13)**	1	<(100)	23
Profit on sale of developed properties	**10**	24	(58)	38
Profit on sale of repossessed properties	**11**	17	(35)	16
Rental income	**17**	20	(15)	34
Other operating income	**316**	91	>100	349
Foreign exchange differences, including recycle from other comprehensive income	**29**	(48)	<(100)	(93)
Other operating income arising from contracts with customers income from maintenance contracts	**20**	17	18	45
Sundry income[1]	**267**	122	>100	397
	346	319	8	642
Segment split				
Property-related income	**30**	228	(87)	293
RBB South Africa	**23**	132	(83)	164
Retail Banking South Africa	**11**	17	(35)	20
Business Banking South Africa	**12**	115	(90)	144
Rest of Africa Banking	**6**	7	(14)	13
WIMI	**3**	24	(88)	25
Head Office, Treasury and other operations in South Africa	**(2)**	65	<(100)	91
Other operating income	**316**	91	>100	349
RBB South Africa	**59**	71	(17)	324
Retail Banking South Africa	**55**	107	(49)	358
Business Banking South Africa	**4**	(36)	<(100)	(34)
CIB South Africa	**1**	14	(93)	38
Rest of Africa Banking	**16**	6	>100	6
WIMI	**249**	(1)	<(100)	(57)
Head Office, Treasury and other operations in South Africa	**(9)**	1	<(100)	38
	346	319	8	642

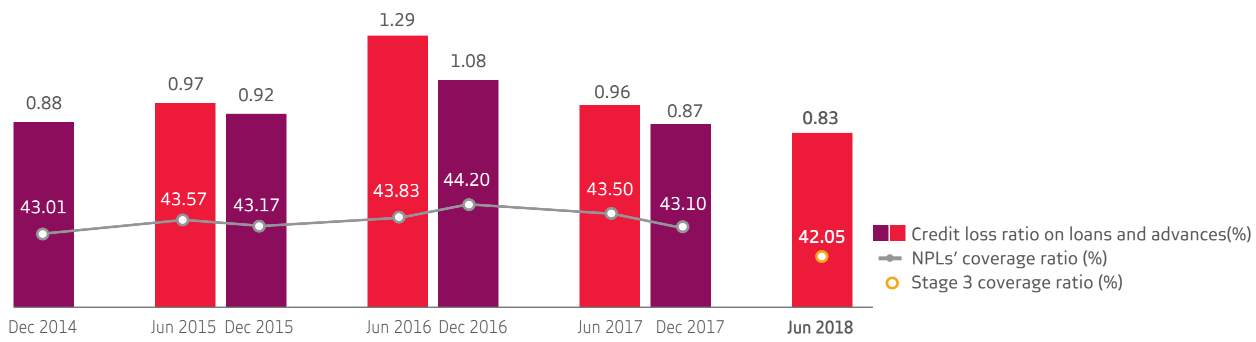
[1] There has been a significant increase in sundry income from prior year mainly due to the IFRS 5 profit on sale of subsidiaries being included, refer to note 1 for further information.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

4. Impairment losses

Credit loss and Stage 3 coverage ratio/NPLs' coverage ratios (%)[1]



Charge to the statement of comprehensive income by market segment	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
RBB South Africa				
Total charge	**2 728**	2 911	(6)	5 038
Credit loss ratio (%)	**1.15**	1.28		1.10
Retail Banking South Africa				
Card	**897**	1 141	(21)	1 924
Home Loans	**181**	466	(61)	689
Personal Loans	**568**	553	3	1 112
Transactional and Deposits	**279**	80	>100	193
Vehicle and Asset Finance	**594**	477	25	847
Other	**(2)**	(1)	100	(1)
Total charge	**2 517**	2 716	(7)	4 764
Credit loss ratio (%)	**1.24**	1.39		1.20
Business Banking South Africa				
Total charge	**211**	195	8	274
Credit loss ratio (%)	**0.62**	0.62		0.43
CIB South Africa				
Total charge	**381**	213	79	567
Credit loss ratio (%)	**0.30**	0.18		0.24
Rest of Africa Banking				
Total charge	**335**	638	(47)	1 289
Credit loss ratio (%)	**0.72**	1.38		1.34
WIMI				
Total charge	**(18)**	3	<(100)	120
Credit loss ratio (%)	**(0.49)**	0.09		1.58
Head Office, Treasury and other operations in South Africa				
Total charge	**5**	8	(38)	8
Total charge to the statement of comprehensive income[2]	**3 431**	3 773	(9)	7 022

[1] Prior period ratios have not been restated for IFRS 9.

[2] Includes recoveries of **R560m** (30 June 2017: R446m; 31 December 2017: R963m) of financial instruments held at amortised cost, which were previoiusly written off.

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Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

4. Impairment losses (continued)

	Stage 1		
	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
Loans and advances to customers	688 589	3 620	0.53
RBB South Africa	401 134	2 388	0.60
Retail Banking South Africa	343 612	1 767	0.51
Credit cards	29 713	666	2.24
Instalment credit agreements	70 312	512	0.73
Loans to associates and joint ventures	24 682	1	—
Mortgages	194 840	174	0.09
Other loans and advances	2 356	14	0.59
Overdrafts	4 560	57	1.25
Personal and term loans	17 149	343	2.00
Business Banking South Africa	57 522	621	1.08
CIB South Africa	202 288	434	0.21
Rest of Africa Banking	80 011	950	1.19
WIMI	4 796	28	0.58
Head Office, Treasury and other operations in South Africa	360	(180)	—
Loans and advances	360	8	2.22
Reclassification to provisions[1]	—	(188)	—
Loans and advances to banks	60 882	11	0.02
Total loans and advances to customers and banks	749 471	3 631	0.48

[1] This represents the ECL allowance on undrawn facilities which has resulted in the ECL allowance on loans and advances exceeding the carrying value of the drawn exposure. This excess is recognised in 'Provisions' on the Group's statement of financial position.

30 June 2018

Stage 2			Stage 3			Total		
Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
76 250	5 018	6.58	46 447	19 532	42.05	811 286	28 170	3.47
37 591	3 980	10.59	37 849	14 715	38.88	476 574	21 083	4.42
30 235	3 581	11.84	32 713	12 195	37.28	406 560	17 543	4.31
4 711	1 619	34.37	5 700	3 790	66.49	40 124	6 075	15.14
6 155	744	12.09	4 755	1 710	35.96	81 222	2 966	3.65
—	—	—	—	—	—	24 682	1	—
15 232	354	2.32	18 521	4 557	24.60	228 593	5 085	2.22
368	14	3.80	22	20	90.91	2 746	48	1.75
1 239	159	12.83	487	288	59.14	6 286	504	8.02
2 530	691	27.31	3 228	1 830	56.69	22 907	2 864	12.50
7 356	399	5.42	5 136	2 520	49.07	70 014	3 540	5.06
29 702	331	1.11	2 804	1 432	51.07	234 794	2 197	0.94
8 261	903	10.93	5 482	3 182	58.04	93 754	5 035	5.37
213	6	2.82	312	232	74.36	5 321	266	5.00
483	(202)	—	—	(29)	—	843	(411)	—
483	2	0.41	—	—	—	843	10	1.19
—	(204)	—	—	(29)	—	—	(421)	—
1 982	10	0.50	—	—	—	62 864	21	0.03
78 232	5 028	6.43	46 447	19 532	42.05	874 150	28 191	3.22

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

4. Impairment losses (continued)

	Stage 1		
	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
Loans and advances to customers	644 065	3 819	0.59
RBB South Africa	390 374	2 408	0.62
Retail Banking South Africa	336 635	1 768	0.53
Credit cards	29 329	654	2.23
Instalment credit agreements	67 498	539	0.80
Loans to associates and joint ventures	23 037	2	0.01
Mortgages	193 979	212	0.11
Other loans and advances	2 453	8	0.33
Overdrafts	4 360	45	1.03
Personal and term loans	15 979	308	1.93
Business Banking South Africa	53 739	640	1.19
CIB South Africa	183 184	482	0.26
Rest of Africa Banking	65 662	1 090	1.66
WIMI	4 658	27	0.58
Head Office, Treasury and other operations in South Africa	187	(188)	—
Loans and advances	187	8	4.28
Reclassification to provisions[1]	—	(196)	—
Loans and advances to banks	53 360	40	0.07
Total loans and advances	697 425	3 859	0.55

[1] This represents the ECL allowance on undrawn facilities which has resulted in the ECL allowance on loans and advances exceeding the carrying value of the drawn exposure. This excess is recognised in 'Provisions' on the Group Statement of financial position.

1 January 2018

Stage 2			Stage 3			Total		
Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
81 850	4 508	5.51	45 735	18 606	40.68	771 650	26 933	3.49
34 888	3 492	10.01	37 612	14 378	38.23	462 874	20 278	4.38
27 980	3 184	11.38	31 942	11 756	36.80	396 557	16 708	4.21
4 392	1 343	30.58	5 918	3 727	62.98	39 639	5 724	14.44
5 217	610	11.69	4 167	1 431	34.34	76 882	2 580	3.36
—	—	—	—	—	—	23 037	2	0.01
14 461	366	2.53	18 213	4 426	24.30	226 653	5 004	2.21
345	18	5.22	11	8	72.73	2 809	34	1.21
1 024	127	12.40	416	240	57.69	5 800	412	7.10
2 541	720	28.34	3 217	1 924	59.81	21 737	2 952	13.58
6 908	308	4.46	5 670	2 622	46.24	66 317	3 570	5.38
35 232	384	1.09	2 143	955	44.56	220 559	1 821	0.83
10 732	798	7.44	5 650	3 087	54.64	82 044	4 975	6.06
229	6	2.62	330	233	70.61	5 217	266	5.10
769	(172)	—	—	(47)	—	956	(407)	—
769	11	1.43	—	—	—	956	19	1.99
—	(183)	—	—	(47)	—	—	(426)	—
2 065	27	1.31	—	—	—	55 425	67	0.12
83 915	4 535	5.40	45 735	18 606	40.68	827 075	27 000	3.26

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

4. Impairment losses (continued)

30 June 2017[1]

Loans and advances	Performing loans Exposure Rm	Performing loans Impairment Rm	Performing loans Coverage ratio %	Non-performing loans Exposure Rm	Non-performing loans Impairment Rm	Non-performing loans Coverage ratio %	Net total exposure Rm
RBB South Africa	429 729	4 198	0.98	23 548	9 922	42.14	439 157
Retail Banking South Africa	368 494	3 354	0.91	20 484	8 806	42.99	376 818
Credit cards	34 386	776	2.26	5 403	3 882	71.85	35 131
Instalment credit agreements	71 473	759	1.06	2 221	1 052	47.37	71 883
Loans to associates and joint ventures	20 707	—	—	—	—	—	20 707
Mortgages	216 062	1 195	0.55	10 216	2 132	20.87	222 951
Other loans and advances	2 697	—	—	—	—	—	2 697
Overdrafts	4 575	60	1.31	286	171	59.79	4 630
Personal and term loans	18 594	564	3.03	2 358	1 569	66.54	18 819
Business Banking South Africa	61 235	844	1.38	3 064	1 116	36.42	62 339
Mortgages (including CPF)	25 792	168	0.65	1 501	533	35.51	26 592
Overdrafts	19 367	425	2.19	853	390	45.72	19 405
Term loans	16 076	251	1.56	710	193	27.18	16 342
CIB South Africa	204 310	604	0.30	1 604	617	38.47	204 693
Rest of Africa Banking	77 610	1 085	1.40	4 972	2 559	51.47	78 938
WIMI	5 430	12	0.22	128	61	47.66	5 485
Head Office, Treasury and other operations in South Africa	721	9	1.25	—	—	—	712
Loans and advances to customers	717 800	5 908	0.82	30 252	13 159	43.50	728 985
Loans and advances to banks	63 451	—	—	—	—	—	63 451
	781 251	5 908	0.76	30 252	13 159	43.50	792 436

31 December 2017[1]

Loans and advances	Performing loans Exposure Rm	Performing loans Impairment Rm	Performing loans Coverage ratio %	Non-performing loans Exposure Rm	Non-performing loans Impairment Rm	Non-performing loans Coverage ratio %	Net total exposure Rm
RBB South Africa	436 694	3 997	0.92	23 868	9 671	40.52	446 894
Retail Banking South Africa	374 760	3 223	0.86	20 534	8 576	41.76	383 495
Credit cards	34 503	729	2.11	5 053	3 605	71.34	35 222
Instalment credit agreements	74 429	698	0.94	2 362	1 117	47.29	74 976
Loans to associates and joint ventures	23 037	—	—	—	—	—	23 037
Mortgages	215 469	1 124	0.52	10 353	2 073	20.02	222 625
Other loans and advances	2 807	—	—	—	—	—	2 807
Overdrafts	5 348	71	1.33	383	215	56.14	5 445
Personal and term loans	19 167	601	3.14	2 383	1 566	65.72	19 383
Business Banking South Africa	61 934	774	1.25	3 334	1 095	32.84	63 399
Mortgages (including CPF)	26 158	141	0.54	1 477	519	35.12	26 975
Overdrafts	19 864	396	1.99	1 082	374	34.57	20 176
Term loans	15 912	237	1.49	775	202	26.08	16 248
CIB South Africa	218 437	559	0.26	2 019	832	41.21	219 065
Rest of Africa Banking	76 738	981	1.28	4 742	2 636	55.59	77 863
WIMI	4 930	13	0.26	262	175	66.79	5 004
Head Office, Treasury and other operations in South Africa	956	10	1.05	—	—	—	946
Loans and advances to customers	737 755	5 560	0.75	30 891	13 314	43.10	749 772
Loans and advances to banks	55 426	—	—	—	—	—	55 426
	793 181	5 560	0.70	30 891	13 314	43.10	805 198

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page. The prior year figures have been determined in accordance with IAS 39.

Performance indicators and condensed normalised notes to the consolidated financial statements

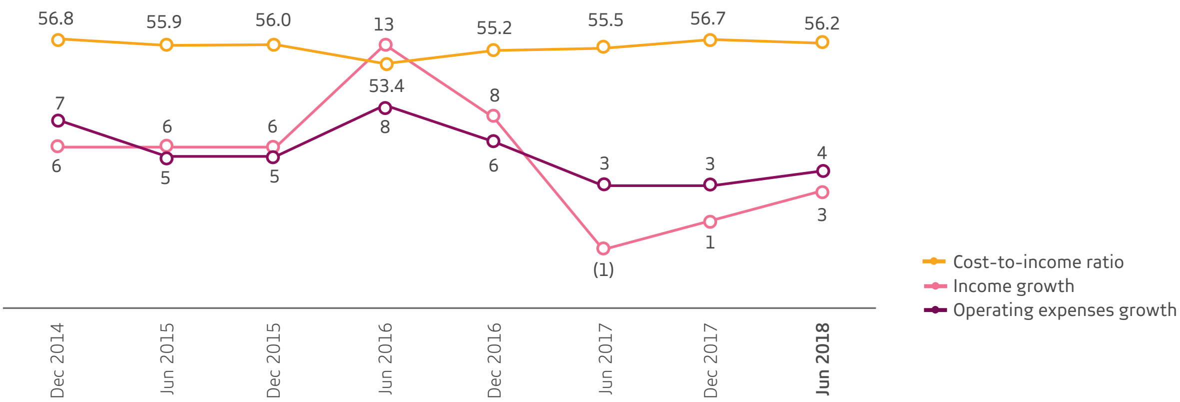
for the reporting period ended

4. Impairment losses (continued)

Statement of financial position – identified and unidentified impairments	30 June 2017 Rm	31 December 2017 Rm
Comprising:		
Identified impairments	16 249	16 334
Performing loans	3 090	3 020
NPLs	13 159	13 314
Unidentified impairments	2 818	2 539
Model driven	1 361	1 145
Macroeconomic	1 457	1 394
	19 067	18 873

5. Operating expenses

Jaws and cost-to-income ratio (%)



Breakdown of operating expenses	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Administration fees	**276**	370	(25)	499
Amortisation of intangible assets	**363**	348	4	650
Auditors' remuneration	**160**	142	13	276
Cash transportation	**612**	536	14	1 089
Depreciation	**1 125**	937	20	1 984
Equipment costs	**183**	203	(10)	444
Information technology	**1 592**	1 579	1	3 143
Marketing costs	**731**	734	(0)	1 709
Operating lease expenses on properties	**799**	815	(2)	1 606
Other[1]	**1 166**	874	33	2 035
Printing and stationery	**164**	154	6	367
Professional fees	**717**	788	(9)	1 699
Property costs	**834**	839	(1)	1 731
Staff costs	**11 647**	11 207	4	23 138
Bonuses	**774**	847	(9)	2 058
Deferred cash and share-based payments	**401**	418	(4)	712
Other[2]	**518**	510	2	1 197
Salaries and current service costs on post-retirement benefit funds	**9 744**	9 238	5	18 684
Training costs	**210**	194	8	487
Telephone and postage	**465**	512	(9)	1 033
	20 834	20 038	4	41 403

[1] Includes net fraud losses, travel and entertainment costs.

[2] Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

5. Operating expenses (continued)

Breakdown of IT-related spend included in operating expense	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Amortisation of intangible assets and depreciation of IT equipment	**910**	773	18	1 563
Information technology	**1 592**	1 579	1	3 143
Staff costs	**1 155**	1 059	9	2 036
Other[1]	**313**	109	>100	620
	3 970	3 520	13	7 362

Operating costs increased by 4% to **R20 834m** (2017: R20 038m) with staff costs and non-staff costs each increasing by 4%.

- Administration fees decreased by **25%** (CCY 25%) mainly from a reduction in fees paid for externally managed product services.
- Amortisation of intangible assets increased by **4%** (CCY 5%), and reflects continuing investment in new digital, data and automation capabilities, resulting in an increase of intangible assets.
- Cash transportation costs increased by **14%** (CCY 15%) and reflect an increase in the industry's cash infrastructure costs.
- Depreciation increased by **20%** (CCY 22%), and reflects investment on improving technology service levels and optimisation of the corporate property portfolio and branch network.
- Information technology costs increased by **1%** (CCY 1%) with low growth from optimisation initiatives which offset continued investment in technology infrastructure post separation from Barclays PLC.
- Marketing costs are in line with the prior reporting period, and reflect a delay in spend into the second half of the year in anticipation of the new Absa brand launch.
- Other costs increased by **33%** (CCY 37%), mainly attributable to Rest of Africa change initiatives and other information technology services previously reimbursed by Barclays PLC.
- Property costs and operating lease expenses of **R1 633m** (2017: R1 654m) are 1% lower than the prior reporting period (CCY in line with the prior reporting period), and reflects continued optimisation of corporate and branch property costs.
- Professional fees decreased by **9%** (CCY 9%), and reflect lower external consultancy costs.
- Staff costs grew by **4%** (CCY 5%) to **R11 647m** (2017: R11 207m). Salary cost growth of **5%** (CCY 7%) was inflationary despite slightly lower headcount. Bonuses and share-based payments of **R1 175m** (2017: R1 265m) decreased by **7%** (CCY 6%) following slightly higher accruals in the first half of 2017.
- On a constant currency basis, cost growth was slightly higher, increasing by 5%, with both staff costs and non-staff costs increasing by 5%.
- Telephone and postage costs decreased by **9%** (CCY 8%), and reflects lower communication costs.

6. Indirect taxation

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Training levy	**112**	100	12	191
Value-added tax net of input credits	**592**	645	(8)	1 363
	704	745	(6)	1 554

[1] These numbers have been restated as a result of a definition change of IT-related spend.

Performance indicators and condensed normalised notes to the consolidated financial statements

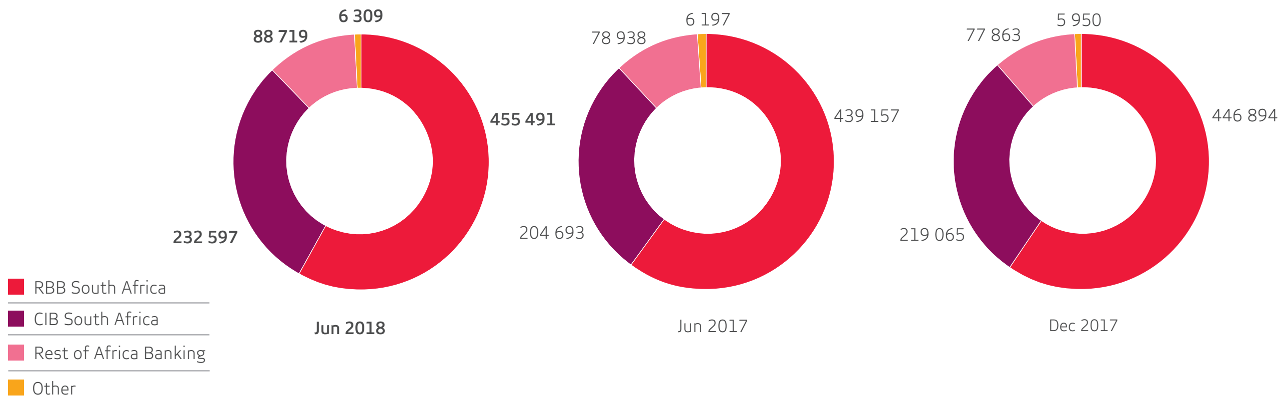
for the reporting period ended

7. Taxation expense

	30 June			31 December
	2018 Rm	2017[1] Rm	Change %	2017[1] Rm
Reconciliation between operating profit before income tax and the taxation expense				
Operating profit before income tax	**11 945**	11 558	3	22 859
Share of post-tax results of associates and joint ventures	**(56)**	(79)	(29)	(79)
	11 889	11 479	4	22 780
Tax calculated at a tax rate of 28%	**3 329**	3 214	4	6 378
Effect of different tax rates in other countries	**(2)**	8	<(100)	25
Expenses not deductible for tax purposes	**336**	457	(26)	789
Recognition of previously unrecognised deferred tax assets	**—**	—	—	(7)
Income not subject to tax	**(347)**	(483)	(28)	(857)
Other	**8**	(21)	<(100)	(39)
Items of a capital nature	**(2)**	29	<(100)	26
	3 322	3 204	4	6 315

8. Loans and advances to customers

Loans and advances to customers by segment (Rm)



	30 June		31 December
	2018 %	2017 %	2017 %
RBB South Africa	**58.2**	60.2	59.6
Retail Banking South Africa	**49.7**	51.7	51.1
Business Banking South Africa	**8.5**	8.6	8.5
CIB South Africa	**29.7**	28.1	29.2
Rest of Africa Banking	**11.3**	10.8	10.4
Other[2]	**0.8**	0.8	0.8
	100.0	100.0	100.0

[1] These numbers have been restated. Refer to the reporting changes overview on the inside front cover.
[2] Includes WIMI and Head Office, Treasury and other operations in South Africa

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

8. Loans and advances to customers (continued)

Loans and advances to customers by segment	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
RBB South Africa				
Gross loans and advances to customers	**476 574**	453 277	5	460 562
Total expected losses on loans and advances to customers	**(21 083)**	(14 120)	49	(13 668)
	455 491	439 157	4	446 894
Retail Banking South Africa				
Credit cards	**40 124**	39 789	1	39 556
Instalment credit agreements	**81 222**	73 694	10	76 791
Loans to associates and joint ventures	**24 682**	20 707	19	23 037
Mortgages	**228 593**	226 278	1	225 822
Other loans and advances	**2 746**	2 697	2	2 807
Overdrafts	**6 286**	4 861	29	5 731
Personal and term loans	**22 907**	20 952	9	21 550
Gross loans and advances to customers	**406 560**	388 978	5	395 294
Total expected losses on loans and advances to customers	**(17 543)**	(12 160)	44	(11 799)
	389 017	376 818	3	383 495
Business Banking South Africa				
Mortgages (including CPF)	**29 165**	27 293	7	27 635
Overdrafts	**22 178**	20 220	10	20 946
Term loans	**18 671**	16 786	11	16 687
Gross loans and advances to customers	**70 014**	64 299	9	65 268
Total expected losses on loans and advances to customers	**(3 540)**	(1 960)	81	(1 869)
	66 474	62 339	7	63 399
CIB South Africa				
Foreign currency loans	**30 672**	26 283	17	25 676
Mortgages	**22 085**	16 514	34	20 205
Term loans	**101 846**	85 991	18	89 905
Overdrafts	**13 200**	16 303	(19)	20 121
Overnight finance	**19 048**	17 611	8	19 031
Preference shares	**15 713**	16 921	(7)	17 824
Reverse repurchase agreements	**25 128**	19 308	30	19 316
Other loans and advances	**7 102**	6 983	2	8 378
Gross loans and advances to customers	**234 794**	205 914	14	220 456
Total expected losses on loans and advances to customers	**(2 197)**	(1 221)	80	(1 391)
	232 597	204 693	14	219 065
Rest of Africa Banking				
Gross loans and advances to customers	**93 754**	82 582	14	81 480
Total expected losses on loans and advances to customers	**(5 035)**	(3 644)	38	(3 617)
	88 719	78 938	12	77 863

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page. The prior year figures have been determined in accordance with IAS 39.

Performance indicators and condensed normalised notes to the consolidated financial statements

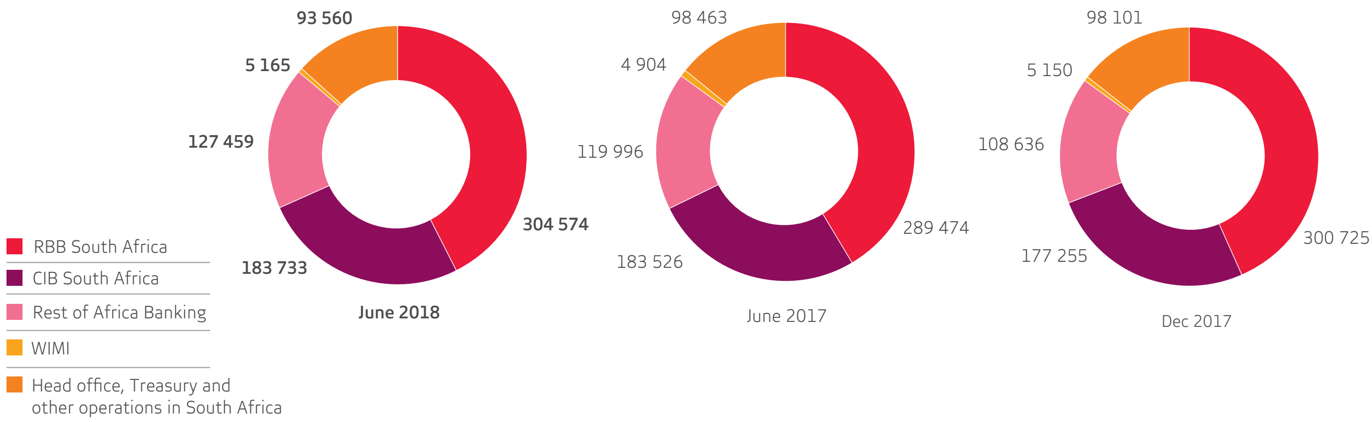
for the reporting period ended

8. Loans and advances to customers (continued)

Loans and advances to customers by segment	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
WIMI				
CPF	**1 124**	798	41	1 075
Overdrafts	**2 224**	2 791	(20)	2 241
Other loans and advances	**1 973**	1 969	0	1 876
Gross loans and advances to customers	**5 321**	5 558	(4)	5 192
Total expected losses on loans and advances to customers	**(266)**	(73)	>100	(188)
	5 055	5 485	(8)	5 004
Head Office, Treasury and other operations in South Africa				
Gross loans and advances to customers	**843**	721	17	956
Total expected losses on loans and advances to customers	**411**	(9)	<(100)	(10)
	1 254	712	76	946
Total loans and advances to customers				
Gross loans and advances to customers	**811 286**	748 052	8	768 646
Total expected losses on loans and advances to customers	**(28 170)**	(19 067)	48	(18 874)
Net loans and advances to customers	**783 116**	728 985	7	749 772

9. Deposits due to customers

Deposits due to customers by segment (Rm)



Total funding mix	30 June 2018 %	30 June 2017 %	31 December 2017 %
Deposits due to customers	**75.7**	78.6	77.1
RBB South Africa	**32.3**	32.7	33.6
Retail Banking South Africa	**20.5**	20.4	20.9
Business Banking South Africa	**11.8**	12.3	12.7
CIB South Africa	**19.5**	20.7	19.8
Rest of Africa Banking	**13.5**	13.6	12.1
WIMI	**0.5**	0.6	0.6
Head Office, Treasury and other operations in South Africa	**9.9**	11.0	11.0
Deposits from banks	**9.4**	5.6	7.5
Debt securities in issue	**14.9**	15.8	15.4
	100.0	100.0	100.0

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

9. Deposits due to customers (continued)

Deposits due to customers by segment	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
RBB South Africa	**304 574**	289 473	5	300 725
Retail Banking South Africa	**193 197**	181 005	7	186 855
Call deposits	**212**	245	(13)	224
Cheque account deposits	**25 991**	24 470	6	25 155
Credit card deposits	**1 788**	1 811	(1)	1 896
Fixed deposits	**47 630**	43 371	10	44 503
Foreign currency deposits	**392**	331	18	360
Investment products	**71 044**	66 648	7	69 428
Notice deposits	**16 426**	13 011	26	14 428
Other deposits	**597**	533	12	606
Saving and transmission deposits	**29 117**	30 585	(5)	30 255
Business Banking South Africa	**111 377**	108 468	3	113 870
Call deposits	**11 978**	10 641	13	12 389
Cheque account deposits	**46 409**	46 197	0	46 693
Fixed deposits	**18 152**	19 765	(8)	20 889
Investment products	**29 308**	26 247	12	28 474
Notice deposits	**2 049**	1 958	5	1 778
Saving and transmission deposits	**3 481**	3 660	(5)	3 647
CIB South Africa	**183 733**	183 526	0	177 255
Call deposits	**22 515**	25 724	(12)	24 115
Cheque account deposits	**84 013**	87 651	(4)	82 877
Fixed deposits	**48 318**	40 432	20	49 218
Foreign currency deposits	**11 397**	15 021	(24)	13 243
Investment products	**1 339**	1 537	(13)	1 444
Notice deposits	**2 252**	1 454	55	523
Other deposits	**635**	1 520	(58)	741
Repurchase agreements with non-banks	**13 016**	10 150	28	5 000
Saving and transmission deposits	**248**	37	>100	94
Rest of Africa Banking	**127 459**	119 996	6	108 636
WIMI	**5 165**	4 904	5	5 150
Call deposits	**300**	338	(11)	403
Cheque account deposits	**2 089**	1 945	7	2 086
Fixed deposits	**508**	504	1	483
Foreign currency deposits	**110**	105	5	125
Investment products	**1 802**	1 597	13	1 660
Notice deposits	**32**	18	78	19
Saving and transmission deposits	**324**	397	(18)	374
Head office, treasury and other operations in South Africa	**93 560**	98 463	(5)	98 101
Total deposits due to customers	**714 491**	696 362	3	689 867

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

10. Debt securities in issue

Debt securities in issue	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Commercial paper	**1 357**	348	>100	227
Credit-linked notes	**8 540**	8 841	(3)	8 375
Floating rate notes	**60 924**	60 359	1	63 125
Negotiable certificates of deposit	**43 370**	45 006	(4)	37 137
Other	**851**	834	2	1 132
Promissory notes	**719**	856	(16)	783
Structured notes and bonds	**337**	333	1	257
Senior notes	**24 684**	23 615	5	26 912
	140 782	140 192	0	137 948
Segment split				
RBB South Africa	**181**	640	(72)	400
CIB South Africa	**11 109**	12 282	(10)	12 532
Rest of Africa Banking	**860**	521	65	379
Head Office, Treasury and other operations in South Africa	**128 632**	126 749	1	124 637
	140 782	140 192	0	137 948

11. Equity and borrowed funds

	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Authorised				
880 467 500 (30 June 2017: 880 467 500; 31 December 2017: 880 467 500) ordinary shares of R2.00 each	**1 761**	1 761	—	1 761
Issued				
847 750 679 (30 June 2017: 847 750 679; 31 December 2017: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696	—	1 696
3 293 577 (30 June 2017: 680 929; 31 December 2017: 2 196 604) treasury shares held by Group entities	**(7)**	(2)	>100	(5)
	1 689	1 694	(0)	1 691
Total issued capital				
Share capital	**1 689**	1 694	(0)	1 691
Share premium	**4 302**	4 452	(3)	3 949
	5 991	6 146	(3)	5 640

Number of ordinary shares in issue (after deduction of treasury shares) at the reporting date	30 June 2018 Number of shares (million)	30 June 2017 Number of shares (million)	Change %	31 December 2017 Number of shares (million)
Ordinary shares in issue of R2.00 each	**847.8**	847.8	—	847.8
Treasury shares held by the Group	**(3.3)**	(0.7)	>100	(2.2)
	844.5	847.1	(0)	845.6

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

11. Equity and borrowed funds (continued)

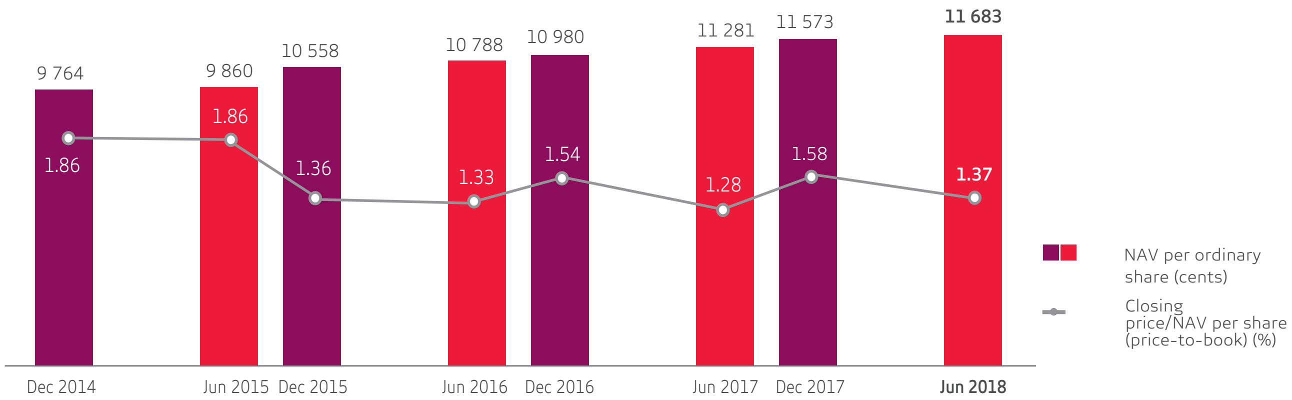
Borrowed funds		30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Subordinated callable notes issued by Absa Bank Limited					
The following subordinated debt instruments qualify as Tier 2 Capital in terms of Basel III.					
Interest rate	**Final maturity date**				
8.295%	21 November 2023	**1 188**	1 188	—	1 188
(JIBAR) + 2.10%					
Three-month JIBAR + 1.95%	21 November 2022	**—**	1 805	(100)	—
Three-month JIBAR + 2.05%	21 November 2023	**2 007**	2 007	—	2 007
Consumer Price Index (CPI) linked notes, fixed at the following coupon rates: 5.50%	7 December 2028	**1 500**	1 500	—	1 500
Subordinated callable notes issued by Barclays Africa Group Limited					
Interest rate	**Final maturity date**				
10.05%	5 February 2025	**807**	807	—	807
10.835%	19 November 2024	**130**	130	—	130
11.365%	4 September 2025	**508**	508	—	508
11.40%	29 September 2025	**288**	288	—	288
11.74%	20 August 2026	**140**	140	—	140
11.81%	3 September 2027	**737**	737	—	737
12.43%	5 May 2026	**200**	200	—	200
Three-month JIBAR + 3.30%	19 November 2024	**370**	370	—	370
Three-month JIBAR + 3.50%	5 February 2025	**1 693**	1 693	—	1 693
Three-month JIBAR + 3.50%	4 September 2025	**437**	437	—	437
Three-month JIBAR + 3.60%	3 September 2027	**30**	30	—	30
Three-month JIBAR + 4.00%	5 May 2026	**31**	31	—	31
Three-month JIBAR + 4.00%	20 August 2026	**1 510**	1 510	—	1 510
Three-month JIBAR + 4.00%	3 November 2026	**500**	500	—	500
Three-month JIBAR + 3.78%	17 March 2027	**642**	642	—	642
Three-month JIBAR + 3.85%	25 May 2027	**500**	500	—	500
Three-month JIBAR + 3.85%	14 August 2029	**390**	—	100	390
Three-month JIBAR + 3.15%	30 September 2027	**295**	—	100	295
Three-month JIBAR + 3.45%	29 September 2029	**1 014**	—	100	1 014
USD 6.25%	25 April 2028	**5 488**	—	100	—
Subordinated callable notes issued by other subsidiaries					
Interest rate	**Final maturity date**				
National Bank of Commerce 16.44% fixed-rate note	29 January 2024	**30**	29	3	29
Other					
Accrued interest		**1 025**	905	13	918
Fair value adjustments on total subordinated debt		**(12)**	6	<(100)	31
		21 448	15 963	34	15 895

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

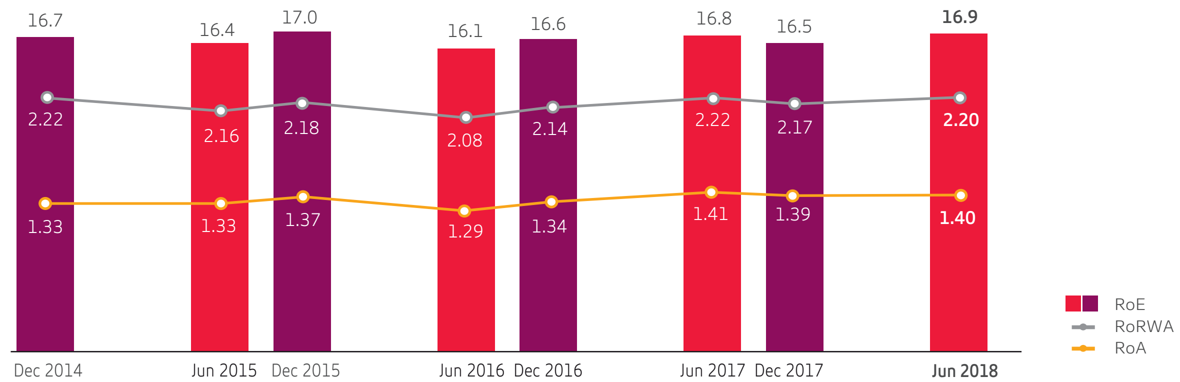
11. Equity and borrowed funds (continued)

NAV per share and closing price/NAV per share (cents and %)[1]



12. Returns

RoE, RoA and RoRWA (%)[1]



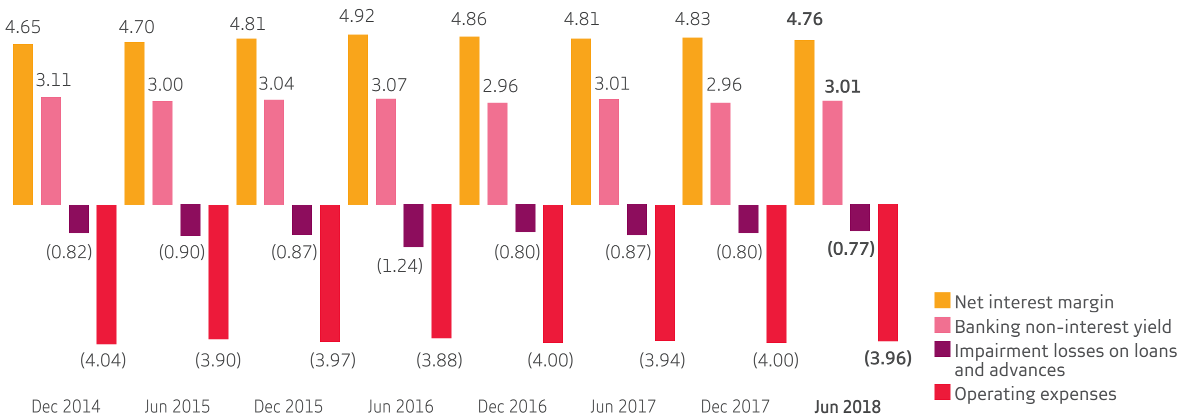
[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

13. RoE decomposition

Major drivers of RoE (%)



		30 June 2018 %	30 June 2017[1] %	31 December 2017[1] %
	Net interest margin (average interest-bearing assets)[3]	**4.76**	4.81	4.83
Less:	Impairment losses/average interest-bearing assets	**0.77**	0.87	0.80
Equals:	Net interest margin – after impairment losses (average interest-bearing assets)	**3.99**	3.94	4.03
Multiply:	Average interest-bearing assets/average banking assets	**84.54**	84.95	84.60
Equals:	Banking interest yield	**3.37**	3.35	3.41
Plus:	Banking non-interest yield	**3.01**	3.01	2.96
Equals:	Banking income yield	**6.38**	6.36	6.37
Less:	Operating expenses/average banking assets	**3.96**	3.94	4.00
Equals:	Net banking return	**2.42**	2.42	2.37
Less:	Other[2]	**0.89**	0.88	0.86
Equals:	Banking return	**1.53**	1.54	1.51
Multiply:	Average banking assets/total average assets	**91.52**	91.61	92.30
Equals:	RoA	**1.40**	1.41	1.39
Multiply:	Leverage	**12.07**	11.94	11.90
Equals:	RoE	**16.9**	16.8	16.5

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

[2] 'Other' includes other impairments, indirect taxation, share of post-tax results of associates and joint ventures and taxation expense.

[3] Net interest margin for comparative prior periods has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing; under the previous policy these assets were classified as non-interest bearing.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

14. Off-statement of financial position items

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Financial guarantee contracts	**10**	3	>100	10
Commitments				
Authorised capital expenditure				
Contracted but not provided for	**1 262**	817	54	270
	1 262	817	54	270
Operating lease payments due				
Not later than one year	**1 466**	1 336	10	1 365
Later than one year and no later than five years	**3 485**	3 172	10	3 056
Later than five years	**829**	1 096	(24)	948
	5 781	5 605	3	5 369
Contingencies				
Guarantees[1]	**42 161**	36 934	14	38 789
Irrevocable debt facilities[2]	**170 222**	140 877	21	162 907
Irrevocable equity facilities	**21**	121	(83)	33
Letters of credit	**6 968**	8 543	(18)	7 814
Other	**342**	91	>100	262
	219 714	186 566	18	209 805

Performance

- **Commitments:** The Group has capital commitments in respect of computer equipment and property development.
- **Contingencies:** There has been an increase in irrevocable debt facilities for the current year. This has been primarily due to the Corporate Banking Division.

15. Legal proceedings

Legal matters

The Group has been party to proceedings against it during the reporting period, and as at the reporting date the following material cases are disclosed:

- Pinnacle Point Holdings Proprietary Limited: It is alleged that a local bank conducted itself unlawfully in relation to a financial product offered by it, and that Absa Bank Limited was privy to such conduct. Subsequent to the withdrawal of the first plaintiff's (Pinnacle Point Holdings) claim, the total claim amount has been substantially reduced, however, the second to fifth plaintiffs persist with their claims for damages in an amount of R470m.
- Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme, in which Corporate Money Managers (CMM) managed a portfolio of assets within the Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the fund) allege that the defendants caused damages to them arising from their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act, in respect of which they seek payment of R1 157m.

The Group is engaged in various other legal, competition and regulatory matters both in South Africa and a number of other jurisdictions. It is involved in legal proceedings which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues.

The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which the Group is or has been engaged.

1 'Guarantees' include performance and payment guarantee contracts.

2 Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The credit risk inherent in the undrawn component of irrevocable lending facilities are managed and monitored by the Group together with the drawn component as a single exposure. The exposure at default (EAD) on the entire facility is therefore used to calculate the ECL on loans and advances. As a result, the total ECL is recognised in the ECL allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision on the face of the statement of financial position.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended

15. Legal proceedings (continued)

Legal matters (continued)

At the present time, the Group does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters and the matters specifically described in this note, there can be no assurance that the outcome of a particular matter or matters will not be material to the Group's results of operations or cash flow for a particular period, depending on, amongst other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

The Group has not disclosed the contingent liabilities associated with these matters either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the outcome of the matter. Provision is made for all liabilities which are expected to materialise.

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis has resulted in a significant tightening of regulation and changes to regulatory structures globally and locally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action especially in the areas of financial crime, banking and insurance regulation, cannot currently be fully predicted and are beyond the Group's control. Some of these are likely to have an impact on the Group's businesses, systems and earnings.

The Group is continuously evaluating its programmes and controls in general relating to compliance with regulation. The Group undertakes monitoring, review and assurance activities, and the Group has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and has made disclosures on material findings as and when appropriate.

Absa Bank Limited, a subsidiary of Absa Group Limited, identified potentially fraudulent activity by certain of its customers using advance payments for imports in 2014 and 2015 to effect foreign exchange transfers from South Africa to beneficiary accounts located in East Asia, UK, Europe and the US. As a result, the Group conducted a review of relevant activity, processes, systems and controls, and provided information to relevant authorities, in a process which has now largely concluded. No financial impact is anticipated.

In February 2017 the South African Competition Commission (SACC) referred Barclays PLC, BCI and Absa Bank Limited, a subsidiary of Absa Group Limited, among other banks, to the Competition Tribunal to be prosecuted for breaches of South African antitrust law related to Foreign Exchange trading of South African Rand. The SACC found from its investigation that between 2007 and 2013 the banks had engaged in various forms of collusive behaviour. Barclays was the first to bring the conduct to the attention of the SACC under its leniency programme and has cooperated with, and will continue to cooperate with, the SACC in relation to this matter. The SACC is therefore not seeking an order from the Tribunal to impose any fine on Barclays Bank PLC, BCI or Absa Bank Limited.

16. Income taxes

The Group is subject to income taxes in numerous jurisdictions, and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There may be transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authorities may have indicated disagreement with the Group's treatment, and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account expert external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. The risks are managed in accordance with the Group's Tax Risk Framework.

17. Standards issued not yet effective

IFRS 16 Leases

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases. One of the key changes brought by IFRS 16 is the elimination of the classification of leases as either operating leases or finance leases for a lessee, and the introduction of a single lessee accounting model.

Applying the revised model, a lessee is required to recognise:

(a) a right of use asset together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and

(b) depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income.

The standard provides revised guidance in defining what constitutes a lease and how the lease term is determined as well as enhanced disclosure requirements for both lessees and lessors about its leasing activities and how exposures are managed.

The effective date of IFRS 16 is 1 January 2019, with an allowance for early adoption, provided the entity applies IFRS 15 at the same time.

The implementation of IFRS 16 is expected to give rise to an increase in property, plant and equipment (right of use assets) and lease liabilities as lessee operating leases are currently not capitalised. This is not expected to have a significant impact on the Group's statement of financial position. However, the Group is still in the process of assessing the impact of adoption.

Segment performance

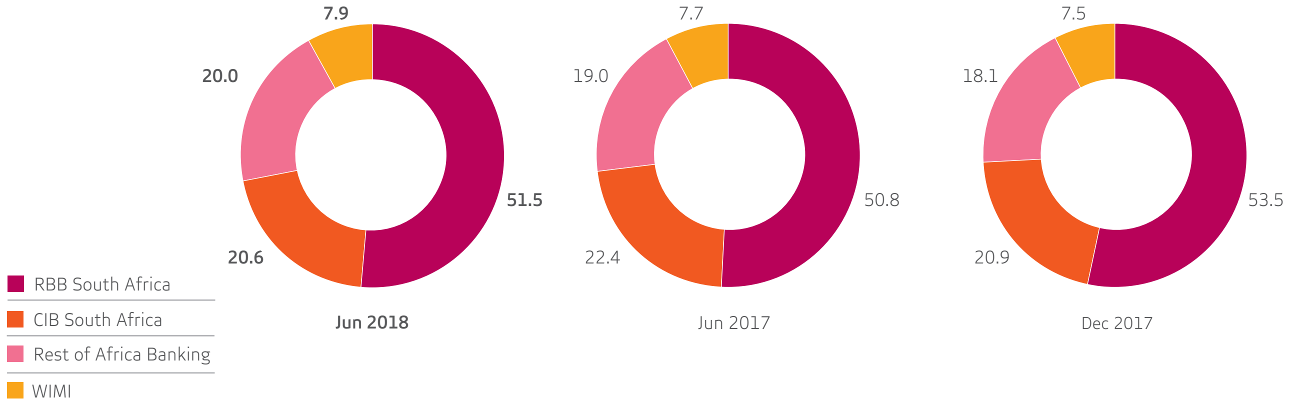
Segment performance overview

for the reporting period ended

Normalised headline earnings increased by 3% supported by increases in Rest of Africa Banking of 8% (CCY: 20%), WIMI of 5% and RBB South Africa of 4% partially offset by a decrease in CIB South Africa of 6%.

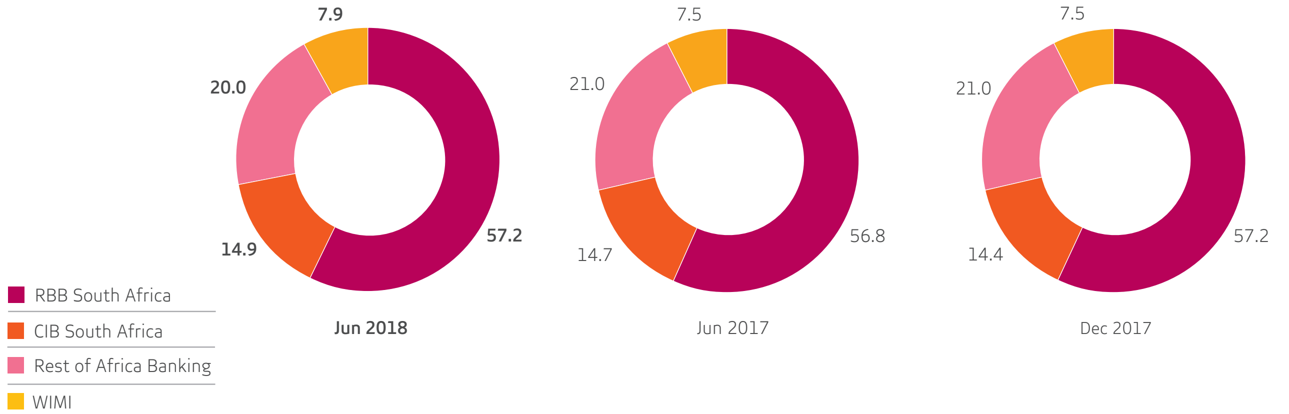
Performance per market segment

Headline earnings per market segment, excluding Head Office, Treasury and other operations and the impact of the Barclays separation (%)



Headline earnings	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
RBB South Africa	**4 209**	4 039	4	8 748
CIB South Africa	**1 683**	1 783	(6)	3 411
Rest of Africa Banking	**1 636**	1 512	8	2 954
WIMI	**646**	616	5	1 231
Head Office, Treasury and other operations in South Africa	**(131)**	(148)	(11)	(721)
	8 043	7 802	3	15 623

Income per market segment, excluding Head Office, Treasury and other operations and the impact of the Barclays separation (%)



Income	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
RBB South Africa	**21 600**	20 774	4	42 607
CIB South Africa	**5 634**	5 372	5	10 706
Rest of Africa Banking	**7 565**	7 670	(1)	15 617
WIMI	**2 998**	2 729	10	5 580
Head Office, Treasury and other operations in South Africa	**(755)**	(460)	64	(1 520)
	37 042	36 085	3	72 990

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Segment performance overview

for the reporting period ended

Segment reporting structure

The Group's main reportable segments are based on an operating model that is mainly driven by geography and customer as primary dimensions and are disclosed as the following market segments:

Absa Group Limited

RBB South Africa	CIB South Africa	Rest of Africa Banking	WIMI	Head Office, Treasury and other operations in South Africa[2]	Barclays separation effects
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	**Corporate Bank** **Investment Bank** ○ Markets ○ Banking ○ Commercial Property Finance ○ Private Equity and Infrastructure	**RBB** **CIB** ○ Corporate ○ Investment Bank **Head Office, Treasury and other operations**	○ Continuing Business Lines — Life Insurance — Wealth and Investment Management[1] — Short-term Insurance — Fiduciary Services — Distribution — Other ○ Terminating Business Lines	○ Enterprise Functions ○ Group Treasury ○ Consolidation Centre	○ Financial impact of the Barclays PLC separation to differentiate between normal business activities and the IFRS impact of the separation.

······ Normalised
—— IFRS

[1] Includes the Wealth banking portfolio.

[2] Includes Absa Manx Insurance Company.

Segment performance overview

for the reporting period ended

Operating environment

South Africa

The global recovery remained broadly intact during the first half of 2018 with the US economy leading, while growth in other advanced economies slowed slightly. A modestly firmer trend emerged for global inflation against a backdrop of stronger growth and upward pressure from higher commodity prices. Monetary policy remained relatively accommodative in advanced economies while some emerging markets started hiking interest rates as dollar liquidity tightened. Domestically, Gross Domestic Product (GDP) growth contracted at an annualised rate of 2.2% in the first quarter of 2018, from a solid annualised growth rate of 3.1% in the last quarter of 2017; however, GDP growth is forecasted to remain muted at 1.2% for this year and 2.0% for 2019. The weakness in the economy was broad based; more notably in the mining, manufacturing and construction sectors.

After a strong improvement in the first quarter related to political changes since December 2017, business confidence deteriorated in the second quarter of 2018 impacting household spend. The deterioration in business confidence during the second quarter was an adjustment of expectations to reflect the still challenging business conditions in key sectors. Credit extension to corporates slowed to 4.8% year on year in May from 9.2% year on year in January. The slowdown in corporate credit extension was driven by general loans and advances which contracted by 0.2% year on year in May from 11% year on year a year ago. Slowing growth in corporate credit extension highlights that companies remain cautious. Political and policy certainty are key for a sustained recovery in business confidence, private sector fixed investment and employment growth.

Headline inflation moderated further; reaching a low of 4.1% year on year in the first quarter of 2018, supported by moderating food inflation and fuel price cuts in the first quarter. Looking ahead, inflation is expected to gradually trend higher while remaining within the inflation target range. The South African Reserve Bank Monetary Policy Committee (SARB MPC) cut the repurchase rate by 25 bps in March but left rates unchanged in May, citing the weaker rand and rising oil prices as key upside risks to the inflation outlook.

Rest of Africa

Economic growth continued to improve in a number of our key rest of Africa countries. The strengthening global economy, higher commodity prices and improved weather conditions supported growth, with the primary sector standing out as the main growth driver in many economies. Monetary policy easing generally continued in our markets as inflation trended lower. Key headwinds include the still weak fiscal positions in many countries, including Mozambique, Zambia and Kenya.

	30 June			31 December
Operational metrics	**2018**	2017	Change %	2017
South Africa				
Outlets (including number of branches and sales centres)	**698**	712	(2)	705
ATMs	**8 917**	8 937	(0)	8 919
Rest of Africa				
Outlets (including number of branches and sales centres)	**406**	424	(4)	415
ATMs	**1 102**	1 139	(3)	1 134
Number of permanent and temporary employees	**41 250**	41 714	(1)	41 703
South Africa (excludes WFS employees)	**31 317**	31 234	0	31 649
Rest of Africa	**9 933**	10 480	(5)	10 054

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Segment report per market segment

for the reporting period ended

	RBB South Africa				CIB South Africa	
	30 June			31 December	30 June	
	2018	2017[1]	Change %	2017[1]	**2018**	2017[1]
Statement of comprehensive income (Rm)						
Net interest income	**12 837**	12 427	3	25 421	**3 382**	3 267
Non-interest income	**8 763**	8 347	5	17 186	**2 252**	2 105
Total income	**21 600**	20 774	4	42 607	**5 634**	5 372
Impairment losses on loans and advances	**(2 728)**	(2 911)	(6)	(5 038)	**(381)**	(213)
Operating expenses	**(12 593)**	(11 766)	7	(24 476)	**(3 071)**	(2 786)
Other expenses	**(98)**	(78)	26	(160)	**(17)**	(116)
Operating profit before income tax	**6 181**	6 019	3	12 933	**2 165**	2 257
Tax expense	**(1 719)**	(1 715)	(0)	(3 664)	**(376)**	(411)
Profit for the reporting period	**4 462**	4 304	4	9 269	**1 789**	1 846
Profit attributable to:						
Ordinary equity holders	**4 168**	4 067	3	8 741	**1 683**	1 783
Non-controlling interest – ordinary shares	**130**	122	7	269	**—**	—
Non-controlling interest – preference shares	**106**	115	(8)	229	**69**	63
Non-controlling interest – additional Tier 1	**58**	—	100	30	**37**	—
	4 462	4 304	4	9 269	**1 789**	1 846
Headline earnings	**4 209**	4 039	4	8 748	**1 683**	1 783
Operating performance (%)						
Net interest margin on average interest-bearing assets[2]	**3.72**	3.65		3.66	**2.39**	2.43
Credit loss ratio	**1.15**	1.28		1.10	**0.30**	0.18
Non-interest income as % of income	**40.6**	40.2		40.3	**40.0**	39.2
Income growth	**4**	1		2	**5**	6
Operating expenses growth	**7**	7		7	**10**	4
Cost-to-income ratio	**58.3**	56.6		57.4	**54.5**	51.9
Statement of financial position (Rm)						
Loans and advances to customers	**455 491**	439 157	4	446 894	**232 597**	204 693
Loans and advances to banks	**9 888**	6 208	59	7 893	**42 870**	29 858
Investment securities	**44 394**	43 483	2	43 100	**36 464**	28 946
Other assets	**249 176**	243 201	2	255 962	**215 864**	204 496
Total assets	**758 949**	732 049	4	753 849	**527 795**	467 993
Deposits due to customers	**304 574**	289 473	5	300 725	**183 733**	183 526
Debt securities in issue	**181**	640	(72)	400	**11 109**	12 282
Other liabilities	**449 166**	434 269	3	440 425	**327 624**	267 013
Total liabilities	**753 921**	724 382	4	741 550	**522 466**	462 821
Financial performance (%)						
RoRWA	**2.57**	2.57		2.72	**1.75**	1.93
RoA	**1.14**	1.10		1.17	**0.69**	0.78
RoRC[3]	**23.0**	21.9		23.1	**15.9**	17.3

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

[2] Net interest margin for comparative prior periods has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing; under the previous policy these assets were classified as non-interest bearing.

[3] As WIMI consists primarily of a set of legal entities with a smaller contribution from the Wealth division of Absa Bank Limited, the denominator in the RoRC for WIMI is calculated as the sum of average legal entities' equity plus the RC contribution for the Wealth division.

CIB South Africa		Rest of Africa Banking				WIMI			
	31 December	30 June			31 December	30 June			31 December
Change %	2017[1]	**2018**	2017	Change %	2017	**2018**	2017[1]	Change %	2017[1]
4	6 526	**5 138**	5 201	(1)	10 764	**154**	175	(12)	362
7	4 180	**2 427**	2 469	(2)	4 853	**2 844**	2 554	11	5 218
5	10 706	**7 565**	7 670	(1)	15 617	**2 998**	2 729	10	5 580
79	(567)	**(335)**	(638)	(47)	(1 289)	**18**	(3)	<(100)	(120)
10	(5 644)	**(4 333)**	(4 279)	1	(9 000)	**(1 776)**	(1 827)	(3)	(3 617)
(85)	(178)	**(95)**	(85)	12	(177)	**(84)**	(107)	(21)	(219)
(4)	4 317	**2 802**	2 668	5	5 151	**1 156**	792	46	1 624
(9)	(759)	**(905)**	(899)	1	(1 665)	**(397)**	(197)	>100	(453)
(3)	3 558	**1 897**	1 769	7	3 486	**759**	595	28	1 171
(6)	3 411	**1 649**	1 531	8	2 972	**756**	593	27	1 162
—	—	**248**	238	4	514	**1**	—	100	5
10	129	**—**	—	—	—	**1**	2	(41)	4
100	18	**—**	—	—	—	**1**	—	100	—
(3)	3 558	**1 897**	1 769	7	3 486	**759**	595	28	1 171
(6)	3 411	**1 636**	1 512	8	2 954	**646**	616	5	1 231
	2.39	**7. 24**	7. 13		7. 18	**n/a**	n/a		n/a
	0.24	**0.72**	1.38		1.34	**(0.49)**	0.09		1.58
	39.0	**32.1**	32.2		31.1	**94.9**	93.6		93.5
	4	**(1)**	(6)		(3)	**10**	—		5
	2	**1**	(11)		(2)	**(3)**	4		3
	52.7	**57.3**	55.8		57.6	**59.3**	67.0		64.8
14	219 065	**88 719**	78 938	12	77 863	**5 055**	5 485	(8)	5 004
44	31 728	**13 068**	12 943	1	11 892	**2 459**	1 709	44	1 847
26	31 277	**34 321**	28 115	22	28 824	**4 813**	4 532	6	4 765
6	210 040	**43 808**	50 515	(13)	44 141	**39 129**	39 420	(1)	39 081
13	492 110	**179 916**	170 511	6	162 720	**51 456**	51 146	1	50 697
0	177 255	**127 459**	119 996	6	108 636	**5 165**	4 904	5	5 150
(10)	12 532	**860**	521	65	379	**—**	—	—	—
23	295 523	**29 036**	29 312	(1)	33 379	**40 825**	40 816	0	40 493
13	485 310	**157 355**	149 829	5	142 394	**45 990**	45 720	1	45 643
	1.82	**1.97**	1.91		1.77	**n/a**	n/a		n/a
	0.74	**2.01**	1.83		1.71	**2.53**	2.08		2.16
	16.3	**19.6**	17.4		16.6	**22.5**	20.3		20.8

Head Office, Treasury and other operations in South Africa				Total Group normalised performance			
30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	2018	2017	Change %	2017[1]
(323)	(279)	16	(754)	21 188	20 791	2	42 319
(432)	(181)	>100	(766)	15 854	15 294	4	30 671
(755)	(460)	64	(1 520)	37 042	36 085	3	72 990
(5)	(8)	(38)	(8)	(3 431)	(3 773)	(9)	(7 022)
939	620	51	1 334	(20 834)	(20 038)	4	(41 403)
(538)	(330)	63	(972)	(832)	(716)	16	(1 706)
(359)	(178)	>100	(1 166)	11 945	11 558	3	22 859
75	18	>100	251	(3 322)	(3 204)	4	(6 290)
(284)	(160)	78	(915)	8 623	8 354	3	16 569
(285)	(161)	77	(916)	7 972	7 813	2	15 370
—	1	(100)	1	379	361	5	789
—	—	—	—	176	180	(2)	362
—	—	—	—	96	—	100	48
(284)	(160)	78	(915)	8 623	8 354	3	16 569
(131)	(148)	(11)	(721)	8 043	7 802	3	15 623
n/a	n/a		n/a	4.76	4.81		4.83
n/a	n/a		n/a	0.83	0.96		0.87
n/a	n/a		n/a	42.8	42.4		42.0
n/a	n/a		n/a	3	(1)		1
n/a	n/a		n/a	4	3		3
n/a	n/a		n/a	56.2	55.5		56.7
1 254	712	76	946	783 116	728 985	7	749 772
(5 442)	12 733	<(100)	2 066	62 843	63 451	(1)	55 426
7 445	10 758	(31)	3 443	127 437	115 834	10	111 409
(288 335)	(308 010)	(6)	(300 764)	259 642	229 622	13	248 460
(285 078)	(283 807)	(0)	(294 309)	1 233 038	1 137 892	8	1 165 067
93 560	98 463	(5)	98 101	714 491	696 362	3	689 867
128 632	126 749	1	124 637	140 782	140 192	0	137 948
(578 304)	(574 854)	1	(581 074)	268 347	196 556	37	228 746
(356 112)	(349 642)	2	(358 336)	1 123 620	1 033 110	9	1 056 561
n/a	n/a		n/a	2.20	2.22		2.17
n/a	n/a		n/a	1.40	1.41		1.39
n/a	n/a		n/a	16.9	16.8		16.5

Segment report per geographical segment

for the reporting period ended

	South Africa			
	30 June			31 December
	2018	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)				
Net interest income	**16 036**	15 571	3	31 518
Non-interest income	**13 257**	12 635	5	25 403
Total income	**29 293**	28 206	4	56 921
Impairment losses on loans and advances	**(3 096)**	(3 135)	(1)	(5 733)
Operating expenses	**(16 315)**	(15 521)	5	(32 004)
Other operating expenses	**(722)**	(626)	15	(1 479)
Operating profit before income tax	**9 160**	8 924	3	17 705
Tax expenses	**(2 397)**	(2 312)	4	(4 627)
Profit for the reporting period	**6 763**	6 612	2	13 078
Profit attributable to:				
Ordinary equity holders	**6 360**	6 312	1	12 402
Non-controlling interest – ordinary shares	**131**	120	9	266
Non-controlling interest – preference shares	**176**	180	(2)	362
Non-controlling interest – additional Tier 1	**96**	—	100	48
	6 763	6 612	2	13 078
Headline earnings	**6 443**	6 333	2	12 650
Operating performance (%)				
Net interest margin on average interest-bearing assets[2]	**4.29**	4.33		4.34
Credit loss ratio	**0.85**	0.91		0.80
Non-interest income as % of income	**45.3**	44.8		44.6
Income growth	**4**	—		1
Cost growth	**5**	7		5
Cost-to-income ratio	**55.7**	55.0		56.2
Statement of financial position (Rm)				
Loans and advances to customers	**694 397**	650 047	7	671 909
Loans and advances to banks	**49 005**	49 720	(1)	42 970
Investment securities	**92 417**	87 348	6	82 068
Other assets	**214 247**	177 641	21	203 106
Total assets	**1 050 066**	964 756	9	1000 053
Deposits due to customers	**587 032**	576 366	2	581 231
Debt securities in issue	**139 922**	139 671	0	137 569
Other liabilities	**236 984**	165 292	43	193 770
Total liabilities	**963 938**	881 329	9	912 570
Financial performance (%)				
RoRWA	**2.29**	2.34		1.17
RoA	**1.31**	1.34		1.33

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

[2] Net interest margin for comparative prior periods has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing; under the previous policy these assets were classified as non-interest bearing.

Rest of Africa					Group				
30 June				31 December	30 June				31 December
2018	2017	CCY%	Change %	2017	**2018**	2017[1]	CCY%	Change %	2017[1]
5 152	5 220	5	(1)	10 801	**21 188**	20 791	3	2	42 319
2 597	2 659	4	(2)	5 268	**15 854**	15 294	5	4	30 671
7 749	7 879	5	(2)	16 069	**37 042**	36 085	4	3	72 990
(335)	(638)	(46)	(47)	(1 289)	**(3 431)**	(3 773)	(9)	(9)	(7 022)
(4 519)	(4 517)	5	(0)	(9 399)	**(20 834)**	(20 038)	5	4	(41 403)
(110)	(90)	31	22	(227)	**(832)**	(716)	17	16	(1 706)
2 785	2 634	15	6	5 154	**11 945**	11 558	5	3	22 859
(925)	(892)	12	4	(1 663)	**(3 322)**	(3 204)	6	4	(6 290)
1 860	1 742	17	7	3 491	**8 623**	8 354	5	3	16 569
1 612	1 501	19	7	2 968	**7 972**	7 813	4	2	15 370
248	241	2	3	523	**379**	361	4	5	789
—	—	—	—	—	**176**	180	(2)	(2)	362
—	—	—	—	—	**96**	—	—	100	48
1 860	1 742	17	7	3 491	**8 623**	8 354	5	3	16 569
1 600	1 469	21	9	2 973	**8 043**	7 802	5	3	15 623
7.26	7.15			7.20	**4.76**	4.81			4.83
0.71	1.37			1.33	**0.83**	0.96			0.87
33.5	33.7			32.8	**42.8**	42.4			42.0
(2)	(5)			(1)	**3**	(1)			1
—	(10)			(2)	**4**	3			3
58.3	57.3			58.5	**56.2**	55.5			56.7
88 719	78 938	9	12	77 863	**783 116**	728 985	7	7	749 772
13 838	13 731	—	1	12 456	**62 843**	63 451	(1)	(1)	55 426
35 020	28 486	19	23	29 341	**127 437**	115 834	9	10	111 409
45 395	51 981	(16)	(13)	45 354	**259 642**	229 622	13	13	248 460
182 972	173 136	2	6	165 014	**1 233 038**	1 137 892	8	8	1 165 067
127 459	119 996	3	6	108 636	**714 491**	696 362	2	3	689 867
860	521	64	65	379	**140 782**	140 192	—	0	137 948
31 363	31 264	(4)	0	34 976	**268 347**	196 556	36	37	228 746
159 682	151 781	2	5	143 991	**1 123 620**	1 033 110	8	9	1 056 561
1.90	1.84			1.76	**2.20**	2.22			2.17
1.93	1.75			1.70	**1.40**	1.41			1.39

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Retail and Business Banking South Africa

for the reporting period ended

RBB South Africa headline earnings grew 4% to **R4 209m** (30 June 2017: R4 039m) with a 6% reduction in impairments and a stable pre-provision profit reflecting a 4% growth in income and a 7% increase in operating expenses. Return on Regulatory Capital (RoRC) improved to **23.0%** (30 June 2017: 21.9%).

▲ **Asset production momentum observed**

in the second half of 2017 continued into the first half of 2018.

▲ **Gross loans and advances to customers grew 5% to R477bn**

(30 June 2017: R453bn), mainly due to the increase in production.

▲ **Home Loans advances increased**

for the 1st time after four years of contraction. The portfolio grew 1% to R231bn.

▲ **Deposits due to customers increased 5%**

to R305bn, mainly driven by investment products.

▼ **Store card gross loans and advances declined 5%**

adversely impacted by the pressure on the retail sector.

▼ **Operating expenses grew faster than income at 7%**

▲ **Net interest income increased 3%**

mainly driven by the growth in deposits and advances.

▲ **Non-interest income grew 5%**

mainly driven by card and merchant transactions as well as an increased cheque account base.

▲ **Return on Regulatory Capital (RoRC) increased to 23.0%**

(30 June 2017: 21.9%).

▼ **Credit loss ratio reduced by 13 bps**

to **1.15%** (30 June 2017: 1.28%).

▼ **Deposit margins were under pressure**

mainly due to a growing composition of investment products and higher customer rates.

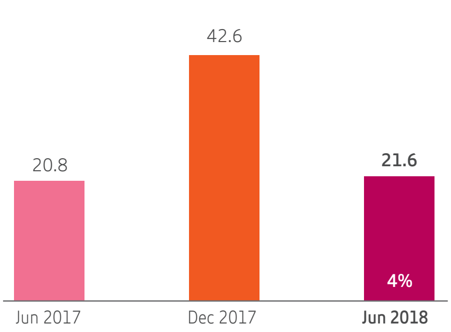
▼ **Suspended interest increased**

following the adoption of IFRS 9, reducing the rate of growth in net interest income.

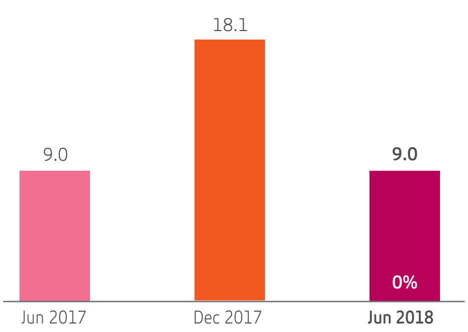
Retail and Business Banking South Africa

for the reporting period ended

Income (Rbn and change %)



Pre-provision profit (Rbn and change %)

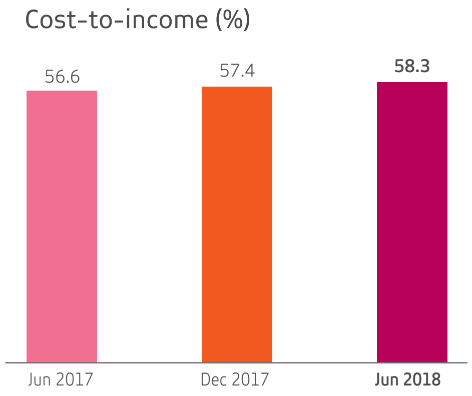


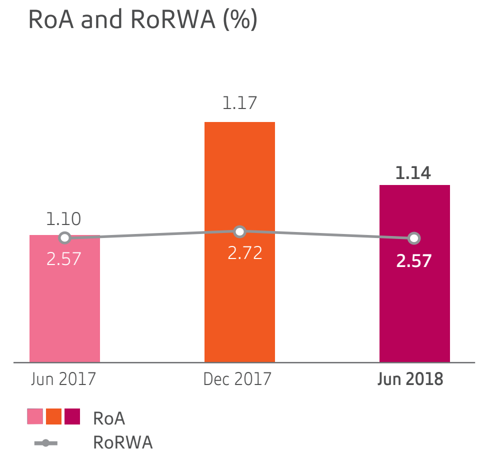
	30 June			31 December
Salient features	**2018**	2017[1]	Change %	2017[1]
Income (Rm)	**21 600**	20 774	4	42 607
Attributable earnings (Rm)	**4 168**	4 067	3	8 741
Headline earnings (Rm)	**4 209**	4 039	4	8 748
Credit loss ratio (%)	**1.15**	1.28		1.10
Cost-to-income ratio (%)	**58.3**	56.6		57.4
RoRWA (%)	**2.57**	2.57		2.72
RoA (%)	**1.14**	1.10		1.17
RoRC (%)	**23.0**	21.9		23.1

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Retail and Business Banking South Africa

for the reporting period ended





Headline earnings by segment	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm
RBB South Africa	**4 209**	4 039	4	8 748
Home Loans	**901**	774	16	1 735
Vehicle and Asset Finance	**406**	432	(6)	966
Card and Payments	**717**	604	19	1 497
Personal Loans	**201**	182	10	430
Transactional and Deposits	**1 048**	1 157	(9)	2 375
Other	**(272)**	(301)	(10)	(763)
Business Banking (excluding equities)	**1 227**	1 208	2	2 539
Business Banking equities	**(19)**	(17)	12	(31)

Business profile

Retail and Business Banking South Africa offers a comprehensive suite of banking products and services to individual, enterprise and commercial customers. It caters for the full spectrum of customers, from those needing basic banking services to those requiring sophisticated financial solutions. The focus is on providing a consistently superior experience across each of the channels, matched closely to the needs and expectations of each customer segment. Customers are served through an extensive branch and self-service terminal network, electronic and mobile channels, priority suites, relationship managers as well as call center agents, dealerships, originators, alliances and joint ventures.

Key business areas

- **Home Loans** – offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.
- **Vehicle and Asset Finance (VAF)** – offers a comprehensive range of funding solutions for assets such as vehicles, aviation, marine, agricultural equipment, commercial, plant and office equipment as well as vehicle fleet and fleet card management. These solutions are provided to both individual and business customers through the branch network, approved dealerships, preferred suppliers and specialist sales force. VAF's Joint Ventures with Ford Financial Services and Man Financial Services are an extension of the business and reinforce the strategic intent of establishing and harnessing relationships with dealers and customers.
- **Card and Payments** – offers credit cards and merchant acquiring solutions via a mix of Absa-branded and co-branded offerings including British Airways, Avios and Virgin Money. Included in this portfolio are partnerships with Edcon, which offers in-store cards and Woolworths Financial Services, which offers in-store cards, credit cards, personal loans and short-term insurance products.
- **Personal Loans** – offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
- **Transactional and Deposits** – offers a full range of transactional banking, savings and investment products, rewards programme and services through a variety of channels. These include the branch network, digital channels, ATMs, priority suites, call centres as well as through a third-party retailer PEP (part of the PEPKOR Group).
- **Business Banking** – offers debt, deposit and transactional products to enterprise and commercial customers. Customers within the enterprise segment, with an annual turnover of up to R20m, are serviced using a direct coverage model with a mainly branch-based interface. Customers in the commercial segment, with an annual turnover of between R20m and R500m, are serviced using a relationship-based model, where dedicated sales and service teams provide customised solutions. The relationship-based model includes a sector overlay focusing primarily on agriculture, public sector, wholesale, retail and franchising. Business Banking also includes an Equity portfolio which is being reduced in an orderly manner.
- **Other** – includes distribution channel costs not recovered from product houses, strategic initiative expenditure and funding costs held centrally for Retail Banking South Africa.

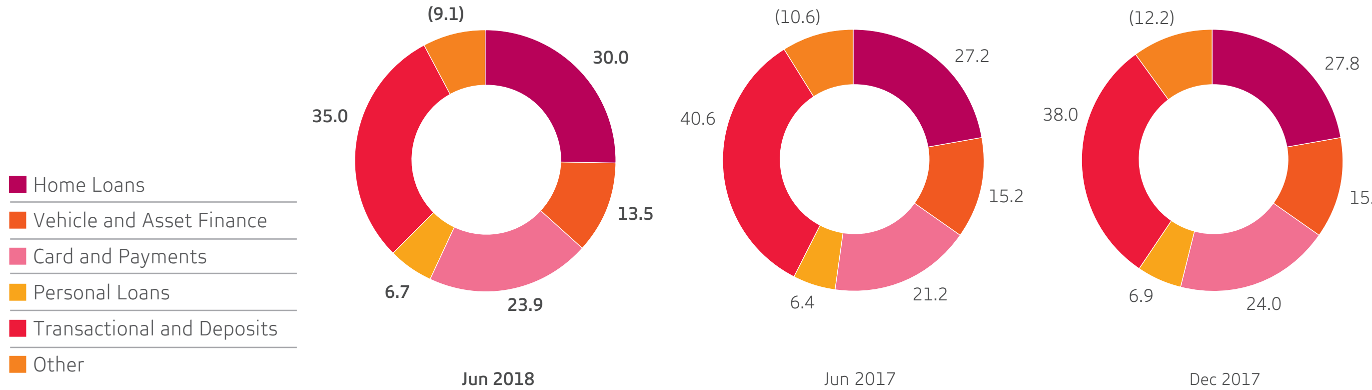
[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Retail Banking South Africa

for the reporting period ended

	Home Loans				Vehicle and Asset Finance			
	30 June			31 December	30 June			31 December
	2018	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)								
Net interest income	**2 117**	2 165	(2)	4 434	**1 643**	1 507	9	3 054
Non-interest income	**225**	227	(1)	446	**419**	436	(4)	895
Total income	**2 342**	2 392	(2)	4 880	**2 062**	1 943	6	3 949
Impairment losses on loans and advances	**(181)**	(466)	(61)	(689)	**(594)**	(477)	25	(847)
Operating expenses	**(900)**	(833)	8	(1 752)	**(998)**	(948)	5	(1 951)
Other expenses	**(9)**	(8)	13	(18)	**31**	56	(45)	136
Operating profit before income tax	**1 252**	1 085	15	2 421	**501**	574	(13)	1 287
Tax expenses	**(351)**	(311)	13	(686)	**(135)**	(142)	(5)	(321)
Profit for the reporting period	**901**	774	16	1 735	**366**	432	(15)	966
Profit attributable to:								
Ordinary equity holders	**901**	774	16	1 735	**366**	432	(15)	966
Non-controlling interest – ordinary shares	**—**	—	—	—	**—**	—	—	—
Non-controlling interest – preference shares	**—**	—	—	—	**—**	—	—	—
Non-controlling interest – additional Tier 1	**—**	—	—	—	**—**	—	—	—
	901	774	16	1 735	**366**	432	(15)	966
Headline earnings	**901**	774	16	1 735	**406**	432	(6)	966
Operating performance (%)								
Credit loss ratio	**0.16**	0.41		0.30	**1.14**	1.01		0.87
Non-interest income as % of income	**9.6**	9.5		9.1	**20.3**	22.4		22.7
Income growth	**(2)**	(1)		1	**6**	4		4
Operating expenses growth	**8**	2		4	**5**	8		9
Cost-to-income ratio	**38.5**	34.8		35.9	**48.4**	48.8		49.4
Statement of financial position (Rm)								
Loans and advances to customers	**226 076**	224 869	1	224 892	**105 929**	95 552	11	101 092
Loans and advances to banks	**569**	290	96	419	**283**	43	>100	37
Investment securities	**12 513**	12 216	2	12 077	**5 498**	4 878	13	5 065
Other assets	**7 426**	7 529	(1)	7 821	**5 730**	7 598	(25)	7 513
Total assets	**246 584**	244 904	1	245 209	**117 440**	108 071	9	113 707
Deposits due to customers	**1 602**	1 674	(4)	1 619	**449**	380	18	458
Debt securities in issue	**181**	640	(72)	400	**—**	—	—	—
Other liabilities	**244 121**	241 573	1	241 210	**115 257**	105 622	9	110 647
Total liabilities	**245 904**	243 887	1	243 229	**115 706**	106 002	9	111 105
Financial performance (%)								
RoRWA	**2.57**	2.19		2.43	**1.08**	1.20		1.29
RoA	**0.74**	0.64		0.71	**0.72**	0.72		0.80

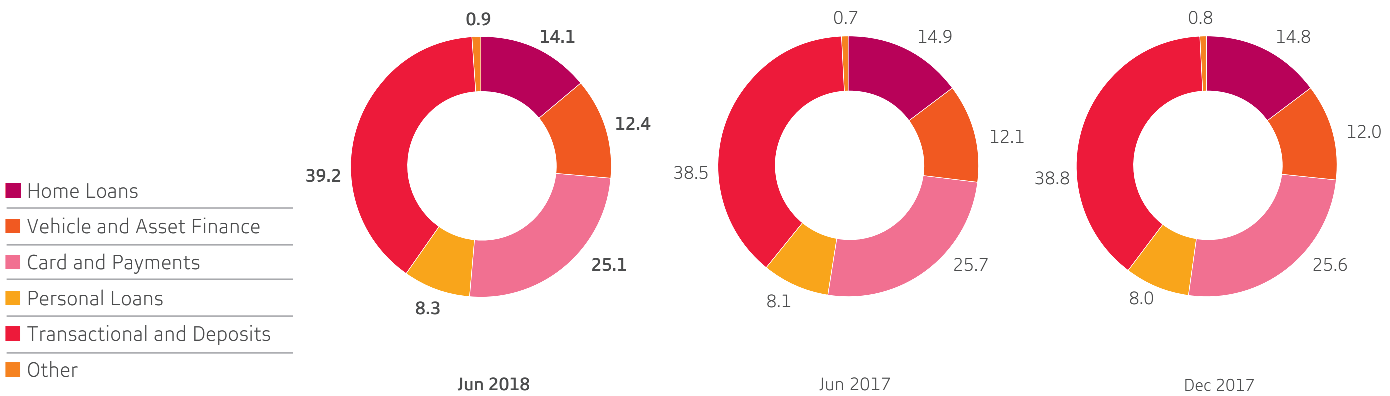
Retail Banking headline earnings (%)



[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.
[2] Includes WFS and the Edcon portfolio

Card and Payments[2]				Personal Loans				Transactional and Deposits			
30 June			31 December	30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	2018	2017[1]	Change %	2017[1]	2018	2017[1]	Change %	2017[1]
2 329	2 323	0	4 687	**1 207**	1 133	7	2 307	**2 539**	2 515	1	5 132
1 845	1 804	2	3 742	**176**	171	3	336	**3 989**	3 641	10	7 601
4 174	4 127	1	8 429	**1 383**	1 304	6	2 643	**6 528**	6 156	6	12 733
(897)	(1 141)	(21)	(1 924)	**(568)**	(553)	3	(1 112)	**(279)**	(80)	>100	(193)
(2 052)	(1 923)	7	(3 927)	**(535)**	(498)	7	(933)	**(4 788)**	(4 463)	7	(9 228)
(45)	(51)	(12)	(118)	**(1)**	—	100	(1)	**(5)**	(6)	(17)	(14)
1 180	1 012	17	2 460	**279**	253	10	597	**1 456**	1 607	(9)	3 298
(333)	(285)	17	(692)	**(78)**	(71)	10	(167)	**(408)**	(450)	(9)	(923)
847	727	17	1 768	**201**	182	10	430	**1 048**	1 157	(9)	2 375
717	604	19	1 497	**201**	182	10	430	**1 048**	1 157	(9)	2 375
130	123	6	271	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
847	727	17	1 768	**201**	182	10	430	**1 048**	1 157	(9)	2 375
717	604	19	1 497	**201**	182	10	430	**1 048**	1 157	(9)	2 375
4.23	5.36		4.53	**5.87**	6.21		6.09	**4.70**	1.88		2.11
44.2	43.7		44.4	**12.8**	13.1		12.7	**61.1**	59.2		59.7
1	(4)		(3)	**6**	2		2	**6**	4		5
7	2		3	**8**	15		(1)	**7**	11		9
49.2	46.6		46.6	**38.7**	38.2		35.3	**73.3**	72.5		72.5
36 087	37 025	(3)	37 167	**17 655**	16 592	6	17 132	**3 270**	2 780	18	3 211
95	93	2	92	**—**	—	—	—	**8 355**	5 325	57	6 852
2 062	2 003	3	1 951	**963**	876	10	898	**416**	262	59	277
12 655	11 716	8	10 679	**395**	398	(1)	410	**181 440**	172 541	5	178 472
50 899	50 837	0	49 889	**19 013**	17 866	6	18 440	**193 481**	180 908	7	188 812
1 785	1 812	(1)	1 893	**9**	7	29	11	**189 340**	177 118	7	182 862
—	—	—	—	**—**	—	—	—	**—**	—	—	—
48 097	46 964	2	45 092	**19 145**	17 676	8	17 998	**3 176**	2 631	21	3 573
49 882	48 776	2	46 985	**19 154**	17 683	8	18 009	**192 516**	179 749	7	186 435
2.32	2.07		2.53	**1.79**	1.64		1.89	**10.75**	13.33		13.07
2.85	2.35		2.77	**2.16**	2.08		2.39	**1.16**	1.37		1.36

Retail Banking income (%)



Other				Total Retail Banking South Africa			
30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	2018	2017[1]	Change %	2017[1]
(116)	(118)	(2)	(235)	**9 719**	9 525	2	19 379
268	230	17	491	**6 922**	6 509	6	13 511
152	112	36	256	**16 641**	16 034	4	32 890
2	1	100	1	**(2 517)**	(2 716)	(7)	(4 764)
(328)	(325)	1	(888)	**(9 601)**	(8 990)	7	(18 679)
(56)	(56)	—	(117)	**(85)**	(65)	31	(132)
(230)	(268)	(14)	(748)	**4 438**	4 263	4	9 315
79	57	39	179	**(1 226)**	(1 202)	2	(2 610)
(151)	(211)	(28)	(569)	**3 212**	3 061	5	6 705
(272)	(295)	(8)	(760)	**2 961**	2 854	4	6 243
—	(2)	(100)	(3)	**130**	121	7	268
79	86	(8)	171	**79**	86	(8)	171
42	—	100	23	**42**	—	100	23
(151)	(211)	(28)	(569)	**3 212**	3 061	5	6 705
(272)	(301)	(10)	(763)	**3 001**	2 848	5	6 240
n/a	n/a		n/a	**1.24**	1.39		1.20
n/a	n/a		n/a	**41.6**	40.6		41.1
n/a	n/a		n/a	**4**	1		2
n/a	n/a		n/a	**7**	6		6
n/a	n/a		n/a	**57.7**	56.1		56.8
—	—	—	1	**389 017**	376 818	3	383 495
477	405	18	409	**9 779**	6 156	59	7 809
12 709	12 691	0	12 694	**34 161**	32 926	4	32 962
3 864	3 853	0	5 014	**211 510**	203 635	4	209 909
17 050	16 949	1	18 118	**644 467**	619 535	4	634 175
12	14	(14)	12	**193 197**	181 005	7	186 855
—	—	—	—	**181**	640	(72)	400
17 161	17 102	0	18 745	**446 957**	431 568	4	437 265
17 173	17 116	0	18 757	**640 335**	613 213	4	624 520
n/a	n/a		n/a	**2.39**	2.35		2.52
n/a	n/a		n/a	**0.96**	0.92		0.99

Business Banking South Africa

for the reporting period ended

	Business Banking (excluding Equities)			
	30 June			31 December
	2018	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)				
Net interest income	**3 112**	2 954	5	6 098
Non-interest income	**1 815**	1 748	4	3 543
Total income	**4 927**	4 702	5	9 641
Impairment losses on loans and advances	**(211)**	(195)	8	(274)
Operating expenses	**(2 947)**	(2 768)	6	(5 710)
Other expenses	**(13)**	(13)	—	(27)
Operating profit before income tax	**1 756**	1 726	2	3 630
Tax expenses	**(488)**	(490)	0	(1 028)
Profit for the reporting period	**1 268**	1 236	3	2 602
Profit attributable to:				
Ordinary equity holders	**1 227**	1 208	2	2 539
Non-controlling interest – ordinary shares	**—**	—	—	—
Non-controlling interest – preference shares	**26**	28	(7)	56
Non-controlling interest – additional Tier 1	**15**	—	100	7
	1 268	1 236	3	2 602
Headline earnings	**1 227**	1 208	2	2 539
Operating performance (%)				
Credit loss ratio	**0.62**	0.62		0.43
Non-interest income as % of income	**36.8**	37.2		36.7
Income growth	**5**	3		5
Cost growth	**6**	11		11
Cost-to-income ratio	**59.8**	58.9		59.2
Statement of financial position (Rm)				
Loans and advances to customers	**66 474**	62 339	7	63 399
Loans and advances to banks	**—**	—	—	—
Investment securities	**9 874**	10 040	(2)	9 622
Other assets	**35 969**	37 718	(5)	44 552
Total assets	**112 317**	110 097	2	117 573
Deposits due to customers	**111 377**	108 468	3	113 870
Debt securities in issue	**—**	—	—	—
Other liabilities	**178**	417	(57)	1 161
Total liabilities	**111 555**	108 885	2	115 031
Financial performance (%)				
RoRWA	**3.37**	3.53		3.65
RoA	**2.13**	2.14		2.18

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Business Banking South Africa

for the reporting period ended

Business Banking Equities				Total Business Banking South Africa			
30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	2018	2017[1]	Change %	2017[1]
6	(52)	<(100)	(56)	3 118	2 902	7	6 042
26	90	(71)	132	1 841	1 838	0	3 675
32	38	(16)	76	4 959	4 740	5	9 717
—	—	—	—	(211)	(195)	8	(274)
(45)	(8)	>100	(87)	(2 992)	(2 776)	8	(5 797)
—	—	—	(1)	(13)	(13)	—	(28)
(13)	30	<(100)	(12)	1 743	1 756	(1)	3 618
(5)	(23)	(78)	(26)	(493)	(513)	(4)	(1 054)
(18)	7	<(100)	(38)	1 250	1 243	1	2 564
(19)	5	<(100)	(41)	1 208	1 213	(0)	2 498
—	1	(100)	1	—	1	(100)	1
1	1	—	2	27	29	(7)	58
—	—	—	—	15	—	100	7
(18)	7	<(100)	(38)	1 250	1 243	1	2 564
(19)	(17)	12	(31)	1 208	1 191	1	2 508
n/a	n/a		n/a	0.62	0.62		0.43
n/a	n/a		n/a	37.1	38.8		37.8
(16)	(67)		(60)	5	1		3
464	(86)		(36)	8	8		10
140.6	21.0		114.6	60.3	58.6		59.7
—	—	—	—	66 474	62 339	7	63 399
109	52	>100	84	109	52	>100	84
359	517	(31)	516	10 233	10 557	(3)	10 138
1 697	1 848	(8)	1 501	37 666	39 566	(5)	46 053
2 165	2 417	(10)	2 101	114 482	112 514	2	119 674
—	—	—	—	111 377	108 468	3	113 870
—	—	—	—	—	—	—	—
2 031	2 284	(11)	1 999	2 209	2 701	(18)	3 160
2 031	2 284	(11)	1 999	113 586	111 169	2	117 030
n/a	n/a		n/a	3.17	3.28		3.41
(2.35)	(1.29)		(1.38)	2.07	2.06		2.12

Retail and Business Banking South Africa

for the reporting period ended

Financial performance

Headline earnings grew 4% to **R4 209m** (30 June 2017: R4 039m) primarily driven by a stable pre-provision profit as well as a 6% reduction in impairments. Pre-provision profit improved from a decline of 6% in the prior year.

Gross loans and advances to customers increased 5% to **R477bn** (30 June 2017: R453bn), underpinned by the strong asset production across the lending product range. Home Loans grew for the first time after four years of contraction to R231bn (30 June 2017: R228bn), while Overdrafts and AVAF grew 10% and 12% respectively. Card and Payments portfolio grew 1% driven by a 6% growth in credit cards, offset by 5% contraction in store card portfolio.

Deposits due to customers grew 5% to **R305bn** (30 June 2017: R289bn), with investment products mainly driving the growth as customers continued to seek higher yields in a competitive market.

Net interest income grew 3% to **R12 837m** (30 June 2017: R12 427m) primarily as a function of the growth in advances and deposits, an improvement in the new business pricing as well a change in the accounting treatment of loyalty programme costs (IFRS 15) which are now accounted for under non-interest income. This was partly offset by margin compression on the Usury book following a reduction in interest rates in Q118 as well as higher suspended interest due to the change in the classification of accounts considered to be credit impaired under IFRS 9. In the current year, interest was suspended for the first time on all forbearance and debt counselling accounts, as well as accounts over 90 days in arrears. Comparatives have not been restated. Previously, interest was suspended only on accounts over 180 days in arrears. In addition, IFRS 9 is not explicit regarding the treatment of contractual interest in suspense which is subsequently recovered. Included in net interest income was R292m for contractual interest income, recovered on cured accounts, that was previously suspended.

Non-interest income increased 5% to **R8 763m** (30 June 2017: R8 347m), underpinned by strong merchant acquiring and card transaction volumes, an increased cheque account base as well as a change in the classification of fees deemed not recoverable which are now accounted for in impairments. The growth was reduced by the loss on the disposal of ATFS, lower Equities revaluation gains, the change in the accounting treatment of loyalty programme costs as well as the reduction in the store card transaction volumes.

Impairments reduced 6% to **R2 728m** (30 June 2017: R2 911m) mainly due to proactive credit risk mitigating strategies, better collections and payment optimisation in Home Loans as well as one-off recoveries and reduced advances in the store card portfolio. This was slightly negated by the change in the classification of fees deemed not recoverable and operational challenges which arose from the implementation of a new collections system. The reduction in impairments resulted in a lower credit loss ratio of **1.15%** (30 June 2017: 1.28%). NPL coverage decreased from 40.52% at 31 December 2017 to stage 3 coverage of 38.60% at 1 January 2018 and was stable between 1 January 2018 and 30 June 2018, reaching 38.88% at 30 June 2018.

Operating expenses grew 7% to **R12 593m** (30 June 2017: R11 766m) mainly driven by annual salary increases, investment in physical and cyber security, higher cost of cash as well as amortisation of IT infrastructure, slightly offset by efficiency gains from the optimisation of the branch footprint. The cost-to-income ratio increased to **58.3%** (30 June 2017: 56.6%). The cost-to-income ratio excluding the impact of IFRS 9 on net interest income was 57.5%.

Business performance

The business remained focused on regaining leading market position by providing best in class customer service, compelling product offerings as well as tailored customer value propositions underpinned by analytics-driven insights. This manifested in encouraging key performance indicators in the first half of the year, including the following:

- Home Loans registrations increased 14%, and supported the book growth of 1%;
- VAF production grew 19%, with the Retail and Commercial portfolios growing 30% and 13% respectively;
- New credit limits granted and limit increases to existing customers grew 41% and 216% respectively, boosting growth in credit card spend;
- Overdrafts grew 18% driven by an increased cheque account base and improved limit utilisation;
- Merchant acquiring volumes grew 14%, up from 10% in the previous year;
- Personal Loans grew 29% supported by enhancements to the acquisition strategy as well as improvements to the loan fulfillment processes; and
- Business Banking advances increased 9% led by growth momentum in Term Loans, Agri products and Business Overdraft limits.

The Absa Rewards proposition was enhanced further in 2018 to grow primary relationships and to cultivate customer loyalty to the brand. The list of partners was broadened to include new major merchants during the 1st half of the year. The enhancements to the proposition led to an increase in the product penetration rate to **1.62** (30 June 2017: 1.58), and growth in the membership base.

Sim-swap related fraud incidents decreased following the implementation two-factor-authentication (2FA), however there was an increase in phishing attacks, which resulted in higher digital fraud losses. We have invested in fraud prevention technologies such as device profiling and strengthened our fraud prevention capabilities.

Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued)

Strategic investments were primarily focused on improving customer experience, strengthening our physical and cyber channel network, process automation as well as stabilising and enhancing our IT infrastructure. Investments to improve the customer experience included:

- Improving the customer on-boarding process;
- Enhancing operational systems stability;
- Improving the loan fulfillment process;
- Improving collections strategies and capabilities.
- Optimising the scale of the branch footprint; and
- Increased digitisation of acquisition channels.

The underlying credit risk profile of the loan book was strong, driven by proactive credit risk mitigating strategies, the quality of new loans and effective collections. The impairment stock increase was primarily a factor of growth in the lending book and the effect of IFRS 9 which required a higher impairment provision at point of loan origination. The debt counselling portfolio continued to perform in line with expectations. The change in legislation governing Sale in Execution (SIE) properties in December 2017 resulted in the lengthening of the write off period of accounts in legal in Home Loans. The AVAF legal portfolio also increased due to changes in court procedures relating to the collateral realisation process. Operational challenges experienced in the deployment of the strategic collections system resulted in inefficiencies in Card and AVAF. Plans have now been put in place to remedy these operational challenges.

The construct of the credit vintages was reasonably stable, with a better quality of the front book. Home Loans scorecard was recalibrated in the second half of 2017, resulting in increased production as well as an improvement in the caliber of the new customer base. Personal Loans and Card continue to perform well, however AVAF and Overdrafts showed signs of deterioration and stress in the older vintages. Initiatives were implemented in the first half of the year to treat the stressed portfolios.

We continue to test and refine the new accounting processes, internal controls and governance framework necessitated by the adoption of IFRS 9. Therefore the estimation of expected credit losses and related impacts remains subject to change until finalisation of the financial statements for the year ending 31 December 2018.

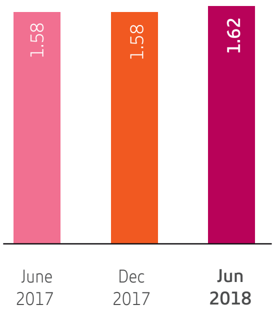
Looking ahead, we will continue to focus on regaining market leadership by leveraging the scale of the business through focusing on consumer finance whilst deepening the relationship with customers to benefit the transactional franchise. We will enable this by driving world class customer experiences enabled by digital capabilities.

Retail and Business Banking South Africa

for the reporting period ended

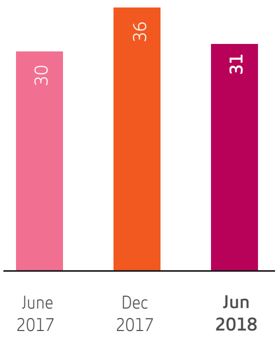
Business performance (continued)

Retail Banking products penetration rate (average number)



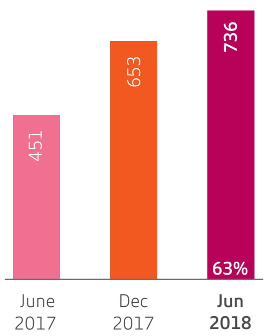
Average number of products per customer increased marginally

Retail NPS score (%)



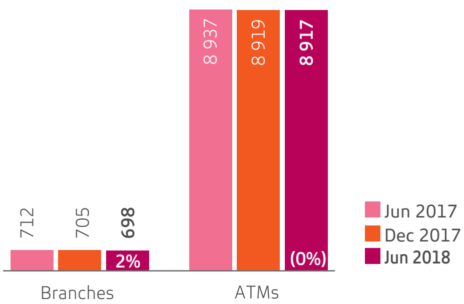
Net promoter scores improved, indicating better customer experience

Digital footprint (thousands and change %)



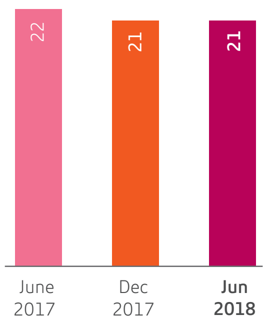
The number of Absa Banking App users continued the strong growth

Physical footprint (number and change %)



Physical footprint reduced but continued to maintain optimal scale

Retail Banking asset market share (%)



Asset market was broadly unchanged since the start of the year

Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued)

Home Loans

There were early signs of an improvement in the housing market, with growth in volume and value for the first half of 2018 (per Lightstone)..

National House Price Inflation index was 4%

as at May 2018 (per Lightstone), implying continued house price deflation in real terms.

Banks' prime lending and variable mortgage interest rates were lowered

from 10.25% to 10.00% in March 2018.

Total industry value of bonds registered increased 2.6%

year to date, improving from a growth of 0.6% in the prior reporting period (per Lightstone).

Home Loans outperformed the market, with new registrations growth of 14%, building on the momentum from the second half of 2017. The growth in registrations was enabled by new application scorecards and improved acquisition strategies implemented in the second half of 2017, which heightened the focus on growing high LTV (loan-to-value ratio) in low risk customer segments to improve the shape of the portfolio. The shape allowed us to improve pricing while increasing quality. Market share of new registrations was at 20.8% for H1, up from 18.3% in the first half of 2017 (per Lightstone). Stock market share was stable at 23.47% (per SARB BA900).

The gross loans and advances increased 1% to **R231bn** (30 June 2017: R228bn) mainly due to growth in new registrations and a slower pay-down rate on the back book. The growth in the mortgage book came after four years of contraction. The change in legislation governing Sale in Execution (SIE) properties in December 2017 resulted in the lengthening of the write-off period of accounts in legal. We continue to monitor the performance of these accounts as well as the impairment coverage on this portfolio.

Headline earnings grew 16% to **R901m** (30 June 2017: R774m), primarily due to the reduction in impairments, mitigating the decline in interest income following the adoption of IFRS 9.

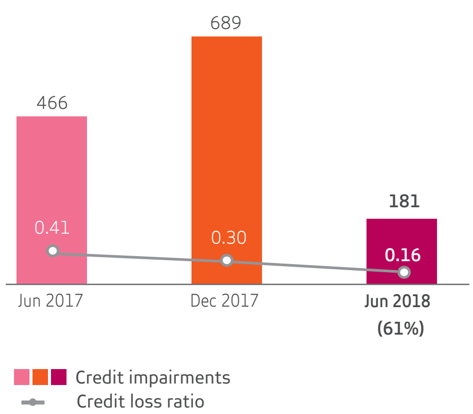
Income reduced 2% to **R2 342m** (30 June 2017: R2 392m) mainly due to the increase in suspended interest following the first time adoption of IFRS 9. Under IAS 39, interest was suspended on accounts that were 180 days in arrears; however, under IFRS 9 interest is suspended on all accounts over 90 days in arrears as well all forbearance and debt counselling accounts. The adverse impact of IFRS 9 was partly offset by improved pricing on new mortgages despite increased competitor activity.

Impairments reduced 61% to **R181m** (30 June 2017: R466m) mainly due to improved collections performance, payment optimisation initiatives and better management of distressed properties. This was marginally offset by the impact of changes in the impairment provisioning model from incurred losses to expected credit losses approach which required a higher impairment provision at point of loan origination. The credit loss ratio reduced from 0.41% to 0.16%. NPL coverage increased from 20.02% at 31 December 2017 to stage 3 coverage of 24.30% at 1 January 2018 and was stable between 1 January 2018 and 30 June 2018, reaching 24.60% at 30 June 2018.

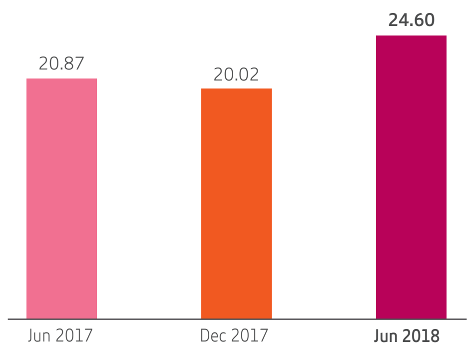
Looking ahead, Home Loans will continue to focus on key areas, including:

- Design and deliver innovative customer solutions;
- Enhancing processes to improve the customer experience;
- Continue the improvement in new business quality and shape to stimulate sustainable growth; and
- Enhancing collection capabilities to actively manage delinquencies.

Credit impairment and credit loss ratio (Rm, % and change %)



Stage 3/NPL – coverage ratio (%)



Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued)

Vehicle and Asset Finance

Confidence amongst new vehicle dealers declined sharply in the second quarter of 2018.

Market vehicle sales contracted 0.6%
for the six months ending June 2018 (NAAMSA).

Vehicle price inflation averaged 2.8%
for the first six months of the year (per StatsSA).

Used-to-new vehicle sales ratio improved to 2.07
(30 June 2017: 2.45) for financed vehicles (per TransUnion).

Gross loans and advances to customers grew 12% to **R109bn** (30 June 2017: R97bn) underpinned by the growth in production across the retail and commercial portfolios. Total production increased 19% outperforming the market which, in contrast, contracted 0.6%. The commercial portfolio production grew 13% while the retail portfolio increased 30% mainly driven by better dealer service experience.

Headline earnings declined 6% to **R406m** (30 June 2017: R432m) mainly due to the increase in impairments despite growth of 7% in pre-provision profit.

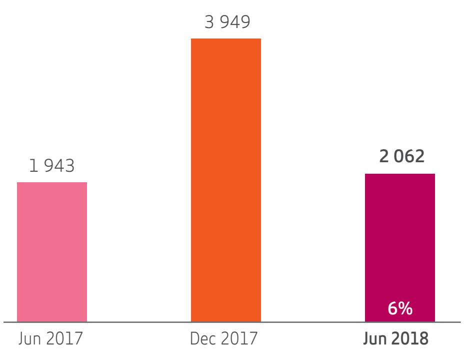
Income increased 6% to **R2 062m** (30 June 2017: R1 943m) with net interest income growing 9% while non-interest income declined 4%. The net interest income growth was supported by the strong production and improved pricing on the retail portfolio, slightly offset by increased suspended interest following the adoption of IFRS 9. The decline in non-interest income was mainly due to the loss on disposal of ATFS (Absa Technology Finance Solutions Proprietary Limited), offset by growth in the Vehicle Management Services portfolio.

Impairments increased 25% to **R594m** (30 June 2017: R477m) mainly due to strong production, an aging legal book, and increased inflows into early arrears. The increase in early arrears was due to the implementation of a new collection system in the first quarter of the year which resulted in suboptimal collections performance. The credit loss ratio thus increased to **1.14%** (30 June 2017: 1.01%). The NPL coverage reduced from 47.29% at 31 December 2017 to stage 3 coverage of 34.34% at 1 January 2018 due to a change in the classification of accounts considered to be credit impaired under IFRS 9. The stage 3 coverage increased to 35.96% at 30 June 2018 primarily due to an increase in the legal book as a result of changes in court procedures relating to the collateral realisation process.

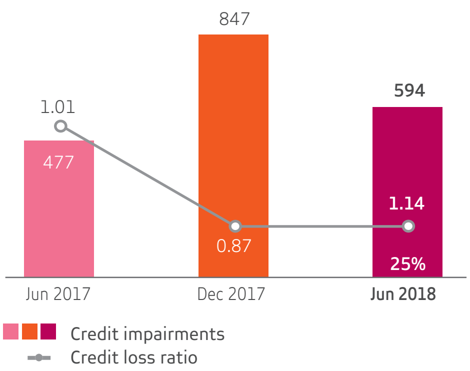
Looking ahead, AVAF will continue to focus on key areas, including:

- Designing and implementing of customer end to end asset acquisition solution;
- Creating and strengthening key partnerships with industry stakeholders;
- Enhancing customer and dealer service experience through automation and digitisation;
- Strengthening the leadership of the team supporting the dealer network and
- Improving collections strategies and capabilities.

Income (Rm and change %)



Credit impairments and credit loss ratio (Rm, % and change %)



Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued))

Card and Payments

Credit and store card facilities granted increased 9% year on year as at end of the 1st quarter of 2018 (per National Credit Regulator).

▲ **Consumer demand for open credit facilities positively** impacted credit card activity.

▼ **Retailers continued to feel market strain** adversely impacting on store card sales.

Gross loans and advances to customers increased 1% to **R43bn** (30 June 2017: R42bn) mainly driven by 6% growth in the credit card, offset by 5% contraction in the store card portfolio due to a decline in credit sales and increased paydown rate on the portfolio. The store card credit sales declined 7% due to the challenging trading environment facing retailers. Credit card turnover increased 9%, underpinned by strong credit limit increases, growth in new accounts and the enhancements to the Absa Rewards programme.

Headline earnings grew 19% to **R717m** (30 June 2017: R604m), mainly driven by lower impairments, despite a reduction in pre-provision profit.

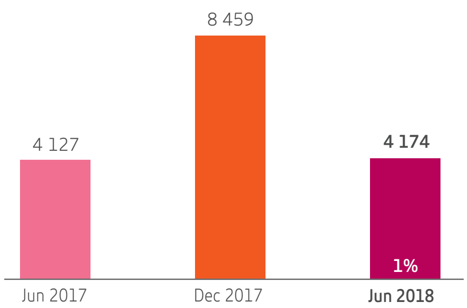
Income increased 1% to **R4 174m** (30 June 2017: R4 127m) with net interest income remaining flat and non-interest income growing 2%. The muted net interest income growth was by driven by margin compression on the Usury book following the reduction in interest rates in the first quarter of 2018, higher suspended interest on non-performing loans following the change in the classification of accounts considered to be credit impaired under IFRS 9 as well as the book reduction in the store card portfolio. This was offset by the change in the accounting treatment of loyalty programme costs (IFRS 15) which are now accounted for under non-interest income. The growth in non-interest income was primarily a function of growth in credit card and merchant acquiring turnover, offset by the change in accounting treatment of loyalty programme costs. Merchant acquiring turnover grew 14%, however margins were under pressure in the commercial portfolio due to strong competition.

Impairments reduced 21% to **R897m** (30 June 2017: R1 141m) primarily due to the book reduction, strong collections and one-off recoveries in the store card portfolio. This was offset by increased origination of new credit card accounts and higher early arrears due to collection inefficiencies resulting from the deployment of a new collections system in the credit card portfolio. The credit loss ratio improved from 5.36% to 4.23%. NPL coverage reduced from 71.34% at 31 December 2017 to Stage 3 coverage of 62.98% at 1 January 2018. The Stage 3 coverage increased to 66.49% at 30 June 2018 mainly in the store card portfolio.

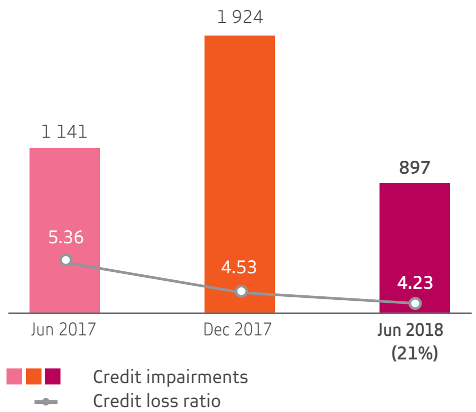
Looking ahead, Card and Payments will continue to focus on key areas, including:

- Driving consistent customer onboarding processes through the customer's preferred channel;
- Improving collections strategies and capabilities;
- Enhancing the customer self-service transaction bouquet; and
- Continuing to focus on operational efficiencies.

Income (Rm and change %)



Credit impairments and credit loss ratio (Rm, % and change %)



Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued)

Personal Loans

Unsecured credit granted increased 16% year on year as at end of the 1st quarter of 2018 (per National Credit Regulator).

Consumer confidence improved

in the 1st quarter of 2018, with a slight pick-up in bank lending to households.

Gross loans and advances grew 10% to **R20bn** (30 June 2017: R18bn) underpinned by strong production growth since the second half of 2017. Production grew 29%, supported by enhancements to the acquisition strategy and improvements to the loan fulfilment processes. The production growth momentum was carried through from the second half of 2017 where production had increased 22%. Market share of new loans increased to 11.2% as at Q1 2018 improving from 9.5% as at Q1 2017 and 7.9% at Q4 2017 (per National Credit Regulator). Stock market share increased marginally to 10.28%.

Headline earnings increased 10% to **R201m** (30 June 2017: R182m) mainly driven by an improvement in income growth, partly offset by increases in impairments and operating expenses.

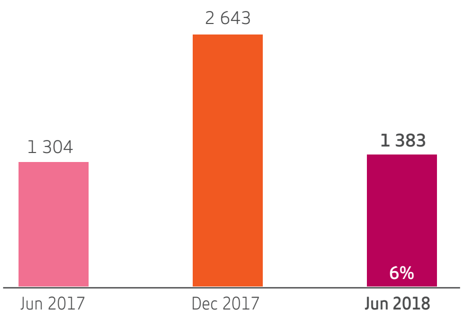
Income increased 6% to **R1 383m** (30 June 2017: R1 304m) largely driven by growth in loans and advances, marginally reduced by higher suspended interest following the adoption of IFRS 9 at the start of the year.

Impairments increased 3% to **R568m** (30 June 2017: R553m) primarily driven by strong production growth which led to higher impairment provision at point of loan origination. However, the credit loss ratio reduced to **5.87%** (30 June 2017: 6.21%) due to proactive credit risk mitigating strategies and effective collections. The NPL coverage reduced from 65.72% at 31 December 2017 to 59.81% at 1 January 2018, and reduced further to 56.69% at 30 June 2018 due to improved collections performance.

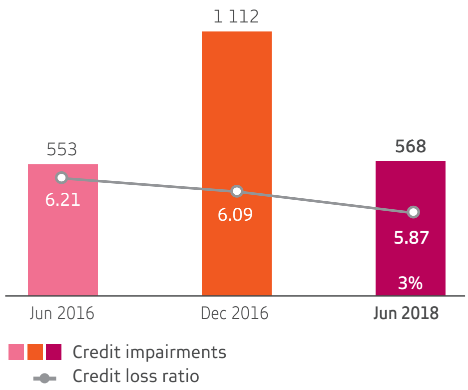
Looking ahead, Personal Loans will continue to focus on key areas, including:

- Increased digitisation of acquisition channels;
- Improving the loan fulfillment process;
- Migration of customers to more affordable and convenient channels; and
- Continuous review of credit and collection strategies.

Income (Rm and change %)



Credit impairments and credit loss ratio (Rm, % and change %)



Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued)

Transactional and Deposits

Increased savings and cautious spending led to improved debt to income ratio for households.

Market growth of deposits was 11%

(per BA900 May 2018).

Household spending was under pressure

despite an improvement in consumer confidence.

Deposits grew 7% to **R189bn** (30 June 2017: R177bn) driven by an increase in investment products. Investment deposits growth continued to exceed transactional deposits growth, putting further pressure on the interest margins.

Gross loans and advances to customers increased 24% to **R3 724m** (30 June 2017: R3 000m) underpinned by growth in the cheque account base, growth of 9% in overdraft limits as well as improved utilisation rates on the limits.

Headline earnings declined 9% to **R1 048m** (30 June 2017: R1 157m) mainly due to an increase in impairments despite growth of 2% in pre-provision profit.

Income grew 6% to **R6 528m** (30 June 2017: R6 156m) with net interest income and non-interest income growing 1% and 10% respectively. The net interest income growth was primarily driven by growth in advances and deposits, offset by margin compression in the deposits portfolio due to the increased composition of investment deposits coupled with higher client rates. The non-interest income growth was primarily a function of growth in debit card turnover (up 9%), an increase in the cheque account base as well as a change in the classification of fees deemed not recoverable which are now accounted for in impairments. The non-interest income growth was slightly negated by the gradual shift of transactions from branches and ATMs to digital channels such as point-of-sale (POS), online banking and mobile applications as well as an increase in Absa Rewards costs.

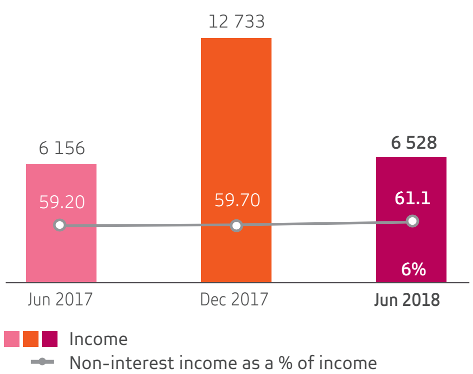
Impairments increased 250% to **R279m** (30 June 2017: R80m) largely driven by the growth in overdrafts and a change in the classification of fees deemed not recoverable. The credit loss ratio thus increased to 4.70% (30 June 2017: 1.88%). The impact of IFRS 9 on this portfolio was marginal.

Operating expenses increased 7% to **R4 788m** (30 June 2017: R4 463m) largely driven by annual salary increases, amortisation of IT infrastructure costs, increased digital fraud, higher cost of cash as well as continued investment in physical and cyber security. The operating expenses growth was slowed by efficiency gains from the optimisation of the branch footprint.

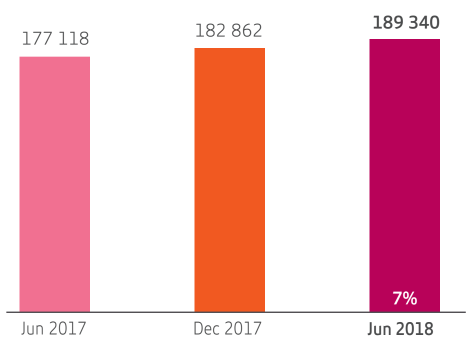
Transactional and Deposits will continue to focus on key areas, including:

- Enhancing the customer experience across all channels supported by improved systems stability;
- Tailored everyday banking customer value propositions underpinned by analytics-driven insights;
- Leveraging the new brand and Absa Rewards to improve product penetration;
- Building a scalable and digitally led business.; and
- Increased digitisation of acquisition channels such as in-app account opening, virtual and other digital capabilities, i.e. WhatsApp banking.

Income and non-interest income as % of income (Rm, % and change %)



Deposits due to customers (Rm and change %)



Retail and Business Banking South Africa

for the reporting period ended

Business performance (continued))

Business Banking

The macro environment was challenging as evidenced by the large GDP contraction in Q118.

Corporate credit extension slowed

as companies remained cautious due to market uncertainty.

Business confidence was subdued,

reducing after a surge in Q118.

Business Banking South Africa headline earnings grew 1% to **R1 208m** (30 June 2017: R1 191m) and stable pre-provision profit reflected 5% growth in income and 8% growth in operating expenses.

The Equities portfolio continued to wind down through planned realisations and will continue to introduce earnings volatility in the overall Business Banking results with lower revaluation gains in H1 2018 a key driver of the results in Equities. The size of the portfolio reduced by 34% to **R957m** (30 June 2017: R1.459m) driven by the disposal of some investment properties during the second half of 2017.

Headline earnings in Business Banking excluding Equities grew by 2% to **R1 227m** (30 June 2017: R1 208m) with pre-provision profit growth of 2% reflecting the following:

Gross loans and advances to customers grew 9% to **R70bn** (30 June 2017: R64bn), driven by strong production on Term and Agri loans as well as an increase in overdraft limits. Term Loans and Agri Loans grew 13% and 14% respectively, with Overdraft balances increasing 9% while CPF grew 3%. Growth was largely driven by customers in the commercial segments which proved far more resilient with lower demand from the enterprise segments.

Deposits due to customers grew 3% to **R111bn** (30 June 2017: R108bn) mainly driven by investment products.

Income increased 5% to **R4 927m** (30 June 2017: R4 702m) with net interest income and non-interest income growing 5% and 4% respectively. The growth in net interest income was underpinned by the growth in advances and deposits, slightly reduced by margin pressure on deposits. The non-interest income growth was reflective of subdued volume growth with strong growth in fees and commissions in current accounts up 9% partially offset by lower growth of 1% in cash related fee income.

Impairments increased 8% to **R211m** (30 June 2017: R195m), largely driven by growth in advances, large name defaults in the commercial portfolio and increased charge offs in the enterprise portfolio. Active measures to manage impairment growth included the early intervention of financially distressed clients, while the portfolio benefited from reduced interest rates. The credit loss ratio was flat at **0.62%** (30 June 2017: 0.62%). NPL coverage increased from 32.84% at 31 December 2017 to 49.38% at 1 January 2018. The stage 3 coverage was largely unchanged for the six months to 30 June 2018 at 49.08%.

Operating expenses grew 6% primarily due to annual salary increases, higher cost of cash, and increased amortisation charges relating to IT infrastructure costs and investment in physical and cyber security.

Looking ahead, Business Banking will continue to focus on key areas, including:

- Driving an improved overall customer experience;
- Driving growth through a specific segment and sector focus whilst sustaining returns;
- Extracting capital efficiencies through RWA optimisation; and
- Continue to refine the Business Banking coverage model to ensure we provide quality advice and build deep relationships with our customers.

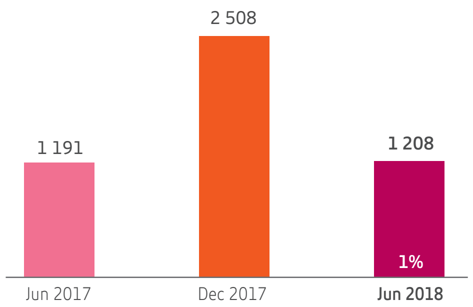
Retail and Business Banking South Africa

for the reporting period ended

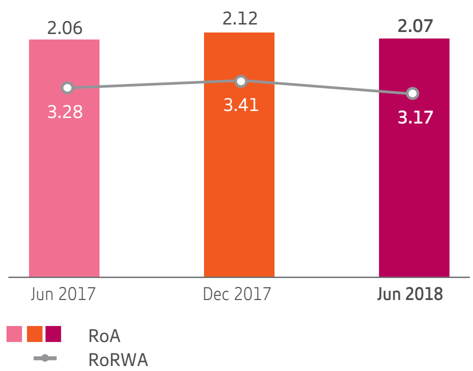
Business performance (continued)

Business Banking (continued)

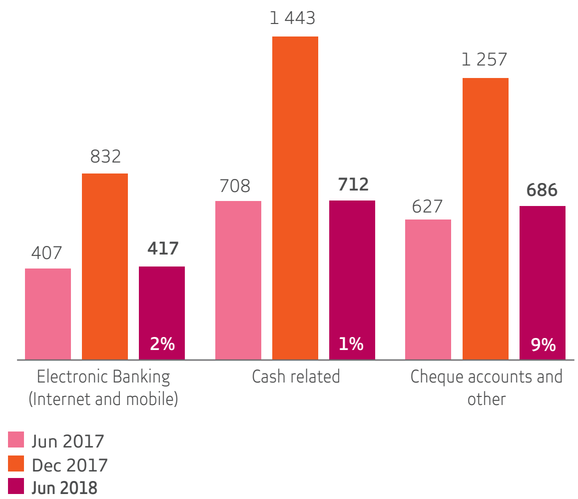
Headline earnings (Rm and change %)



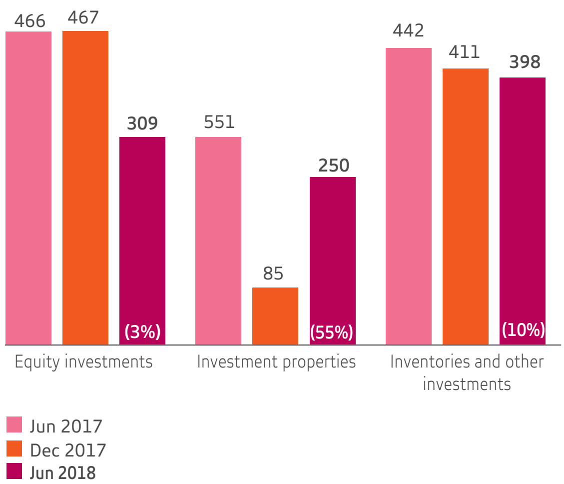
RoA and RoRWA (%)



Net fee and commission income (Rm and change %)



Equities – including equity investments, investment properties, inventories and other investments (Rm and change %)



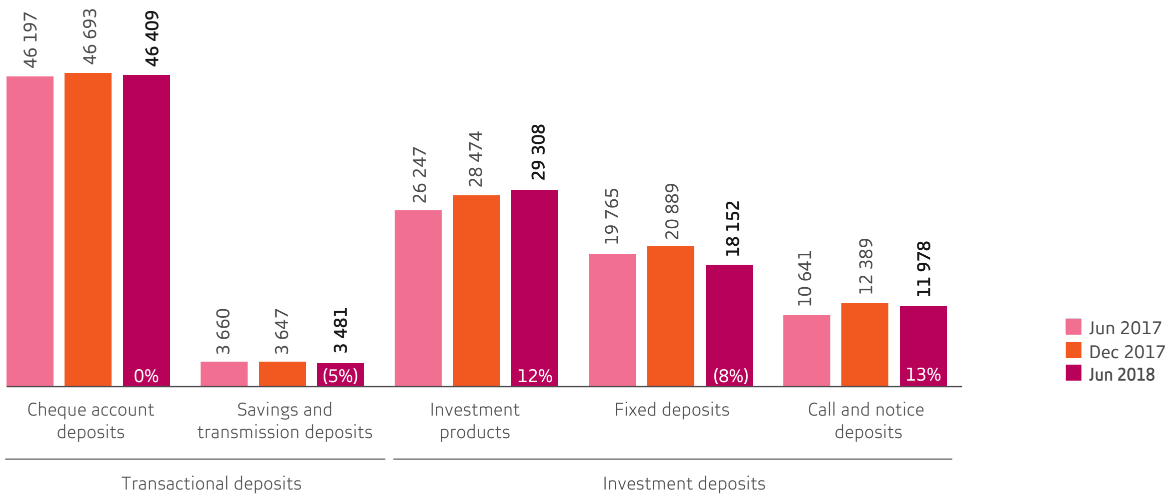
Retail and Business Banking South Africa

for the reporting period ended

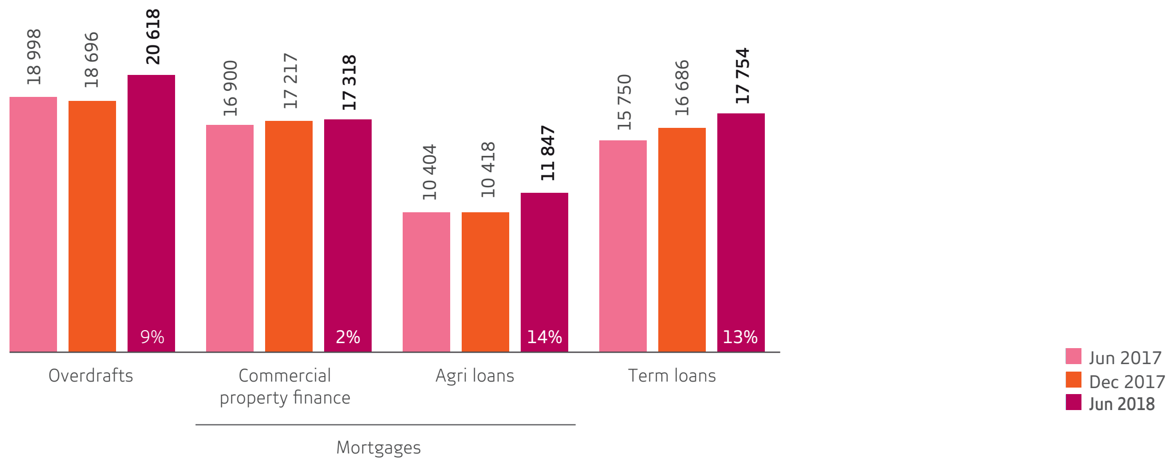
Business performance (continued)

Business Banking (continued)

Deposits (Rm and change %)



Gross loans and advances (Rm and change %)



Other

Headline earnings loss improved 9% to **R274m** (30 June 2017: R300m) primarily driven by lower operating cost and higher third-party fee income.

CIB South Africa

for the reporting period ended

CIB South Africa delivered a solid revenue performance, with total income up 5% to **R5 634m** (30 June 2017: R5 372m); this was however offset by higher credit impairments up 79% to **R381m** (30 June 2017: R213m) and operating expenses up 10% to **R3 071m** (30 June 2017: R2 786m). This resulted in an overall decline in headline earnings of 6% to **R1 683m** (30 June 2017: R1 783m).

Key performance highlights for the period include the following:

Improved NIR vs. NII growth ratio with NIR up to 7%

to **R2 252m** (30 June 2017: R2 105m) and NII up 4% to **R3 382m** (30 June 2017: R3 267m), in line with business ambitions.

Credit loss ratio deteriorated from 0.18% to 0.30%

taking into account impairment risk on specific exposures.

Continued momentum in Transactions and Deposits;

with revenues up 10% and 9% respectively.

High operating expenses growth of 10%

to **R3 071m** (30 June 2017: R2 786m) after several years of low cost growth.

Average customer loans up 9%

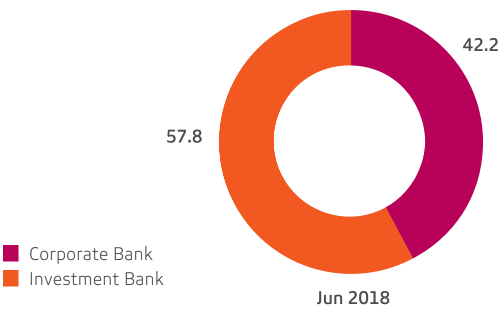
to **R219.9bn** (30 June 2017: R201.6bn), while average customer deposits grew 6% to **R182.9bn** (30 June 2017: R172.7bn).

The business generated returns of 15.9%

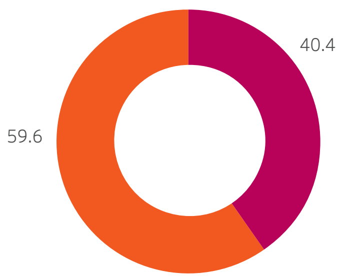
(30 June 2017: 17.3%) with improved RWA density and efficient capital management.

All operating divisions delivered revenue in line with or better than prior year, with the Corporate Bank delivering 10% growth.

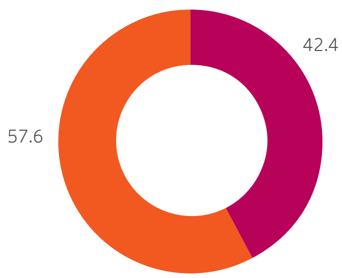
Total income contribution (%)



Jun 2018



Jun 2017



Dec 2017

Salient features	30 June 2018	30 June 2017[1]	Change %	31 December 2017[1]
Income (Rm)	**5 634**	5 372	5	10 706
Headline earnings (Rm)	**1 683**	1 783	(6)	3 411
Pre-provision profit (Rm)	**2 563**	2 586	(1)	5 062
Cost-to-income ratio (%)	**54.5**	51.9		52.7
Credit loss ratio (%)	**0.30**	0.18		0.24
RoRC (%)	**15.9**	17. 3		16.3
RoRWA (%)[1]	**1.75**	1.93		1.82
RoA (%)	**0.69**	0.78		0.74

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

CIB South Africa

for the reporting period ended

	Corporate			
	30 June			31 December
	2018	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)				
Net interest income	1 726	1 519	14	3 191
Non-interest income	654	652	0	1 348
Total income	2 380	2 171	10	4 539
Impairment losses on loans and advances	(43)	(4)	>100	(117)
Operating expenses	(1 577)	(1 337)	18	(2 780)
Other expenses	40	(4)	<(100)	(12)
Operating profit before income tax	800	826	(3)	1 630
Tax expenses	(211)	(231)	(9)	(457)
Profit for the reporting period	589	595	(1)	1 173
Profit attributable to:				
Ordinary equity holders	556	573	(3)	1 124
Non-controlling interest – preference shares	24	22	9	42
Non-controlling interest – additional Tier 1	9	—	100	7
	589	595	(1)	1 173
Headline earnings	556	573	(3)	1 124
Operating performance (%)				
Net interest margin on average interest-bearing assets	2.41	2.19		2.30
Credit loss ratio	0.13	0.01		0.19
Non-interest income as % of income	27.5	30.0		29.7
Income growth	10	9		9
Operating expenses growth	18	—		4
Cost-to-income ratio	66.3	61.6		61.2
Statement of financial position (Rm)				
Loans and advances to customers	68 713	60 964	13	72 091
Loans and advances to banks	6 049	2 528	>100	2 085
Investment securities	5 067	4 752	7	4 932
Other assets	73 643	93 803	(21)	78 390
Total assets	153 472	162 047	(5)	157 498
Deposits due to customers	146 965	150 967	(3)	149 494
Debt securities in issue	—	5	(100)	—
Other liabilities	5 860	10 348	(43)	6 716
Total liabilities	152 825	161 320	(5)	156 210
Financial performance (%)				
RoRWA	1.91	2.13		2.04
RoA	0.73	0.78		0.77

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Investment Bank				Total CIB South Africa			
30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]
1 656	1 748	(5)	3 335	**3 382**	3 267	4	6 526
1 598	1 453	10	2 832	**2 252**	2 105	7	4 180
3 254	3 201	2	6 167	**5 634**	5 372	5	10 706
(338)	(209)	62	(450)	**(381)**	(213)	79	(567)
(1 494)	(1 449)	3	(2 864)	**(3 071)**	(2 786)	10	(5 644)
(57)	(112)	(49)	(166)	**(17)**	(116)	(85)	(178)
1 365	1 431	(5)	2 687	**2 165**	2 257	(4)	4 317
(165)	(180)	(8)	(302)	**(376)**	(411)	(9)	(759)
1 200	1 251	(4)	2 385	**1 789**	1 846	(3)	3 558
1 127	1 210	(7)	2 287	**1 683**	1 783	(6)	3 411
45	41	10	87	**69**	63	10	129
28	—	100	11	**37**	—	100	18
1 200	1 251	(4)	2 385	**1 789**	1 846	(3)	3 558
1 127	1 210	(7)	2 287	**1 683**	1 783	(6)	3 411
2.37	2.69		2.48	**2.39**	2.43		2.39
0.36	0.24		0.25	**0.30**	0.18		0.24
49.1	45.4		45.9	**40.0**	39.2		39.0
2	4		1	**5**	6		(33)
3	8		—	**10**	4		(39)
45.9	45.2		46.5	**54.5**	51.9		52.7
163 884	143 729	14	146 974	**232 597**	204 693	14	219 065
36 821	27 330	35	29 643	**42 870**	29 858	44	31 728
31 397	24 194	30	26 345	**36 464**	28 946	26	31 277
142 221	110 693	28	131 650	**215 864**	204 496	6	210 040
374 323	305 946	22	334 612	**527 795**	467 993	13	492 110
36 768	32 559	13	27 761	**183 733**	183 526	0	177 255
11 109	12 277	(10)	12 532	**11 109**	12 282	(10)	12 532
321 764	256 665	25	288 807	**327 624**	267 013	23	295 523
369 641	301 501	23	329 100	**522 466**	462 821	13	485 310
1.68	1.85		1.73	**1.75**	1.93		1.82
0.67	0.79		0.73	**0.69**	0.78		0.74

CIB South Africa

for the reporting period ended

Business profile

CIB provides innovative solutions to meet client needs by delivering specialist investment banking, corporate banking, financing, risk management and advisory solutions. A variety of clients across various industry sectors such as corporates, financial institutions and public sector bodies are serviced by combining our in-depth product knowledge with regional expertise and an extensive, well-established local presence. CIB's goal is to build a sustainable, trustworthy business that helps clients achieve their ambitions in the right way and by executing on this we will create shared growth for clients, colleagues and communities.

Key business areas

Client Engagement integrates client coverage across Africa to provide holistic solutions to clients through end-to-end relationship management and origination activities, leveraging the deep segment and sector specialisation within CIB, across the following business areas:

- **Investment Bank comprising:**
  - **Markets** – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
  - **Banking** – structures innovative solutions delivering to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
  - **Commercial Property Finance** – specialises in financing commercial, industrial, retail and residential development property (with a focus on affordable housing) across our African footprint as well as cross border financing in other jurisdictions; and
  - **Infrastructure Investments and private Equity** – Infrastructure Investments acts as a principal by investing in equity to entities focused on infrastructure development in sub-Saharan Africa. Private Equity traditionally acted as a principal by investing in unlisted equity exposures. This portfolio continues to be reduced in line with the Group's strategy to exit non-core businesses.
- **Corporate** – provides corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions. These services are provided across our African institutional and corporate client base.

Financial performance

Headline earnings declined by 6% to **R1 683m** (30 June 2017: R 1 783m) adversely impacted by higher credit impairments up 79% to **R381m** (30 June 2017: R213m) and operating expenses up 10% to **R3 071m** (30 June 2017: R2 786m). The business delivered solid income growth of 5% to **R5 634m** (30 June 2017: R5 372m) supported by continued client franchise growth and momentum in key focus product areas namely; Trade, Deposits, Transactions, Foreign Exchange and Equities.

The income growth of 5% was supported by growth in both the Corporate and Investment Bank:

- The Corporate business continued to gain market share through the conversion of existing client relationships to primary banking status. This contributed to the income growth of 10% to **R2 380m** (30 June 2017: R2 171m) supported by average advances growth of 11% to **R66.3bn** (30 June 2017: R59.7bn) and average corporate cheque deposits growth of 9% to **R74.3bn** (30 June 2017: R68.1bn).
- Investment Bank income increased by 2% to **R3 254m** (30 June 2017: R3 201m); supported by Commercial Property Finance up 14%; Markets up 1%, and Banking largely unchanged from the prior year.

Operating expenses were up 10% to **R3 071m** (30 June 2017: R2 786m) as the business continued to invest in systems and technology while remaining focused on cost containment.

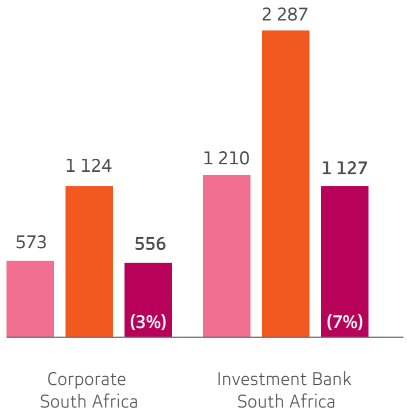
Loans and advances to customers were up 14% to **R232.6bn** (30 June 2017: R204.7bn) with average advances to customers up 9% to **R219.9bn** (30 June 2017: R201.6bn). This was mainly driven by a growth in term advances, which were up 10%. Deposits were unchanged at **R183.7bn** (30 June 2017: R183.5bn) with average customer depsits up 6% to **R182.9bn** (30 June 2017: R172.7bn).

CIB South Africa

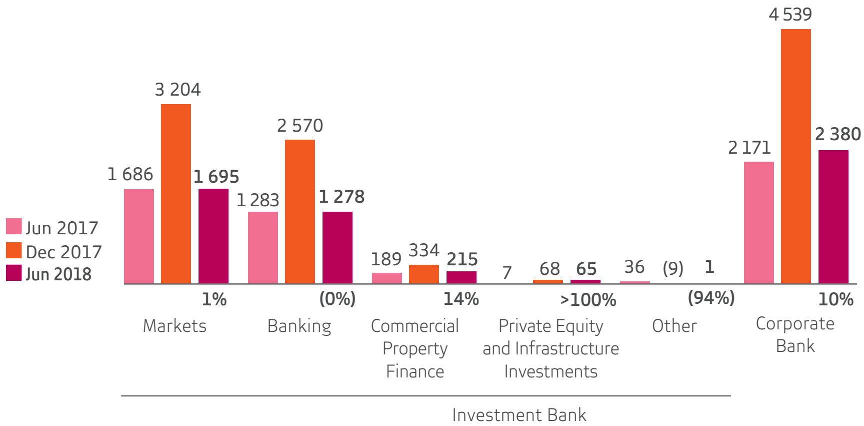
for the reporting period ended

Financial performance (continued)

Headline earnings
(Rm and change %)



Gross income mix
(Rm and change %)



Business performance

In the first half of 2018, the Corporate and Investment Bank delivered a solid revenue performance and has made significant progress to execute on key priorities. Progress has been made to increase global connectivity through the establishment of an international office in the UK; while the set-up of the US office is gathering good momentum.

Separating from the previous Barclays Plc remains a key focus area for the Group with 5 key projects on track to deliver on time and within budget.

The business unit has also continued in the improvement of digitisation and automation of the business, evidenced by an International Payments award for straight through processing and operational excellence from Wells Fargo and JP Morgan as well as the successful launch of the Novo FX platform.

The key achievements in this period under review include:

- Numerous client acquisitions and an increase in primary banking relationships
- Milestone deals closed in the automotive and telecommunications sectors which have generated significant levels of Foreign Direct Investment
- Participating in renewable energy deals (across various technologies) which are expected to increase the supply of sustainable energy

Furthermore, the following accolades were received in this period:

- Best energy infrastructure deal, EMEA Finance
- Best natural resources deal, EMEA Finance
- Best oil and gas deal, EMEA Finance
- 1st place Credit Research, Financial Mail
- Best M&A house in Africa, EMEA Finance Achievement Awards
- Best IPO in Africa category, EMEA Finance Achievement Awards
- Best Africa cross-border M&A , EMEA Finance Achievement Awards
- Tracking Efficiency – 3 Year, South Africa Non-Equity ETFs: NewFunds MAPPS Growth ETF, 2018 South African Listed Tracker Funds Awards
- Total Return Performance – 1 Year, South Africa Non-Equity ETFs: Newfunds GOVI ETF, 2018 South African Listed Tracker Funds Awards
- Total Return Performance – 3 Year, South Africa Non-Equity ETFs: Newfunds GOVI ETF, 2018 South African Listed Tracker Funds Awards
- Total Return Performance – 3 Year, South Africa Equity ETFs: Newfunds S&P GIVI South Africa Resources 15 ETF, 2018 South African Listed Tracker Funds Awards

CIB South Africa

for the reporting period ended

Business performance *(continued)*

Investment Bank

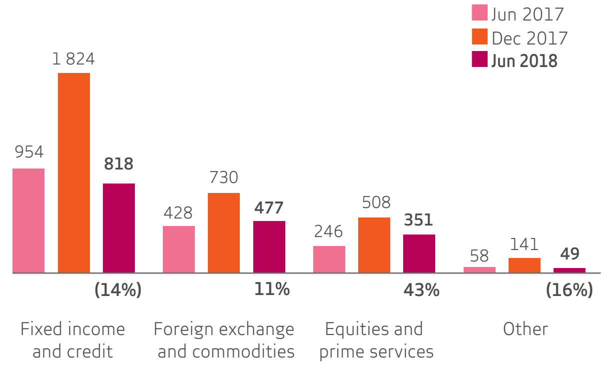
Total Investment Bank revenue was up 2% to **R3 254m** (30 June 2017: R3 201m). This performance is broken down below, by business unit.

Markets

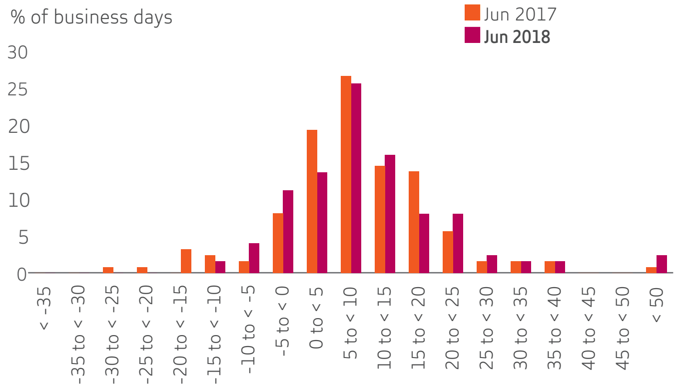
Markets South Africa income increased marginally by 1% to **R1 695m** (30 June 2017: R1 686m), driven by the following:

- **Fixed Income and Credit was down 14% to R818m (30 June 2017: R 954m)** mainly due to subdued client flows in the domestic Fixed Income market. The business saw spread compression in certain markets due to competition. This was partly offset by increased client flow on structured credit products coupled with favourable risk management.
- **Foreign Exchange and Commodities increased by 11% to R477m (30 June 2017: R428m)** due to increased flow from clients as a result of strategic internal initiatives. The business was able to monetise the inherent market volatility for both FX and Commodities.
- **Equities and Prime Services increased by 43% to R351m (30 June 2017: R246m).** The equities business has delivered strong results. The derivatives business has strengthened the franchise offering which has yielded diversified returns, with a strong client centric focus. Increased electronic trading volumes in Markets globally created additional growth opportunities.

Markets gross income split
(Rm and change %)



Daily markets income distribution (Rm)



Business performance *(continued)*

Investment Bank (continued)

Banking

Banking income was largely unchanged from the prior year at **R1 278m** (30 June 2017: R1 283m). **Global Finance** income was up 6% to **R1 218m** (30 June 2017: R1 150m) benefitting from the execution of key renewable energy deals in the Resource & Project Finance business and improved market presence in Debt Capital Markets. This was slightly offset by margin compression on the portfolio with average advances up 2% to **R98bn** (30 June 2017: R96bn). Credit impairments increased by 82% to **R382m** (30 June: R210m) mainly due to a higher charge attributable to a single name.

The **Advisory business** was impacted by a slowdown in corporate M&A activity coupled with increased timelines for execution on existing mandates; this resulted in a 55% decline in income to **R60m** (30 June 2017: R133m). Mandates continue to be successfully signed, building the 2019 pipeline. Overall market conditions remain challenging with reduced Emerging Markets interest from offshore which has led to lower corporate activity across sectors.

	30 June			31 December
Salient features	**2018**	2017[1]	Change %	2017[1]
Gross income (Rm)	**1 278**	1 283	(0)	2 570
Global finance (Rm)	**1 218**	1 150	6	2 330
Advisory (Rm)	**60**	133	(55)	240
Credit impairment (Rm)	**(382)**	(210)	82	(445)
Net income (Rm)	**896**	1 073	(16)	2 125
Average loans and advances to customers (Rbn)	**98.0**	96.0	2	97.0

Commercial Property Finance (CPF)

CPF performance continued on an upward trajectory with the business growing income at a compound annual rate of 29% over a period of 2 years to **R215m** (30 June 2016: R129m). Gross income increased by 14% year on year, with net interest income up by 26% supported by average portfolio asset growth of 22% as the business continues to grow off the back of new deals. This was slightly offset by a decline in fee income. CPF continues to diversify the client base; increase market presence and positioning, improve customer engagement and delivering process efficiencies.

	30 June			31 December
Salient features	**2018**	2017[1]	Change %	2017[1]
Gross income (Rm)	**215**	189	14	334
Credit impairment (Rm)	**30**	—	100	(4)
Net income (Rm)	**245**	189	30	330
Average portfolio assets (Rbn)	**29.7**	24.3	22	26.6

Private Equity and Infrastructure Investments

Non-Core Private Equity and Infrastructure Investments reported income of **R65m** (30 June 2017: R7m) mainly as a result of positive revaluations compared to prior year. The portfolio size reduced to **R1.8bn** (30 June 2017: R2.1bn).

	30 June			31 December
Salient features	**2018**	2017	Change %	2017
Revaluations (Rm)	**36**	(99)	<(100)	(111)
Realisations, dividends, interest and fees (Rm)	**38**	112	(66)	190
Funding (Rm)	**(9)**	(6)	50	(11)
Net income (Rm)	**65**	7	>100	68
Total portfolio size (Rbn)	**1.8**	2.1	(14)	1.7

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

CIB South Africa

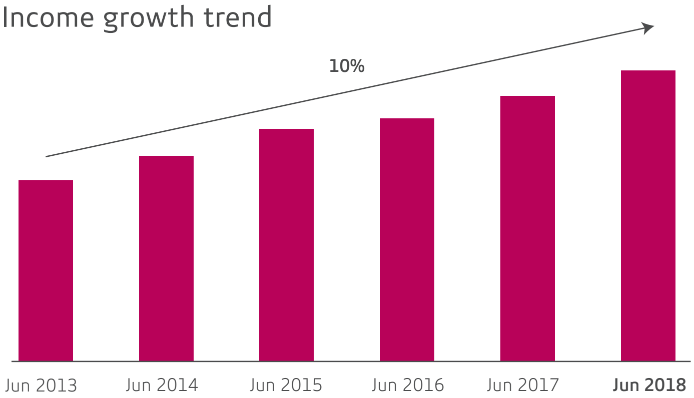
for the reporting period ended

Business performance *(continued)*

Corporate

Corporate delivered a strong income performance, up 10% year-on-year to **R2 380m** (30 June 2017: R2 171m) with net interest income up 14% to **R1 726m** (30 June 2017: R1 519m). Loans and advances to customers grew by 13% to **R68.7bn** (30 June 2017: R61bn) with growth mainly in the Financial Services, Retail and Agriculture sectors; while average advances increased by 11% to R66.3bn. Non-interest income maintained prior year levels at **R654m** (30 June 2017: R652m) impacted by the non-repeat of landmark deals in the base and a decline in documentary products income. This business has grown income at a compound annual rate of 10% over the last 5 years, when excluding disposals.

Income growth trend



The year-on-year income performance was supported by:

- Strong growth in **Trade** (up 18%), mainly from balance sheet-led products, slightly offset by adverse documentary product performance;
- **Deposits** up 9% benefitting from improved cheque deposit margins as a result of changes in client mix and re-pricing initiatives. Customer deposits declined by 3% to **R147bn** (30 June 2017: R151bn), with average customers deposits up 3% to **R147bn** (30 June 2017: R143bn). This was supported by average cheque deposits up 9%, slightly offset by a decline in foreign currency deposits of 12%.
- **Transactional banking** growth of 10% mainly driven by an uptick in domestic transactional banking and an outperformance in Collections (volumes up 28% year on year) benefiting from improved sales activity;
- **Working Capital** increased income by 5% and **Debt Finance** increased by 6% driven by balance sheet growth.

	30 June			31 December
Salient features	**2018**	2017[1]	Change %	2017[1]
Gross income (Rm)	**2 380**	2 171	10	4 539
Credit impairments (Rm)	**(43)**	(4)	>100	(117)
Net income (Rm)	**2 337**	2 167	8	4 422
Average loans and advances to customers (Rbn)	**66.3**	59.7	11	61.1
Average deposits due to customers (Rbn)	**147.1**	143.4	3	141.7

Looking ahead

The Absa Group's Corporate Strategy has provided clear direction to shape the thinking that will ensure alignment with the aspiration to restore leadership in core businesses by substantially growing market share and returns in CIB. To deliver on such a bold growth ambition, CIB will focus its efforts on the following key themes:

- Providing quality advice which leverages our wide Africa expertise and our global networks to build strong relationships with our current and future clients as we continue to expand our business to support clients in key markets.
- Deliver superior client experience through seamless and consistent execution.
- Create a thriving organisation that enables people by developing and embedding a dynamic employee value proposition that is built on diversity and inclusion and organisational effectiveness.
- Separating swiftly and securely from Barclays Plc.

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Rest of Africa Banking

for the reporting period ended

Looking ahead *(continued)*

Rest of Africa Banking delivered headline earnings growth of **8%** (CCY: 20%) and Return on Equity of **19.6%**. This was achieved despite prudent lending in the consumer space and liquidity constraints in Corporate as most markets started to show signs of recovery. Despite lower average interest rates compared to the comparative period, margins improved overall and both loans and deposits reflect positive growth. The Rand started the year stronger than the comparative period, but lost momentum towards the end of the six month period ending 30 June 2018 to close weaker compared to 30 June 2017 against the basket of currencies in which we operate. This had a negative impact on translated earnings, but a positive impact on balance sheet growth.

Headline earnings grew by **8%** (CCY: 20%) to **R1 636m** (30 June 2017: R1 512m). Continued benefits were extracted from favourable strategic decisions made in the prior year, seeing Corporate headline earnings grow by **18%** (CCY: 28%) and Retail and Business Bank headline earnings grow by **38%** (CCY: 54%). Headline earnings in the Investment Banking business ended lower than the prior year driven by large single trades not repeated in the current year. A continued focus on the quality of our book, coupled with improved collections and recoveries and the implementation of key systems has seen a **47%** (CCY: 46%) decline in impairments. Despite incremental operating costs, relating mainly to new technology services being incurred directly by business following the sell down by Barclays PLC in the prior year, cost growth was well contained, reflecting an increase of **1%** (CCY: 7%).

Key performance highlights for the reporting period include:

▲ **Headline earnings growth of 8%**
(CCY: 20%) and RoE of **19.6%**.

▲ Momentum from the prior year on the balance sheet continued into the current year with loans and advances to customers growing by **12%** (CCY: 9%) and deposits due to customers growing by **6%** (CCY: 3%).

▲ **Impairments improved by 47%**
(CCY: 46%) resulting in an improved credit loss ratio of **0.72%** (30 June 2017: 1.38%).

▼ **Markets revenue declined by 14%**
(CCY: 5%) in the Investment Banking business following large trades in the prior year not repeated in the current year, however the underlying growth of transactional revenue remained strong.

▲ Revenue growth across all segments with RBB and CIB revenue, excluding the impact of foreign currency translation differences, up by **6%** and **3%** respectively.

▼ **Cost-to-income ratio deteriorated to 57.3%**
(30 June 2017: 55.8%) as cost growth exceeded revenue growth driven by incremental operating costs following the selldown by Barclays PLC in the prior year.

▲ Margins improved by 11 basis points as Retail lending regained momentum.

Salient features	30 June 2018	30 June 2017	CCY%	Change %	31 December 2017
Income (Rm)	**7 565**	7 670	5	(1)	15 617
Attributable earnings (Rm)	**1 649**	1 531	20	8	2 972
Headline earnings (Rm)	**1 636**	1 512	20	8	2 954
Credit loss ratio (%)	**0.72**	1.38			1.34
Cost-to-income ratio (%)	**57.3**	55.8			57.6
RoRC (%)[1]	**19.6**	17.4			16.6
RoRWA (%)	**1.97**	1.91			1.77
RoA (%)	**2.01**	1.83			1.71

[1] As the Rest of Africa Banking consists primarily of a set of legal entities, the denominator in the RoRC for the Rest of Africa Banking is calculated as the sum of the average equity of the legal entities.

Rest of Africa Banking

for the reporting period ended

	RBB Rest of Africa					CIB Rest of Africa				
	30 June				31 December	30 June				31 December
	2018	2017	CCY%	Change %	2017	**2018**	2017	CCY%	Change %	2017
Statement of comprehensive income (Rm)										
Net interest income	**3 231**	3 255	5	(1)	6 747	**1 911**	1 943	4	(2)	4 021
Non-interest income	**1 291**	1 257	7	3	2 550	**1 132**	1 214	2	(7)	2 297
Total income	**4 522**	4 512	6	0	9 297	**3 043**	3 157	3	(4)	6 318
Impairment losses on loans and advances	**(318)**	(522)	(37)	(39)	(950)	**(11)**	(116)	(91)	(91)	(339)
Operating expenses	**(3 189)**	(3 197)	5	(0)	(6 729)	**(1 154)**	(1 105)	10	4	(2 306)
Other expenses	**(79)**	(71)	18	11	(147)	**(16)**	(14)	21	14	(29)
Operating profit before income tax	**936**	722	42	30	1 471	**1 862**	1 922	6	(3)	3 644
Tax expenses	**(351)**	(296)	31	19	(580)	**(477)**	(549)	(6)	(13)	(985)
Profit for the reporting period	**585**	426	49	37	891	**1 385**	1 373	10	1	2 659
Profit attributable to:										
Ordinary equity holders	**474**	355	49	34	688	**1 248**	1 206	15	3	2 348
Non-controlling interest – ordinary shares	**111**	71	53	56	203	**137**	167	(18)	(18)	311
	585	426	49	37	891	**1 385**	1 373	10	1	2 659
Headline earnings	**463**	336	54	38	670	**1 246**	1 206	15	3	2 348
Operating performance (%)										
Net interest margin on average interest-bearing assets[1]	**10.32**	9.81			10.03	**7.35**	6.76			6.58
Credit loss ratio	**1.53**	2.49			2.22	**0.05**	0.60			0.84
Non-interest income as % of income	**28.5**	27.9			27.4	**37.2**	38.5			36.4
Income growth	**0**	(15)			(8)	**(4)**	9			7
Operating expenses growth	**(0)**	(12)			(4)	**4**	(6)			3
Cost-to-income ratio	**70.5**	70.9			72.4	**37.9**	35.0			36.5
Statement of financial position (Rm)										
Loans and advances to customers	**43 522**	39 233	7	11	38 627	**45 197**	39 703	10	14	39 237
Loans and advances to banks	**1**	—	100	100	1	**1 477**	178	>100	>100	1 411
Investment securities	**5**	7	(37)	(29)	11	**702**	24	>100	>100	442
Other assets	**37 462**	44 463	(19)	(16)	35 416	**23 855**	31 758	(25)	(25)	27 729
Total assets	**80 990**	83 703	(7)	(3)	74 055	**71 231**	71 663	(3)	(1)	68 819
Deposits due to customers	**68 422**	60 539	9	13	59 375	**56 776**	57 983	(5)	(2)	47 621
Debt securities in issue	**31**	30	(0)	3	28	**—**	—	—	—	—
Other liabilities	**14 056**	23 959	(42)	(41)	15 034	**15 075**	13 337	13	13	19 722
Total liabilities	**82 509**	84 528	(6)	(2)	74 437	**71 851**	71 320	(1)	1	67 343
Financial performance (%)										
RoRWA	**1.44**	1.02			0.98	**5.04**	4.36			4.16
RoA	**1.40**	0.78			0.79	**4.28**	3.84			3.52

[1] Prior period's numbers were restated as the Group updated its methodology for presenting internal treasury balances in RBB Rest of Africa. Internal treasury balances are presented as part of other assets and other liabilities and the methodology update has a consequential impact on net interest margin.

Rest of Africa Banking

for the reporting period ended

Head Office, Treasury and other operations in Rest of Africa					Total Rest of Africa Banking				
30 June				31 December	30 June				31 December
2018	2017	CCY%	Change %	2017	**2018**	2017	CCY%	Change %	2017
(4)	3	<(100)	<(100)	(4)	**5 138**	5 201	5	(1)	10 764
4	(2)	<(100)	<(100)	6	**2 427**	2 469	5	(2)	4 853
—	1	<(100)	(100)	2	**7 565**	7 670	5	(1)	15 617
(6)	—	>100	100	—	**(335)**	(638)	(46)	(47)	(1 289)
10	23	(52)	(57)	35	**(4 333)**	(4 279)	7	1	(9 000)
—	—	>100	—	(1)	**(95)**	(85)	19	12	(177)
4	24	(88)	(83)	36	**2 802**	2 668	14	5	5 151
(77)	(54)	46	43	(100)	**(905)**	(899)	9	1	(1 665)
(73)	(30)	>100	>100	(64)	**1 897**	1 769	17	7	3 486
(73)	(30)	>100	>100	(64)	**1 649**	1 531	20	8	2 972
—	—	—	—	—	**248**	238	3	4	514
(73)	(30)	>100	>100	(64)	**1 897**	1 769	17	7	3 486
(73)	(30)	>100	>100	(64)	**1 636**	1 512	20	8	2 954
n/a	n/a			n/a	**7.24**	7.13			7.18
n/a	n/a			n/a	**0.72**	1.38			1.34
n/a	n/a			n/a	**32.1**	32.2			31.1
n/a	n/a			n/a	**(1)**	(6)			(3)
n/a	n/a			n/a	**1**	(11)			(2)
n/a	n/a			n/a	**57.3**	55.8			57.6
—	2	(99)	(100)	(1)	**88 719**	78 938	9	12	77 863
11 590	12 765	(10)	(9)	10 480	**13 068**	12 943	0	1	11 892
33 614	28 084	16	20	28 371	**34 321**	28 115	18	22	28 824
(17 509)	(25 706)	(29)	(32)	(19 004)	**43 808**	50 515	(17)	(13)	44 141
27 695	15 145	85	83	19 846	**179 916**	170 511	2	6	162 720
2 261	1 474	49	53	1 640	**127 459**	119 996	3	6	108 636
829	491	67	69	351	**860**	521	64	65	379
(95)	(7 984)	(75)	(99)	(1 377)	**29 036**	29 312	(5)	(1)	33 379
2 995	(6 019)	<(100)	<(100)	614	**157 355**	149 829	2	5	142 394
n/a	n/a			n/a	**1.97**	1.91			1.77
n/a	n/a			n/a	**2.01**	1.83			1.71

Rest of Africa Banking

for the reporting period ended

Business profile

Rest of Africa Banking operates in 11 jurisdictions across the African continent outside of South Africa through 10 legal entities and 2 representative offices. Rest of Africa Banking offers a comprehensive suite of banking products and services in 4 main market segments being Retail and Business Bank, Corporate and Investment Banking.

Key segment areas

- Retail and Business Bank (RBB) Rest of Africa
- Corporate and Investment Bank (CIB) Rest of Africa
  - Corporate
  - Investment Bank
- Head Office, Treasury and other operations in Rest of Africa

Key business areas

Customers and clients across the continent are served through the following key business areas:

- Barclays Bank of Kenya
- Barclays Bank of Botswana
- Barclays Bank of Ghana
- Barclays Bank of Zambia
- National Bank of Commerce (Tanzania)
- Barclays Bank Mozambique
- Barclays Bank Uganda
- Barclays Bank Mauritius
- Barclays Bank of Tanzania
- Barclays Bank Seychelles
- Absa Namibia – Representative office
- Absa Nigeria – Representative office

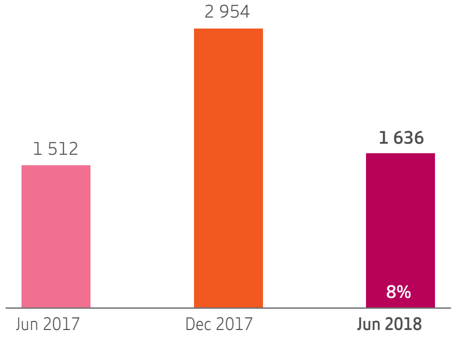
Rest of Africa Banking

for the reporting period ended

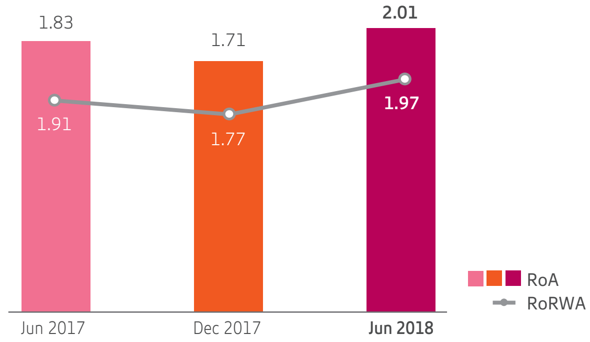
Financial performance

Headline earnings grew by **8%** (CCY: 20%) to **R1 636m** (30 June 2017: R1 512m), RBB Rest of Africa's headline earnings increased by **38%** (CCY: 54%) to **R463m** (30 June 2017: R336m) and CIB Rest of Africa's headline earnings grew by **3%** (CCY: 15%). Strong headline earnings growth and improved capital management increased return on average equity to **19.6%** (30 June 2017: 17.4%) and return on average risk weighted assets to **1.97%** (30 June 2017: 1.91%).

Headline earnings (Rm and change %)

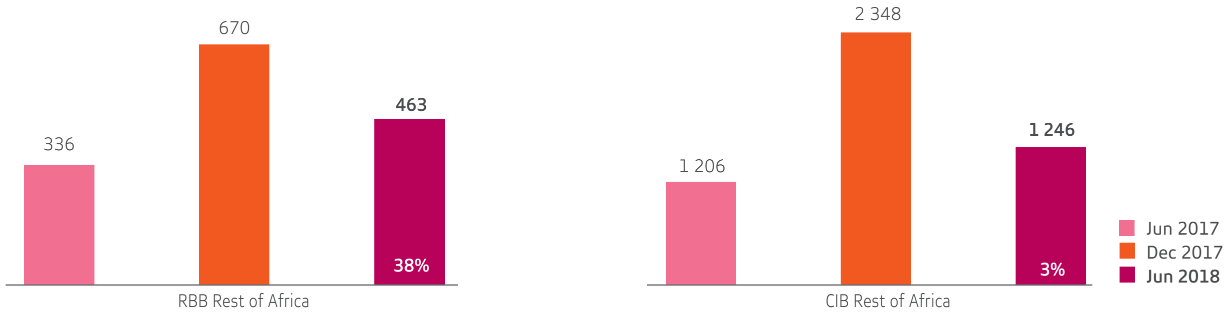


RoA and RoRWA (%)



Headline earnings by segment	30 June 2018	2017	CCY%	Change %	31 December 2017
Rest of Africa Banking (Rm)	**1 636**	1 512	20	8	2 954
RBB Rest of Africa (Rm)	**463**	336	54	38	670
CIB Rest of Africa (Rm)	**1 246**	1 206	15	3	2 348
Corporate Rest of Africa (Rm)	**940**	798	28	18	1 652
Investment Bank Rest of Africa (Rm)	**306**	408	(14)	(25)	696
Head Office, Treasury and other operations in Rest of Africa (Rm)	**(73)**	(30)	>100	>100	(64)

Headline earnings (Rm and year-on-year change %)



Rest of Africa Banking

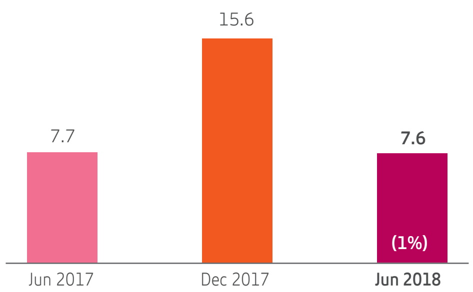
for the reporting period ended

Financial performance *(continued)*

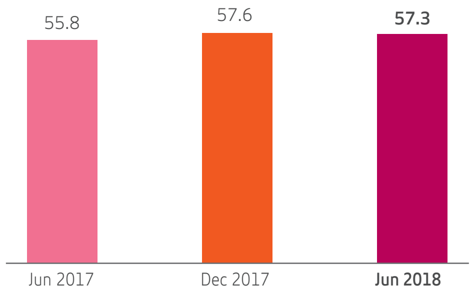
Net interest income decreased marginally (CCY: increased by 5%) to **R5 138m** (30 June 2017: R5 201m) with margins increasing by 11 basis points to **7.24%** (30 June 2017: 7.13%). CIB's net interest income declined by **2%** (CCY: increased by 4%) to **R1 911m** (30 June 2017: R1 943m). Despite margins improving to **7.35%** (30 June 2017: 6.76%) and loan growth, CIB's net interest income was negatively impacted by volatile offshore deposits resulting in negative growth on deposits due to customers. RBB Rest of Africa's net interest income declined by **1%** (CCY: increased by 5%) to **R3 231m** (30 June 2017: R3 255m). RBB Rest of Africa's **5%** net interest income growth, excluding the impact of foreign currency translation, was driven by **7%** growth in loans and advances to customers growth characterised by the application of prudent lending criteria in strained markets.

Non-interest income decreased by **2%** (CCY: increased by 5%) to **R2 427m** (30 June 2017: R2 469m). CIB Rest of Africa's non-interest income decreased by **7%** (CCY: increased by 2%) to **R1 132m** (30 June 2017: R1 214m). The negative growth in CIB Rest of Africa's non-interest income is driven by large single trades concluded in the prior year not repeated in the current year, excluding this, non–interest income improved. RBB Rest of Africa's non-interest income increased by **3%** (CCY: increased by 7%) to **R1 291m** (30 June 2017: R1 257m) driven by low volumes on lending and deposit fees, with good performance in debit card fees, insurance income and trade fees growing 22%, 21% and 17% respectively.

Income (Rbn and change %)



Cost-to-income (%)



Impairments improved by **47%** (CCY: 46%) to **R335m** (30 June 2017: R638m) resulting in an improved loan loss rate of **0.72%** (30 June 2017: 1.38%). Impairments improved across most portfolios driven by improved portfolio construct, an increased focus on collections capabilities and lower identified impairments compared to the comparative period.

The continued focus on cost containment and right sizing the business in the current economic climate, including the optimisation of branch network drove sub-inflationary underlying cost growth, despite high inflation rates in some countries, most notably Mozambique. Operating expenses were also adversely impacted by incremental costs following the Barclays separation at the end of the first half of the year. Operating expenses increased by **1%** (CCY: increased by 7%) to **R4 333m** (30 June 2017:R4 279m). This, coupled with lower revenue growth resulted in a higher cost-to-income ratio of **57.3%** (30 June 2017: 55.8%).

Loans and advances to customers grew by **12%** (CCY: 9%) to **R88.7bn** (30 June 2017: R78.9bn). CIB Rest of Africa's loans and advances grew by **14%** (CCY: 10%) to **R45.2bn** (30 June 2017: R39.7bn) with growth driven by strong local client flows as well as a reinforced regional client coverage model. RBB Rest of Africa's loans and advances grew by 11% (CCY: 7%) to **R43.5bn** (30 June 2017: R39.2bn) despite the application of prudent lending criteria in strained markets as market conditions started to improve. Commercial loans reflected robust growth of 18%, excluding the impact of foreign currency translation effects, driven by strong agricultural sector growth.

Deposits due to customers grew by **6%** (CCY: 3%) to **R127.5bn** (30 June 2017: R120.0bn). CIB Rest of Africa's deposits due to customers decreased by **2%** (CCY: 5%) to **R56.8bn** (30 June 2017: R58.0bn) driven by volatile offshore deposits. Despite this, underlying growth was achieved through sustained investment in transactional platforms and enhanced client solutions driving improved wallet share. RBB Rest of Africa's deposits due to customers increased by **13%** (CCY: 9%) to **R68.4bn** (30 June 2017: R60.5bn) as consumer strains eased following the recovery of most economies.

RBB Rest of Africa

for the reporting period ended

RBB Rest of Africa's strategic goals remain intact, with consistent performance reflective of a business that is well positioned to achieve its long-term targets.

Key performance highlights for the reporting period include:

Improved credit loss ratio of 1.53%

(30 June 2017: 2.49%).

Return on risk-weighted assets (RoRWA) improved to 1.44%

(30 June 2017: 1.02%) and return on average assets (RoA) improved to 1.40% (30 June 2017: 0.78%).

Total Retail active customers showing a 14%

increase.

Accolades received include:

- Barclays Bank of Kenya received the Asian Banker award for the deposit product of the year for the Twin Plus account;
- Barclays Bank of Kenya received the IFM International award for the most innovative digital banking product for Timiza; and
- Barclays Bank of Ghana received the Euromoney Best bank in Ghana award.

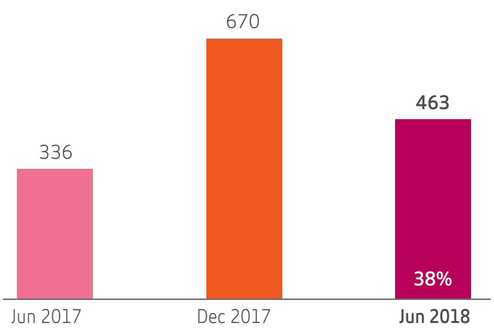
Headline earnings grew by 38%

(CCY: 54%) to R463m (30 June 2017: R336m), despite some headwinds, including increased competition for liquidity and a decline in interest rates.

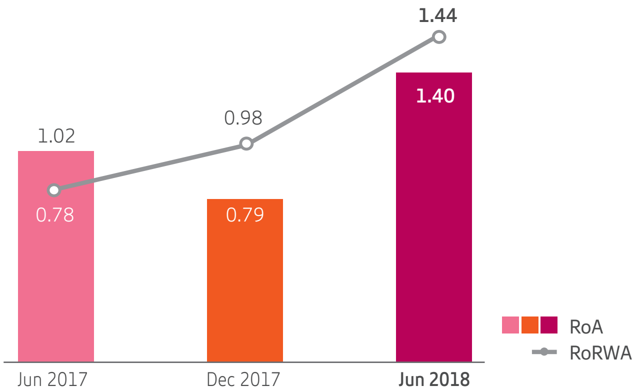
The increased competition for liquidity in some markets has resulted in increased rates being paid to attract customer deposits.

Business Banking showed lending growth of **21%** (CCY: 18%).

Headline earnings (Rm and change %)



RoA and RoRWA (%)



Salient features	30 June 2018	30 June 2017	CCY%	Change %	31 December 2017
Income (Rm)	**4 522**	4 512	6	0	9 297
Attributable earnings (Rm)	**474**	355	49	34	688
Headline earnings (Rm)	**463**	336	54	38	670
Credit loss ratio (%)	**1.53**	2.49			2.22
Cost-to-income ratio (%)	**70.5**	70.9			72.4
RoRWA (%)	**1.44**	1.02			0.98
RoA (%)	**1.40**	0.78			0.79

RBB Rest of Africa

for the reporting period ended

	RBB Rest of Africa				
	30 June				31 December
	2018	2017	CCY%	Change %	2017
Statement of comprehensive income (Rm)					
Net interest income	3 231	3 255	5	(1)	6 747
Non-interest income	1 291	1 257	7	3	2 550
Total income	4 522	4 512	6	0	9 297
Impairment losses on loans and advances	(318)	(522)	(37)	(39)	(950)
Operating expenses	(3 189)	(3 197)	5	(0)	(6 729)
Other expenses	(79)	(71)	18	11	(147)
Operating profit before income tax	936	722	42	30	1 471
Tax expenses	(351)	(296)	31	19	(580)
Profit for the reporting period	585	426	49	37	891
Profit attributable to:					
Ordinary equity holders	474	355	49	34	688
Non-controlling interest – ordinary shares	111	71	53	56	203
	585	426	49	37	891
Headline earnings	463	336	54	38	670
Operating performance (%)					
Net interest margin on average interest-bearing assets[1]	10.32	9.81			10.03
Credit loss ratio	1.53	2.49			2.22
Non-interest income as % of income	28.5	27.9			27.4
Income growth	0	(15)			(8)
Cost growth	(0)	(12)			(4)
Cost-to-income ratio	70.5	70.9			72.4
Statement of financial position (Rm)					
Loans and advances to customers	43 522	39 233	7	11	38 627
Loans and advances to banks	1	—	100	100	1
Investment securities	5	7	(37)	(29)	11
Other assets	37 462	44 463	(19)	(16)	35 416
Total assets	80 990	83 703	(7)	(3)	74 055
Deposits due to customers	68 422	60 539	9	13	59 375
Debt securities in issue	31	30	(0)	3	28
Other liabilities	14 056	23 959	(42)	(41)	15 034
Total liabilities	82 509	84 528	(6)	(2)	74 437

[1] Prior period's numbers were restated as the Group updated its methodology for presenting internal treasury balances in RBB Rest of Africa. Internal treasury balances are presented as part of other assets and other liabilities and the methodology update has a consequential impact on net interest margin.

RBB Rest of Africa

for the reporting period ended

Business profile

RBB Rest of Africa offers a comprehensive suite of retail and business banking products and services to individual and commercial customers across the region. A range of solutions are provided to meet customers' transactional, borrowing, savings, protection and investment needs. This is facilitated through branch, self-service and digital channels, supported by a relationship based model that includes a well-defined coverage model based on specific customer value propositions.

Key product/segment areas

- **Premier banking:** Represents the affluent retail segment in each market. They are offered exclusive banking with tailor-made solutions through dedicated relationship managers and Premier suites.
- **Prestige banking:** Represents the emerging affluent retail segment in each market. They are serviced through dedicated banking teams, affordable products and solutions.
- **Personal banking:** Represents the middle-market segment. They are serviced via direct channels including the branch network.
- **Small and Medium Enterprise banking (SME):** Represents business clients with an annual turnover of up to R50m. They are serviced using a direct coverage model with a predominantly branch-based interface.
- **Commercial banking:** Represents business clients with an annual turnover of between R50m and R250m. They are serviced using a relationship-based model, where dedicated sales and service teams provide customised solutions. Commercial and SME banking includes sector overlays focusing on the primary sectors of agriculture, wholesale and retail, construction, manufacturing, transport and logistics and franchising.

The primary industry sectors include agriculture, construction, manufacturing, transport and logistics, retail and franchising.

Financial performance

RBB Rest of Africa produced results that were in line with expectations in a declining interest rate and increasingly competitive environment.

Income remained largely flat (CCY: 6%) at **R4 522m** (30 June 2017: R 4 512m), impairments improved by **39%** (CCY: 37%) to **R318m** (30 June 2017: R522m) while operating expenses declined marginally (CCY: increased by 5%) to **R3 189m** (30 June 2017: R3 197m) resulting in a flat operating leverage.

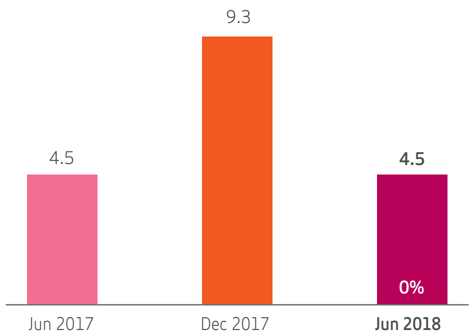
The weakening of emerging market currencies against the South African Rand has led to a significant reduction in revenue. Despite challenges in our larger Business Banking markets as a result of market forces and Regulatory limitations, on a constant currency basis revenue showed positive growth of 6%. Underlying revenue growth was achieved mainly on the back of:

- Increased focus on customers through the Customer Lifecycle Management framework;
- Offering holistic banking through an improved suite of product and services focused on specific sectors and customer types;
- Continued success in the commercial banking segment through focused relationship building;
- Introducing new customer acquisition channels which are mobile led; and
- Customer centric design to continuously improve customer experience.

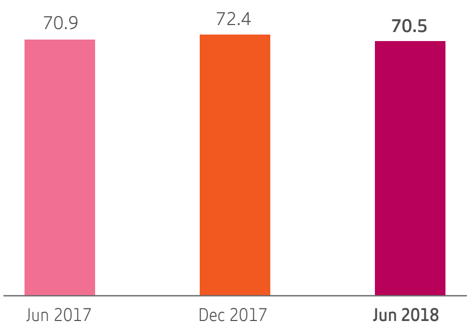
Net interest income declined by **1%** (CCY: increased by 5%) to **R3 231m** (30 June 2017: R3 255m) predominantly due to:

- Reduced customer deposit margins largely driven by falling interest rates in Botswana, Ghana, Mozambique and Tanzania;
- A more prescriptive approach to our consumer lending to employees in specific sectors such as mining in Botswana and Zambia in order to minimise the impact on impairments. To counter this and take advantage of falling interest rates in some markets we have implemented measures to target specific lending opportunities that has resulted in sales momentum growth of 29%; and
- Reduction in investment income received due to the falling Treasury bill rates in certain markets has also had a significant impact on the interest income.

Income (Rbn and change %)



Cost-to-income (%)



RBB Rest of Africa

for the reporting period ended

Financial performance *(continued)*

Non-interest income grew by **3%** (CCY: 7%) to **R1 291m** (30 June 2017: R1 257m) predominantly due to improved performances in the Cards and Payments business, Trade and working capital facilities with business clients, as well as improved performance in Bancassurance. The increased focus to drive customer awareness and education on debit card usage has contributed to an increase of 6% on point of sale spend. The Card acquiring business increased the number of active merchants by 8% driving a 7% growth in turnover, largely coming from the Government and Retail sectors and e-commerce payment channels. Our cards issuing business showed a 3% increase in cards in force, driving a 14% increase in total sales and 22% increase in fee income. Excellent performance was seen in Bancassurance through increased focus on customer penetration and increased standalone insurance sales resulting in income growth of 21%. Migration to lower fee channels has resulted in muted transactional fee income growth of 3%. ATM and the Branch network remain the top two preferred transaction channels but Internet banking and mobile banking usage has increased by 63% and 6% respectively while conventional channels (ATMs and Branch network) has reduced to account for 56% of our transactional activity (31 December 2017: 61%). Barclays Internet Retail (BIR) and Barclays Mobile Banking (BMB) has seen active customer growth of 5%. This has helped to improve our customer service levels including waiting times in our branches but has dampened fee income growth. Trade and working capital facility income increased in Business Bank by 17% driven by greater focus on client needs.

Impairments improved by **39%** (CCY: 37%) from R522m to **R318m** resulting in a credit loss ratio of **1.53%** (30 June 2017: 2,49%). This performance has resulted from improved credit and collection strategies and a relatively benign macro operating environment.

Through branch optimisation, enhanced digital capability and effective cost management, operating expenses have remained largely flat (CCY: increased by 5%) to **R3 189m** (30 June 2017: R3 197m). Sub inflation cost growth has resulted in an improvement in our cost-to-income ratio to **70.5%** from **70.9**% (30 June 2017).

Total loans and advances grew by **11%** (CCY: 7%) to **R43.5bn** (30 June 2017: R39.2bn). Key asset balance sheet highlights include the following:

- Through a combination of better customer engagement and selective lending, net consumer loans and mortgages grew by 3% and 7% respectively. This has helped improve return on assets;
- Total number of new loan bookings in the Retail segment grew by 21% with gross value growing by 29%; and
- Business Bank lending exhibited strong growth of 18% as a result of greater focus on specific sectors and clients.

Deposits due to customers grew by **13%** (CCY: 9%) to **R68.4bn** (30 June 2017: R60.5bn) despite market liquidity challenges in a number of our key markets and aggressive competitor pricing. To reduce our cost of funding, specific measures, such as enhancing our transactional offering, were taken to grow our active client base, this resulted in a 10% growth in number of active Business Bank accounts and a 15% increase in active Retail accounts.

RBB Rest of Africa

for the reporting period ended

Business performance

RBB Rest of Africa's strategic goals remain intact, with consistent performance reflective of a business that is well positioned to achieve its long-term targets.

Growth was supported by:

- Launch of a Virtual Banking proposition (Timiza) in Kenya providing customers with mobile lending and savings products, which resulted in 680 000 loan disbursements;
- Further expansion of our pre-paid card business that included the issuance of approximately 30 000 pre-paid cards to farmers in Zambia for the payment of farming materials; and co-branded card with a multi-national service station;
- Launch of purchase order finance, Business Internet Banking, improvement of enterprise development capabilities and expanding our structured trade and commodity finance in a number of our businesses in support of our customers; and
- Winning of key South African outbound clients in our payments business.

Efficiency was supported by:

- Continued growth in digital adoption by customers across a number of channels including iATM (withdrawal and deposits), Mobile Banking, POS and internet banking. Transactional volumes from mobile and internet banking grew by 15%;
- Mobile on-boarding of clients which continues to drive increased sales volumes and enhanced customer experience;
- Continued roll out of agency banking to two additional markets namely Tanzania and Uganda which helped optimise cost to serve and will increase our points of presence to facilitate greater ease for customers to transact with us; and
- Continued optimisation of the branch network to serve customers more economically and efficiently.

Looking ahead, we continue to see potential to extract greater value from our existing franchise. Our focus remains on embedding customer-centricity; delivering customer value propositions that serve business needs throughout the business lifecycle and personal needs throughout their life stages, as well as enhancing the customer's Omni-channel experience with a strong focus to becoming a digitally led bank. The strategy focuses on:

- Customer Lifecycle Management to further improve the quality of new-to-franchise customer acquisition and deepen the relationship with existing customers through enhanced digital solutions with a focus on mobile and internet banking solutions;
- Optimised branch operating model to build fit-for-purpose branches, ensuring that we are optimally positioned to serve our customers and reduce service costs;
- Continuing to embed and enhance the sector focus approach in Commercial and Small and Medium Enterprise Banking;
- Continuing to drive the retail segment with refreshed customer value propositions with particular focus on affluent customers;
- Continuing to focus on opportunities around Corporate customer ecosystems; and
- Commercialise new business opportunities such as mobile lending and payments.

CIB Rest of Africa

for the reporting period ended

CIB Rest of Africa's performance was underpinned by growth in the Corporate fee businesses, prudent lending resulting in a significant reduction in impairments on a growing asset book and double digit growth in Investment Banking revenue in the majority of our markets. This was mitigated by large single trades in Investment Banking in the prior year and muted net interest income growth in Corporate.

Key performance highlights for the reporting period include:

Headline earnings increased by 3%

(CCY: 15%) driven by the Corporate business, which was up 18% (CCY: 28%).

Underlying growth in total CIB revenue was offset by large single trades in the 2017 Markets revenue base. Inclusive of these trades, revenue was down 4% (CCY: up 3%). However Markets baseline revenue was strong and diversified across countries, with high double-digit growth in the majority of our jurisdictions, on the back of significantly higher client activity, adoption of new products and improved risk management activity.

Corporate delivered revenue growth of 7%

excluding the impact of foreign exchange translation differences and the falling interest rate environment across the continent. Net interest income decreased by 1% (CCY: up 5%) despite asset growth of 14% (CCY: 10%). Non-interest income increased by 17% (CCY: 26%) due to improved transactional platforms and a growing trade business.

Loans and advances to customers up 14%

(CCY: 10%) as a result of improved appetite in our focus sectors, increased momentum in the asset hub strategy and key deals secured in our larger markets.

Impairments declined by 91%

(CCY: 91%) on a growing asset book due to effective risk management and client on-boarding procedures and controls.

Improvement in returns with growth

in RoA and RoRWA to **4.28%** (30 June 2017: 3.84%) and **5.04%** (30 June 2017: 4.36%) respectively.

Accolades received included the following.

- Banker Africa East Africa Awards: Best Investment Bank in Tanzania; and
- EMEA Finance African Banking Awards 2017: Best IPO in Africa (Tanzania), Best Infrastructure deal (Mozambique) and Best Oil & Gas deal (Nigeria).

Markets revenue was down 14%

(CCY: 5%) due to large single trades in H1 2017 and less favourable market making conditions in Q2 in some markets. This offset the significant growth across the majority of our jurisdictions.

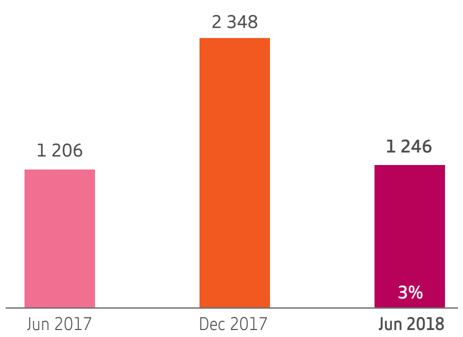
Cost growth of 4%

(CCY: 10%) due to separation-related costs, resulting in an increase in the cost-to-income ratio to **37.9%** (30 June 2017: 35.0%).

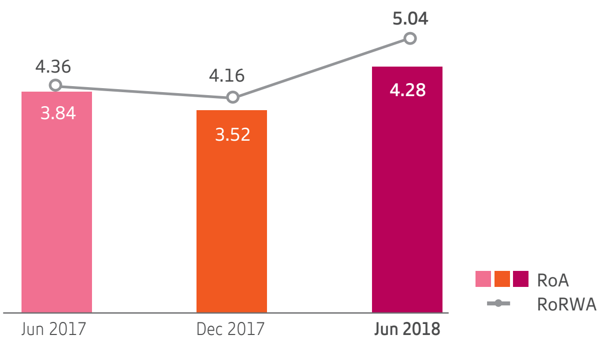
Deposits down 2% (CCY: 5%)

on prior year due to inherent volatility in our offshore liability base.

Headline earnings contribution (Rm and change %)



RoA and RoRWA (%)



CIB Rest of Africa

for the reporting period ended

	30 June				31 December
Salient features	**2018**	2017	CCY%	Change %	2017
Income (Rm)	**3 043**	3 157	3	(4)	6 318
Attributable earnings (Rm)	**1 248**	1 206	15	3	2 348
Headline earnings (Rm)	**1 246**	1 206	15	3	2 348
Credit loss ratio (%)	**0.05**	0.60			0.84
Cost-to-income ratio (%)	**37.9**	35.0			36.5
RoRWA (%)	**5.04**	4.36			4.16
RoA (%)	**4.28**	3.84			3.52

Business profile

CIB provides innovative solutions to meet clients' needs by delivering specialist investment banking, corporate transactional banking, financing, risk management and advisory products and services. Our value proposition is geared to solution clients across the various sectors and industries driving local economies. Our focus remains that of delivering shared growth through a deep understanding of our client ecosystems e.g. unlocking supply chain opportunities for SMEs by connecting them to local, regional and global corporates. This approach also enables the CIB business to create growth opportunities for colleagues and contribute towards the upliftment of local communities.

Key product/segment areas

Client relationship management provides holistic solutions to clients by leveraging our sector specialisation across Africa as well as our proven corporate and investment banking expertise in the following business areas:

- **Investment Bank comprising:**
  - Markets – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
  - Banking – structures innovative solutions to meet clients' strategic advisory, financing and risk management requirements across various sectors;
- **Corporate:** provides corporate banking solutions spanning financing and transactional banking requirements, trade and working capital, and a full suite of cash management solutions, including payments and liquidity products. These services are provided across our combined pan-African institutional and corporate client base, including public sector.

Financial performance

Corporate

Headline earnings increased by **18%** (CCY: 28%) to **R940m** (30 June 2017: R798m) on the back of underlying revenue growth, in spite of the decreasing interest rate environment, coupled with lower impairments.

	30 June				31 December
Salient features	**2018**	2017	CCY%	Change %	2017
Income (Rm)	**2 224**	2 207	7	1	4 576
Attributable earnings (Rm)	**941**	798	28	18	1 652
Headline earnings (Rm)	**940**	798	28	18	1 652
Credit loss ratio (%)	**0.05**	0.60			0.84
Cost-to-income ratio (%)	**37.5**	36.5			36.6
RoRWA (%)	**4.77**	3.53			3.57
RoA (%)	**3.44**	2.79			2.76

Financial performance *(continued)*

CIB Rest of Africa

for the reporting period ended

Corporate *(continued)*

Revenue was up **1%** (CCY: 7%) to **R2 224m** (30 June 2017: R2 207m), with net interest income down **1%** (CCY: up 5%) to **R1 917m** (30 June 2017: R1 945m). Despite an adverse interest rate environment, underlying growth was achieved on the back of good balance sheet growth.

Our focus on transactional accounts and customer growth has contributed to the **17%** (CCY: 26%) increase in non-interest income.

Impairments on loans and advances were down by **91%** (CCY: 91%) to **R11m** (30 June 2017: R116m), despite asset growth of **14%** (CCY: 10%), through improved risk management and client on-boarding procedures and controls.

Operating expenses increased by **4%** (CCY: 9%) to **R834m** (30 June 2017: R805m) resulting in negative Jaws of 3% and a slight increase in the cost-to-income ratio to **37.5%** (30 June 2017: 36.5%).

Loans and advances to customers increased by **14%** (CCY: 10%) to **R45.2bn** (30 June 2017: R39.7bn) with underlying growth driven by winning key mandates. Deposits due to customers decreased by **2%** (CCY: 5%) to **R56.8bn** (30 June 2017: R58.0bn), due to volatile offshore deposits. On an average basis, underlying growth in deposits was positive.

Investment Banking

Headline earnings decreased by **25%** (CCY: 14%) to **R306m** (30 June 2017: R408m) while income decreased by **14%** (CCY: 5%) to **R819m** (30 June 2017: R950m). The decrease was a result of large single trades in the 2017 base which have not been repeated, as well as less favourable market making conditions in the second quarter, with baseline income from client activity much improved and diversified with most of our countries recording significant double-digit growth. Improved cross-sell through intensive client engagement, adoption of new products and investment in top talent drove increased volumes and profitability in most of our countries. This was in spite of political uncertainty in a couple of markets in 2017 continuing to impact activities in the first half, regulatory interventions and unfavourable economic developments impacting our trading revenues.

	30 June				31 December
Salient features	**2018**	2017	CCY%	Change %	2017
Income (Rm)	**819**	950	(5)	(14)	1 742
Attributable earnings (Rm)	**307**	408	(14)	(25)	696
Headline earnings (Rm)	**306**	408	(14)	(25)	696
Credit loss ratio (%)	**n/a**	n/a			n/a
Cost-to-income ratio (%)	**39.1**	31.6			36.2
RoRWA (%)	**6.10**	8.08			6.85
RoA (%)	**16.72**	14.31			10.31

Operating expenses increased by **7%** (CCY: 12%) to **R320m** (30 June 2017: R300m) as a result of the incremental costs following the Barclays separation. This resulted in negative Jaws of 21% and an increase in the cost-to-income ratio to **39.1%** (30 June 2017: 31.6%).

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CIB Rest of Africa

for the reporting period ended

	Corporate				
	30 June				31 December
	2018	2017	CCY%	Change %	2017
Statement of comprehensive income (Rm)					
Net interest income	**1 917**	1 945	5	(1)	3 999
Non-interest income	**307**	262	26	17	577
Total income	**2 224**	2 207	7	1	4 576
Impairment losses on loans and advances	**(11)**	(116)	(91)	(91)	(339)
Operating expenses	**(834)**	(805)	9	4	(1 676)
Other operating expenses	**(13)**	(10)	39	30	(21)
Operating profit before income tax	**1 366**	1 276	15	7	2 540
Tax expenses	**(333)**	(353)	1	(6)	(655)
Profit for the reporting period	**1 033**	923	21	12	1 885
Profit attributable to:					
Ordinary equity holders	**941**	798	28	18	1 652
Non-controlling interest – ordinary shares	**92**	125	(26)	(26)	233
	1 033	923	21	12	1 885
Headline earnings	**940**	798	28	18	1 652
Operating performance (%)					
Net interest margin on average interest-bearing assets	**7.02**	6.77			6.65
Credit loss ratio	**0.05**	0.60			0.84
Non-interest income as % of income	**13.8**	11.9			12.6
Income growth	**1**	7			10
Operating expenses growth	**4**	(7)			1
Cost-to-income ratio	**37.5**	36.5			36.6
Statement of financial position (Rm)					
Loans and advances to customers	**45 197**	39 703	10	14	39 237
Loans and advances to banks	**(1)**	126	<(100)	<(100)	120
Investment securities	**569**	3	>100	>100	430
Other assets	**15 629**	23 439	(35)	(33)	18 476
Total assets	**61 394**	63 271	(6)	(3)	58 263
Deposits due to customers	**56 773**	57 983	(5)	(2)	47 621
Other liabilities	**4 989**	4 898	(1)	2	9 393
Total liabilities	**61 762**	62 881	(5)	(2)	57 014

Investment Bank					CIB Rest of Africa				
30 June				31 December	30 June				31 December
2018	2017	CCY%	Change %	2017	**2018**	2017	CCY%	Change %	2017
(6)	(2)	<(100)	>100	22	**1 911**	1 943	4	(2)	4 021
825	952	(5)	(13)	1 720	**1 132**	1 214	2	(7)	2 297
819	950	(5)	(14)	1 742	**3 043**	3 157	3	(4)	6 318
—	—	—	—	—	**(11)**	(116)	(91)	(91)	(339)
(320)	(300)	12	7	(630)	**(1 154)**	(1 105)	10	4	(2 306)
(3)	(4)	(20)	(25)	(8)	**(16)**	(14)	21	14	(29)
496	646	(14)	(23)	1 104	**1 862**	1 922	6	(3)	3 644
(144)	(196)	(20)	(27)	(330)	**(477)**	(549)	(6)	(13)	(985)
352	450	(11)	(22)	774	**1 385**	1 373	10	1	2 659
307	408	(14)	(25)	696	**1 248**	1 206	15	3	2 348
45	42	8	7	78	**137**	167	(18)	(18)	311
352	450	(11)	(22)	774	**1 385**	1 373	10	1	2 659
306	408	(14)	(25)	696	**1 246**	1 206	15	3	2 348
n/a	n/a			n/a	**7.35**	6.76			6.58
n/a	n/a			n/a	**0.05**	0.60			0.84
100.8	100.2			98.7	**37.2**	38.5			36.4
(14)	13			(2)	**(4)**	9			7
7	(2)			10	**4**	(6)			3
39.1	31.6			36.2	**37.9**	35.0			36.5
—	—	—	—	—	**45 197**	39 703	10	14	39 237
1 478	52	>100	>100	1 291	**1 477**	178	>100	>100	1 411
133	21	>100	>100	12	**702**	24	>100	>100	442
8 226	8 319	2	(1)	9 253	**23 855**	31 758	(25)	(25)	27 729
9 837	8 392	20	17	10 556	**71 231**	71 663	(3)	(1)	68 819
3	—	>100	100	—	**56 776**	57 983	(5)	(2)	47 621
10 086	8 439	22	20	10 329	**15 075**	13 337	13	13	19 722
10 089	8 439	22	20	10 329	**71 851**	71 320	(1)	1	67 343

CIB Rest of Africa

for the reporting period ended

Business performance

Corporate

The underlying business performed well over the period, with revenue up **7%** excluding the impact of foreign currency translation differences, in spite of the declining interest rate environment which impacted margins. A marked improvement in our fee business was also noted.

Contributors to growth included the following:

- Intensified focus on pipeline conversion and cross-sell opportunities;
- Improvements in our transactional banking platforms post separation projects enabling us to enhance our client solutions;
- Key hires in our Trade and Transactional Services businesses to drive our new products and strategic channels across the continent;
- Additional focus on client engagement to ensure a smooth transition after separation and as we prepare to rebrand across Africa in the next two years; and
- Refinements to our coverage and product model subsequent to the group restructuring, focusing on achieving improved synergy between our teams across the continent and our centre of excellence, in particular with regard to Global Corporates and the South African outbound portfolio.

Factors that adversely affected the business during the period:

- Political and economic uncertainty in some countries which dampened Corporate investment and transaction growth;
- A falling interest rate environment across the continent which impacted deposit inflows and resulted in margin compression;
- Significant investment of resources in separation projects;
- Delays in materialisation of certain big deals due to changing client requirements and early repayments by some key clients;
- Increasing Libor rates resulting in reduced demand for USD loans in some jurisdictions; and
- Liquidity issues in certain markets put pressure on margins.

Looking ahead, we will focus on the following strategic objectives:

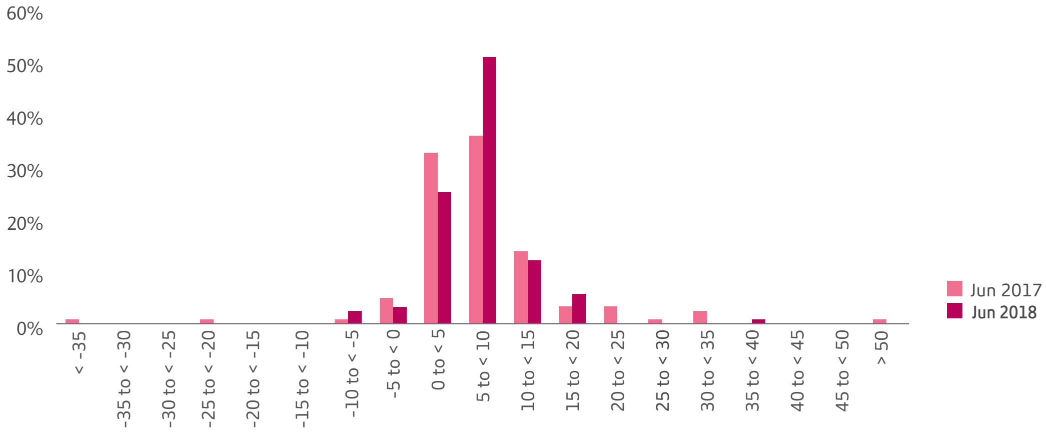
- Continued development of our Commercial Property Finance, Resource Project Finance and Structured Trade Commodity Finance propositions to capture growing opportunities in these markets across the continent;
- Ensuring our teams are adequately resourced and up-skilled to maximise opportunities in specialised markets;
- Capitalising on our asset hub strategy by capturing ancillary revenue while servicing clients' funding requirements;
- Leveraging our African network to facilitate the regional expansion of our key clients, while also building international capabilities to capture opportunities with Global Corporates looking to invest in Africa;
- Developing solutions for client eco-systems to maximise revenue opportunities and increase cross-sell of products across the bank
- Refining our African coverage model to focus on key sectors and build our expertise as sector specialists across Africa; and
- Continued roll-out of our enhanced digital channels to increase efficiency and enhance the client experience.

Business performance *(continued)*

Investment Banking *(continued)*

Revenue decreased by **14%** (CCY: 5%) to **R819m** (30 June 2017: R950m) due to large single trades concluded in the prior year not repeated in the current year. Excluding this portfolio, revenue grew by 31%, with exceptional growth in the majority of our jurisdictions, marking a successful diversification of the business away from reliance on our largest markets.

Daily markets income distribution (%)



Favourable factors contributing to this performance included the following:

- Significant key client deals and improved trading activity resulting from investment in top talent;
- Expansion of the bond trading business across the region;
- Intensive client engagement and competitive pricing enabling us to on-board new customers and increase cross-sell, thereby growing volumes and market share;
- Improved engagement with clients regarding our risk management products driving growth in hedging transactions;
- Effective management of currency and interest rate volatility; and
- Digital migration to the BARX trading platform resulting in improved operational efficiency and service delivery.

Adverse factors included:

- Political uncertainty in some countries continued to impact the market in H1 resulting in fewer large ticket deals as well as subdued revenue opportunity on the fixed income book;
- Regulatory interventions by central banks in certain countries also negatively impacted our trading activity; and
- Some stress macroeconomic developments impacted the bond markets in certain countries which negatively affected our fixed income trading books.

Looking ahead, we will focus strategic initiatives to achieve the following:

- Continued build-out of our markets capabilities and product suite to provide a full service offering to clients;
- Improved foreign exchange booking capabilities and turnaround times;
- Strengthening our origination capabilities and embarking on transformative transactions for clients in our markets;
- Delivery of enhanced channels and solutions to continually increase our effectiveness and improve the client experience of our products and services;
- Refining the coverage and product framework to enable us to increase market penetration and wallet share; and
- Ongoing investment in talent and development of our people to ensure we have a superior team to take the business forward.

WIMI

for the reporting period ended

WIMI's headline earnings grew by 5% to R646m (30 June 2017: R616m). Key features of our results were:

▲ Continued lines of business increased 8%

▲ ROE improving to 22.5%

(30 June 2017: 20.3%).

▲ Embedded value of new business increased 19%

▲ Assets under management increasing from June 2017

▲ Short-term insurance underwriting margin improving to 5.4%

(30 June 2017: -1.4%).

▼ Margin compression in Investment cluster

▼ Deferred tax unwinding

due to utilisation of assessed loss in Life South Africa.

Salient features	30 June 2018	30 June 2017[1]	Change %	31 December 2017[1]
Headline earnings (Rm)	**646**	616	5	1 231
Gross operating income (Rm)	**3 455**	3 106	11	6 261
Cost-efficiency ratio (%)	**33.6**	37.2		36
Combined ratio (%)	**94.6**	101.4		100.2
Assets under management and administration (Rbn)	**319**	295	8	335
Embedded value of new business (EVNB) (Rm)	**270**	226	19	599
Return on embedded value (%)	**26.6**	32.1		33.5
RoE (%)	**22.5**	20.3		20.8

Business profile

Wealth, Investment Management and Insurance (WIMI) is the integrated non-banking financial services provider of the Group and other partners across the continent, including life insurance, short-term insurance, investment management, retirement and fiduciary services. It provides advice-led investment, credit and banking solutions to high-net-worth clients, retail solutions to individual bank clients and institutional propositions to corporate and business clients. WIMI's well-established partnership model with the bank is based on close collaboration and integration, delivering broad-based financial solutions for the Group's customers.

Key business areas

- **Life Insurance** – offers life insurance, covering death, disability and retrenchment, as well as funeral and investment products.
- **Wealth and Investments** – consists of the following clusters, which operate on a collaborative basis to offer individual and institutional clients access to high quality wealth and investment products and solutions:
  - **Investment cluster** offers investment management, multi-management, unit trusts and linked investments products and solutions to individual and institutional clients.
  - **Wealth management cluster** provides advice-led private client asset management, risk management, structured lending and stockbroking solutions to the wealth segment of the market.
- **Short-term Insurance** – provides short-term insurance solutions to the retail and commercial market segments. A direct-to-client short-term solution, Absa idirect, is also available to the retail market.
- **Fiduciary Services** – consists of estate administration, trust services and employee benefit businesses. The employee benefit business offers individual retirement fund administration, health care consulting and actuarial services. Absa Trust administers deceased estates and provides trustee services for personal, family, charitable and employee benefit trusts.
- **Distribution** – one of the larger financial, wealth, investment and risk advisory companies in South Africa. It provides the full spectrum of financial advisory services and acts as an intermediary between the Group's customers, clients and other product providers.
- **Other** – includes WIMI's head office shareholder investment portfolios, consolidation entries, holding companies as well as allocated shareholder overhead expenses.

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

WIMI

for the reporting period ended

Operating environment

The promulgation of the Financial Services Regulation Act is the first step in South Africa's adoption of the Twin Peaks regulatory model which seeks to promote a more proactive and integrated approach to finance regulation, with less reliance on prescriptive laws and more focus on overarching broad based outcomes which corporate entities must demonstrate they are achieving. The above changes have significant impact on both the Group and WIMI with both regulators now jointly accountable from a regulatory, supervision, licensing perspective together with conglomerate oversight. In addition, this change also impacts the alignment and a co-ordinated approach to regulatory engagements across the Group.

From a market conduct perspective, the Retail Distribution Review (RDR) has set out some far-reaching reforms to the regulatory framework, for distributing retail financial products to customers, with some key milestones scheduled over the course of 2018. WIMI continues to progress well in this regard and has met the relevant RDR compliance milestones and is on track for the further changes that will come into effect.

Business performance

Our ambition is to be the leading provider of integrated non-banking financial services across Africa, delivering integrated customer value propositions in order to achieve the growth ambitions as set out in the Group strategy. Our main effort remains gathering assets under management and growing premium income through the protection of client assets, enabled by a scalable digitally led business.

We continue to make progress to execute against these areas, with key highlights being:

- We continued to accelerate our efforts to **gather and retain Assets under Management** (AuM), resulting in an 8% growth in assets under management on a year-on-year basis. We have had success with our Absa Virtual Advisers team, which was critical in supporting our asset retention efforts, resulting in R680m of assets retained through this channel. The strategic intent is to scale this capability by increasing the number of advisers.
- In our efforts to **grow premium income**, we have improved our life insurance strike rates on unsecured products and seen growth in our funeral and embedded offerings and also implemented risk-based pricing, deep analytics and the utilisation of machine learning algorithms in our leads generation activities in our life and short-term insurance offerings. The lending momentum in RBB is also improving and supporting our growth. As a result, we have seen premium growth of 7% and our underlying underwriting margin has improved to **7.9%** (30 June 2017: 3.7%) (excluding the impact of catastrophic events).
- Our operations in the **Rest of Africa** have continued to improve profitability following the implementation of best practice standards in their operating models and targeted portfolio remediation actions resulting in an improvement in the headline loss to **R36m** (30 June 2017: R43m loss).
- In **building on our partnership relationship with RBB**, our combined efforts to improve the interlock and sales through Retail Bank branch channels continued to deliver strong results with sales increasing by circa 220% year on year. Key highlights include progress in the sale of digital bancassurance products with funeral and credit policies now available on the mobile application, increase in unit trust uptake through redeeming Absa rewards.
- The process to implement a Financial Adviser Value Proposition by simplifying the remuneration structure for advisers and developing both the Retirement and Associate models has been completed and we have seen stabilisation of our distribution force. We have also continued strong performance in Direct Delivery (telephony and digital channels), showing good growth year on year.
- Our unwavering work to place the customer at the centre of everything we do, has resulted in a Net Promoter Score of **39%** (30 June 2017: 34%).
- The One View Programme that provides us with a single view of the customer which was pioneered by WIMI is in the process of becoming a Group wide capability. It helps significantly in our retention efforts and provides **better data insights** into providing the customer with a better experience with us.
- We have enhanced our omni-channel offering, while diversifying from face-to-face to **digital platforms** through the Virtual Investor, allowing customers unfamiliar with a choice to access savings and investments solutions in a non-intrusive, easy-to-use platform. Our strategic intent of scaling our Virtual Adviser has gained momentum and enabled the retention of **R680m** of assets under management and improved strike rates in select customer offerings.

WIMI

for the reporting period ended

Business performance (continued)

- The sale of the Short-term intermediated Commercial and Industrial lines business to PSG Konsult Limited was completed in June 2018, while the sale of the Personal Lines brokerage business is in the process of finalisation with an expected effective date of sale to PSG Konsult Limited in Q4 of 2018.
- We also concluded the sale of our Employee Benefits business in Q2 of the current year. This is in line with our efforts to re-focus our business on core and scalable lines.
- We are pleased to have been awarded with the following **accolades for 2018:**
  - Our Wealth Advisory business has achieved the following rankings during the 2018 Euromoney Private Banking and Wealth Management Survey:
    - Number 1 for Super Affluent Clients across sub-Saharan Africa
    - Number 1 for Social Impact Investing
    - Number 2 for Family Office Services
    - Number 2 for High Net Worth Clients across sub-Saharan Africa
    - Number 2 for Ultra High Net Worth Clients across sub-Saharan Africa
    - Number 3 for International Clients
  - Absa Trust Company won top honours at the Batseta Imbasa Yegolide award ceremony in the category of 'Trust and Beneficiary Fund Administrator of the Year'.
  - The Absa Asset Management and Multi-Management teams won the following accolades at the Raging Bull Awards:
    - The Absa Property Equity Fund won the Raging Bull accolade for top performer on the basis of risk adjusted returns for a five-year period (fourth year in a row) and the certificate for top performance by a domestic collective investment scheme, Best South African Real Estate Fund.
    - The Absa Multi Managed Bond Fund won the Raging Bull Award in the ASISA South African Interest Bearing Variable Term Category. This is the third time that the Absa Multi-Managed Investment team has achieved this honour in the last four years.
  - Our Distribution business has for the second year running achieved the accolade of Gold Award for Best Contact Centre Medium (In-house) during the World Contact Centre Awards for Europe, Middle East and Africa.

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WIMI

for the reporting period ended

	Life Insurance				Wealth and Investment Management			
	30 June			31 December	30 June			31 December
	2018 Rm	2017[1] Rm	Change %	2017[1] Rm	2018 Rm	2017[1] Rm	Change %	2017[1] Rm
Statement of comprehensive income								
Net insurance premium income	**1 744**	1 577	11	3 330	**—**	—	—	—
Net insurance claims and benefits paid	**(637)**	(557)	14	(1 166)	**—**	—	—	—
Investment income								
Policyholder investment contracts	**441**	804	(45)	2 099	**—**	—	—	—
Policyholder insurance contracts	**2**	28	(93)	238	**—**	—	—	—
Changes in investment and insurance contract liabilities								
Policyholder investment contracts	**(320)**	(744)	(57)	(1 967)	**—**	—	—	—
Policyholder insurance contracts	**99**	87	14	(40)	**—**	—	—	—
Other income[2]	**45**	12	>100	36	**787**	799	(2)	1 473
Gross operating income	**1 374**	1 207	14	2 530	**787**	799	(2)	1 473
Net commission paid by insurance companies[2]	**(405)**	(380)	7	(813)	**—**	—	—	2
Operating expenses	**(299)**	(301)	(1)	(588)	**(529)**	(497)	6	(1 029)
Other expenses	**(64)**	(45)	42	(91)	**(3)**	(3)	—	(5)
Net operating income	**606**	481	26	1 038	**255**	299	(15)	441
Investment income on shareholder funds	**33**	51	(35)	104	**24**	30	(20)	53
Shareholder expenses	**—**	—	—	—	**—**	—	—	—
Taxation expense	**(248)**	(121)	>100	(299)	**(78)**	(93)	(16)	(146)
Profit for the period	**391**	411	(5)	843	**201**	236	(15)	348
Headline earnings	**396**	414	(4)	835	**198**	234	(15)	343
Note (Rm)								
Investment income								
Policyholder investment contracts	**441**	804	(45)	2 099	**—**	—	—	—
Net interest income	**423**	494	(14)	1 035	**—**	—	—	—
Dividend income	**136**	130	5	295	**—**	—	—	—
Fair value gains	**(118)**	180	<(100)	769	**—**	—	—	—
Policyholder insurance contracts	**2**	28	(93)	238	**—**	—	—	—
Net interest income	**59**	52	13	105	**—**	—	—	—
Dividend income	**7**	7	—	12	**—**	—	—	—
Fair value gains	**(64)**	(31)	>100	121	**—**	—	—	—
Shareholder funds	**33**	51	(35)	104	**24**	30	(20)	53
Net interest income	**33**	23	43	50	**21**	27	(22)	46
Dividend income	**9**	11	(18)	20	**—**	—	—	—
Fair value gains/(losses)	**(9)**	17	<(100)	34	**3**	3	—	7
Total	**476**	883	(46)	2 441	**24**	30	(20)	53
Net interest income	**515**	569	(9)	1 190	**21**	27	(22)	46
Dividend income	**152**	148	3	327	**—**	—	—	—
Fair value gains/(losses)	**(191)**	166	<(100)	924	**3**	3	—	7

	30 June			31 December
Net fee and commission income (Rm)	2018 Rm	2017 Rm	Change %	2017 Rm
Employee benefit-related fees	**81**	164	(51)	332
Investment management and related fees	**641**	653	(2)	1 295
Net commission from distribution business	**209**	207	1	444
Net commission paid by insurance companies[3]	**(639)**	(597)	7	(1 254)
Trust and estate income	**167**	172	(3)	355
Other	**9**	35	(74)	89
Total	**468**	634	(26)	1 261

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.
[2] Includes impairment losses on loans and advances.
[3] Includes internal commission, eliminated on consolidation.

Short-term Insurance				Fiduciary and Distribution Services				Other			
30 June			31 December	30 June			31 December	30 June			31 December
2018 Rm	2017 Rm	Change %	2017 Rm	2018 Rm	2017 Rm	Change %	2017 Rm	2018 Rm	2017[1] Rm	Change %	2017[1] Rm
1 590	1 549	3	3 018	**—**	—	—	—	**—**	—	—	—
(1 016)	(1 092)	(7)	(2 053)	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**(103)**	(143)	(28)	16
24	28	(14)	54	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**103**	143	(28)	(16)
—	—	—	—	**—**	—	—	—	**—**	—	—	—
37	67	(45)	117	**414**	383	8	805	**44**	1	>100	—
635	552	15	1 136	**414**	383	8	805	**44**	1	>100	—
(234)	(219)	7	(444)	**—**	2	(100)	1	**—**	—	—	—
(248)	(273)	(9)	(497)	**(341)**	(322)	6	(672)	**(71)**	(136)	(48)	(224)
(8)	(51)	(84)	(104)	**(5)**	(5)	—	(9)	**(3)**	(2)	50	(8)
145	9	>100	91	**68**	58	17	125	**(30)**	(137)	(78)	(232)
71	57	25	145	**42**	41	2	70	**28**	31	(10)	68
—	—	—	—	**—**	—	—	—	**(225)**	(162)	39	(343)
(79)	(19)	>100	(69)	**(19)**	(24)	(21)	(48)	**68**	69	(1)	125
137	47	>100	167	**91**	75	21	147	**(159)**	(199)	(20)	(382)
143	66	>100	233	**58**	75	(23)	155	**(159)**	(199)	(20)	(382)
—	—	—	—	**—**	—	—	—	**(103)**	(143)	(28)	16
—	—	—	—	**—**	—	—	—	**9**	2	>100	2
—	—	—	—	**—**	—	—	—	**25**	33	(24)	72
—	—	—	—	**—**	—	—	—	**(137)**	(178)	(23)	(58)
24	28	(14)	54	**—**	—	—	—	**—**	—	—	—
24	28	(14)	54	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
—	—	—	—	**—**	—	—	—	**—**	—	—	—
71	57	25	145	**42**	41	2	70	**28**	31	(10)	68
65	45	44	130	**42**	41	2	70	**7**	7	—	12
2	7	(71)	9	**—**	—	—	—	**—**	—	—	—
4	5	(20)	6	**—**	—	—	—	**21**	24	(13)	56
95	85	12	199	**42**	41	2	70	**(75)**	(112)	(33)	84
89	73	22	184	**42**	41	2	70	**16**	9	78	14
2	7	(71)	9	**—**	—	—	—	**25**	33	(24)	72
4	5	(20)	6	**—**	—	—	—	**(116)**	(154)	(25)	(2)

Segment report per geographical segment

	South Africa				Rest of Africa			
	30 June			31 December	30 June			31 December
	2018 Rm	2017[1] Rm	Change %	2017[1] Rm	2018 Rm	2017 Rm	Change %	2017 Rm
Statement of comprehensive income (Rm)								
Net insurance premium income	**2 946**	2 700	9	5 498	**388**	426	(9)	850
Net insurance claims and benefits paid	**(1 476)**	(1 448)	2	(2 881)	**(180)**	(201)	(10)	(354)
Gross operating income	**3 202**	2 824	13	5 670	**253**	282	(10)	591
Operating expenses	**(1 365)**	(1 426)	(4)	(2 875)	**(186)**	(239)	(22)	(399)
Net operating income	**1 210**	771	57	1 536	**(29)**	(34)	(15)	(22)
Profit for the reporting period	**795**	622	28	1 166	**(36)**	(27)	33	5
Headline earnings	**682**	659	3	1 212	**(36)**	(43)	(16)	19

Total Continuing Business Lines				Terminating business lines				Total WIMI			
30 June			31 December	30 June			31 December	30 June			31 December
2018 Rm	2017[1] Rm	Change %	2017[1] Rm	2018 Rm	2017[1] Rm	Change %	2017[1] Rm	2018 Rm	2017[1] Rm	Change %	2017[1] Rm
3 334	3 126	7	6 348	**—**	—	—	—	**3 334**	3 126	7	6 348
(1 653)	(1 649)	(0)	(3 219)	**(3)**	—	100	(16)	**(1 656)**	(1 649)	(0)	(3 235)
338	661	(49)	2 115	**—**	—	—	—	**338**	661	(49)	2 115
26	56	(54)	292	**—**	1	(100)	1	**26**	57	(54)	293
(217)	(601)	(64)	(1 983)	**—**	—	—	—	**(217)**	(601)	(64)	(1 983)
99	87	14	(40)	**—**	—	—	—	**99**	87	14	(40)
1 327	1 262	5	2 431	**204**	163	25	332	**1 531**	1 425	7	2 763
3 254	2 942	11	5 944	**201**	164	23	317	**3 455**	3 106	11	6 261
(639)	(597)	7	(1 254)	**—**	—	—	—	**(639)**	(597)	7	(1 254)
(1 488)	(1 529)	(3)	(3 010)	**(63)**	(136)	(54)	(264)	**(1 551)**	(1 665)	(7)	(3 274)
(83)	(106)	(22)	(217)	**(1)**	(1)	—	(2)	**(84)**	(107)	(21)	(219)
1 044	710	47	1 463	**137**	27	>100	51	**1 181**	737	60	1 514
198	210	(6)	440	**2**	7	(71)	13	**200**	217	(8)	453
(225)	(162)	39	(343)	**—**	—	—	—	**(225)**	(162)	39	(343)
(356)	(188)	89	(437)	**(41)**	(9)	>100	(16)	**(397)**	(197)	>100	(453)
661	570	16	1 123	**98**	25	>100	48	**759**	595	28	1 171
636	590	8	1 184	**10**	26	(62)	47	**646**	616	5	1 231
338	661	(49)	2 115	**—**	—	—	—	**338**	661	(49)	2 115
432	496	(13)	1 037	**—**	—	—	—	**432**	496	(13)	1 037
161	163	(1)	367	**—**	—	—	—	**161**	163	(1)	367
(255)	2	<(100)	711	**—**	—	—	—	**(255)**	2	<(100)	711
26	56	(54)	292	**—**	1	(100)	1	**26**	57	(54)	293
83	80	4	159	**—**	1	(100)	1	**83**	81	2	160
7	7	—	12	**—**	—	—	—	**7**	7	—	12
(64)	(31)	>100	121	**—**	—	—	—	**(64)**	(31)	>100	121
198	210	(6)	440	**2**	7	(71)	13	**200**	217	(8)	453
168	143	17	308	**—**	—	—	—	**168**	143	17	308
11	18	(39)	29	**—**	—	—	—	**11**	18	(39)	29
19	49	(61)	103	**2**	7	(71)	13	**21**	56	(63)	116
562	927	(39)	2 847	**2**	8	(75)	14	**564**	935	(40)	2 861
683	719	(5)	1 504	**—**	1	(100)	1	**683**	720	(5)	1 505
179	188	(5)	408	**—**	—	—	—	**179**	188	(5)	408
(300)	20	<(100)	935	**2**	7	(71)	13	**(298)**	27	<(100)	948

Total WIMI			
30 June			31 December
2018 Rm	2017[1] Rm	Change %	2017[1] Rm
3 334	3 126	7	6 348
(1 656)	(1 649)	(0)	(3 235)
3 455	3 106	11	6 261
(1 551)	(1 665)	(7)	(3 274)
1 181	737	60	1 514
759	595	28	1 171
646	616	5	1 231

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WIMI

for the reporting period ended

	30 June			31 December
	2018 Rm	2017[1] Rm	Change %	2017[1] Rm
Statement of financial position				
Assets				
Cash balances and loans and advances to banks[2]	**2 774**	2 371	17	2 602
Non-current assets held for sale	**7**	233	(97)	153
Investment securities[2]	**367**	408	(10)	386
Financial assets backing investment and insurance liabilities				
Policyholder Investment contracts	**30 536**	29 854	2	30 511
Cash balances and loans and advances to banks	**2 023**	1 555	30	1 984
Investment securities	**28 513**	28 299	1	28 527
Policyholder Insurance Contracts	**3 783**	3 545	7	3 750
Cash balances and loans and advances to banks	**863**	874	(1)	904
Investment securities	**2 033**	1 849	10	1 994
Reinsurance assets	**887**	822	8	852
Shareholder funds	**4 271**	3 979	7	3 867
Cash balances and loans and advances to banks	**1 859**	1 705	9	1 482
Investment securities	**2 412**	2 274	6	2 385
Other assets[3]	**9 389**	10 471	(10)	9 139
Property and equipment	**329**	285	15	289
Total assets	**51 456**	51 146	1	50 697
Liabilities				
Non-current liabilities held for sale	**7**	114	(94)	48
Liabilities under investment contracts	**30 568**	29 936	2	30 607
Policyholder liabilities under insurance contracts	**4 459**	4 245	5	4 268
Other liabilities	**10 884**	11 298	(4)	10 544
Other liabilities[3]	**10 738**	11 191	(4)	10 448
Other liabilities relating to investment contracts	**146**	107	36	96
Deferred tax liabilities	**72**	127	(43)	176
Total liabilities	**45 990**	45 720	1	45 643
Equity				
Capital and reserves	**5 288**	5 257	1	4 879
Non-controlling interest	**178**	169	5	175
Total equity	**5 466**	5 426	1	5 054
Total liabilities and equity	**51 456**	51 146	1	50 697

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.
[2] Non-insurance-related balances.
[3] Other assets and liabilities include settlement account balances in Absa Stockbrokers (Pty) Ltd as well as loans and advances to customers and deposits due to customers relating to the Wealth Banking portfolio.

WIMI

for the reporting period ended

Reconciliation with Group	30 June 2018 WIMI Rm	Inter-segment elimination Rm	Other[1] Rm	Group Rm
Statement of financial position (Rm)[2]				
Investment securities				
Investment linked to investment contracts	28 513	(9 319)	—	19 194
Policyholder liabilities under insurance contract	4 459	(54)	165	4 570
Statement of comprehensive income (Rm)[2]				
Net insurance premium income	3 334	(82)	213	3 465
Net insurance claims and benefit paid	(1 656)	1	(86)	(1 741)
Gains and losses from investment activities – net gains on investments from insurance activities – policyholder investment contracts	338	(340)	—	(2)

Reconciliation with Group	30 June 2017 WIMI Rm	Inter-segment elimination Rm	Other[1] Rm	Group Rm
Statement of financial position (Rm)[2]				
Investment securities				
Investment linked to investment contracts	28 299	(9 168)	—	19 131
Policyholder liabilities under insurance contract	4 245	(29)	48	4 264
Statement of comprehensive income (Rm)[2]				
Net insurance premium income	3 126	(44)	168	3 250
Net insurance claims and benefit paid	(1 649)	3	(45)	(1 691)
Gains and losses from investment activities – net gains on investments from insurance activities – policyholder investment contracts	661	(502)	—	159

Reconciliation with Group	31 December 2017 WIMI Rm	Inter-segment elimination Rm	Other[1] Rm	Group Rm
Statement of financial position (Rm)[2]				
Investment securities				
Investment linked to investment contracts	28 527	(9 591)	—	18 936
Policyholder liabilities under insurance contract	4 268	(136)	210	4 342
Statement of comprehensive income (Rm)[2]				
Net insurance premium income	6 348	(100)	350	6 598
Net insurance claims and benefit paid	(3 235)	—	(99)	(3 334)
Gains and losses from investment activities – net gains on investments from insurance activities – policyholder investment contracts	2 115	(971)	—	1 144

[1] Consists of Absa Manx Insurance Company and Woolworths Financial Services.
[2] Debit amounts are disclosed as positive, credit amounts are disclosed as negative.

WIMI

for the reporting period ended

Cost-efficiency ratio – WIMI	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm	Where included in Group's statement of comprehensive income
Income	**5 283**	4 909	8	10 036	Net fee and commission income; other operating income; net interest income.
Gross premium income	**3 806**	3 517	8	7 233	Net insurance premium income
Net commission from distribution business	**156**	169	(8)	355	Net fee and commission income
Non-insurance-related income[2]	**754**	832	(9)	1 684	Net fee and commission income
Banking-related income	**119**	137	(13)	282	Net fee and commission income
Other income	**448**	254	76	482	Net fee and commission income; other operating income; net interest income
Operating expenses	**1 776**	1 827	(3)	3 617	Operating expenses
Cost-efficiency ratio (%)	**33.6**	37.2	(10)	36.0	

Reconciliation of WIMI non-interest income to Group	30 June 2018 Rm	30 June 2017[1] Rm	Change %	31 December 2017[1] Rm	Where included in Group's statement of comprehensive income
Aforementioned income	**5 283**	4 909	8	10 036	
Net commission paid by insurance companies	**(639)**	(597)	7	(1 254)	Net fee and commission income
Reinsurance premiums	**(472)**	(391)	21	(885)	Net insurance premium income
Net insurance claims and benefits paid	**(1 656)**	(1 649)	(0)	(3 235)	Net claims and benefits paid on insurance contracts
Changes in investment and insurance contract liabilities	**(118)**	(514)	(77)	(1 943)	Changes in investment and insurance contract liabilities
Gains and losses from investments activities	**564**	935	(40)	2 861	Gains and losses from investment activities
Other income	**1**	(2)	<(100)	(80)	Other operating income
Banking-related income	**(119)**	(137)	(13)	(282)	Net interest income
Non-interest income	**2 844**	2 554	11	5 218	

1 These numbers have been restated, refer to the reporting changes overview on the inside front cover.
2 Fee income relating to employee benefits, trust, estate and portfolio management fees.

Financial performance

Life insurance

Africa Life insurance net premium income increased by 11% to **R1 744m** (30 June 2017: R1 577), while headline earnings reflected a decrease of R18m to **R396m**. New business volumes increased year on year by 16% due to a significant increase in branch sales in South Africa. Overall EVNB (Embedded Value of New Business) grew by 19%, this was driven by the South African business where EVNB grew 25% year on year. Operating expenses declined 1% year on year at R299m, mainly attributed to tight cost control in the Rest of Africa. The embedded value of the Pan African Life businesses now exceeds R5.8bn, a 14% increase year on year.

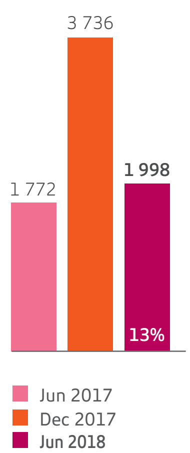
South Africa Life

Headline earnings for the **South African Life** business decreased by 4% mainly due to the unwinding of the deferred tax asset recognised in 2016. Net premium income increased by 11% to **R1 510m** (30 June 2017: R1 362) due to growth in standalone products, Group schemes, embedded cover and Instant Life (online, direct products). The realisation of the bancassurance opportunity has contributed to growth in standalone new business combined with strong lending momentum resulting in embedded value of new business increasing 25% year on year. In the 2018 year Absa Life changed its accounting policy with regards to the discretionary margin. In accordance with the revised policy, negative liabilities will still be eliminated, to avoid the premature recognition of profits, however such elimination is only applied to the excess remaining after adjusting for the product's initial acquisition costs. The change in accounting policy has been applied retrospectively to the extent practicable, and comparatives restated accordingly. This resulted in an additional R32m in headline earnings in 2017 and R34m in 2018. Further details on the change in accounting policy are provided in the 'Reporting changes' section of this report.

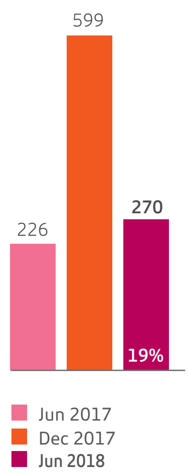
Rest of Africa Life

Improved credit life sales and tight cost control offset by higher Group Life claims in Mozambique led to headline earnings for **Rest of Africa Life** remaining flat at R6m. EVNB decreased from R15m to R7m, mainly due to lower standalone new business sales in some territories and revised cost of capital basis applied in Kenya.

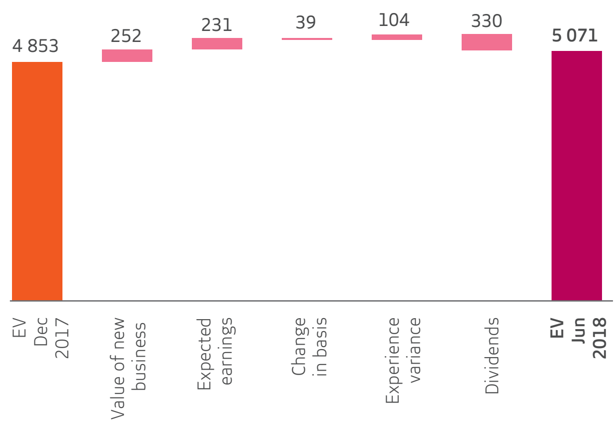
Gross premium income (Rm and change %)



Value of new business (Rm and change %)



Embedded value (Absa Life)[1] (Rm)



[1] The embedded value waterfall graph reflects information pertaining to Absa Life South Africa, while the table under 'Salient Features' reflects information relating to Pan Africa.

WIMI

for the reporting period ended

Financial performance (continued)

Life insurance (continued)

Salient features – Pan Africa Life insurance[1]	30 June 2018	30 June 2017	Change %	31 December 2017
Shareholders' net assets (Rm)	**1 705**	1 422	20	1 414
Cost of solvency capital (Rm)	**(328)**	(245)	34	(275)
Value of business in force (Rm)	**4 427**	3 934	13	4 413
Embedded value (Rm)	**5 804**	5 111	14	5 552
Embedded value earnings (Rm)	**690**	724	(5)	1 620
Return on embedded value (%)	**26.6**	32.1	(17)	33.5
Return on embedded value (excluding impact of acquired earnings) (%)	**26.6**	32.1		33.5
EVNB (Rm)	**270**	226	19	599
Value of new business as a percentage of the present value of future premiums (%) (gross)	**8.7**	9.3		10.1

Wealth and Investments

Wealth and Investment Management achieved headline earnings of **R198m** (30 June 2017: R234m).

Investment Cluster

Group assets under management grew by 8% to **R319bn** (30 June 2017: R295bn) and year-to-date net outflows of R12bn resulted predominantly from Alternative Asset Management funds within derivatives products. The lower assets under management combined with continued margin compression from customers moving into lower fee structure products has resulted in a decline in revenue and a 19% decline in headline earnings.

The assets under management reported below represents a consolidated view of Group assets under management. The reported assets include the assets held through the ETF joint venture with CIB.

Salient features – Investment cluster	30 June 2018	30 June 2017	Change %	31 December 2017
Headline earnings (Rm)	**170**	211	(19)	390
Net flows (Rbn) – Group	**(12.4)**	6.0	<(100)	37.4
Money market	**0.1**	(0.5)	<(100)	4.8
Non-money market – retail	**2.4**	(0.5)	<(100)	7.2
Non-money market – institutional	**(14.9)**	7.0	<(100)	25.4
Net assets under management and administration (Rbn) – Group	**319**	295	8	335

Salient features	30 June 2018	30 June 2017	Change %	31 December 2017
Assets under management and administration (Rbn) – Group	**319**	295	8	335
ETF	**24**	31	(23)	28
Money market	**67**	63	6	66
Non-money market	**236**	209	13	249
Intra-segment eliminations	**(8)**	(8)	—	(9)
Alternative asset management and exchange-traded funds (Rbn)	**80**	81	(1)	94
Deceased estates	**3**	3	—	3
Other	**26**	24	8	32
Portfolio management	**25**	29	(14)	26
Trusts	**4**	4	—	4
Unit trusts	**181**	154	18	175
Total	**319**	295	8	335

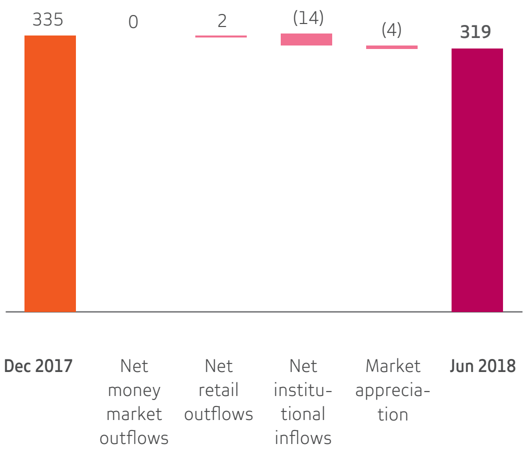
[1] The embedded value waterfall graph reflects information pertaining to Absa Life South Africa, while the table under 'Salient Features' reflects information relating to Pan Africa.

Financial performance (continued)

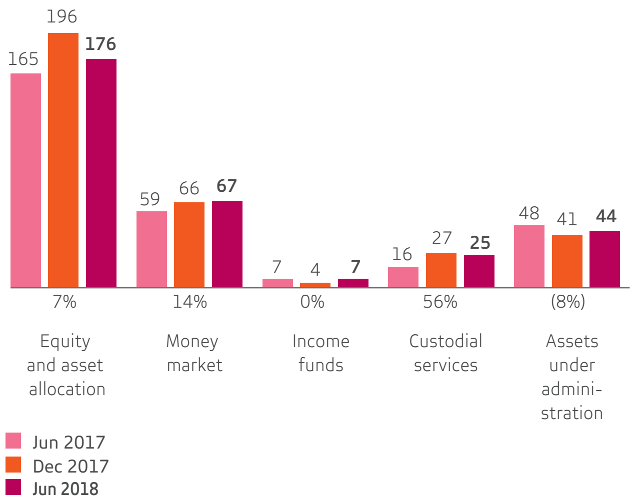
Wealth and Investments (continued)

Investment Cluster (continued)

Movement in assets under management and administration (Rbn)



Composition of assets under management and administration (Rbn and change %)



Wealth Management

Headline earnings for the Wealth Management cluster increased 22% to **R28m** (30 June 2017: R23m) as a result of higher non-interest revenue and impairment recoveries partially offset by a decline in net interest income from lower client deposit balances. Non-interest revenue increased by 15%, mainly due to higher credit fees, investment income and brokerage fees. Overall, the cluster has grown its profit before tax by 17% year on year.

	30 June			31 December
Salient features – Wealth management cluster	**2018**	2017	Change %	2017
Headline earnings (Rm)	**28**	23	22	(49)
Net income (Rm)	**245**	250	(2)	508
Net interest income	**119**	140	(15)	280
Non-interest revenue	**126**	110	15	228
Credit impairments (Rm)	**18**	(3)	<(100)	(120)
Average loans and advances to customers (Rbn)	**5.1**	5.5	(7)	5.0
Client assets (Rbn)	**5.1**	4.9	4	5.2

WIMI

for the reporting period ended

Financial performance (continued)

Short-term Insurance

Africa Short-term Insurance achieved headline earnings of **R143m** (30 June 2017: R66m) increasing 117% on the previous reporting period. Net insurance premium income increased by 3%, while underwriting margin improved to **5.4%** (30 June 2017: -1.4%). The improvement in underwriting margins can largely be attributed to improved loss ratios as a result of portfolio management actions and claims cost containment initiatives.

South Africa Short-term insurance

Headline earnings for the South African business improved by 102% to **R168m** (30 June 2017: R83m). Underwriting margins have increased to **9.8%** (2017: 2.2%). This is largely as a result of focused portfolio management actions, including the implementation of best practice pricing methodology, sound underwriting practices and specific claims cost containment initiatives across the business. Results have also benefited from less severe catastrophic events as compared to prior year. The underwriting margin excluding these catastrophe events is a healthy **12.5%** (2017: 7.2%).

Net insurance premium income increased by 7% to **R1 437m** (30 June 2017: R1 338m). The increase in premiums is largely attributable to pricing interventions, particularly in the home owners and idirect businesses as well as growth in new business.

Rest of Africa Short-term insurance

Operations in the Rest of Africa reported a 47% decline in headline earnings to **R25m** (30 June 2017: R17m). Headline earnings deterioration was impacted by worsening claims experience in Kenya as well as continued revenue pressure considering market conditions in Kenya and Mozambique. The loss ratio worsened to **65%** (30 June 2017: 63%) due to the impact of the worsening claims experience in Kenya that offset the favourable impact of portfolio management actions taken across the short-term estate.

	30 June			31 December
Salient features – Africa Short-term insurance	**2018**	2017[2]	Change %	2017[2]
Headline earnings (Rm)	**143**	66	>100	233
Net premium income (Rm)	**1 590**	1 549	3	3 018
Underwriting margin (%)[1]	**5.4**	(1.4)		(0.2)
Loss ratio (%)	**64**	71		69

Fiduciary Services and Distribution

Absa Trust continued to be a significant cash-generating business and reported a R3m decrease in headline earnings to **R49m**, (30 June 2017: R52m). Absa Trust is the biggest standalone Trust company in the market. A return on equity of 97% was achieved and the business delivered attractive returns in line with our target range. Revenue from the Trust division decreased by 10%, while Estate revenue increased by 8% year on year as a result of additional estate distributions. Expenditure growth was flat due to reduction in headcount. The focus of Fiduciary Services is to maximise its contribution to the Group through executing cross-sell opportunities and enhancing Group value created from customer/client relationships. The business continued to generate net new assets under management from cross-sell opportunities of **R787m** (30 June 2017: R715m). The total assets under management book contribution to the Group amounts to R9bn.

Employee Benefits business was sold during the period due to not being core to the bancassurance model. The financial information related to this business is included in the terminating lines segment of this report. The contractual profit from the sale of the business for the period amounts to R122m. The Employee Benefits business has not achieved the required scale and the transaction will allow us to focus on our core drivers of growth, being the gathering of assets under management and growing premium income. In addition, through the third-party partnership we will obtain access to the Group Life insurance customer base and scale assets under management.

Distribution

Distribution generated value to our product houses in the form of **R4.5bn** gross asset inflows (R3.9bn in 2017) into Wealth and Investment Management funds (on Absa Linked Investments), R128m of embedded value to Life Insurance from new policies (10% up on prior year). Commission contribution from advisers within continuing operations achieved year-on-year growth of 7% showing strong productivity, on the back of a stabilising adviser footprint. Total net revenue was also supported by continuing growth delivered in our direct distribution business.

[1] Underwriting margins are reported before adjusting for the once-off systems impairments.

[2] Results and ratios have been restated to exclude commercial lines intermediated business now reported with agricultural crop business reported under ‘Terminating lines of business’.

Financial performance (continued)

Distribution (continued)

Salient features: Fiduciary Services & Distribution	30 June 2018	30 June 2017	Change %	31 December 2017
Headline earnings (Rm)	**58**	75	(23)	155
Average value of estates distributed (R'000)	**1 707**	1 521	12	1 151
Net assets under management (Rbn)	**12.8**	12.5	2	13.1
Third party	**3.5**	3.8	(8)	3.7
Investments	**9.3**	8.7	7	9.4

Other

Other includes WIMI's head office consolidation entries, shareholder expenses and shareholder investment portfolio.

Headlines earnings improved by 20% to a loss of **R159m** (30 June 2017: R199m loss) mainly due to higher other income related to once-off profit on sale of an investment.

Looking ahead

Crafting a winning bancassurance and wealth model is a key pillar in the strategy to restore leadership in the Group's core businesses. To this end, and as we continue to drive our main effort of gathering assets under management and growing premium income through the protection of client assets, we will continue to focus on the following strategic priorities:

- Implement and embed an integrated bancassurance delivery model with RBB to provide customers with seamless access to superior solutions and the fulfilment of their needs in a holistic way. This will be enabled by:
  - Creating integrated client facing units;
  - Integrated Distribution access for customers;
  - Providing pricing benefits for clients with multiple insurance and investment products; and
  - Continued integration of Insurance and Investment products into the Group's Rewards programme.
- Improve market visibility, leveraging on the new Absa brand and its promise to position as more than a bank and attract new customers;
- Attract and retain top talent as a high performance organisation, living the WIMI culture of 'owning it', 'doing it' and 'taking account' as we entrench being 'Brave, Passionate and Ready';
- Continue to focus on transformation and diversity through effective talent, succession and leadership pipeline, as well as recruitment;
- Extract value from our investments in customer, data and digital capabilities as we transform our business to be digitally led and more customer-centric than ever before;
- Optimise technology to drive operational efficiencies and automation through the use of robotics and upgrading of core platform environments;
- Continue to execute our actions to deliver growth and returns in Rest of Africa, leveraging improved collaboration and integration with in-country banks and our Insurance centres of excellence;
- Conclude projects to de-couple from Barclays Plc, including embedding our refreshed international Wealth proposition; and
- Drive a robust risk and control environment.

IFRS Group performance

Condensed consolidated IFRS salient features

for the reporting period

	30 June 2018	30 June 2017	Change %	31 December 2017
Statement of comprehensive income (Rm)				
Income[1]	**37 630**	36 369	3	73 395
Operating expenses	**22 198**	20 498	8	43 304
Profit attributable to ordinary equity holders	**7 253**	7 423	(2)	13 888
Headline earnings[1]	**7 324**	7 650	(4)	14 378
Statement of financial position				
Loans and advances to customers (Rm)[2]	**783 116**	728 985	7	749 772
Total assets (Rm)	**1 234 643**	1 137 876	9	1 165 979
Deposits due to customers (Rm)	**714 491**	696 362	3	689 867
Loans to deposits and debt securities ratio (%)	**91.6**	87.1		90.6
Financial performance (%)				
Return on equity (RoE)	**13.9**	16.2		14.2
Return on average assets (RoA)	**1.26**	1.38		1.27
Return on risk-weighted assets (RoRWA)	**2.00**	2.18		2.00
Stage 3 loans and gross loans and advances	**5.31**	n/a		n/a
Non-performing loans (NPL) ratio on gross loans and advances	**n/a**	3.73		3.75
Operating performance (%)				
Net interest margin on average interest-bearing assets[3]	**4.75**	4.81		4.83
Credit loss ratio on gross loans and advances to customers and banks	**0.83**	0.96		0.87
Non-interest income as percentage of total income	**43.2**	42.7		41.9
Cost-to-income ratio	**59.0**	56.4		59.0
Jaws	**(5)**	(6)		(7)
Effective tax rate	**28.7**	28.0		28.1
Share statistics (million)				
Number of ordinary shares in issue	**847.8**	847.8		847.8
Number of ordinary shares in issue (excluding treasury shares)	**831.8**	847.1		832.8
Weighted average number of ordinary shares in issue[1]	**832.0**	833.8		833.7
Diluted weighted average number of ordinary shares in issue[1]	**834.4**	834.0		833.8
Share statistics (cents)				
Headline earnings per ordinary share (HEPS)[1]	**880.3**	917.5	(4)	1 724.5
Diluted headline earnings per ordinary share (DHEPS)[1]	**877.8**	917.3	(4)	1 724.2
Basic earnings per ordinary share (EPS)[1]	**871.9**	890.3	(2)	1 665.7
Diluted basic earnings per ordinary share (DEPS)[1]	**869.4**	890.0	(2)	1 665.5
Dividend per ordinary share relating to income for the reporting period	**490**	475	3	1 070
Dividend cover (times)	**1.8**	1.9	(5)	1.6
NAV per ordinary share[1]	**12 829**	12 654	1	12 811
Tangible NAV per ordinary share[1]	**12 075**	12 215	(1)	12 373
Capital adequacy (%)				
Absa Group Limited	**16.7**	16.1		16.1
Absa Bank Limited	**17.9**	17.4		16.9
Common Equity Tier 1 (%)				
Absa Group Limited	**13.3**	13.7		13.5
Absa Bank Limited	**13.5**	14.1		13.4

[1] These numbers have been restated, refer to the report overview on the inside cover page.

[2] Current year figures have been prepared in accordance with IFRS 9 reporting standards, while comparatives (2017) had been prepared in accordance with IAS 39 reporting standards.

[3] Net interest margin for comparative prior periods have been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing, under the previous policy these assets were classified as non-interest bearing.

Condensed consolidated IFRS statement of comprehensive income

for the reporting period

	Note	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Net interest income		**21 363**	20 837	3	42 644
Interest and similar income[2]		**43 481**	42 938	1	85 929
Effective interest income		**43 131**	42 341	2	84 656
Other interest income		**350**	597	(41)	1 273
Interest expense and similar charges[2]		**(22 118)**	(22 101)	(0)	(43 285)
Effective interest expense		**(22 118)**	(21 896)	1	(43 285)
Other interest expense		**—**	(205)	(100)	—
Non-interest income		**16 267**	15 532	5	30 751
Net fee and commission income		**10 991**	10 618	4	21 711
Fee and commission income		**12 604**	12 084	4	24 724
Fee and commission expense		**(1 613)**	(1 466)	10	(3 013)
Net insurance premium income		**3 465**	3 250	7	6 598
Net claims and benefits incurred on insurance contracts		**(1 741)**	(1 694)	3	(3 334)
Changes in investment and insurance contract liabilities[1]		**(114)**	(513)	(78)	(2 023)
Gains and losses from banking and trading activities	3.5	**3 097**	3 104	(0)	5 246
Gains and losses from investment activities		**243**	448	(46)	1 905
Other operating income	3.7	**326**	319	2	648
Total income		**37 630**	36 369	3	73 395
Impairment losses		**(3 431)**	(3 773)	(9)	(7 022)
Operating income before operating expenditure		**34 199**	32 596	5	66 373
Operating expenditure	5	**(22 198)**	(20 498)	8	(43 304)
Other expenses		**(964)**	(1 120)	(14)	(2 270)
Other impairments		**(184)**	(376)	(51)	(648)
Indirect taxation	6	**(780)**	(744)	5	(1 622)
Share of post-tax results of associates and joint ventures		**56**	79	(29)	170
Operating profit before income tax		**11 093**	11 057	0	20 969
Taxation expense[1]	7	**(3 189)**	(3 093)	3	(5 882)
Profit for the reporting period		**7 904**	7 964	(1)	15 087
Profit attributable to:					
Ordinary equity holders[1]		**7 253**	7 423	(2)	13 888
Non-controlling interest – ordinary shares		**379**	361	5	789
Non-controlling interest – preference shares		**176**	180	(2)	362
Non-controlling interest – Additional Tier 1 capital		**96**	—	100	48
		7 904	7 964	(1)	15 087
Earnings per share:					
Basic earnings per share (cents)	1	**871.9**	890.3	(2)	1 724.5
Diluted earnings per share (cents)	1	**869.4**	890.0	(2)	1 724.2

1 These numbers have been restated, refer to the report overview on the inside cover page.

2 An amendment was made to IAS 1 Presentation of Financial Statements, which is effective from 1 January 2018. The amendment requires interest and similar income which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. The Group has elected to apply the same approach in presenting 'interest expense and similar charges' to achieve consistency.

Condensed consolidated IFRS statement of comprehensive income

for the reporting period

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Profit for the reporting period[1]	**7 904**	7 964	(1)	15 087
Other comprehensive income				
Items that will not be reclassified to profit or loss	**3**	(31)	<(100)	(179)
Fair value gain on equity instruments measured at FVOCI	**2**	—	100	—
Movement of liabilities designated at FVTPL due to changes in own credit risk	**5**	(26)	<(100)	(147)
Fair value losses	**(45)**	(26)	73	(147)
Deferred tax	**50**	—	100	—
Movement in retirement benefit fund assets and liabilities	**(4)**	(5)	(20)	(32)
Decrease in retirement benefit surplus	**(6)**	(6)	—	(91)
Decrease in retirement benefit deficit	**1**	2	(50)	45
Deferred tax	**1**	(1)	<(100)	14
Items that are or may be subsequently reclassified to profit or loss	**2 016**	(414)	<(100)	(1 328)
Movement in foreign currency translation reserve	**2 373**	(675)	<(100)	(2 219)
Differences in translation of foreign operations	**2 373**	(623)	<(100)	(2 271)
Release to profit or loss	**—**	(52)	(100)	52
Movement in cash flow hedging reserve	**(588)**	518	<(100)	794
Fair value (losses)/gains	**(737)**	874	<(100)	1 465
Amount removed from other comprehensive income and recognised in profit or loss	**(80)**	(157)	(49)	(365)
Deferred tax	**229**	(199)	<(100)	(306)
Movement in fair value of debt instruments measured at FVOCI/Movement in available-for-sale reserve	**231**	—	100	—
Fair value gains/(losses)	**332**	—	100	—
Release to profit or loss	**3**	—	100	—
Deferred tax	**(104)**	—	100	—
Movement in available-for-sale reserve	**—**	(257)	(100)	98
Fair value (losses)/gains	**—**	(349)	(100)	154
Release to profit or loss	**—**	18	(100)	67
Deferred tax	**—**	74	(100)	(123)
Total comprehensive income for the reporting period	**9 923**	7 519	32	13 580
Total comprehensive income attributable to:				
Ordinary equity holders[1]	**8 940**	7 068	26	12 654
Non-controlling interest – ordinary shares	**711**	271	>100	516
Non-controlling interest – preference shares	**176**	180	(2)	362
Non-controlling interest – Additional Tier 1 capital	**96**	—	100	48
	9 923	7 519	32	13 580

[1] These numbers have been restated, refer to the report overview on the inside cover page.

Condensed consolidated IFRS statement of financial position

as at

	Note	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Assets					
Cash, cash balances and balances with central banks		**48 578**	45 078	8	48 669
Investment securities		**127 437**	115 834	10	111 409
Loans and advances to banks		**62 843**	63 451	(1)	55 426
Trading portfolio assets		**124 982**	101 554	23	132 183
Hedging portfolio assets		**2 325**	2 278	2	2 673
Other assets		**37 974**	36 091	5	20 960
Current tax assets		**1 018**	536	90	314
Non-current assets held for sale		**79**	2 601	(97)	1 308
Loans and advances to customers		**783 116**	728 985	7	749 772
Reinsurance assets		**905**	814	11	892
Investments linked to investment contracts		**19 194**	19 131	0	18 936
Investments in associates and joint ventures		**1 217**	1 144	6	1 235
Investment properties		**420**	268	57	231
Property and equipment		**15 752**	15 044	5	15 303
Goodwill and intangible assets		**6 392**	3 714	72	5 377
Deferred tax assets		**2 411**	1 353	78	1 291
Total assets		**1 234 643**	1 137 876	9	1 165 979
Liabilities					
Deposits from banks		**88 466**	49 290	79	67 390
Trading portfolio liabilities		**67 697**	42 564	59	64 047
Hedging portfolio liabilities		**1 339**	1 478	(9)	1 123
Other liabilities		**42 775**	38 082	12	31 744
Provisions		**2 558**	1 974	30	3 041
Current tax liabilities		**309**	—	100	57
Non-current liabilities held for sale		**7**	114	(94)	48
Deposits due to customers		**714 491**	696 362	3	689 867
Debt securities in issue		**140 782**	140 192	0	137 948
Liabilities under investment contracts		**30 546**	29 918	2	30 585
Policyholder liabilities under insurance contracts[1]		**4 570**	4 264	7	4 342
Borrowed funds		**21 448**	15 963	34	15 895
Deferred tax liabilities[1]		**136**	1 178	(88)	634
Total liabilities		**1 115 124**	1 021 379	9	1 046 721
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	11	**1 663**	1 694	(2)	1 666
Share premium	11	**10 850**	12 868	(16)	10 498
Retained earnings[1]		**90 148**	87 965	2	92 080
Other reserves		**6 100**	4 750	28	4 370
		108 761	107 277	1	108 614
Non-controlling interest – ordinary shares		**4 614**	4 576	1	4 500
Non-controlling interest – preference shares		**4 644**	4 644	—	4 644
Non-controlling interest – Additional Tier 1 capital		**1 500**	—	100	1 500
Total equity		**119 519**	116 497	3	119 258
Total liabilities and equity		**1 234 643**	1 137 876	9	1 165 979

[1] These numbers have been restated, refer to the report overview on the inside cover page.

Condensed consolidated IFRS statement of changes in equity

for the reporting period

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Restated balance at the end of the previous reporting period[1]	832 838	1 666	10 498	92 080	4 370	779
Impact of adopting new accounting standards at 1 January 2018						
IFRS 9	—	—	—	(4 106)	(95)	—
IFRS 15	—	—	—	(44)	—	—
Adjusted balance at the beginning of the reporting period	832 838	1 666	10 498	87 930	4 275	779
Total comprehensive income	—	—	—	7 255	1 685	—
Profit for the period	—	—	—	7 253	—	—
Other comprehensive income	—	—	—	2	1 685	—
Dividends paid during the reporting period	—	—	—	(4 962)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Shares issued	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(236)	(42)	—	—
Elimination of the movement in treasury shares held by Group entities	(1 097)	(3)	352	—	—	—
Movement in share-based payment reserve	—	—	236	—	107	—
Transfer from share-based payment reserve	—	—	236	—	(236)	—
Value of employee services	—	—	—	—	371	—
Deferred tax	—	—	—	—	(28)	—
Movement in general credit-risk reserve	—	—	—	24	(24)	(24)
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(1)	1	—
Share of post-tax results of associates and joint ventures	—	—	—	(56)	56	—
Balance at the end of the reporting period	831 741	1 663	10 850	90 148	6 100	755

[1] These numbers have been restated, refer to the report overview on the inside cover page.

30 June 2018

Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – additional Tier 1 capital Rm	Total equity Rm
445	650	431	6	837	1 222	108 614	4 500	4 644	1 500	119 258
(22)	—	—	—	—	(73)	(4 201)	(131)	—	—	(4 332)
—	—	—	—	—	—	(44)	—	—	—	(44)
423	650	431	6	837	1 149	104 369	4 369	4 644	1500	114 882
227	(588)	2 046	—	—	—	8 940	711	176	96	9 923
—	—	—	—	—	—	7 253	379	176	96	7 904
227	(588)	2 046	—	—	—	1 687	332	—	—	2 019
—	—	—	—	—	—	(4 962)	(466)	(176)	—	(5 604)
—	—	—	—	—	—	—	—	—	(96)	(96)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	(278)	—	—	—	(278)
—	—	—	—	—	—	349	—	—	—	349
—	—	—	—	107	—	343	—	—	—	343
—	—	—	—	(236)	—	—	—	—	—	—
—	—	—	—	371	—	371	—	—	—	371
—	—	—	—	(28)	—	(28)	—	—	—	(28)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	1	—	—	—	—	—	—	—
—	—	—	—	—	56	—	—	—	—	—
650	62	2 477	7	944	1 205	108 761	4 614	4 644	1 500	119 519

Condensed consolidated IFRS statement of changes in equity

for the reporting period

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Balance as reported at the end of the previous reporting period	846 675	1 693	4 467	81 604	5 293	757
Restatement owing to change in life insurance accounting policy	—	—	—	134	—	—
Restated balance at the beginning of the reporting period	846 675	1 693	4 467	81 738	5 293	757
Total comprehensive income	—	—	—	7 392	(324)	—
Profit for the period	—	—	—	7 423	—	—
Other comprehensive income	—	—	—	(31)	(324)	—
Dividends paid during the reporting period	—	—	—	(4 832)	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(525)	26	—	—
Elimination of the movement in treasury shares held by Group entities	395	1	(14)	—	—	—
Movement in share-based payment reserve	—	—	525	—	(268)	—
Transfer from share-based payment reserve	—	—	525	—	(525)	—
Value of employee services	—	—	—	—	276	—
Deferred tax	—	—	—	—	(19)	—
Movement in general credit-risk reserve	—	—	—	30	(30)	(30)
Share of post-tax results of associates and joint ventures	—	—	—	(79)	79	—
Disposal of non-controlling interest[1]	—	—	—	—	—	—
Barclays separation[2]	—	—	8 415	3 690	—	—
Restated balance at the end of the reporting period	847 070	1 694	12 868	87 965	4 750	727

[1] The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

[2] As part of its divestment, Barclays PLC contributed R12.1bn in recognition of the investments required for the group to separate from Barclays PLC, the majority of this contribution meet the definition of a transaction with a shareholder and in terms of IAS 1 Presentation of Financial statements, was recognised in equity on the date that the Group became entitled to the contribution.

30 June 2017

Available-for-sale reserves Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Total equity Rm
377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	102 280
—	—	—	—	—	—	134	—	—	134
377	(144)	2 353	6	892	1 052	93 191	4 579	4 644	102 414
(313)	518	(529)	—	—	—	7 068	271	180	7 519
—	—	—	—	—	—	7 423	361	180	7 964
(313)	518	(529)	—	—	—	(355)	(90)	—	(445)
—	—	—	—	—	—	(4 832)	(243)	(180)	(5 255)
—	—	—	—	—	—	(499)	—	—	(499)
—	—	—	—	—	—	(13)	—	—	(13)
—	—	—	—	(268)	—	257	(8)	—	249
—	—	—	—	(525)	—	—	(8)	—	(8)
—	—	—	—	276	—	276	—	—	276
—	—	—	—	(19)	—	(19)	—	—	(19)
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	79	—	—	—	—
—	—	—	—	—	—	—	(23)	—	(23)
—	—	—	—	—	—	12 105	—	—	12 105
64	374	1 824	6	624	1 131	107 277	4 576	4 644	116 497

Condensed consolidated IFRS statement of changes in equity

for the reporting period

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Balance as reported at the end of the previous reporting period	846 675	1 693	4 467	81 604	5 293	757
Restatement owing to change in life insurance accounting policy	—	—	—	134	—	—
Restated balance at the beginning of the reporting period	846 675	1 693	4 467	81 738	5 293	757
Total comprehensive income	—	—	—	13 714	(1 060)	—
Profit for the period	—	—	—	13 888	—	—
Other comprehensive income	—	—	—	(174)	(1 060)	—
Dividends paid during the reporting period	—	—	—	(8 821)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(741)	12	—	—
Elimination of the movement in treasury shares held by Group entities	(13 837)	(27)	(2 385)	—	—	—
Movement in share-based payment reserve	—	—	742	—	(55)	—
Transfer from share-based payment reserve	—	—	742	—	(742)	—
Value of employee services	—	—	—	—	655	—
Deferred tax	—	—	—	—	32	—
Movement in general credit risk reserve	—	—	—	(22)	22	22
Share of post-tax results of associates and joint ventures	—	—	—	(170)	170	—
Disposal of non-controlling interest[1]	—	—	—	—	—	—
Barclays separation[2]	—	—	8 415	3 690	—	—
Barclays separation – Empowerment Trust[3]	—	—	—	1 891	—	—
Shareholder contribution – fair value of investment[4]	—	—	—	48	—	—
Restated balance at the end of the reporting period	832 838	1 666	10 498	92 080	4 370	779

1 The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

2 As part of the disinvestment, Barclays PLC contributed R12.1bn in recognition of the investments required for the Group to separate from Barclays PLC. The contribution meets the definition of a transaction with a shareholder.

3 As part of the separation, Barclays PLC contributed cash of R 1 891m to the independent Absa Empowerment Trust to allow for its subsidiary to purchase 12 716 260 BAGL shares (1.5%) in the furtherance of the Group's objective of establishing a broad-based black empowerment structure. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital.

4 CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound Sterling (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

5 The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) on 12 September 2022 subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

31 December 2017

Available-for-sale reserves Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – additional Tier 1 capital[5] Rm	Total equity Rm
377	(144)	2 353	6	892	1 052	93 057	4 579	4 644	—	102 280
—	—	—	—	—	—	134	—	—	—	134
377	(144)	2 353	6	892	1 052	93 191	4 579	4 644	—	102 414
68	794	(1 922)	—	—	—	12 654	516	362	48	13 580
—	—	—	—	—	—	13 888	789	362	48	15 087
68	794	(1 922)	—	—	—	(1 234)	(273)	—	—	(1 507)
—	—	—	—	—	—	(8 821)	(567)	(362)	—	(9 750)
—	—	—	—	—	—	—	—	—	(48)	(48)
—	—	—	—	—	—	—	—	—	1 500	1 500
—	—	—	—	—	—	(729)	—	—	—	(729)
—	—	—	—	—	—	(2 412)	—	—	—	(2 412)
—	—	—	—	(55)	—	687	(4)	—	—	683
—	—	—	—	(742)	—	—	—	—	—	—
—	—	—	—	655	—	655	(4)	—	—	651
—	—	—	—	32	—	32	—	—	—	32
—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	170	—	—	—	—	—
—	—	—	—	—	—	—	(24)	—	—	(24)
—	—	—	—	—	—	12 105	—	—	—	12 105
—	—	—	—	—	—	1 891	—	—	—	1 891
—	—	—	—	—	—	48	—	—	—	48
445	650	431	6	837	1 222	108 614	4 500	4 644	1 500	119 258

Condensed consolidated IFRS statement of cash flows

for the reporting period

		30 June			31 December
	Note	2018 Rm	2017 Rm	Change %	2017 Rm
Net cash (utilised in)/generated from operating activities		**(1 471)**	1 076	>(100)	(534)
Net cash utilised in investing activities		**(1 706)**	(1 455)	17	(2 634)
Net cash (utilised in)/generated from financing activities		**(141)**	6 721	>(100)	2 593
Net (decrease)/increase in cash and cash equivalents		**(3 318)**	6 342	<(100)	(575)
Cash and cash equivalents at the beginning of the reporting period	1	**17 320**	17 734	(2)	17 734
Effect of foreign exchange rate movements on cash and cash equivalents		**361**	57	>100	161
Cash and cash equivalents at the end of the reporting period	2	**14 363**	24 133	(40)	17 320

Notes to the condensed consolidated statement of cash flows

1. Cash and cash equivalents at the beginning of the reporting period

	2018 Rm	2017 Rm	Change %	31 December 2017 Rm
Cash, cash balances and balances with central banks[1]	**13 518**	13 141	3	13 141
Loans and advances to banks[2]	**3 802**	4 593	(17)	4 593
	17 320	17 734	(2)	17 734

2. Cash and cash equivalents at the end of the reporting period

	2018 Rm	2017 Rm	Change %	31 December 2017 Rm
Cash, cash balances and balances with central banks[1]	**10 428**	10 924	(5)	13 518
Loans and advances to banks[2]	**3 935**	13 209	(70)	3 802
	14 363	24 133	(40)	17 320

[1] Includes coins and bank notes.

[2] Includes call advances, which are used as working capital by the Group.

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended

1. Headline earnings and earnings per ordinary share

Headline earnings	30 June 2018 Gross Rm	30 June 2018 Net Rm	30 June 2017 Gross Rm	30 June 2017 Net[1] Rm	Net change %	31 December 2017 Gross Rm	31 December 2017 Net[1] Rm
Headline earnings are determined as follows:							
Profit attributable to ordinary equity holders		7 253		7 423	(2)		13 888
Total headline earnings adjustment		71		227	(69)		490
IFRS 3 – Goodwill impairment	—	—	—	—	—	38	38
IFRS 5 – (Gain)/Loss on disposal of non-current assets held for sale	(121)	(73)	(7)	(5)	>100	36	39
IAS 16 – Loss/(profit) on disposal of property and equipment	5	3	(28)	(23)	<(100)	(43)	(34)
IAS 21 – Recycled foreign currency translation reserve	—	—	52	52	(100)	52	52
IAS 36 – Impairment of property and equipment	182	141	—	—	100	221	159
IAS 36 – Impairment of intangible assets	—	—	376	274	(100)	384	280
IAS 39 – Release of available-for-sale reserves	—	—	18	12	(100)	67	49
IAS 40 – Change in fair value of investment properties	—	—	(95)	(78)	(100)	(105)	(88)
IAS 40 – Profit on disposal of investment property	—	—	(5)	(5)	(100)	(5)	(5)
		7 324		7 650	(4)		14 378

Notable adjustments to headline earnings

- The Barclays separation 'impairment of intangible assets' in prior year related to Barclays.Net channels application that was utilised by the CIB and WIMI division, as part of the separation it was decided to replace it with a different channel solution. No further impairment to date was noted.

	30 June 2018 Rm	30 June 2017 Rm	Change value/ %	31 December 2017 Rm
Basic earnings per ordinary share				
Basic earnings attributable to ordinary equity holders (Rm)	**7 253**	7 423	(2)	13 888
Weighted average number of ordinary shares in issue (million)	**832.0**	833.8	(1.9)	833.7
Issued shares at the beginning of the reporting period (million)	**847.8**	847.8	—	847.8
Treasury shares held by Group entities (million)[2]	**(15.8)**	(14.0)	(1.9)	(14.1)
Basic earnings per ordinary share (cents)	**871.9**	890.3	(2)	1 665.7
Diluted basic earnings per ordinary share				
Basic earnings attributable to ordinary equity holders (Rm)	**7 253**	7 423	(2)	13 888
Diluted weighted average number of ordinary shares in issue (million)	**834.4**	834.0	0.3	833.8
Weighted average number of ordinary shares in issue (million)	**832.0**	833.8	(1.9)	833.7
Adjustments for share options issued at no value (million)	**2.4**	0.2	2.2	0.1
Diluted basic earnings per ordinary share (cents)	**869.4**	890.0	(2)	1 665.5
Headline earnings per ordinary share				
Headline earnings attributable to ordinary equity holders (Rm)	**7 324**	7 650	(4)	14 378
Weighted average number of ordinary shares in issue (million)	**832.0**	833.8	(1.9)	833.7
Headline earnings per ordinary share (cents)	**880.3**	917.5	(4)	1 724.5
Diluted headline earnings per ordinary share				
Headline earnings attributable to ordinary equity holders (Rm)	**7 324**	7 650	(4)	14 378
Diluted weighted average number of ordinary shares in issue (million)	**834.4**	834.0	0.4	833.8
Diluted headline earnings per ordinary share (cents)	**877.8**	917.3	(4)	1 724.2

1 These numbers have been restated, refer to the reporting changes overview on the inside cover page.

2 Includes 13 510 987 shares to be used in the furtherance of the Group's objective of establishing a BBBEE scheme.

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended

3. Non-interest income

3.5 Gains and losses from banking and trading activities

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Net gains on investments	**272**	163	67	227
Debt instruments designated at fair value through profit or loss	**190**	151	26	190
Equity instruments designated at fair value through profit or loss	**81**	30	>100	104
Available-for-sale unwind from reserves	**1**	(18)	<(100)	(67)
Net trading result	**2 433**	2 646	(8)	4 807
Net trading income excluding the impact of hedge accounting	**2 510**	2 677	(6)	4 855
Ineffective portion of hedges	**(77)**	(31)	>100	(48)
Cash flow hedges	**(72)**	9	<(100)	17
Fair value hedges	**(5)**	(40)	(88)	(65)
Other gains	**392**	295	33	212
	3 097	3 104	(0)	5 246
Segment split[1]				
South Africa Banking	**1 491**	1 311	14	2 529
RBB South Africa	**227**	147	54	322
Retail Banking South Africa	**217**	138	57	302
Business Banking South Africa	**10**	9	11	20
CIB South Africa	**1 264**	1 164	9	2 207
Rest of Africa Banking	**1 009**	1 094	(8)	2 055
Head Office, Treasury and other operations in South Africa[2]	**164**	461	(64)	588
Barclays separation	**433**	238	82	74
	3 097	3 104	(0)	5 246

[1] These numbers have been restated, refer to the report changes overview on the inside cover page.

[2] This includes the elimination of investment returns of Absa Life Limited in the WIMI segment for funds invested with CIB South Africa. The elimination is recognised between 'Gains and losses from investment activities' recognised by WIMI, and 'Net interest income' and 'Gains and losses from banking and trading activities' recognised by CIB South Africa.

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended

3. Non-interest income *(continued)*

3.7 Other operating income

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Property-related income	**30**	228	(87)	293
Income from investment properties	**5**	166	(97)	182
Change in fair value	**—**	95	(100)	105
Rentals	**5**	71	(93)	77
Property-related income arising from contracts with customers	**25**	62	(60)	111
(Loss)/profit on disposal of property and equipment	**(13)**	1	<(100)	23
Profit on sale of developed properties	**10**	24	(58)	38
Profit on sale of repossessed properties	**11**	17	(35)	16
Rental income	**17**	20	(15)	34
Other operating income	**296**	91	>100	355
Foreign exchange differences, including recycle from other comprehensive income	**9**	(48)	<(100)	(88)
Income from maintenance contracts	**20**	17	18	45
Sundry income[1]	**267**	122	>100	398
	326	319	2	648
Segment split[2]				
Property-related income	**30**	228	(87)	293
RBB South Africa	**23**	132	(83)	164
Retail Banking South Africa	**11**	17	(35)	20
Business Banking South Africa	**12**	115	(90)	144
Rest of Africa Banking	**6**	7	(14)	13
WIMI	**3**	24	(88)	25
Head Office, Treasury and other operations in South Africa	**(2)**	65	<(100)	91
Other operating income	**296**	91	>100	355
RBB South Africa	**59**	71	(17)	323
Retail Banking South Africa	**55**	107	(49)	358
Business Banking South Africa	**4**	(36)	<(100)	(35)
CIB South Africa	**1**	14	(93)	39
Rest of Africa Banking	**16**	6	>100	6
WIMI	**249**	(1)	<(100)	(57)
Head Office, Treasury and other operations in South Africa	**(9)**	1	<(100)	38
Barclays separation	**(20)**	—	100	6
	326	319	2	648

[1] There has been a significant increase in sundry income from prior year mainly due to the IFRS 5 profit on sale of subsidiaries being included. Refer to Note 1 Headline earnings commentary.

[2] These numbers have been restated, refer to the report overview on the inside cover page.

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended

5. Operating expenses

Breakdown of operating expenses	30 June 2018 Rm	30 June 2017 Rm	Change %	31 December 2017 Rm
Administration fees	**276**	370	(25)	1 149
Amortisation of intangible assets	**366**	348	5	650
Auditors' remuneration	**162**	142	14	277
Cash transportation	**612**	536	14	1 089
Depreciation	**1 138**	937	21	1 988
Equipment costs	**183**	203	(10)	444
Information technology	**1 597**	1 677	(5)	3 188
Marketing costs	**834**	785	6	1 793
Operating lease expenses on properties	**799**	815	(2)	1 606
Other[1]	**1 215**	889	37	2 098
Printing and stationery	**165**	154	7	367
Professional fees	**1 033**	1 015	2	2 311
Property costs	**883**	839	5	1 753
Staff costs	**11 974**	11 276	6	23 558
Bonuses	**822**	848	(3)	2 154
Deferred cash and share-based payments	**484**	418	16	829
Other[2]	**520**	510	2	1 198
Salaries and current service costs on post-retirement benefit funds	**9 937**	9 305	7	18 887
Training costs	**211**	195	8	490
TSA direct costs	**496**	—	100	—
Telephone and postage	**465**	512	(9)	1 033
	22 198	20 498	8	43 304
Barclays separation effects	**1 364**	460	>100	1901
TSA direct costs[3]	**496**	—	100	650
Professional fees	**316**	227	39	612
Staff costs	**326**	69	>100	419
Other[4]	**226**	164	37	220

Total operating cost growth partially reflects costs incurred in relation to the separation from Barclays PLC of **R1 364m** (30 June 2017: R460m), which have contributed to approximately **4%** of total operating cost growth. The costs increase the year-on-year growth rates mainly in TSA direct costs, professional fees and staff costs.

[1] Includes net fraud losses, travel and entertainment costs.

[2] Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

[3] The 2017 Transitional Services Agreements (TSA) cost was included in administration fees (31 December 2017: R650m). In 2018, it has been separately presented in its own disclosure line.

[4] Includes marketing costs, amortisation, travel and entertainment costs, information technology costs, property costs, depreciation and auditor's remuneration costs.

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended

6. Indirect taxation

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Training levy	**112**	101	11	191
Value-added tax net of input credits	**668**	643	4	1 431
	780	744	5	1 622

7. Taxation expense

	30 June			31 December
	2018 Rm	2017[1] Rm	Change %	2017[1] Rm
Reconciliation between operating profit before income tax and the taxation expense				
Operating profit before income tax	**11 093**	11 057	0	20 969
Share of post-tax results of associates and joint ventures	**(56)**	(79)	(29)	(170)
	11 037	10 978	1	20 799
Tax calculated at a tax rate of 28%	**3 090**	3 074	1	5 824
Effect of different tax rates in other countries	**(2)**	8	<(100)	25
Expenses not deductible for tax purposes	**397**	486	(18)	904
Recognition of previously unrecognised deferred tax assets	**—**	—	—	(7)
Income not subject to tax	**(347)**	(483)	(28)	(857)
Other	**9**	(21)	<(100)	(41)
Items of a capital nature	**42**	29	45	34
	3 189	3 093	3	5 882

11. Equity

	30 June			31 December
	2018 Rm	2017 Rm	Change %	2017 Rm
Authorised				
880 467 500 (30 June 2017: 880 467 500; 31 December 2017: 880 467 500) ordinary shares of R2.00 each	**1 761**	1 761	—	1 761
Issued				
847 750 679 (30 June 2017: 847 750 679; 31 December 2017: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696	—	1 696
16 009 837 (30 June 2017: 680 929; 31 December 2017: 14 912 864) treasury shares held by Group entities	**(33)**	(2)	>100	(30)
	1 663	1 694	(2)	1 666
Total issued capital				
Share capital	**1 663**	1 694	(2)	1 666
Share premium	**10 850**	12 868	(16)	10 498
	12 513	14 562	(14)	12 164

	30 June			31 December
Number of ordinary shares in issue (after deduction of treasury shares) at the reporting date	**2018 Number of shares (million)**	2017 Number of shares (million)	Change %	2017 Number of shares (million)
Ordinary shares in issue of R2.00 each	**847.8**	847.8	—	847.8
Treasury shares held by the Group	**(16.0)**	(0.7)	>100	(15.0)
	831.8	847.1	(2)	832.8

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

IFRS segment performance

for the reporting period ended

	Total Group normalised performance			
	30 June			31 December
	2018	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)				
Net interest income	**21 188**	20 791	2	42 319
Non-interest income	**15 854**	15 294	4	30 671
Total income	**37 042**	36 085	3	72 990
Impairment losses	**(3 431)**	(3 773)	(9)	(7 022)
Operating expenses	**(20 834)**	(20 038)	4	(41 403)
Other operating expenses	**(832)**	(716)	16	(1 706)
Operating profit before income tax	**11 945**	11 558	3	22 859
Tax expenses	**(3 322)**	(3 204)	4	(6 290)
Profit for the reporting period	**8 623**	8 354	3	16 569
Profit attributable to:				
Ordinary equity holders	**7 972**	7 813	2	15 370
Non-controlling interest – ordinary shares	**379**	361	5	789
Non-controlling interest – preference shares	**176**	180	(2)	362
Non-controlling interest – additional Tier 1	**96**	—	100	48
	8 623	8 354	3	16 569
Headline earnings	**8 043**	7 802	3	15 623
Operating performance (%)				
Net interest margin on average interest-bearing assets[3]	**4.76**	4.81		4.83
Credit loss ratio	**0.83**	0.96		0.87
Non-interest income as % of income	**42.8**	42.4		42.0
Income growth	**3**	(1)		1
Operating expenses growth	**4**	3		3
Cost-to-income ratio	**56.2**	55.5		56.7
Statement of financial position (Rm)				
Loans and advances to customers	**783 116**	728 985	7	749 772
Loans and advances to banks	**62 843**	63 451	(1)	55 426
Investment securities	**127 437**	115 834	10	111 409
Other assets	**259 642**	229 622	13	248 460
Total assets	**1 233 038**	1 137 892	8	1 165 067
Deposits due to customers	**714 491**	696 362	3	689 867
Debt securities in issue	**140 782**	140 192	0	137 948
Other liabilities[2]	**268 347**	196 556	37	228 746
Total liabilities	**1 123 620**	1 033 110	9	1 056 561
Financial performance (%)				
RoRWA	**2.20**	2.22		2.17
RoA	**1.40**	1.41		1.39
RoE	**16.9**	16.8		16.5

[1] These numbers have been restated, refer to the report changes overview on the inside cover page.

[2] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loan from Barclays separation segment' in the Condensed consolidated normalised statement of financial position (refer to page 19).

[3] Net interest margin for comparative prior periods has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies certain assets held for regulatory purposes as interest bearing; under the previous policy these assets were classified as non-interest bearing.

Barclays separation effects				IFRS Group			
30 June		31 December		30 June		31 December	
2018	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]
175	46	>100	325	**21 363**	20 837	3	42 644
413	238	74	80	**16 267**	15 532	5	30 751
588	284	>100	405	**37 630**	36 369	3	73 395
—	—	—	—	**(3 431)**	(3 773)	(9)	(7 022)
(1 364)	(460)	>100	(1 901)	**(22 198)**	(20 498)	8	(43 304)
(76)	(325)	(77)	(394)	**(908)**	(1 041)	(13)	(2 100)
(852)	(501)	70	(1 890)	**11 093**	11 057	0	20 969
133	111	20	408	**(3 189)**	(3 093)	3	(5 882)
(719)	(390)	84	(1 482)	**7 904**	7 964	(1)	15 087
(719)	(390)	84	(1 482)	**7 253**	7 423	(2)	13 888
—	—	—	—	**379**	361	5	789
—	—	—	—	**176**	180	(2)	362
—	—	—	—	**96**	—	100	48
(719)	(390)	84	(1 482)	**7 904**	7 964	(1)	15 087
(719)	(152)	>100	(1 245)	**7 324**	7 650	(4)	14 378
n/a	n/a		n/a	**4.75**	4.80		4.83
n/a	n/a		n/a	**0.83**	0.95		0.87
n/a	n/a		n/a	**43.2**	42.7		41.9
n/a	n/a		n/a	**3**	—		1
n/a	n/a		n/a	**8**	5		8
n/a	n/a		n/a	**59.0**	56.4		59.0
—	—	—	—	**783 116**	728 985	7	749 772
—	—	—	—	**62 843**	63 451	(1)	55 426
—	—	—	—	**127 437**	115 834	10	111 409
1 605	(16)	<(100)	912	**261 247**	229 606	14	249 372
1 605	(16)	<(100)	912	**1 234 643**	1 137 876	9	1 165 979
—	—	—	—	**714 491**	696 362	3	689 867
—	—	—	—	**140 782**	140 192	0	137 948
(8 496)	(11 731)	(28)	(9 840)	**259 851**	184 825	41	218 906
(8 496)	(11 731)	(28)	(9 840)	**1 115 124**	1 021 379	9	1 046 721
n/a	n/a		n/a	**2.00**	2.18		2.00
n/a	n/a		n/a	**1.26**	1.38		1.27
n/a	n/a		n/a	**13.9**	16.2		14.2

Barclays separation effects

Update on Programme

The Separation Programme continues to operate under a robust governance structure that involves the AGL Board as well as various mechanisms of oversight and governance frameworks within the organisation. The Programme is equipped with a strong and experienced leadership team that work with colleagues and external service providers to deliver the execution of the portfolio of separation projects.

Execution of the individual projects is progressing well. To date, 83 projects out of circa 300 Separation projects, have been successfully delivered, 25 of which are on the critical path. Projects on the critical path represent those with the greatest degree of interdependencies and other risk-orientated characteristics. The vast majority of projects scheduled for delivery in the second half of the year are also on track.

There is good progress on the work pertaining to rebranding. The removal of 'Member of Barclays' references from assets in South Africa is complete, in line with the contractual Transitional Trade Mark License agreement date. On 11 July 2018, the new Absa brand was launched which will be rolled out to the Rest of Africa (RoA) entities by 2020. Until the Absa brand is launched in the RoA countries, they will continue to be known as Barclays Bank in their home markets and their products and services in those markets will not be affected by the group name change.

A key aspect of the programme is the continued delivery of services from Barclays PLC, which are delivered in terms of the Transitional Services Agreements (TSA) between AGL and Barclays PLC effective 6 June 2017. This allows AGL the opportunity to build or establish the required capability internally, within a time horizon of approximately three years from the effective date of the TSA. To date, 55 of the services that were contracted with Barclays PLC have been terminated and the services scheduled for termination in the second half of the year remain on track to roll-off.

Ongoing and proactive engagements with regulators continue to be an important area of focus. Various engagements have occurred throughout the year and include interactions with the South African Reserve Bank, Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) in the United Kingdom, the US Federal Reserve and in-country Rest of Africa regulators.

Another notable key milestone in the separation process was achieved in July 2018, with UK regulators (the PRA and the FCA) granting permission for AGL to be fully deconsolidated from Barclays PLC. Deconsolidation means that AGL and Barclays PLC are no longer regarded by regulators as one consolidated entity, but rather two independent companies. It will take some time to unwind the relationship between the two entities, and Barclays PLC continues to provide certain services to AGL, which will be replaced over time. This achievement is positive as it signals another step forward for AGL as a standalone bank, and releases AGL from a number of regulatory reporting obligations through Barclays PLC.

Barclays separation effects

	30 June			31 December
	2018	2017	Change %	2017
Statement of comprehensive income (Rm)				
Net interest income	175	46	>100	325
Non-interest income	413	238	(74)	80
Total income	588	284	>100	405
Operating expenses	(1 364)	(460)	>100	(1 901)
Other expenses	(76)	(325)	(77)	(394)
Operating profit before income tax	(852)	(501)	70	(1 890)
Tax expenses	133	111	20	407
Profit for the reporting period	(719)	(390)	84	(1 482)
Profit attributable to:				
Ordinary equity holders	(719)	(390)	84	(1 482)
Headline earnings	(719)	(152)	>100	(1 245)
Statement of financial position (Rm)				
Intangible assets	1 409	—	100	786
Property, plant and equipment	196	21	>100	126
Other assets[1]	—	(37)	(100)	—
Total assets	1 605	(16)	<(100)	912
Other liabilities[2]	(8 496)	(11 731)	(28)	(9 840)
Total equity	10 101	11 715	(14)	10 752
Total equity and liabilities	1 605	(16)	<(100)	912

[1] 30 June 2017 'Other assets' include internal foreign currency instruments with credit balances that face Absa Treasury. The offsetting instruments in Absa Treasury are presented as part of the 'Other assets' line item in the 'Head Office, Treasury and other operations in South Africa' segment.

[2] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loan from Barclays separation segment' in the Condensed consolidated normalised statement of financial position (refer to page 19).

Barclays separation effects

Statement of comprehensive income

Net interest income of **R175m** (30 June 2017: R46m) relates to the endowment earned on the investment received from Barclays PLC to restore capital eroded by the separation.

Non-interest income of **R413m** (30 June 2017: R238m) relates to foreign currency revaluation held in GBP and USD to settle TSA and other foreign currency denominations costs.

Operating expenses of **R1.4bn** (30 June 2017: R460m) primarily include R496m, for payment to Barclays PLC for services rendered to AGL under the TSA and R866m expensed project execution and programme support costs.

Key projects in execution include: Technology projects (CIB Channels, HR system re-platform, Financial Crime and other Compliance Systems and ROA Core Banking Platform relocation), Brand projects (Removal of Member of Barclays in South Africa) and Programme Support costs which relate to execution of projects, quality assurance and remuneration for internal resources dedicated to separation.

Other operating expenses reflect indirect taxation of R76m. The 2017 other operating expenses included an impairment of R325m for Barclays. Net channels application.

Total assets

Intangible assets consist of capitalised software, professional fees and staff cost relating to the execution of separation projects.

Property, plant and equipment mainly consists of hardware costs for separation technology projects.

Total equity and liabilities

Total equity R10.1bn, mainly consists of the R12.1bn investment received from Barclays PLC offset by retained earnings.

Reporting changes

Reporting changes

for the reporting period ended

A. Overview of reporting changes

The financial reporting changes that have been applied in the current reporting period are as follows:

– The implementation of new International Financial Reporting Standards (IFRS):

- IFRS 9 Financial Instruments (IFRS 9) – The Group has applied IFRS 9 on a retrospective basis, with an adjustment to retained earnings and other reserves as at 1 January 2018. As permitted under IFRS 9, the Group has elected not to restate comparative periods. (Audited).
- IFRS 15 Revenue from Contracts with Customers (IFRS 15) – The Group has elected to adopt IFRS 15 using the cumulative effect method, under which the comparative information has not been restated.

All other amendments[1] to IFRS effective for the current reporting period have had no impact on the Group's reported results.

– Changes in internal accounting policies:

- A change in the valuation method applied to policyholder liabilities under the Group's life insurance contracts, and
- The presentation of interest income and interest expense

Comparative information has been restated to reflect the amendment to the Group's internal accounting policies, and an adjustment has been recognised within retained income as at 1 January 2018 to reflect the impact of implementing new standards.

The table below summarises the total impact of the reporting changes on the Group's statement of changes in equity

	Share capital and share premium Rm	Retained earnings Rm	Other reserves Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest-ordinary shares Rm	Non-controlling interest-preference shares Rm	Non-controlling interest-Additional Tier 1 capital Rm	Total equity Rm	Normalised Total equity[2] Rm
Balance reported as at 31 December 2016	6 160	81 604	5 293	93 057	4 579	4 644	—	102 280	102 280
Restatement owing to change in life insurance accounting policy	—	134	—	134	—	—	—	134	134
Restated balance as at 31 December 2016	6 160	81 738	5 293	93 191	4 579	4 644	—	102 414	102 414
Balance reported as at 31 December 2017	12 164	91 882	4 370	108 416	4 500	4 644	1 500	119 060	108 308
Restatement owing to change in life insurance accounting policy	—	198	—	198	—	—	—	198	198
Restated balance as at 31 December 2017	**12 164**	**92 080**	**4 370**	**108 614**	**4 500**	**4 644**	**1 500**	**119 258**	**108 506**
Impact of adopting IFRS 9		(4 106)	(95)	(4 201)	(131)	—	—	(4 332)	(4 332)
Impact of adopting IFRS 15	—	(44)	—	(44)	—	—	—	(44)	(44)
Adjusted balance as at 1 January 2018	12 164	87 930	4 275	104 369	4 369	4 644	1 500	114 882	104 130

Audited

[1] The amendments which are effective in the current reporting period relate to IAS 40 Investment Property, IAS 28 Investment in Associates and Joint Ventures, as well as IFRS 2 Share-based Payment Transactions (IFRS 2). The changes to IFRS 2 were however early adopted by the Group in 2016. A new IFRIC Interpretation, IFRIC 22 Foreign Currency Transactions and Advance Consideration is effective in the current reporting period.
[2] Normalised earnings not audited.

Reporting changes

for the reporting period ended

Basis of preparation

This section includes the impact of the adoption of IFRS 9 and specifically the transitional disclosures as required by IFRS 7 Financial Instruments: Disclosures.

The information presented in this section has been prepared using the principal accounting policies as set out in the Group's most recent audited annual consolidated financial statements except for application of the new accounting requirements of IFRS 9 as explained herein. All amounts are presented on the historical cost basis with the exception of financial assets and financial liabilities that are either required to or have been elected to be classified at fair value through profit or loss, or in respect of financial assets measured at fair value through other comprehensive income.

The directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the reporting period ahead. For this reason, the information in this section has been prepared on a going concern basis.

All information marked as audited in this section has been audited by EY who expressed an unmodified opinion thereon in terms of ISA 805 Special Considerations – Audits of single financial statements and specific elements, accounts or items of financial statement. A copy of the auditor's report on the audited sections of the Reporting Changes section are available for inspection at the Group's registered office, together with a copy of the transitional disclosures that were audited.

B. Initial adoption of IFRS 9 Financial Instruments

1. Overview and highlights

1.1 The impact of IFRS 9 on the Group

IFRS 9 is effective from 1 January 2018 and introduces significant changes to three fundamental areas of the accounting for financial instruments, namely:

- The classification and measurement of financial instruments;
- The scope and calculation of credit losses, which has moved from an incurred loss, to an expected credit loss (ECL) approach; and
- The hedge accounting model.

Whilst the adoption of a revised classification and measurement framework has had a less material impact on the Group, application of the IFRS 9 ECL methodology has affected both the financial and regulatory capital position, and can be reasonably expected to impact the net profit or loss of the Group going forward.

In accordance with the transition options allowable under IFRS 9, the Group will continue to apply the hedge accounting requirements set out in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). The Group employs a governed hedging programme to reduce margin volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity). Operational complexity would be introduced by adopting the revised IFRS 9 hedge accounting requirements ahead of the finalisation of the International Accounting Standards Board's (IASB) Dynamic Risk Management project in respect of macro hedging. The Group has accordingly elected not to adopt the revised IFRS 9 hedge requirements, but will adopt the revised disclosures set out in the amendments to IFRS 7 Financial Instruments: Disclosures (IFRS 7), which include those relating to hedge accounting.

1.2 The impact of adopting a revised classification and measurement framework for financial instruments

A portfolio of South African consumer price index (CPI) linked investment securities have been reclassified from available-for-sale under IAS 39, to amortised cost. This aligns the portfolio's classification with the Group's business model of holding the instruments to collect contractual cash flows. Other less significant reclassifications of financial assets were also recorded, although these did not have any impact on equity (refer to section 10). The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVTPL). Gains and losses on such financial liabilities are required to be presented in other comprehensive income (OCI), to the extent that they relate to changes in own credit risk. The Group early adopted this requirement in 2017, and recognised a debit of **R147m** in OCI.

1.3 The impact of adopting a revised ECL methodology

The adoption of IFRS 9 will impact the timing of credit loss recognition, by accelerating the recognition of losses relative to IAS 39, and potentially creating increased volatility through the incorporation of forward looking assumptions. Total write offs, debt collections, and the long-run actual credit losses incurred by the Group should remain unchanged. The Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and to correctly reflect the value of the assets in accordance with applicable accounting principles. The core processes remain the measurement of exposures and concentrations, performance monitoring and tracking of asset quality, and the write off of assets when the whole or part of a debt is irrecoverable.

The implementation of IFRS 9 has been a project of strategic importance to the Group. Over the past four years, extensive work was performed to design, build and test new models, create the necessary infrastructure and develop data management systems that were able to facilitate a successful parallel run in the second half of 2017, and deliver a high quality implementation on 1 January 2018. The Group has had the ability to test the sensitivity of the ECL model and its sub-components to different macroeconomic scenarios, but has not been able to back test the scenarios themselves. This is a natural concomitant of implementing an accounting standard which requires the inclusion of point-in-time forward looking assumptions, and in respect of which, the application of hindsight is expressly prohibited. (Not audited).

Reporting changes

for the reporting period ended

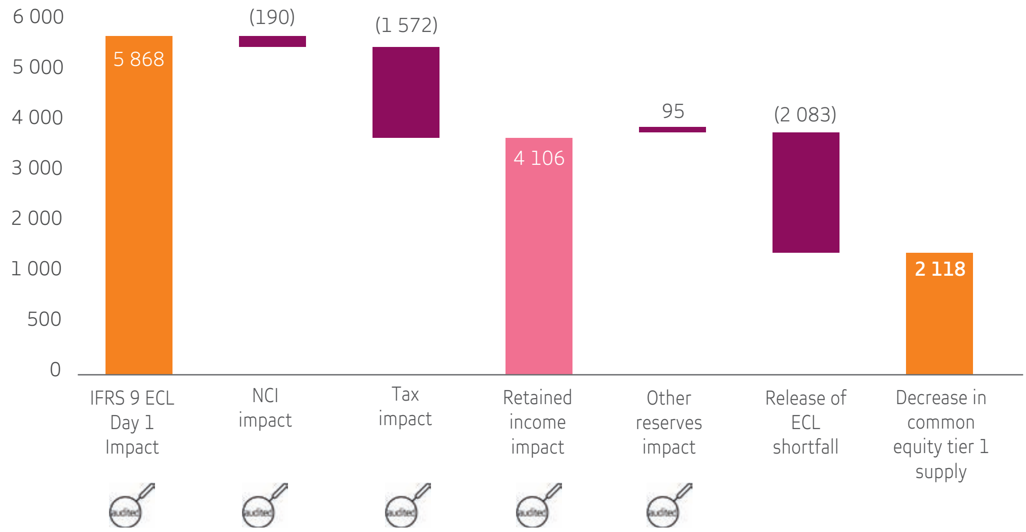
B. Initial adoption of IFRS 9 Financial Instruments (continued)

1. Overview and highlights (continued)

1.4 Summary of the impact of IFRS 9 as at 1 January 2018

The disclosures set out within this section of the report serve to bridge the statement of financial position of the Group as at 1 January 2018 between IAS 39 and IFRS 9. Information has been provided to facilitate an understanding of the key areas of difference, as well as the core drivers of ECL going forward. The Group highlights the role that unexpected changes in forward looking assumptions may play in driving earnings volatility, and that changes in stage distribution could have an impact on net interest income. Exposures within certain industry sectors or products are expected to be more sensitive to changes in macroeconomic conditions than others, which could mean that the overall response to changes in forward looking assumptions is driven by the relative composition of the loans and advances portfolios.

The adoption of IFRS 9 has impacted the financial and regulatory capital position of the Group, as follows:



- An increase of **R5 868m** (27%) in the Group's ECL provisions (including interest in suspense), from **R21 899m** as at 31 December 2017 to **R27 767m** as at 1 January 2018. Refer to section 3.1.
- A net decrease in retained earnings of **R4 106m** (after a taxation adjustment of **R1 572m** and a non-controlling interest of **R190m**) together with a net decrease in other reserves of **R95m** which includes the effects of reclassifying investment securities from available-for-sale to amortised cost. Refer to section A.
- The Group remains strongly capitalised notwithstanding a **R2 118m** decrease in common equity tier 1 supply (CET 1) and a **21 bps** decrease in the CET 1 ratio. The decrease in the CET 1 ratio is before the application of the transitional arrangement which recognises the impact over three years. This deferral reduces the impact on the CET 1 ratio on the date of initial adoption to **5 bps**. Refer to section 5.1.

Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

1. Overview and highlights (continued)

1.5 Condensed consolidated statement of financial position for Absa Group Limited

The following table summarises the total impact of IFRS 9 on the statement of financial position as at 1 January 2018.

	31 December 2017 Rm	Impact of IFRS 9: Classification and Measurement[1] Rm	Impact of IFRS 9: IFRS 9 ECL[2] Rm	1 January 2018 Rm
Assets				
Cash, cash balances and balances with central banks[3]	48 669	—	(10)	48 659
Investment securities	111 409	(195)	(2)	111 212
Loans and advances to banks	55 426	—	(67)	55 359
Loans and advances to customers	749 772	(20)	(5 034)	744 718
Investments in associates and joint ventures[4]	1 235	—	(73)	1 162
Other assets[5]	199 468	55	1 149	200 672
Total assets	1 165 979	(160)	(4 037)	1 161 782
Liabilities				
Trading portfolio liabilities	64 047	(20)	—	64 027
Provisions[6]	3 041	—	574	3 615
Other liabilities[5]	979 831	—	(419)	979 412
Total liabilities	1 046 919	(20)	155	1 047 054
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital	1 666	—	—	1 666
Share premium	10 498	—	—	10 498
Retained earnings	91 882	—	(4 106)	87 776
Other reserves	4 370	(140)	45	4 275
Ordinary equity holders	108 416	(140)	(4 061)	104 215
Non-controlling interest – ordinary shares	4 500	—	(131)	4 369
Non-controlling interest – preference shares	4 644	—	—	4 644
Non-controlling interest – Additional Tier 1 capital	1 500	—	—	1 500
Total equity	119 060	(140)	(4 192)	114 728
Total liabilities and equity	1 165 979	(160)	(4 037)	1 161 782

[1] Classification and measurement reclassifications relate to two portfolios:
- Short-term commodity-linked instruments that had embedded derivatives which were previously bifurcated under IAS 39, have been mandatorily classified at FVPTL under IFRS 9; and
- A portfolio of CPI linked investment securities that have been reclassified from available-for-sale to amortised cost.

[2] A further analysis of the ECL impact per segment has been disclosed in section 3.1.

[3] Relates predominantly to a central bank within Rest of Africa.

[4] Reflects the change in the Group's share of net assets from associates and joint ventures due to their adoption of IFRS 9.

[5] Relates to the adjustments to deferred tax and current tax assets.

[6] The increase in the carrying value of provisions relates to the expected credit losses recognised on financial guarantee contracts, letters of credit and undrawn facilities (to the extent that it exceeds the gross carrying amount of loans and advances to customers at an account level).

Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

2. Key elements of the revised impairment model under IFRS 9

2.1 Introduction

IFRS 9 introduces an ECL impairment model that requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is a relative measure, where the credit risk at the reporting date is compared to the risk that existed at initial recognition.

The stage allocation is required to be performed as follows:

- **Stage 1:** : Stage 1 assets comprise exposures that are performing in line with expectations at origination. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1.
- **Stage 2:** Exposures are required to be classified within stage 2 when a significant increase in credit risk has been observed. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These are discussed further in section 2.2. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk. The definition of high risk is from a credit management perspective central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary.
- **Stage 3:** Credit exposures are classified within stage 3, when they are regarded as being credit impaired, which aligns to the bank's regulatory definition of default. This definition is discussed further in section 2.3. Defaulted assets are considered cured once the original default trigger event no longer applies and both internal and regulatory probation periods have been met. In the Retail portfolio, assets will move from stage 3 to stage 2, but not directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1. Purchased or originated credit impaired lending facilities are classified on origination within stage 3.

2.2 Definition of a significant increase in credit risk

The Group uses various quantitative, qualitative and back stop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk (SICR) include:

- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition;
- Adverse changes in payment status, and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

2.3 Definition of credit impaired assets

Assets classified within stage 3 are considered to be credit impaired, which, as discussed in 2.1 applies when an exposure is in default.

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either:

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
  - The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
  - The customer is under debt review, business rescue or similar protection; or,
  - Advice is received of customer insolvency or death.
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition, within the Retail portfolios:

- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
- The Group requires an exposure to reflect 12 consecutive months of performance, in order to be considered to have been cured from default.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

2. Key elements of the revised impairment model under IFRS 9

2.4 Impact of IFRS 9 on interest recognition

Interest income is calculated on stage 1 or stage 2 financial assets by applying the effective interest rate (EIR) to the gross carrying amount of such assets. When exposures are identified as credit impaired (stage 3), or when they are purchased or originated within stage 3, IFRS 9 requires interest income to be calculated based on the net carrying value, which is the gross carrying value after deducting the ECL allowance.

In order to practically give effect to this requirement for stage 3 assets, the Group follows a two-step approach. First, the Group ceases to recognise in profit or loss the contractual interest charged on credit impaired assets (that is to say, contractual interest is suspended). Second, the Group multiplies the net carrying value of the impaired exposure by its EIR and recognises only this amount of interest income within profit or loss. Simply, this means that if during a reporting period, an exposure was classified within stage 3, lower interest income would be recognised than if it had been classified within stage 1 or stage 2 over the same period.

Since an ECL allowance is calculated by discounting the future cash flows expected to be recovered by the exposure's EIR, interest income recognised on stage 3 assets reflects the financial effect of unwinding the discount embedded in the calculation. Application of this approach results in the Group being able to appropriately reflect in profit or loss the financial effect of the 'time value of money', which is embedded within the calculation of the ECL allowance.

In principle, the approach applied by the Group to recognise interest on stage 3 assets under IFRS 9, is not dissimilar from the manner in which the Group calculated the interest on specifically impaired financial assets under IAS 39. The key departure from IAS 39 is however that IFRS 9 requires the balance of interest in suspense to be presented as part of both the gross carrying value of the exposure and the related ECL allowance. Under IAS 39, such amount was excluded from both balances. Therefore, this constitutes a change to the presentation of the gross carrying value and ECL allowance, although it has no impact on the net carrying value of the exposure. Had this revised presentation requirement been applied as at 31 December 2017, the Group would have recognised a larger gross carrying value, and larger impairment allowance of **R3 025m** (refer to section 3.1 for more detail).

The Group believes that IFRS 9 is not explicit regarding the treatment of contractual interest in suspense which is subsequently recovered. There is only a clear prescription with regards to the recovery of contractual interest previously unrecognised on exposures originated credit impaired, where the standard requires such interest to be recognised as a credit impairment gain instead of interest income. There is presently diversity in interpretation of this matter and therefore the Group has elected to make an accounting policy choice in this regard. The Group's accounting policy is to recognise contractual interest that is recovered, but which was previously unrecognised within net interest income, and resulted in **R292m** being recognised within interest income over the current reporting period. The Group believes that this policy promotes a fairer presentation of ECL as well as net interest income, both of which the Group believes would otherwise be understated.

Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

3. Reconciliation of the allowance for impairment under IAS 39 to the total ECL allowance under IFRS 9

3.1 Summary of ECL by segment and class of credit exposure

The following table sets out the transition of the impairment allowances applied to all credit exposures from IAS 39 to IFRS 9, by asset class, and by segment

	IAS 39 – 31 December 2017				
	Performing provision Rm	Non-performing portfolio Rm	Total IAS 39 (excluding IIS) Rm	Interest in suspense Rm	Total IAS 39 (including IIS) Rm
Retail and Business Banking South Africa	3 997	9 671	13 668	2 313	15 981
Retail Banking	3 223	8 576	11 799	1 264	13 063
Credit cards	729	3 605	4 334	83	4 417
Instalment credit agreements	698	1 117	1 815	94	1 909
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	1 124	2 073	3 197	828	4 025
Other loans and advances	—	—	—	—	—
Overdrafts	71	215	286	73	359
Personal and term loans	601	1 566	2 167	186	2 353
Business Banking South Africa	774	1 095	1 869	1 049	2 918
CIB South Africa	559	832	1 391	123	1 514
Rest of Africa Banking	981	2 636	3 617	564	4 181
WIMI	13	175	188	25	213
Head Office, Treasury and other operations in South Africa	10	—	10	—	10
Loans and advances	10	—	10		10
Reclassification to provisions[1]	—	—	—	—	—
Loans and advances to customers	5 560	13 314	18 874	3 025	21 899
Loans and advances to banks	—	—	—	—	—
Total loans and advances	5 560	13 314	18 874	3 025	21 899
Investment securities	—	—	—	—	—
Cash, cash balances and balances with central banks[2]	—	—	—	—	—
Total ECL allowance: On-statement of financial position	5 560	13 314	18 874	3 025	21 899
Off-statement of financial position exposures					
Undrawn committed facilities	—	—	—	—	—
Financial guarantees	—	—	—	—	—
Letters of credit	—	—	—	—	—
Total ECL allowance: Off-statement of financial position	—	—	—	—	—
Total ECL allowance	5 560	13 314	18 874	3 025	21 899

[1] This represents the ECL allowance on undrawn facilities which has resulted in the ECL allowance on loans and advances exceeding the carrying value of the drawn exposure. This excess is recognised in 'Provisions' on the Group Statement of financial position.

[2] Relates predominantly to a central bank within Rest of Africa.

IFRS 9 – 1 January 2018

Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total IFRS 9 provision (including IIS) Rm	IFRS 9 transition adjustment Rm
2 408	3 492	14 378	20 278	4 297
1 768	3 184	11 756	16 708	3 645
654	1 343	3 727	5 724	1 307
539	610	1 431	2 580	671
2	—	—	2	2
212	366	4 426	5 004	979
8	18	8	34	34
45	127	240	412	53
308	720	1 924	2 952	599
640	308	2 622	3 570	652
482	384	955	1 821	307
1 090	798	3 087	4 975	794
27	6	233	266	53
(188)	(172)	(47)	(407)	(417)
8	11	—	19	9
(196)	(183)	(47)	(426)	(426)
3 819	4 508	18 606	26 933	5 034
40	27	—	67	67
3 859	4 535	18 606	27 000	5 101
65	118	—	183	183
3	7	—	10	10
3 927	4 660	18 606	27 193	5 294
196	183	47	426	426
91	48	—	139	139
9	—	—	9	9
296	231	47	574	574
4 223	4 891	18 653	27 767	5 868

Reporting changes

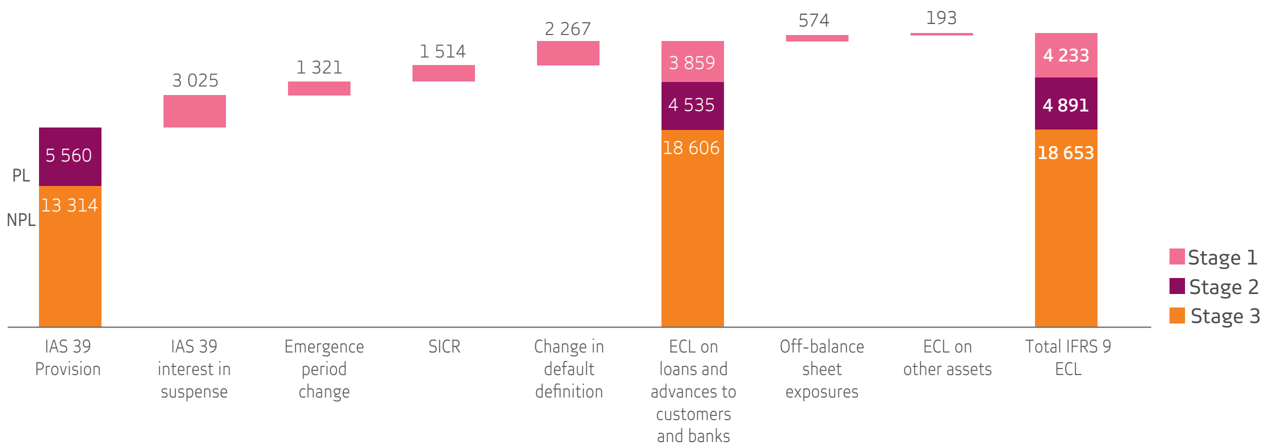
for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

3. Reconciliation of the allowance for impairment under IAS 39 to the total ECL allowance under IFRS 9 (continued)

3.2 Overall reconciliation shown graphically

The following chart highlights the key differences between IAS 39 and IFRS 9 as well as the extent to which they contribute to the overall increase in the ECL provision:



The measurement of the ECL allowance is required to reflect an unbiased probability-weighted range of possible future outcomes, which are factored into the PD and LGD models, as well as applied in determining whether a significant increase in credit risk has occurred. The reconciliation has not separately presented the effects of macroeconomic scenarios, since these are considered to be inextricably linked to various components of the bridge discussed above.

3.2.1 Interest in suspense

The cumulative interest which was suspended, and therefore not presented as part of the impairment allowance as at 31 December 2017, amounted to **R3 025m**. As at the date of initial adoption this has been included in the opening impairment allowance, with an equivalent increase in the gross carrying value of the financial assets.

3.2.2 Change in emergence period of stage 1 assets

The emergence period under IAS 39 was calculated as the average time between when a loss event occurred and the impairment event was actually identified, and was typically 12 months or less. An increase in the ECL allowance of **R1 321m** is attributable to the period under IFRS 9 being defined as 12 months (or less if the contractual period is less than 12 months) on stage 1 assets.

3.2.3 Significant increase in credit loss for stage 2 classification

Under IAS 39, stage 2 assets were classified as performing exposures with an impairment allowance being recognised to reflect latent risks, and calculated based on an appropriate emergence period. Under IFRS 9, lending exposures that have experienced a significant increase in credit risk (SICR) since origination are required to carry a lifetime ECL allowance. This increased the ECL allowance by **R1 514m**.

3.2.4 Change in default definition

The definition of credit impaired is aligned with the regulatory definition of default, which has resulted in a larger population of credit exposures being classified within stage 3 compared to the NPL population under IAS 39. The key differences have been discussed further in section 4.3 include the application of a 90 day backstop, as well as a widening of the watch list categories included within stage 3, relative to those that were specifically impaired under IAS 39. Further, all debt counselling and performing forbearance accounts are included in stage 3, but were not previously classified as NPL. This resulted in an increase in the ECL allowance of **R2 267m**.

3.2.5 Off-balance sheet exposures

The credit risk inherent in the undrawn component of lending facilities are managed and monitored by the Group together with the drawn component as a single exposure. The exposure at default (EAD) on the entire facility is therefore used to calculate the ECL on loans and advances. For this reason, it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the ECL allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision on the face of the statement of financial position. A provision of **R426m** was recognised on 1 January 2018.

The Group presents the ECL on financial guarantees and letters of credit as a provision on the statement of financial position. This provision has been presented as part of the IFRS 9 ECL allowance for the purposes of illustrating the full effects of applying a revised methodology. As at 1 January 2018, the provision calculated in respect of these exposures was **R148m**.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

3. Reconciliation of the allowance for impairment under IAS 39 to the total ECL allowance under IFRS 9 (continued)

3.2 Overall reconciliation shown graphically (continued)

3.2.6 The calculation of ECL on other assets

Cash reserves with central banks and investment securities are included within the scope of IFRS 9 ECL and have contributed **R193m** to the Group's total ECL allowance.

4. Analysis of the ECL allowance as at 1 January 2018

4.1 Reconciliation of performing loans under IAS 39 and Stage 1 and 2 assets under IFRS 9

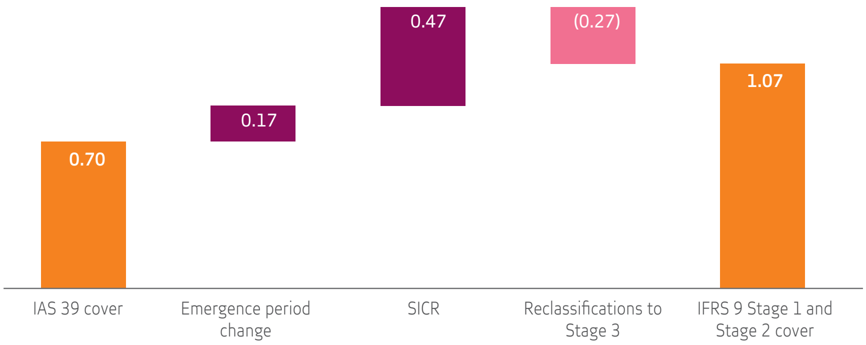
Under IAS 39, performing loans and advances were defined as those in respect of which an unidentified impairment (that is, incurred but not yet reported) or a provision on early arrears up to 90 days was raised. For the purposes of illustrating the impact of IFRS 9 on non-credit impaired exposures, performing loans under IAS 39 have been compared to stage 1 and stage 2 assets under IFRS 9.

With the adoption of IFRS 9, the Group has classified certain advances as Stage 3 (refer to note 4.2 for details of the reclassifications) which has resulted in a reduction in the Stage 1 and Stage 2 exposures and ECL's.

The following table highlights the difference between IAS 39 performing coverage ratios and IFRS 9 Stage 1 and Stage 2 coverage ratios on loans and advances to customers and banks as at 1 January 2018:

	IAS 39	Emergence period change	Lifetime losses	Reclassifications to stage 3	IFRS 9 (Stage 1 and Stage 2)	Stage 1	Stage 2
Gross carrying value (Rm)	793 160[1]	—	—	(11 820)	781 340	697 425	83 915
Impairment allowance/ECL (Rm)	5 559	1 321	3 781	(2 267)	8 394	3 859	4 535
Coverage ratio (%)	0.70	0.17	0.47	(0.27)	1.07	0.55	5.40

The following graph highlights the difference between IAS 39 performing coverage ratios and IFRS 9 Stage 1 and Stage 2 coverage ratios on loans and advances to customers and banks:



The drivers of the changes in the above graph relate to the following:

- **Emergence period** – change in ECL as a result of the period on stage 1 assets under IFRS 9 being defined as 12 months or less where the contractual period is less. Refer to 3.2.2.
- **SICR** – change in ECL due to stage 2 financial assets being required to carry a lifetime ECL. Refer to 3.2.3.
- **Reclassification to stage 3** – change in ECL as a result of the change in default definition. Refer to 3.2.4.

[1] Included in the IAS 39 gross carrying amount is a R20m classification and measurement adjustment relating to short-term commodity-linked instruments that had embedded derivatives which were previously bifurcated under IAS 39.

Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

4. Analysis of the ECL allowance as at 1 January 2018 (continued)

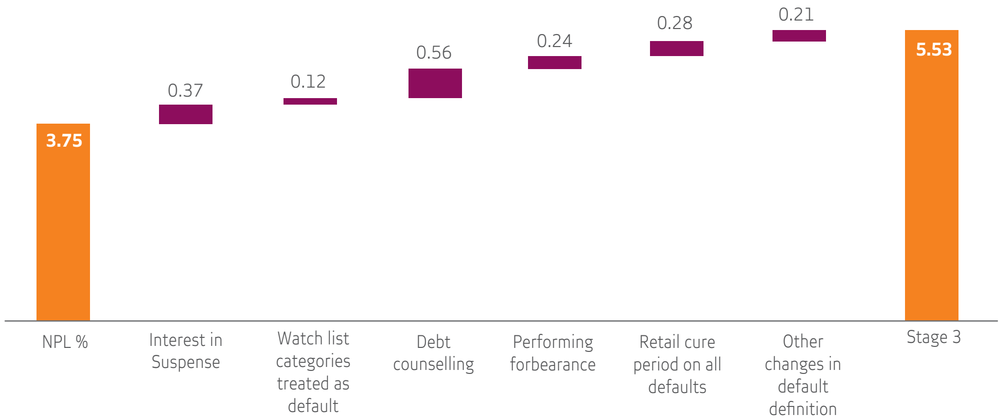
4.2 Reconciliation of non-performing loans (NPL) under IAS 39 and Stage 3 assets under IFRS 9

Under IAS 39, loans and advances in the Retail portfolio were considered to be non-performing when their delinquency reached 90 days in arrears, or in the Wholesale portfolio, when the customer was considered unlikely to pay. For the purposes of bridging the impairment coverage observed under IAS 39 with ECL coverage under IFRS 9, the coverage ratios on stage 3 assets has been compared with those calculated for NPL under IAS 39. One of the key drivers of the difference is the population of exposures classified as NPL under IAS 39 compared to the population included in stage 3 under IFRS 9. The stage 3 definition has been aligned to the regulatory definition of default used by the Group for capital and regulatory reporting.

Key differences between the IAS 39 NPL balance and the IFRS 9 Stage 3 balance are described below:

- **IAS 39 Interest in suspense:** Interest not previously recognised under IAS 39 (refer to note 3.2.1 for more detail).
- **Watch list categories treated as default:** The default definition in the wholesale portfolio involves a wider definition of 'unlikely to pay' than what was applied for NPL purposes. The result is that a larger group of watch listed customers will now be included in Stage 3 than was previously included in NPL.
- **Debt counselling:** refers to debt counselling accounts < 90 days in arrears not previously treated as in default.
- **Performing forbearance:** The Group is treating all forborne Retail assets (both debt review and internal restructures) as defaulted / stage 3 under IFRS 9.
- **Retail cure period of 12 months:** a cure period of 12 months is applied to defaulted assets (regardless of the trigger of the default), whereas no cure period was previously applied to NPL assets.

The following graph highlights the difference between IAS 39 NPL ratio and IFRS 9 Stage 3 ratio on loans and advances to customers and banks:



The following table highlights the difference between IAS 39 non-performing coverage ratios and IFRS 9 Stage 3 coverage ratios on loans and advances to customers and banks as at 1 January 2018:

	NPL cover IAS 39 (Dec 17)	IAS 39 Interest in Suspense	Watch list categories treated as default	Debt counselling	Performing forbearance	Retail cure period on all defaults	Other changes in default definition	IFRS 9 Stage 3
Exposure (Rm)	30 891	3 025	887	4 663	2 025	2 360	1 885	45 736
Impairment allowance/ECL (Rm)	13 314	3 025	247	931	343	527	219	18 606
Coverage ratio (%)	43.10	5.08	(0.52)	(3.27)	(1.34)	(1.11)	(1.26)	40.68

Reporting changes

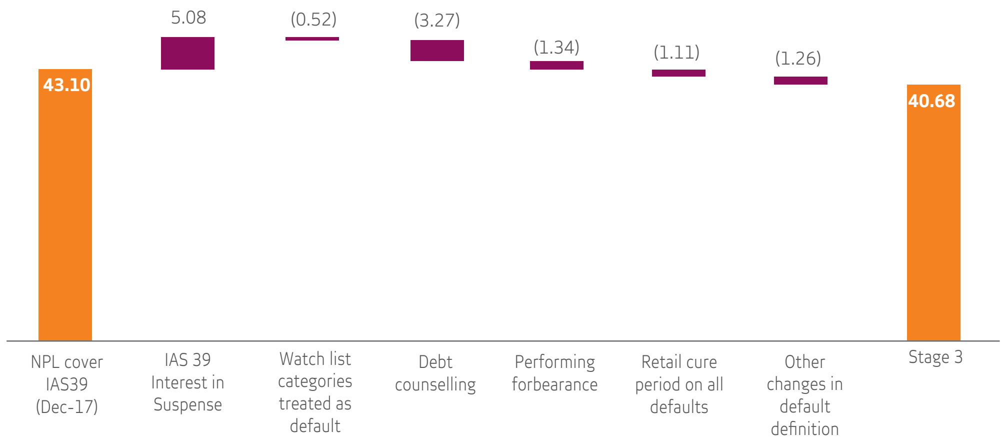
for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

4. Analysis of the ECL allowance as at 1 January 2018 (continued)

4.2 Reconciliation of non-performing loans (NPL) under IAS 39 and Stage 3 assets under IFRS 9

The following graph highlights the difference between IAS 39 NPL ratio and IFRS 9 Stage 3 ratio on loans and advances to customers and banks:



Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

4. Analysis of the ECL allowance as at 1 January 2018 (continued)

4.3 Summary of ECL coverage by segment and class of credit exposure

The following table provides an analysis of the total ECL allowance by market segment, and per stage distribution. For credit exposures disclosed on the statement of financial position, the gross carrying value of on - statement of financial position exposures includes only the amounts that were drawn, as at 1 January 2018, whilst the allowance for ECL includes expected losses on committed, undrawn lending facilities. To the extent that the ECL allowance exceeds the carrying value of the drawn exposure, a liability (provision) has been recognised in the statement of financial position. This Provision is adjusted for in Head office.

	1 January 2018					
	Stage 1			Stage 2		
	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %
RBB South Africa	390 374	2 408	0.62	34 888	3 492	10.01
Retail Banking South Africa	336 635	1 768	0.53	27 980	3 184	11.38
Credit cards	29 329	654	2.23	4 392	1 343	30.58
Installment credit agreements	67 498	539	0.80	5 217	610	11.69
Loans to associates and joint ventures	23 037	2	0.01	—	—	—
Mortgages	193 979	212	0.11	14 461	366	2.53
Other loans and advances	2 453	8	0.33	345	18	5.22
Overdrafts	4 360	45	1.03	1 024	127	12.40
Personal and term loans	15 979	308	1.93	2 541	720	28.34
Business Banking South Africa	53 739	640	1.19	6 908	308	4.46
CIB South Africa[1]	183 184	482	0.26	35 232	384	1.09
Rest of Africa Banking	65 662	1 090	1.66	10 732	798	7.44
WIMI	4 658	27	0.58	229	6	2.62
Head Office, Treasury and other operations in South Africa	187	(188)	—	769	(172)	—
Loans and advances	187	8	4.28	769	11	1.43
Reclassification to provisions	—	(196)	—	—	(183)	—
Loans and advances to customers	644 065	3 819	0.59	81 850	4 508	5.51
Loans and advances to banks[2]	53 360	40	0.07	2 065	27	1.31
Total Loans and advances	697 425	3 859	0.55	83 915	4 535	5.40

[1] Included in Stage 1 gross carrying amount on loans and advances to customers is R26 808m (CIB South Africa) relating to financial instruments measured at fair value through profit or loss. The fair value measurement for these instruments includes adjustments in respect of their credit quality.

[2] Included in Stage 1 gross carrying amount on loans and advances to banks is R17 198m relating to financial instruments measured at fair value through profit or loss. The fair value measurement for these instruments includes adjustments in respect of their credit quality

Stage 3			Totals		
Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %
37 612	14 378	38.23	462 874	20 278	4.38
31 942	11 756	36.80	396 557	16 708	4.21
5 918	3 727	62.98	39 639	5 724	14.44
4 167	1 431	34.34	76 882	2 580	3.36
—	—	—	23 037	2	0.01
18 213	4 426	24.30	226 653	5 004	2.21
11	8	72.73	2 809	34	1.21
416	240	57.69	5 800	412	7.10
3 217	1 924	59.81	21 737	2 952	13.58
5 670	2 622	46.24	66 317	3 570	5.38
2 143	955	44.56	220 559	1 821	0.83
5 650	3 087	54.64	82 044	4 975	6.06
330	233	70.61	5 217	266	5.10
—	(47)	—	956	(407)	—
—	—	—	956	19	1.99
—	(47)	—	—	(426)	—
45 735	18 606	40.68	771 650	26 933	3.49
—	—	—	55 425	67	0.12
45 735	18 606	40.68	827 075	27 000	3.26

Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

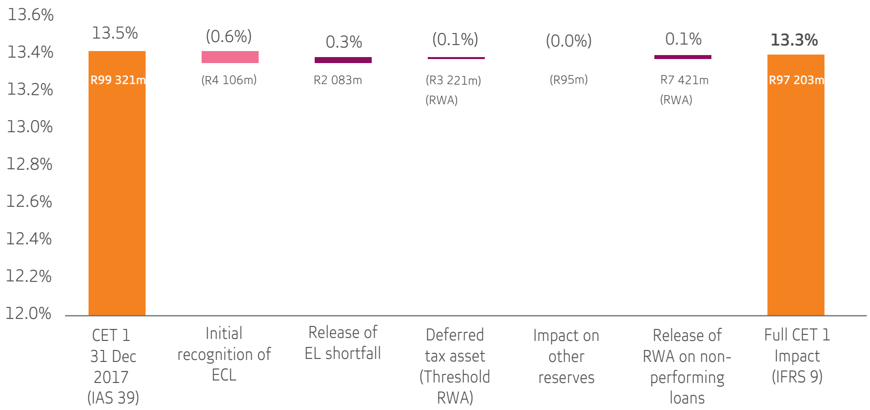
5. The impact of IFRS 9 on regulatory capital

5.1 (a) Adoption of IFRS 9 and its impact on the Group's regulatory capital – 'IFRS'

The Group has elected to utilise the transition period of three years for phasing in the regulatory capital impact of IFRS 9, as afforded by paragraph 2.2 of Directive 5 of 2017 issued by the SARB. The key drivers of such impact are explained in the next table:

	31 December 2017							1 January 2018	
IFRS (Including Unappropriated profits)	IAS 39	Initial recognition of ECL	Release of EL shortfall	Deferred tax (RWA)	Impact on other reserves	Release of RWA on non-performing loans	Eligible general provisions (Tier 2)	**Fully loaded capital position**	**Transitional capital position**
	Note	5.1.1	5.1.2	5.1.3	5.1.4	5.1.5	5.1.6		
Capital supply (Rm)									
Common Equity Tier 1	99 321	(4 106)	2 083		(95)			**97 203**	**98 792**
Tier 1 capital	103 686	(4 106)	2 083		(95)			**101 568**	**103 156**
Total capital	118 899	(4 106)	2 083		(95)		1 269	**118 050**	**118 687**
Risk weighted assets	736 892			3 221		(7 421)		**732 692**	**735 842**
Capital ratios (%)[1]									
Common Equity Tier 1	13.5	(0.6)	0.3	(0.1)	(0.0)	0.2		**13.3**	**13.4**
Tier 1	14.1	(0.6)	0.3	(0.1)	(0.0)	0.1		**13.9**	**14.0**
Total capital	16.1	(0.6)	0.3	(0.1)	(0.0)	0.1	0.2	**16.1**	**16.1**
Leverage									
Leverage exposure	1 311 893	(5 868)	2 083	1 622	(189)			**1 309 541**	**1 311 305**
Leverage ratio (%)	7.9	(0.2)	0.1	(0.0)	(0.0)			**7.8**	**7.9**

The following graph highlights the IFRS difference between IAS 39 CET 1 and IFRS 9 CET 1 for the Group:



[1] The Group's IFRS capital ratios decreased as follows as a result of the adoption of IFRS 9:
- CET 1 ratio decreased by 22 bps on a fully loaded basis and 5 bps after phase-in.
- Tier 1 ratio decreased by 22 bps on a fully loaded basis and 5 bps after phase-in.
- Total capital ratio decreased by 3 bps on a fully loaded basis and 1 bps after phase-in.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

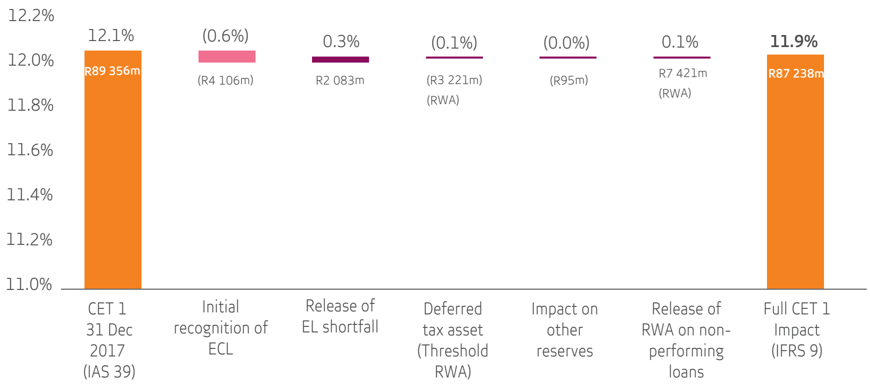
5. The impact of IFRS 9 on regulatory capital (continued)

5.1 (b) Adoption of IFRS 9 and its impact on the Group's regulatory capital - 'Normalised'

The Group has elected to utilise the transition period of three years for phasing in the regulatory capital impact of IFRS 9, as afforded by paragraph 2.2 of Directive 5 of 2017 issued by the SARB. The key drivers of such impact are explained in the next table:

Normalised (Including Unappropriated profits)	31 December 2017 IAS 39	Initial recognition of ECL	Release of EL shortfall	Deferred tax (RWA)	Impact on other reserves	Release of RWA on non-performing loans	Eligible general provisions (Tier 2)	1 January 2018 Fully loaded capital position	Transitional capital position
	Note	5.1.1	5.1.2	5.1.3	5.1.4	5.1.5	5.1.6		
Capital supply (Rm)									
Common Equity Tier 1	89 356	(4 106)	2 083		(95)			**87 238**	**88 826**
Tier 1 capital	93 984	(4 106)	2 083		(95)			**91 867**	**93 455**
Total capital	109 602	(4 106)	2 083		(95)		1 269	**108 753**	**109 389**
Risk weighted assets	736 767			3 221		(7 421)		**732 567**	**735 717**
Capital ratios (%)[1]									
Common Equity Tier 1	12.1	(0.6)	0.3	(0.1)	(0.0)	0.1		**11.9**	**12.1**
Tier 1	12.8	(0.6)	0.3	(0.1)	(0.0)	0.1		**12.5**	**12.7**
Total capital	14.9	(0.6)	0.3	(0.1)	(0.0)	0.1	0.2	**14.8**	**14.9**
Leverage									
Leverage exposure	1 312 679	(5 868)	2 083	1 622	(189)	—	—	**1 310 328**	**1 312 091**
Leverage ratio (%)	7.2	(0.2)	0.1	(0.0)	(0.0)			**7.0**	**7.1**

The following graph highlights the normalised difference between IAS 39 CET 1 and IFRS 9 CET 1 for the Group:



[1] The Group's normalised capital ratios decreased as follows as a result of the adoption of IFRS 9:
- CET 1 ratio decreased by 22 bps on a fully loaded basis and 5 bps after phase-in.
- Tier 1 ratio decreased by 22 bps on a fully loaded basis and 5 bps after phase-in.
- Total capital ratio decreased by 3 bps on a fully loaded basis and 1 bp after phase-in.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

5. The impact of IFRS 9 on regulatory capital (continued)

5.1 Adoption of IFRS 9 and its impact on the Group's regulatory capital (continued)

5.1.1 Increase in ECL provision under IFRS 9

The adoption of the revised IFRS 9 ECL model has reduced shareholders equity by **R5 868m** which is partially offset by the recognition of a net tax credit within retained earnings of **R1 572m**. The tax credit includes current and deferred tax.

5.1.2 Release of ECL shortfall to credit provisions

For reporting periods up to 31 December 2017, the calculation of capital took into account the regulatory expected loss for performing assets, which was greater than the IAS 39 provision, thereby resulting in an additional deduction against CET 1 to the extent of the shortfall in the accounting provision. Under IFRS 9, the accounting ECL allowance has increased resulting in the elimination of the shortfall. This is reflected in the above reconciliation as a reversal of the previous deduction and has the effect of partially reducing the negative impact of IFRS 9 ECL on regulatory capital.

5.1.3 Recognition of a higher deferred tax asset balance

As discussed in point 5.1.1, the carrying value of the Group's deferred tax asset balance has increased, driven by an increase in the ECL provision. The reclassification of investment securities, as discussed below in 5.1.4 resulted in a reversal of a deferred tax liability. The net effect has been an increase in risk weighted assets (RWA) of **R3 221m**, and accordingly, a decrease in the CET 1 ratio.

5.1.4 Impact on other reserves under IFRS 9

Other reserves decreased by **R95m** (net of deferred tax) primarily as a result of a reclassification from available-for-sale to amortised cost of a small portfolio of South African CPI linked investments so as to reflect the Group's business model of holding the instruments to collect contractual cash flows.

5.1.5 Release of RWA on non-performing loans

The alignment of the definition of default for both accounting and regulatory purposes resulted in a reduction of RWA of **R7 421m** due to specific provisions (stage 3) being raised for an increased population of exposures. The methodology applied in calculating default RWA's permits a bank to reduce the LGD of the defaulted exposure by the bank's estimate of expected loss, represented by the bank's specific accounting provision.

5.1.6 Tier 2 eligible provisions

In respect of the Group's standardised portfolio, the IFRS 9 general provision (stage 1 and stage 2) is added back to Tier 2 capital, subject to a limit of 1.25% of the standardised credit RWA. This has resulted in an increase in total capital of **R1 269m**.

5.1.7 Impact of IFRS 9 ECL on leverage ratio

Key drivers of change in the leverage ratio as a result of the adoption of IFRS 9 were a decrease in leverage exposure and Tier 1 capital, mainly attributable to increased ECL provisions. This was however partly offset by the release of the EL shortfall.

6. Drivers of the impairment charge under IFRS 9

Consistent with IAS 39, loans are written off when there is no realistic probability of recovery and the Group's write off policy remains materially unchanged. IFRS 9 impacts the timing of loss recognition, but over time, the long run expected cash losses are driven by economic and commercial factors, independent from the accounting framework applied.

Differences in the timing of recognition of an impairment charge under IFRS 9 versus IAS 39 are attributed to, inter alia:

- significant increases in credit risk causing a transfer of assets to stage 2 assets;
- significant changes in forward looking macroeconomic conditions leading to assets moving between stages; and
- the size of new business growth.

Significant increase in credit risk: Transfers of exposures to stage 2 are driven by significant deterioration in credit quality, although a large stage 2 balance does not necessarily mean that the exposures have a poor default grade. An important principle under IFRS 9 is that a significant increase in credit risk constitutes a measure of relative credit risk, requiring the absolute credit quality of an exposure on origination to be compared against the absolute credit quality at reporting date. Exposures classified within stage 2 may actually have a better credit quality than other assets which remain in Stage 1. Further, owing to the Group's definition of credit impaired, and the inclusion of performing forbearance accounts within stage 3, a credit impaired exposure may have a better credit quality than an exposure in stage 2. Notwithstanding this principle, should the Group's stage 2 population start growing, this could indicate that the credit quality across the portfolio on reporting date may be worse than management had initially anticipated.

Changes in forward looking assumptions: IFRS 9 requires forward-looking and historical information to be used in order to determine whether a significant increase in credit risk has occurred, as well as to determine the appropriate PDs and LGDs to be applied. Transfers between stages could be driven by a deteriorating or improving macroeconomic environment, which could make the impairment charge more susceptible to volatility.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

6. Drivers of the impairment charge under IFRS 9 (continued)

New business growth: One of the key changes under IFRS 9 is the recognition of ECL losses in respect of all exposures on initial recognition, or on the date that the Group becomes irrevocably committed to providing a lending facility. This means that growth in new business will strain profitability in the short to medium term, although over time the realised economic returns should, all else being equal, remain unchanged from IAS 39.

7. Impact of IFRS 9 on the Group's tax position

The adoption of IFRS 9 has resulted in a change in the timing of the recognition of credit losses, but does not impact the value of credit losses ultimately incurred. Accordingly, the long run tax effect of credit losses and recoveries are unchanged by the implementation of a new accounting framework. The change in the timing of loss recognition is accounted for through the recognition of a deferred tax adjustment, calculated based on the statutory tax rate applicable.

In South Africa, the value of the deferred tax asset (and corresponding impact on retained earnings and other reserves) which was recognised on adoption of IFRS 9 was impacted by both a change in the accounting recognition of losses, as well as a change in the tax legislation. In accordance with amended tax legislation issued by the South African Revenue Service in 2017, the deduction permitted in respect of doubtful debt balances has changed to 25% for stage 1 ECL, 40% for stage 2 ECL and 85% for stage 3 ECL. This is a change from the previous deductions under IAS 39, which were 25% of incurred but not reported losses, 80% for portfolio specific impairments and 100% for specific impairments. A higher deferred tax asset has therefore been driven by an increase in the ECL provision under IFRS 9, partially offset by a change in the South African tax treatment of pre-existing allowances.

8. Incorporation of forward-looking information in the IFRS 9 modelling

The Group's IFRS 9 impairment models consume macroeconomic information to enable the models to provide an output that is based on forward looking information. The macroeconomic variables and forecast scenarios are sourced from one of the world's largest research companies, and are reviewed and approved in accordance with the Group's macroeconomic governance framework. This review includes the testing of forecast estimates, the appropriateness of variables and probability weightings, as well as the incorporation of these forecasts into the ECL allowance.

The Group has adopted the use of three economic scenarios: a base scenario, a mild upside scenario, and a mild downside scenario. IFRS 9 requires the inclusion of point-in-time forward-looking assumptions, and in respect of which the application of hindsight is prohibited. The scenarios presented below are therefore reflective of the Group's view of forecast economic conditions as at the date of initial adoption

8.1 Base scenario

Global

Global expansion is expected to remain broad-based across sectors and synchronised in developed economies. The outlook on emerging market growth remains solid on the back of better growth in developed economies and rising commodity prices. Developed market central banks continue tightening their monetary policies at a gradual pace in 2018-20 but this is not expected to be disruptive to emerging markets.

South Africa

The economy recovered from a weak growth at the start of 2017, on the back of growing agricultural output, but the near-term outlook still remains moderate. GDP growth is forecast to marginally increase in 2018. Positive political developments are observed, although the consumer remains in a defensive mindset, and household spending remains relatively muted given tax increases. Beyond 2019, growth is supported by a stronger global and domestic environment. South Africa's fiscal fortunes and potential ratings downgrade remain a concern over the forecast period. Disappointing growth could result in low fiscal revenue that is expected to undershoot budget targets. No further interest rate cuts over the forecast horizon are assumed.

Rest of Africa

Sub-Saharan Africa's economic recovery continues although the trajectory is not smooth across all jurisdictions. Headwinds that could still derail growth in some markets include low fiscal buffers and political risks ahead of elections in key markets this year. Countries with weak fiscal positions continue to necessitate close monitoring. Economic growth is supported largely by a recovery in the agriculture sector, improved commodity output and prices, as well as more accommodative monetary policy stances.

8.2 Mild upside scenario: Stronger near term growth (S1)

Global

The global economy grows faster than expected, and is supported by fiscal stimulus in the United States (US), and a quick negotiation of Britain's exit (Brexit) from the European Union (EU), which boosts global business confidence. Commodity prices rise sharply relative to the base scenario and the global financial markets improve. Globally, investor and consumer sentiment rises, due to the favorable financial environment.

Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

8. Incorporation of forward-looking information in the IFRS 9 modelling (continued)

8.2 Mild upside scenario: Stronger near term growth (S1) (continued)

South Africa

It is assumed there are no further rating downgrades. Policy and political stability boosts business confidence and private sector fixed investment. We assumed a strong rand compared to the base scenario that is driven by the sovereign rating being unchanged and the positive global sentiment toward emerging markets. Inflation moves lower on the back of the stronger rand and continued moderation in food price inflation. Falling inflation and diminished risk at a domestic level gives the South African Reserve Bank room to provide stimulus to the economy by cutting interest rates to support the economy. The cumulative interest rate cuts, higher commodity prices and stronger global growth boost South Africa's GDP growth.

Rest of Africa

A stronger global economy and higher commodity prices help support growth in African commodity exports and fixed investments. The level of output remains above the baseline scenario. Inflation moves lower as currencies appreciate on the back of capital flows and higher commodity prices supporting exports. Easing inflation allows central banks to lower interest rates, supporting the African economic growth further.

8.3 Mild downside scenario: Moderate recession (S3)

Global

The US economy slows relative to baseline due to delays in implementing the stimulus package promised before the elections. Business and consumer confidence falls in the US, followed by stock market indices. It is assumed Brexit negotiations take longer than expected, increasing uncertainty on financial markets, weighing on business and consumer confidence. As a result, euro zone growth slows compared to baseline, contributing to economic and financial stress faced by some of the heavily indebted countries in the region. Furthermore, slower growth in key markets affects China's exports and result in its GDP growth slowing. Commodity prices fall on the back of weaker global growth.

South Africa

South Africa goes into recession on the back of weaker global growth environment and falling commodity prices. As a result, government revenue comes under pressure and the finances of state owned enterprises deteriorate. Rating agencies downgrade South Africa's sovereign rating further, resulting in capital outflow and rand weakness. The weakening of the rand drives inflation above the SARB's 3-6% target range in 2018-2019, resulting in the SARB hiking the repurchase rate. The yield curve moves higher in line with the selling of South African bonds and higher short-term rates. Economic performance recovers slowly from 2020 as the weaker exchange rate builds some export competitiveness aiding in arresting some of the rand's decline, and spending power returns slowly to consumers as inflation abates in the middle of 2020.

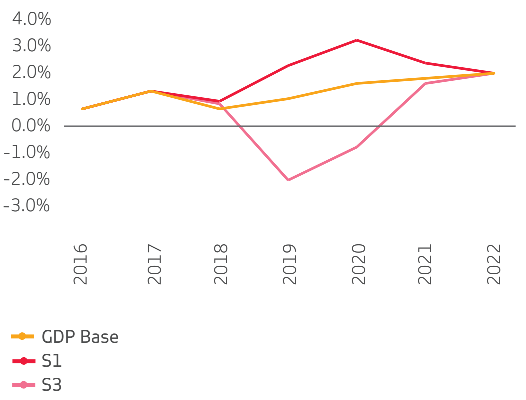
Rest of Africa

In Sub-Saharan Africa some economies go into recession on the back of lower global growth and commodity prices. Fiscal positions deteriorate further and political risks increase in some markets. Capital outflows and falling exports drive currencies weaker, pushing inflation higher. Central banks intervene by hiking interest rates to help stem the flight of capital and protect currencies.

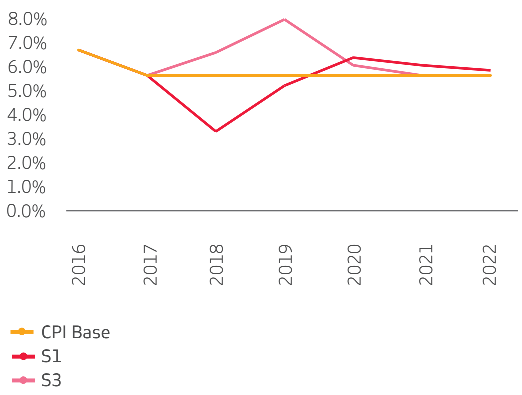
8.4 Macroeconomic assumptions

The following graphs show the key historical and forecasted assumptions for the three economic scenarios for South Africa:

SA GDP (%)



SA CPI (%)

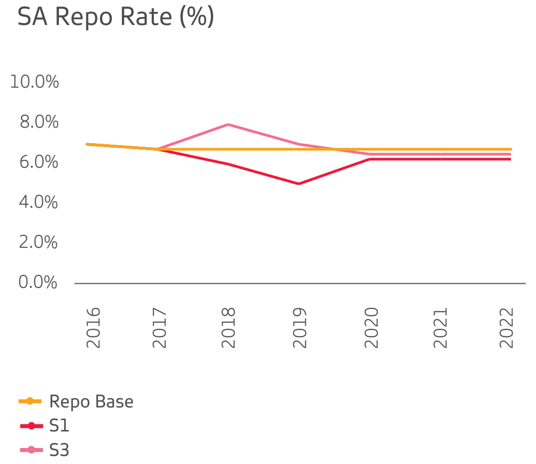


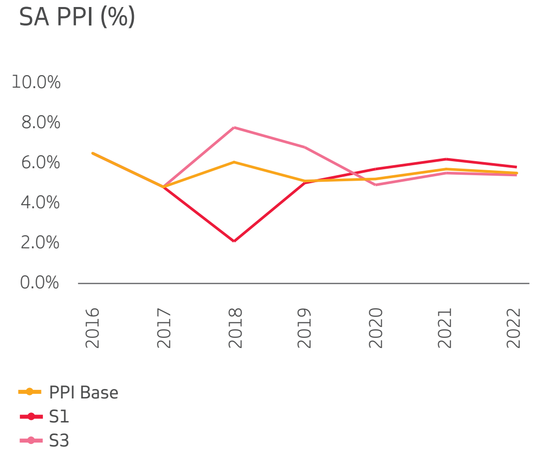
B. Initial adoption of IFRS 9 Financial Instruments (continued)

8. Incorporation of forward-looking information in the IFRS 9 modelling (continued)

8.4 Macroeconomic assumptions (continued)

The following graphs show the key historical and forecasted assumptions for the three economic scenarios for South Africa:





9. Critical judgements applied in implementing the new IFRS 9 ECL framework

9.1 Determination of the lifetime of a credit exposure

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

9. Critical judgements applied in implementing the new IFRS 9 ECL framework (continued)

9.2 IFRS 9 ECL model parameters

The calculation of ECL incorporates the probability that a credit loss will occur, as well as the probability that no credit loss occurs, even if the most likely outcome is no credit loss. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

The IFRS 9 models make use of three parameters namely PD, LGD and EAD in the calculation of the ECL allowance.

The PD is the likelihood of default assessed on the prevailing economic conditions at the reporting date (that is, at a point in time), adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default; it will not equate to a long run average. For IFRS 9 purposes, two distinct PD estimates are required:

- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.
- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.

The general approach for the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates.

In calculating LGD, losses are discounted to the reporting date using the EIR determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

The EAD model estimates the exposure that an account is likely to have at any point of default in future. This incorporates both the amortising profile of a term loan, as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.

Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Models are validated with the same rigor applied to regulatory models. Testing procedures assess the quality of data, conceptual soundness and performance of models, model implementation and compliance with accounting requirements.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

9. Critical judgements applied in implementing the new IFRS 9 ECL framework (continued)

9.3 Interaction of the IFRS 9 ECL models with the Basel Framework

The Group applies both the standardised (TSA) and advanced internal ratings-based (AIRB) approaches to calculate its regulatory capital requirements relating to credit risk. While, the Group's operations across the rest of Africa as well as the Edcon portfolio are subject to the TSA approach, the remaining portfolios are subject to the AIRB approach, which applies the Group's own measures of PD, EAD and LGD. In designing IFRS 9 compliant ECL models, the Group recognised that it could leverage the data used by the regulatory models to model IFRS 9 ECL and encourage easier reconciliation of inputs for capital requirement and impairment calculations.

Existing Basel models were used as a starting point to develop IFRS 9 ECL parameters. The following are key differences to the regulatory capital parameters:

Key risk parameter	Basel III	IFRS 9
Probability of default (PD)	Average of default within the next 12 months, but calculated based on the long-run historical average over the whole economic cycle (that is, through the cycle).	For stage 1 assets, the PD is measured for the next 12 months, whilst in the case of stage 2 and stage 3 assets, PD is measured over the remaining life of the financial instrument. The PD should reflect the current and future economic cycles to the extent relevant to the remaining life of the loan calculated at a point in time, as at the reporting date.
Loss given default (LGD)	LGD is a downturn-based metric, representing a prudent view of recovery in adverse economic conditions. The LGD calculation incorporates both direct and indirect costs associated with the collection of the exposure. Cash flows are discounted at the risk-free rate plus an appropriate premium.	A current or forward-looking LGD is used to reflect the impact of economic scenarios, with no bias to adverse economic conditions. Collection costs incorporated into the LGD calculation include only those that are directly attributable to the collection of recoveries. The discount rate applied is the EIR on the exposure.
Exposure at default (EAD)	A downturn EAD is calculated to reflect what would be expected during a period of economic downturn	The calculation of EAD considers all the contractual terms over the lifetime of the instrument.

9.4 Retail ECL model parameters

The Retail PD model consists of three elements namely:

- a term structure, capturing typical default behaviour by the months since observation;
- a behavioural model which incorporates client level risk characteristics; and
- a macroeconomic model that incorporates forward looking macroeconomic scenarios.

A further adjustment is made to incorporate an account's propensity to attrite. The PD model is used to identify accounts that have increased significantly in credit risk since origination. The final PD is a probability weighted average of Group's three forecasted macroeconomic scenarios.

The LGD model estimates the loss that can be expected if an account defaults. The regulatory LGD model is adjusted for:

- forward looking macroeconomic adjustments; and
- future expected changes in collateral and EAD.

The LGD model further incorporates the losses associated with re-defaults for lifetime losses.

9.5 Wholesale ECL model parameters

Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

The main adjustments to PD comprise:

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven-year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.

B. Initial adoption of IFRS 9 Financial Instruments (continued)

10. The key elements of classification and measurement requirements under IFRS 9

IFRS 9 will require financial assets to be classified on the basis of two criteria:

- The business model within which financial assets are managed, and
- Their contractual cash flow characteristics, and specifically whether the cash flows represent Solely Payments of Principal and Interest (SPPI).

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets to collect contractual cash flows, and their contractual cash flows meet the SPPI requirements.

Financial assets will be measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows as well as selling financial assets and their contractual cash flows meet the SPPI requirements.

Other financial assets are required to be measured at FVPL if they are held for the purposes of trading, if their contractual cash flows do not meet the SPPI criterion, or if they are managed on a fair value basis and the Group maximises cash flows through sale. IFRS 9 allows an entity to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (i.e. an accounting mismatch).

An entity is permitted to make an irrevocable election for non-traded equity investments to be measured at FVOCI, in which case dividends are recognised in profit or loss, but other gains or losses remain in equity and are not reclassified to profit or loss upon derecognition.

The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at FVPTL. Gains and losses on such financial liabilities are required to be presented in OCI, to the extent that they relate to changes in own credit risk. The Group early adopted this requirement in 2017.

Classification and measurement impact

The following table presents the changes in the classification of financial assets as at 1 January 2018, by showing the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 and the changes in the net carrying amounts, which includes the effects of ECL:

	IAS 39				IFRS 9	
Assets	Measurement Category	Carrying amount Rm	Reclassification Rm	Remeasurement Rm	Measurement category	Carrying amount Rm
Cash, cash balances and balances with central banks	Designated at FVTPL	4 808	(4 808)	—	Designated at FVTPL	—
		—	4 808	—	Mandatorily at FVTPL	4 808
	AFS – designated	952	—	—	FVOCI – debt instruments	952
	Amortised cost – designated	42 909	—	(10)	Held at amortised cost	42 899
		48 669	—	(10)		48 659
Investment securities	Designated at FVTPL	26 335	(14 972)	—	Designated at FVTPL	11 363
		—	14 972	—	Mandatorily at FVTPL	14 972
	AFS – designated	64 657	(7 593)	—	FVOCI – debt instruments	57 064
		—	752	—	FVOCI – equity instruments	752
	AFS – hedged items	20 417	—	—	FVOCI – hedged items	20 417
		—	6 646	(2)	Amortised cost – debt instruments	6 644
		111 409	(195)	(2)		111 212
Loans and advances to banks	Designated at FVTPL	17 198	(15 747)	—	Designated at FVTPL	1 451
			15 747		Mandatorily at FVTPL	15 747
	Amortised cost – designated	38 228	—	(67)	Amortised cost – debt instruments	38 161
		55 426	—	(67)		55 359
Trading portfolio assets	FVTPL – held for trading	130 132	—	—	Mandatorily at FVTPL	130 132
Hedging portfolio assets	FVTPL – hedging Instrument	2 673	—	—	FVTPL – hedging Instrument	2 673
Other assets	Designated at FVTPL	4	(4)	—	Designated at FVTPL	—
		—	4	—	Mandatorily at FVTPL	4
	Amortised cost – designated	17 486	—	—	Amortised cost – designated	17 486
		17 490	—	—		17 490

B. Initial adoption of IFRS 9 Financial Instruments (continued)

10. The key elements of classification and measurement requirements under IFRS 9

Classification and Measurement Impact (continued)

	IAS 39				IFRS 9	
Assets	Measurement Category	Carrying amount Rm	Reclassification Rm	Remeasurement Rm	Measurement category	Carrying amount Rm
Loans and advances to customers	Designated at FVTPL	**26 811**	(19 378)	-	Designated at FVTPL	**7 433**
			19 358	—	Mandatory at FVTPL	**19 358**
	Amortised cost – designated	**722 915**	—	(5 034)	Amortised cost – designated	**717 881**
	Amortised cost – hedged items	**46**	—	—	Amortised cost – hedged items	**46**
		749 772	(20)	(5 034)		**744 718**
Investments linked to investment contracts	Designated at FVTPL	**18 877**	(18 877)	—	Designated at FVTPL	**—**
		—	18 877	—	Mandatory at FVTPL	**18 877**
	FVTPL – held for trading	**59**	—	—	FVTPL – held for trading	**59**
		18 936	—	—		**18 936**
Non-current asset held for sale	Amortised cost – designated	**1 118**	—		Amortised cost – designated	**1 118**
Assets outside the scope of IFRS 9		**30 354**	55	1 076	Assets outside the scope of IFRS 9	**31 458**
Total assets		**1 165 979**	(160)	(4 037)		**1 161 782**

Adoption of the new classification and measurement rules will require a limited number of reclassifications to be effected as at 1 January 2018, but will not require a significant adjustment to the gross carrying values of the Group's financial assets and financial liabilities. Initial application of the new requirements resulted in a decrease in reserves of **R140m** (after tax) as at 1 January 2018. Explanations of the reclassifications that will be required are provided below:

– A portfolio of consumer price index (CPI) linked investment securities within Treasury, have been reclassified from available-for-sale under IAS 39, to amortised cost in terms of the Groups business model of holding the instruments to collect contractual cash flows. Had these assets not been reclassified to amortised, the fair value of the instruments would have been **R5 619m**, and a fair value loss of **R74m** would have been recognised in OCI during the reporting period.

– Certain financial assets, including loans and advances in CIB and investments in WIMI were designated at FVTPL under IAS 39 as they were managed on a fair value basis. In terms of IFRS 9, these assets are now required to be measured at FVTPL, and noted as mandatory designations.

– Certain debt securities are held by Treasury in a separate portfolio to meet everyday liquidity needs. These were classified as available-for-sale under IAS 39. Treasury seeks to minimise the cost of managing liquidity needs and therefore actively manages the return on the portfolio. The return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The business model may result in sales activity and these instruments have therefore been classified at FVOCI under IFRS 9.

– In a particular jurisdiction within Rest of Africa, a small portfolio of debt securities held by Treasury have been reclassified from available-for-sale to amortised cost as there is limited evidence of an ability to sell these securities, and the portfolio is therefore aligned to a business model with the objective of collecting contractual cash flows.

– Commodity-linked debt instruments within CIB, were previously bifurcated and separately recognised as a loan at amortised cost and a derivative. These are now classified as FVTPL as their cash flows do not consist of SPPI.

– Debt securities held by insurance entities within the rest of Africa, have been reclassified from available-for-sale to amortised cost. The objective of the portfolio is to collect contractual cash flows as the securities are neither held within a portfolio whose business model is to manage the securities and evaluate their performance on a fair value basis, nor is it possible to evidence an adequate frequency and volume of sales.

– In October 2017, the IASB issued an amendment to IFRS 9 *Prepayment Features with Negative Compensation*. Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment clarifies how a company would classify and measure a debt instrument if the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Under the amendments, the sign of the prepayment amount is not relevant. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. This amendment is effective on 1 January 2019 and is not expected to have a significant impact on the Group.

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Reporting changes

for the reporting period ended

B. Initial adoption of IFRS 9 Financial Instruments (continued)

11. Governance

11.1 Implementation of IFRS 9

The implementation of IFRS 9 has been completed through a jointly accountable risk and finance governance programme, with representation from all impacted departments. A parallel run of IFRS 9 and IAS 39 was initiated in February 2017, providing oversight for both IAS 39 and IFRS 9 impairment results. This included model, process and output validation, testing, calibration and analysis. During the course of the programme there have been regular updates provided to the Group Audit Compliance Committee (GACC), who have approved key judgements and decisions.

11.2 Ongoing governance of IFRS 9

The Group's basic risk management framework has not been altered due to the introduction of IFRS 9. The Group Credit Impairment Committee (GCIC) remains the key management committee responsible for the governance of impairments as well as the oversight of the Group's impairment position. The overall credit risk appetite also remains unchanged with all the controls in place in the business for the extension and subsequent monitoring of credit exposure. It has however, been necessary to develop new processes and related controls to support the calculation of the Group's ECL. In particular, new governance processes have been established to review and approve the forward-looking macroeconomic assumptions.

C. Adoption of IFRS 15 *Revenue from Contracts with Customers* (IFRS 15)

IFRS 15 is effective from 1 January 2018, and replaces the previous revenue recognition standards and interpretations, including IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 establishes a single approach for the recognition and measurement of revenue, and requires an entity to recognise revenue as performance obligations are satisfied. It applies to all contracts with customers except for transactions specifically scoped out, which includes interest, dividends, leases, and insurance contracts. The adoption of IFRS 15 has resulted in a reduction in retained earnings of **R44m**, net of tax.

D. Accounting policy amendments

D.1 The accounting treatment of policyholder liabilities under life insurance contracts

During the current reporting period, the Group amended its accounting policy with respect to the measurement of policyholder liabilities, and specifically, with regards to the calculation of discretionary margins held within policyholder reserves. This change impacts life insurance products where the present value of expected benefit payments, plus the future expected administration expenses under a life insurance contract, is lower than the expected discounted value of the contractual premiums to be received. Prior to the change, the Group's policy was to eliminate all negative liabilities. The policy has been changed to allow for discretion to be applied in full or partial elimination of negative liabilities in order to more appropriately provide for prudent reserving and release of profits. This policy change will address scenarios where a loss is recognised in a reporting period solely as a consequence of incurring initial acquisition costs despite the contract being expected to be profitable over its duration. In accordance with the revised policy, negative liabilities will still be eliminated, to avoid the premature recognition of profits, however such elimination is only applied to the excess remaining after adjusting for the product's initial acquisition costs. The change in accounting policy has been applied retrospectively to the extent practicable, and comparatives restated accordingly.

The effects of the retrospective application are not determinable prior to 2014 and the change in accounting policy has been applied from the start of the 2014 financial year.

The impact of this change on the Group's condensed statement of financial position as at 31 December 2017 is set out in the following table:

	As previously reported 31 December 2017 Rm	Change in accounting policy Rm	Restated 31 December 2017 Rm
Assets			
Total assets	1 165 979	—	1 165 979
Liabilities			
Policyholder liabilities under insurance contracts	4 617	(275)	4 342
Deferred tax liabilities	557	77	634
Other liabilities	1 041 745	—	1 041 745
Liabilities	1 046 919	(198)	1 046 721
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	1 666	—	1 666
Share premium	10 498	—	10 498
Retained earnings	91 882	198	92 080
Other reserves	4 370	—	4 370
Ordinary equity holders	108 416	198	108 614
Non-controlling interest – ordinary shares	4 500	—	4 500
Non-controlling interest – preference shares	4 644	—	4 644
Non-controlling interest – Additional Tier 1 capital	1 500	—	1 500
Total equity	119 060	198	119 258
Total liabilities and equity	1 165 979	—	1 165 979

Reporting changes

for the reporting period ended

D. Accounting policy amendments (continued)

D.1 The accounting treatment of policyholder liabilities under life insurance contracts (continued)

The impact of the change on the Group's condensed statement of financial position as at 31 December 2016 is disclosed in the following table:

	As previously reported	Restated	
	31 December 2016 Rm	Change in accounting policy Rm	31 December 2016 Rm
Assets			
Total assets	1 101 023	—	1 101 023
Liabilities			
Policyholder under liabilities insurance contracts	4 469	(186)	4 283
Deferred tax liabilities	1 185	52	1 237
Other liabilities	993 089	-	993 089
Liabilities	998 743	(134)	998 609
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	1 693	—	1 693
Share premium	4 467	—	4 467
Retained earnings	81 604	134	81 738
Other reserves	5 293	—	5 293
Ordinary equity holders	93 057	134	93 191
Non-controlling interest – ordinary shares	4 579	—	4 579
Non-controlling interest – Additional Tier 1 capital	4 644	—	4 644
Total equity	102 280	134	102 414
Total liabilities and equity	1 101 023	—	1 101 023

The impact of the change on the Group's condensed statement of comprehensive income for the reporting period ended 31 December 2017 is disclosed in the following table:

	As previously reported 31 December 2017 Rm	Restated Change in accounting policy Rm	31 December 2017 Rm
Net interest income	42 644	—	42 644
Non-interest income	30 661	90	30 751
Changes in investment and insurance contract liabilities	(2 113)	90	(2 023)
Other non-interest income	32 774	—	32 774
Operating income before operating expenses	73 305	90	73 395
Operating expenses	(52 596)	—	(52 596)
Share of post-tax results of associates and joint ventures	170	—	170
Operating profit before income tax	20 879	90	20 969
Taxation expense	(5 857)	(25)	(5 882)
Profit for the reporting period	15 022	65	15 087
Ordinary equity holders	13 823	65	13 888
Non-controlling interest	1 199	—	1 199
	15 022	65	15 087

D. Accounting policy amendments (continued)

D.2 The presentation of net interest income

As a consequence of IFRS 9, an amendment was made to IAS 1 Presentation of Financial Statements, which is effective from 1 January 2018. The amendment requires interest revenue, which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. This only includes interest earned on financial assets measured at amortised cost or at FVOCI, subject to the effects of applying hedge accounting to derivatives in designated hedge relationships. In compliance with this amendment the Group has separately presented its effective interest income within profit or loss, but elect to present all interest which fall outside the afore-mentioned scope as a sub-component of 'Interest and similar income'. The Group has elected to apply the same approach in presenting 'Interest expense and similar charges' to achieve consistency in the presentation of 'Net interest income. The revised presentation has been applied on a retrospective basis, to ensure comparability between reporting periods.

E. Changes to reportable segments and business portfolios

The following business portfolio changes resulted in the restatement of financial results for the comparative period. None of the restatements have impacted the overall financial position or net earnings of the Group:

- The Group refined its Treasury allocation methodology, resulting in the restatement of net interest income, cash and cash equivalents and investment securities between and within segments.
- The Group continued refining its cost allocation methodology, resulting in the restatement of operating expenses between and within segments.
- Corporate and Investment Banking South Africa (CIB SA) review of customer portfolio to be industry specific resulted in R16bn move of loans and advances to customers from Corporate to Investment Banking.
- The South Africa Banking segment (which consisted of RBB (SA) and CIB (SA) in aggregate) has been removed in the Group's segmental disclosures to align with how the banking operations are now managed.

Risk management

Risk Management overview

Capital Management and RWA

Risk management overview

for the reporting period ended 30 June 2018

Enterprise Risk Management Framework

The Group prioritises the management of both current and emerging risks through the continued execution of its Board-approved Enterprise Risk Management Framework (ERMF). This approach is underpinned by:

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

Below is a depiction of the ERMF design.

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.

Theme	Key risks	Opportunities	Potential impacts	Mitigating actions
Macroeconomic environment impacts our ability to sustain business and achieve our market commitments	› Subdued local growth › International trade disputes › Emerging market sell-off creating market volatilities › Banking sector stress in Rest of Africa › Customers facing headwinds – rising fuel prices, VAT hike	› Re-positioning 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	› 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

Risk management overview

for the reporting period ended 30 June 2018

Current and emerging risks (continued)

Theme	Key risks	Opportunities	Potential impacts	Mitigating actions
Social and political environment impacts our operating environment	› Socio and political risk › Political/policy uncertainty › Deteriorating fiscal position › Institutional uncertainty › Unemployment	› 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	› 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
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 › Reduced 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

Risk management overview

for the reporting period ended 30 June 2018

Current and emerging risks (continued)

Theme	Key risks	Opportunities	Potential impacts	Mitigating actions
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) › Model risk	› Client centric implementation of regulations improving customer experience › Utilisation of regulatory technology	› 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 intergenerational 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

Risk management overview

for the reporting period ended 30 June 2018

Risk and capital performance over the current reporting period

Key Metrics

	IFRS[1]	Normalised
Capital adequacy ratio	16.7% (June 2017: 16.1%)	15.7% (June 2017: 14.5%)
Common equity tier 1 ratio	13.3% (June 2017: 13.7%)	12.2% (June 2017: 12.1)
Economic capital (EC) coverage	1.43% (Jun 2017: 1.38)	1.32% (June 2017: 1.24)
Leverage ratio	7.6% (Jun 2017: 8.1%)	7.0% (Jun 2017: 7.2%)

Liquidity coverage ratio (LCR)[2]
108.6%
Jun 2017: 118.9%

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

Credit loss ratio (CLR)
0.83%
Jun 2017: 0.96%

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

Stage 1 and stage 2 coverage ratio[4]
1.1%
Jun 2017: N/A

Stage 3 coverage ratio[4]
42.1%
Jun 2017: N/A

Operational risk losses
R176m
Jun 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 is a reflection of the current economic condition.
- 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 NPL increase is driven primarily by the implementation of IFRS 9.
- The coverage ratios reflect the IFRS 9 impact, with stage 3 coverage a function of a more conservative default definition. Stage 1 and stage 2 coverage increased significantly compared to IAS 39 performing loans coverage, in line with IFRS 9. 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.

	30 June				31 December	
Risk weighted assets	2018 Rbn	%	2017 Rbn	%	2017 Rbn	%
1 Credit risk[6,7]	**553.0**	**71.7**	516.5	71.3	527.9	71.6
2 Counterparty credit risk	**29.1**	**3.8**	32.2	4.4	38.1	5.2
3 Market risk	**31.0**	**4.0**	32.3	4.4	24.8	3.4
4 Operational risk	**108.9**	**14.1**	103.5	14.3	105.7	14.3
5 Equity	**11.3**	**1.5**	9.2	1.3	9.7	1.3
6 Non-customer assets[7]	**24.8**	**3.2**	25.5	3.5	25.3	3.4
7 IFRS 9 transitional adjustment	**5.6**	**0.7**	—	—	—	—
8 Other	**7.6**	**1.0**	5.6	0.8	5.4	0.8
Total	**771.3**		724.8		736.9	

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 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 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 IFRS 9 became effective on 1 January 2018, therefore no comparatives are disclosed.
5 Non-performing loans, regulatory defaulted loans and stage 3 assets under the IFRS 9 impairment standard are defined as equivalent, as a result the Group's definition of stage 3 assets is more stringent. For further detail, refer to the Bank's IFRS 9 transitional disclosure.
6 Credit risk includes securitisation exposures in the banking book, which are separately disclosed in the overview of risk-weighted assets on page 195.
7 June 2017 non-customer assets restated to include settlement risk, previously included in credit risk.

Risk management overview

for the reporting period ended 30 June 2018

Credit risk

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.

	30 June		31 December
Key risk metrics	**2018**	2017	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

Review of current reporting period

- Overall growth is a reflection of the current economic condition. 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 Group's IFRS 9 transitional disclosure.
- **Stage 3 ratio on gross loans and advances:** The overall performance of the book remains acceptable.
- **Coverage:** The coverage ratios reflect the impact of IFRS 9, with stage 3 coverage a function of a more conservative default definition. Stage 1 and stage 2 coverage in turn was significantly higher than IAS 39 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 IFRS 9, 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.

Priorities

- Close monitoring of changes in the macroeconomic, 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.
- Maintaining a credit portfolio that is diversified in terms of key concentration dimensions such as individual counterparties, geographies, industries, products and collateral, and ensuring 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 rollout 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.

1 Current year figures have been prepared in accordance with IFRS 9 reporting standards. December 2017 numbers are rebased to reflect the impact on IFRS 9.
2 June and December 2017 numbers have been prepared in accordance with IAS 39 reporting standards.
3 The percentages include only portfolios subject to the internal ratings-based (IRB) approaches.
4 June 2017 restated, excludes settlement risk.

Risk management overview

for the reporting period ended 30 June 2018

Market risk

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

	30 June		31 December
Key risk metrics	2018	2017	2017
Average traded market risk – 95% daily value at risk (DVaR) (Rm)	**25.2**	28	26.5
Traded market risk RWA (Rbn)	**31.0**	32.3	24.8

Review of current reporting period

- **Trading exposures** were managed within overall risk appetite, 95% value at risk (VaR) decreased 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 and potentially higher volatility 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 recent months there has been a return in market uncertainty, driven by the emerging market sell off and international trade disputes, resulting in marginally reduced positions. This has resulted in a reduction in risk-weighted assets (RWA) compared to the second quarter of 2017.

Priorities

- Continue to ensure market risk is managed within risk appetite in potentially volatile conditions.
- Retain focus on regulatory changes, specifically preparing for the adoption of the Fundamental Review of the Trading Book (FRTB).

Treasury and capital 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.

	30 June		31 December
Key risk metrics	2018	2017	2017
Sources of liquidity (Rbn)	**218.1**	195.9[2]	213.0
Net stable funding ratio (NSFR) (%)[3]	**106.0**	N/A	N/A
Liquidity coverage ratio (%)[4]	**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	**855.3**	836.6	827.8
Deposits due to customers	**714.5**	696.4	689.9
South Africa	**587.0**	576.4	581.3
Rest of Africa	**127.5**	120.0	108.6
Debt securities in issue	**140.8**	140.2	137.9
South Africa	**140.0**	139.7	137.5
Rest of Africa	**0.8**	0.5	0.4

1 Refer to the interest rate risk in the banking book section under treasury and capital risk for non-traded market risk.

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

3 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.

4 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.

Risk management overview

for the reporting period ended 30 June 2018

Treasury and capital risk *(continued)*

Review of current reporting period

- **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.
- **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. Absa Bank targets an average long-term funding ratio of between 24% and 27%. The actual ratio as at 30 June 2018 was 24.4%.
- **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 Bank 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.

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.

Risk management overview

for the reporting period ended 30 June 2018

Treasury and capital risk *(continued)*

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.

	30 June		31 December
Key risk metrics	**2018**	2017	2017
Total RWA (Rbn)	**771.3**	724.8	736.9
CET 1 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
Economic capital (EC) coverage[2]	**1.32**	1.24[3]	1.29
Return on average EC[2] (%)	**18.9**	16.9	18.4
Return on equity (RoE)[2] (%)	**16.9**	16.8	16.5
Cost of equity (CoE)[4]	**14.00**	13.75	13.75

Review of current reporting period

- The Group's capital position was above minimum regulatory requirements as at 30 June 2018, with capital buffers sufficient to withstand stressed conditions.
- The CET 1 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 IFRS 9.
- An interim dividend of 490 cents per share, 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 CET 1 of c.160 bps for the Group. As at 30 June 2018, the uplift reduced to c.110 bps for the Group, mainly as a result of the seperation 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 IFRS 9, which reduces RWAs held against non-performing credit exposures.

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.

1 Includes unappropriated profits.
2 Reported on a normalised basis.
3 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.
4 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.

Risk management overview

for the reporting period ended 30 June 2018

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.

	30 June		31 December
Key risk metrics	**2018**	2017	2017
Banking book net interest income (NII) sensitivity for a 2% downward shock in interest rates (Rm)	**(2 517)**	(2 703)	(1 934)

Review of current reporting period

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

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.

Operational risk

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.

	30 June		31 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

Review of current reporting period

› **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 AMA entities.

Key achievements

› Migration of critical systems to a new data centre, with enhanced resilience capability.

o Development of a converged security strategy and improved fraud capability in our digital business.

o Articulation of a set of data standards to manage key datasets across the organisation.

o Further strengthening of the new and amended product approval governance and process.

o Delivery of a number of national Credit Act commitments, including in Duplum and external debt collector cost remediation.

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.

› Rollout 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).

Risk management overview

for the reporting period ended 30 June 2018

Insurance risk

The risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and product pricing.

Review of current reporting period

- A number of regulatory activities were concluded in preparation for the 1 July effective date of SAM.
- A Model Risk Governance Control Forum established to provide independent oversight for insurance models. Model conformance reviews were performed on several high materiality insurance models.
- IFRS 17 impact assessment is under way with agreed milestones.

Priorities

- Implementation of a refined risk appetite framework and stress and scenario testing methodology that is more aligned with the Group and between insurance entities.
- Continuation with delivery on the IFRS 17 programme.
- Continued enhancement and automation of insurance pricing and selection models and processes.
- Focus on actuarial data quality and controls, specifically for regulatory reporting.
- Delivery of the 2019 own risk and solvency assessment (ORSA) cycle that is an enabler to delivering the new Absa strategy.

Model risk

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

Review of current reporting period

- In light of the Barclays PLC separation the following Absa 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 IFRS 9 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.

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.

Conduct risk

The risk of detriment to customers, clients, market integrity, and effective competition from the inappropriate supply of financial services, including instances of wilful/negligent misconduct and the failure to meet regulatory requirements.

Review of current reporting period

- Thematic inherent risks identified through the application of the Conduct Risk Framework, which are monitored continuously through rigorous controls, relate to:
  - Information risk management (data retention and retrieval).
  - Sales practices and customer treatment.
  - IT stability and functionality, cybercrime and fraud.
  - Oversight of third-party activities.

Priorities

- Increase the use of data analysis to enhance risk management relating to treating customers fairly and market integrity.
- Continued focus on cultural change across the Group in line with the strategy.
- The implementation of an automated conduct dashboard as an enabler in the decision making process.

Risk management overview

for the reporting period ended 30 June 2018

Reputation risk

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

Review of current reporting period

- Reputational strengths identified within the organisation are:
  - Business leadership.
  - Quality services.
  - Ethics and compliance.
  - Corporate purpose.
- Top reputation issues managed during the period:
  - Public Protector Report on the Bankorp loan, which has been closed following a judgment by the High Court to set it aside.
  - Barclays PLC divestment and Absa rebranding.

Priorities

- A focus on organisational culture in line with strategy to ensure that employee conduct is aligned to organisational values.
- Focus on the need for more financial inclusion including financial education and access to banking.

Legal risk

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

Review of current reporting period

- Legal risk is managed with reference to five key focus areas, namely contractual arrangements, competition law, intellectual property law, litigation and the use of law firms.
- For the period under review, the Group's overall legal risk has been rated as 'at appetite', with a stable trend.
- Public Protector Report on the Bankorp loan has been closed following a judgment by the High Court to set it aside.

Priorities

- Use of artificial intelligence to improve the delivery of legal advice and legal risk management.
- Review and refine the qualitative and quantitative metrics of the Group's legal principal risk appetite statement.

Capital management and RWA

for the reporting period ended 30 June 2018

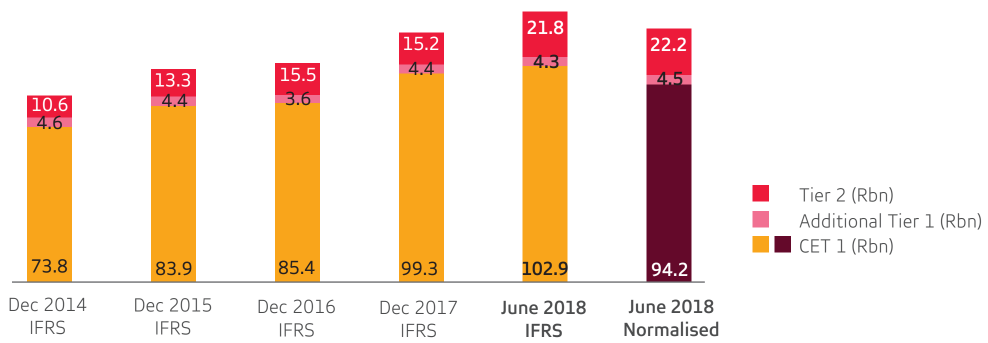
Capital management

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.

Capital adequacy

Group	Board target ranges[1] %	Minimum regulatory capital requirements[2] %	IFRS Group performance June 2018	Total Group normalised performance June 2018	IFRS Group performance June 2017	IFRS Group performance December 2017
Statutory capital ratios (includes unappropriated profits) (%)						
CET 1	10.00 – 11.50		**13.3**	**12.2**	13.7	13.5
Tier 1	11.75 – 13.25		**13.9**	**12.8**	14.0	14.1
Total capital adequacy requirement (CAR)	14.25 – 15.75		**16.7**	**15.7**	16.1	16.1
Regulatory capital ratios (excludes unappropriated profits) (%)						
CET 1		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**	CET 1 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.

Capital management and RWA

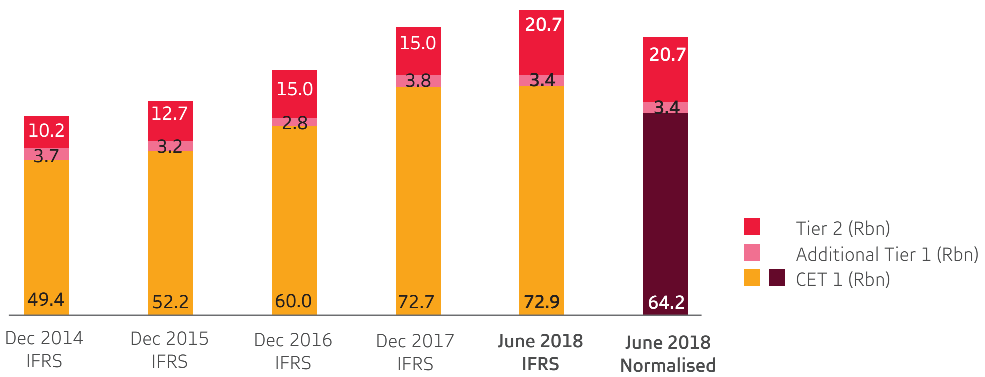
for the reporting period ended 30 June 2018

Capital adequacy (continued)

Absa Bank Limited capital adequacy

Absa Bank Limited[3]	Board target ranges[1] %	Minimum regulatory capital requirements[2] %	IFRS Group performance June 2018	Total Group normalised performance June 2018	IFRS Group performance June 2017	IFRS Group performance December 2017
Statutory capital ratios (includes unappropriated profits) (%)						
CET 1	10.00 – 11.50		**13.5**	**11.9**	14.1	13.4
Tier 1	11.75 – 13.25		**14.1**	**12.5**	14.5	14.1
Total CAR	14.25 – 15.75		**17.9**	**16.3**	17.4	16.9
Regulatory capital ratios (excludes unappropriated profits) (%)						
CET 1		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**	CET 1 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.

Capital management and RWA

for the reporting period ended 30 June 2018

Capital demand: Overview of RWA

The following table provides the risk-weighted assets (RWA) per risk type and associated minimum capital requirements.

Group	June 2018 RWA Rm	June 2017 RWA Rm	December 2017 RWA Rm	June 2018 Minimum capital requirements[1] Rm
Credit risk (excluding counterparty credit risk (CCR))	**552 556**	515 946	527 466	**61 472**
CCR	**29 064**	32 156	38 126	**3 233**
Equity positions in banking book under market-based approach	**11 324**	9 223	9 707	**1 260**
Settlement risk	**1 384**	583	1 130	**154**
Securitisation exposures in banking book	**435**	564	460	**48**
Market risk	**31 014**	32 284	24 761	**3 450**
Operational risk	**108 895**	103 487	105 730	**12 115**
Non-customer assets	**23 392**	24 904	24 167	**2 602**
Amounts below the thresholds for deduction (subject to 250% risk weight)	**7 638**	5 633	5 345	**851**
IFRS 9 transitional adjustment	**5 566**	—	—	**619**
Total	**771 268**	724 780	736 892	**85 804**

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

- **Credit risk:** The increase in credit risk RWA of R36.3bn, 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 IFRS 9, which reduces RWAs held against non-performing credit exposures.
- **CCR:** The 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 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 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.
- **IFRS 9 transitional arrangement:** The adjustment of R5.6bn represents the portion of release of RWAs 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.

Capital management and RWA

for the reporting period ended 30 June 2018

Capital demand: Overview of RWA (continued)

Absa Bank Limited[1]	June 2018 RWA Rm	June 2017 RWA Rm	December 2017 RWA Rm	June 2018 Minimum capital requirements[2] Rm
Credit risk (excluding CCR)	**384 983**	373 604	384 998	**42 829**
CCR	**28 656**	31 815	37 902	**3 188**
Equity positions in banking book under market-based approach	**2 137**	2 493	2 707	**238**
Settlement risk	**1 323**	583	1 069	**147**
Securitisation exposures in banking book	**435**	564	460	**48**
Market risk	**22 603**	24 741	20 633	**2 515**
Operational risk	**75 684**	73 612	75 221	**8 420**
Non-customer assets	**17 942**	17 971	18 688	**1 996**
Amounts below the thresholds for deduction (subject to 250% risk weight)	**2 493**	762	521	**278**
IFRS 9 transitional adjustment	**5 566**	—	—	**619**
Total	**541 822**	526 145	542 199	**60 278**

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

- **Credit risk:** Portfolios subject to the advanced internal ratings based (AIRB) approach increased by R11.4bn, due to exposure growth. This was partially offset by data refinements and the implementation of IFRS 9, which reduces RWAs held against non-performing credit exposures. Portfolios subject to the SA decreased by R2.1bn as a result of a reduction in the size of the portfolio.
- **CCR:** The 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 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 increase of R2.1bn is due to higher operating income attributable by AMA entities, which drove an increase in the regulatory floor.
- **IFRS 9 transitional arrangement:** The adjustment of R5.6bn represents the portion of release of RWAs 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.

Capital management and RWA

for the reporting period ended 30 June 2018

Capital supply

Breakdown of qualifying capital

Group	30 June 2018 Rm	30 June 2018 %[1]	30 June 2017 Rm	30 June 2017 %[1]	31 December 2017 Rm	31 December 2017 %[1]
Common Equity Tier 1	**96 655**	**12.5**	93 560	12.9	91 297	12.4
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
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	30 June 2018	30 June 2017	31 December 2017
Leverage ratio (excluding unappropriated profits) (%)	**7.2**	7.6	7.3
Leverage ratio (including unappropriated profits) (%)	**7.6**	8.1	7.9
Normalised leverage ratio (including unappropriated profits) (%)	**7.0**	7.2	7.2
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0	4.0

[1] Percentage of capital to RWAs.

Capital management and RWA

for the reporting period ended 30 June 2018

Capital supply (continued)

Absa Bank Limited[1]	30 June 2018 Rm	30 June 2018 %[2]	30 June 2017 Rm	30 June 2017 %[2]	31 December 2017 Rm	31 December 2017 %[2]
Common Equity Tier 1	**68 609**	**12.7**	69 320	13.2	68 194	12.6
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
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]	30 June 2018	30 June 2017	31 December 2017
Leverage ratio (excluding unappropriated profits) (%)	**6.0**	6.5	6.2
Leverage ratio (including unappropriated profits) (%)	**6.3**	7.0	6.6
Normalised leverage ratio (including unappropriated profits) (%)	**5.6**	6.0	5.8
Board target leverage ratio (%)	**≥4.5**	≥4.5	≥4.5
Minimum required leverage ratio (%)	**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.

Capital management and RWA

for the reporting period ended 30 June 2018

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 support 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 AFRs in order to meet this minimum demand requirement under severe yet plausible stress conditions.

EC demand	30 June 2018[1] Rm	30 June 2017[2] Rm	31 December 2017[1] Rm
Credit risk	**51 601**	50 052	49 852
Residual value risk	**393**	353	402
Operational risk	**6 140**	6 097	6 140
Traded market risk	**2 845**	2 249	2 732
Non-traded market risk	**5 649**	5 999	5 397
Equity investment risk	**1 486**	1 722	1 548
Property and equipment risk	**9 953**	8 828	8 730
Insurance risk	**2 834**	2 799	3 104
Business risk	**5 364**	5 398	5 364
Total EC requirement	**86 265**	83 497	83 269
IFRS total EC AFR	**123 004**	115 316	117 129[3]
IFRS total EC excess	**36 739**	31 819	33 860
IFRS EC coverage ratio	**1.43**	1.38	1.41
Normalised total EC AFR	**114 237**	103 602	107 292[3]
Normalised total EC excess	**27 972**	20 105	24 023
Normalised EC coverage ratio	**1.32**	1.24	1.29

[1] EC demand and AFR reported on a spot basis, June 2018 reflects a May 2018 value.
[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.

Capital management and RWA

for the reporting period ended 30 June 2018

Credit ratings

	Standard & Poor's		Moody's		Fitch
	Absa Group Limited[1]	Absa Bank Limited[2]	Absa Group Limited	Absa Bank Limited[2]	Absa Group Limited
National					
Short-term	—	zaA -1 +	Prime -1.za	Prime -1.za	—
Long-term	—	zaAA +	Aa3.za	Aa1.za	—
Local currency					
Short-term	—	—	Not – Prime	Prime -3	—
Long-term	—	—	Ba1	Baa3	—
Outlook	—	—	Stable	Stable	—
Foreign currency					
Short-term	—	—	Not – Prime	Prime -3	—
Long-term	—	—	Ba1	Baa3	—
Outlook	—	—	Stable	Stable	—
Baseline credit assessment					
Group credit profile	—	—	—	baa3	—
Counterparty risk	—	—	—	Baa2 (cr)/P – 2 (cr)	—
U.S.$400m Fixed Rate Reset Callable Subordinated Tier 2 Notes	—	—	—	—	BB

[1] On 23 January 2018, Absa Group Limited requested S&P to withdraw its 'zaBBB+/zaA-2' long-term and short-term South Africa national scale ratings. S&P will continue to provide the long-term and short-term South Africa national scale ratings for Absa Bank Limited.

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

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Appendices

Segment report per market segment

for the reporting period ended

	RBB				CIB			
	30 June			31 December	30 June			31 December
	2018	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)								
Net interest income	**16 068**	15 682	2	32 168	**5 293**	5 210	2	10 547
Non-interest income	**10 054**	9 604	5	19 736	**3 384**	3 319	2	6 477
Total income	**26 122**	25 286	3	51 904	**8 677**	8 529	2	17 024
Impairment losses on loans and advances	**(3 046)**	(3 433)	(11)	(5 988)	**(392)**	(329)	19	(906)
Operating expenses	**(15 782)**	(14 963)	5	(31 205)	**(4 225)**	(3 891)	9	(7 950)
Other operating expenses	**(177)**	(149)	19	(307)	**(33)**	(130)	(75)	(207)
Operating profit before income tax	**7 117**	6 741	6	14 404	**4 027**	4 179	(4)	7 961
Tax expense	**(2 070)**	(2 011)	3	(4 244)	**(853)**	(960)	(11)	(1 744)
Profit for the reporting period	**5 047**	4 730	7	10 160	**3 174**	3 219	(1)	6 217
Profit attributable to:								
Ordinary equity holders	**4 642**	4 422	5	9 429	**2 931**	2 989	(2)	5 759
Non-controlling interest – ordinary shares	**241**	193	25	472	**137**	167	(18)	311
Non-controlling interest – preference shares	**106**	115	(8)	229	**69**	63	10	129
Non-controlling interest – additional Tier 1	**58**	—	100	30	**37**	—	100	18
	5 047	4 730	7	10 160	**3 174**	3 219	(1)	6 217
Headline earnings	**4 672**	4 375	7	9 418	**2 929**	2 989	(2)	5 759
Statement of financial position (Rm)								
Loans and advances to customers	**499 013**	478 390	4	485 519	**277 794**	244 396	14	258 302
Loans and advances to banks	**9 889**	6 208	59	7 894	**44 347**	30 036	48	33 139
Investment securities	**44 399**	43 490	2	43 111	**37 166**	28 970	28	31 719
Other assets	**286 638**	287 664	(0)	291 380	**239 719**	236 254	1	237 769
Total assets	**839 939**	815 752	3	827 904	**599 026**	539 656	11	560 929
Deposits due to customers	**372 996**	350 012	7	360 100	**240 509**	241 509	(0)	224 876
Debt securities in issue	**212**	670	(68)	428	**11 109**	12 282	(10)	12 532
Other liabilities	**463 222**	458 228	1	455 459	**342 699**	280 350	22	315 245
Total liabilities	**836 430**	808 910	3	815 987	**594 317**	534 141	11	552 653

		30 June			31 December
Key rest of Africa closing exchange rates in ZAR terms		**2018**	2017	Change %	2017
Botswana	ZAR/BWP	**1.32**	1.28	3	1.26
Ghana	ZAR/GHS	**2.87**	2.99	(4)	2.73
Kenya	ZAR/KES	**0.14**	0.13	5	0.12
Mauritius Onshore	ZAR/MUR	**0.40**	0.38	4	0.37
Mauritius Offshore	ZAR/USD	**13.71**	13.10	5	12.36
Mozambique	ZAR/MZN	**0.23**	0.22	5	0.21
Namibia	ZAR/NAD	**1.00**	1.00	0	1.00
Seychelles	ZAR/SCR	**1.01**	0.97	4	0.92
Tanzania	ZAR/TZS	**0.01**	0.01	0	0.01
Uganda	ZAR/UGX	**—**	—	—	—
Zambia	ZAR/ZMW	**1.38**	1.44	(4)	1.24

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

WIMI				Head Office, Treasury and other operations				Total Group normalised performance			
30 June			31 December	30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]
154	175	(12)	362	**(327)**	(276)	18	(758)	**21 188**	20 791	2	42 319
2 844	2 554	11	5 218	**(428)**	(183)	>100	(760)	**15 854**	15 294	4	30 671
2 998	2 729	10	5 580	**(755)**	(459)	64	(1 518)	**37 042**	36 085	3	72 990
18	(3)	<(100)	(120)	**(11)**	(8)	38	(8)	**(3 431)**	(3 773)	(9)	(7 022)
(1 776)	(1 827)	(3)	(3 617)	**949**	643	48	1 369	**(20 834)**	(20 038)	4	(41 403)
(84)	(107)	(21)	(219)	**(538)**	(330)	63	(973)	**(832)**	(716)	16	(1 706)
1 156	792	46	1 624	**(355)**	(154)	>100	(1 130)	**11 945**	11 558	3	22 859
(397)	(197)	>100	(453)	**(2)**	(36)	(94)	151	**(3 322)**	(3 204)	4	(6 290)
759	595	28	1 171	**(357)**	(190)	88	(979)	**8 623**	8 354	3	16 569
756	593	27	1 162	**(358)**	(191)	87	(980)	**7 972**	7 813	2	15 370
1	—	100	5	**—**	1	(100)	1	**379**	361	5	789
1	2	—	(41)	**—**	—	—	—	**176**	180	(2)	362
1	—	—	100	**—**	—	—	—	**96**	—	100	48
759	595	28	1 171	**(357)**	(190)	88	(979)	**8 623**	8 354	3	16 569
646	616	5	1 231	**(204)**	(178)	15	(785)	**8 043**	7 802	3	15 623
5 055	5 485	(8)	5 004	**1 254**	714	76	947	**783 116**	728 985	7	749 772
2 459	1 709	44	1 847	**6 148**	25 498	(76)	12 546	**62 843**	63 451	(1)	55 426
4 813	4 532	6	4 765	**41 059**	38 842	6	31 814	**127 437**	115 834	10	111 409
39 129	39 420	(1)	39 081	**(305 844)**	(333 716)	(8)	(319 770)	**259 642**	229 622	13	248 460
51 456	51 146	1	50 697	**(257 383)**	(268 662)	(4)	(274 463)	**1 233 038**	1 137 892	8	1 165 067
5 165	4 904	5	5 150	**95 821**	99 937	(4)	99 741	**714 491**	696 362	3	689 867
—	—	—	—	**129 461**	127 240	2	124 988	**140 782**	140 192	0	137 948
40 825	40 816	0	40 493	**(578 399)**	(582 838)	(1)	(582 451)	**268 347**	196 556	37	228 746
45 990	45 720	1	45 643	**(353 117)**	(355 661)	(1)	(357 722)	**1 123 620**	1 033 110	9	1 056 561

Barclays separation effects				Group			
30 June			31 December	30 June			31 December
2018	2017	Change %	2017	2018 Rm	2017[1]	Change %	2017[1]
175	46	>100	325	21 363	20 837	3	42 644
413	238	74	80	16 267	15 532	5	30 751
588	284	>100	405	37 630	36 369	3	73 395
—	—	—	—	(3 431)	(3 773)	(9)	(7 022)
(1 364)	(460)	>100	(1 901)	(22 198)	(20 498)	8	(43 304)
(76)	(325)	(77)	(394)	(964)	(1 120)	(14)	(2 270)
(852)	(501)	70	(1 890)	11 093	11 057	0	20 969
133	111	20	408	(3 189)	(3 093)	3	(5 882)
(719)	(390)	84	(1 482)	7 904	7 964	(1)	15 087
—	—	—	—	7 253	7 423	(2)	13 888
—	—	—	—	379	361	5	789
—	—	—	—	176	180	(2)	362
(719)	(390)	84	(1 482)	96	—	100	48
(719)	(390)	84	(1 482)	7 904	7 964	(1)	15 087
(719)	(152)	>100	(1 245)	7 324	7 650	(4)	14 378
—	—	—	—	783 116	728 985	7	749 772
—	—	—	—	62 843	63 451	(1)	55 426
—	—	—	—	127 437	115 834	10	111 409
1 605	(16)	<(100)	912	261 247	229 606	14	20 960
1 605	(16)	<(100)	912	1 234 643	1 137 876	9	1 165 979
—	—	—	—	714 491	696 362	3	689 867
—	—	—	—	140 782	140 192	0	137 948
(8 496)	(11 731)	(28)	(9 840)	259 851	184 825	41	31 744
(8 496)	(11 731)	(28)	(9 840)	1 115 124	1 021 379	9	1 046 721

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RBB

for the reporting period ended

	RBB South Africa			
	30 June			31 December
	2018	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)				
Net interest income	**12 837**	12 427	3	25 421
Non-interest income	**8 763**	8 347	5	17 186
Total income	**21 600**	20 774	4	42 607
Impairment losses on loans and advances	**(2 728)**	(2 911)	(6)	(5 038)
Operating expenses	**(12 593)**	(11 766)	7	(24 476)
Other expenses	**(98)**	(78)	26	(160)
Operating profit before income tax	**6 181**	6 019	3	12 933
Tax expenses	**(1 719)**	(1 715)	(0)	(3 664)
Profit for the reporting period	**4 462**	4 304	4	9 269
Profit attributable to:				
Ordinary equity holders	**4 168**	4 067	3	8 741
Non-controlling interest – ordinary shares	**130**	122	7	269
Non-controlling interest – preference shares	**106**	115	(8)	229
Non-controlling interest – additional Tier 1	**58**	—	100	30
	4 462	4 304	4	9 269
Headline earnings	**4 209**	4 039	4	8 748
Statement of financial position (Rm)				
Loans and advances to customers	**455 491**	439 157	4	446 892
Loans and advances to banks	**9 888**	6 208	59	7 893
Investment securities	**44 394**	43 483	2	43 100
Other assets	**249 176**	243 201	2	255 964
Total assets	**758 949**	732 049	4	753 849
Deposits due to customers	**304 574**	289 473	5	300 725
Debt securities in issue	**181**	640	(72)	400
Other liabilities	**449 166**	434 269	3	440 425
Total liabilities	**753 921**	724 382	4	741 550

[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

RBB Rest of Africa				Total RBB			
30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	2018	2017[1]	Change %	2017[1]
3 231	3 255	(1)	6 747	**16 068**	15 682	2	32 168
1 291	1 257	3	2 550	**10 054**	9 604	5	19 736
4 522	4 512	0	9 297	**26 122**	25 286	3	51 904
(318)	(522)	(39)	(950)	**(3 046)**	(3 433)	(11)	(5 988)
(3 189)	(3 197)	0	(6 729)	**(15 782)**	(14 963)	5	(31 205)
(79)	(71)	11	(147)	**(177)**	(149)	19	(307)
936	722	30	1 471	**7 117**	6 741	6	14 404
(351)	(296)	19	(580)	**(2 070)**	(2 011)	3	(4 244)
585	426	37	891	**5 047**	4 730	7	10 160
							—
474	355	34	688	**4 643**	4 422	5	9 429
111	71	56	203	**241**	193	25	472
—	—	—	—	**106**	115	(8)	229
—	—	—	—	**58**	—	100	30
585	426	37	891	**5 047**	4 730	7	10 160
463	336	38	670	**4 672**	4 375	7	9 418
43 522	39 233	11	38 627	**499 013**	478 390	4	485 519
1	—	100	1	**9 889**	6 208	59	7 894
5	7	(29)	11	**44 399**	43 490	2	43 111
37 462	44 463	(16)	35 416	**286 638**	287 664	(0)	291 380
80 990	83 703	(3)	74 055	**839 939**	815 752	3	827 904
68 422	60 539	13	59 375	**372 996**	350 012	7	360 100
31	30	3	28	**212**	670	(68)	428
14 056	23 959	(41)	15 034	**463 222**	458 228	1	455 459
82 509	84 528	(2)	74 437	**836 430**	808 910	3	815 987

CIB

for the reporting period ended

	Corporate			
	30 June			31 December
	2018	2017[1]	Change %	2017[1]
Statement of comprehensive income (Rm)				
Net interest income	**3 643**	3 464	5	7 190
Non-interest income	**961**	914	5	1 925
Total income	**4 604**	4 378	5	9 115
Impairment losses on loans and advances	**(54)**	(120)	(55)	(456)
Operating expenses	**(2 411)**	(2 142)	13	(4 456)
Other expenses	**27**	(14)	<(100)	(33)
Operating profit before income tax	**2 166**	2 102	3	4 170
Tax expenses	**(544)**	(584)	(7)	(1 112)
Profit for the reporting period	**1 622**	1 518	7	3 058
Profit attributable to:				
Ordinary equity holders	**1 497**	1 371	9	2 776
Non-controlling interest – ordinary shares	**92**	125	(26)	233
Non-controlling interest – preference shares	**24**	22	9	42
Non-controlling interest – additional Tier 1	**9**	—	100	7
	1 622	1 518	7	3 058
Headline earnings	**1 496**	1 371	9	2 776
Statement of financial position (Rm)				
Loans and advances to customers	**113 910**	100 667	13	111 328
Loans and advances to banks	**6 048**	2 654	>100	2 205
Investment securities	**5 636**	4 755	19	5 362
Other assets	**89 272**	117 242	(24)	96 866
Total assets	**214 866**	225 318	(5)	215 761
Deposits due to customers	**203 738**	208 950	(2)	197 115
Debt securities in issue	**—**	5	(100)	—
Other liabilities	**10 849**	15 246	(29)	16 109
Total liabilities	**214 587**	224 201	(4)	213 224

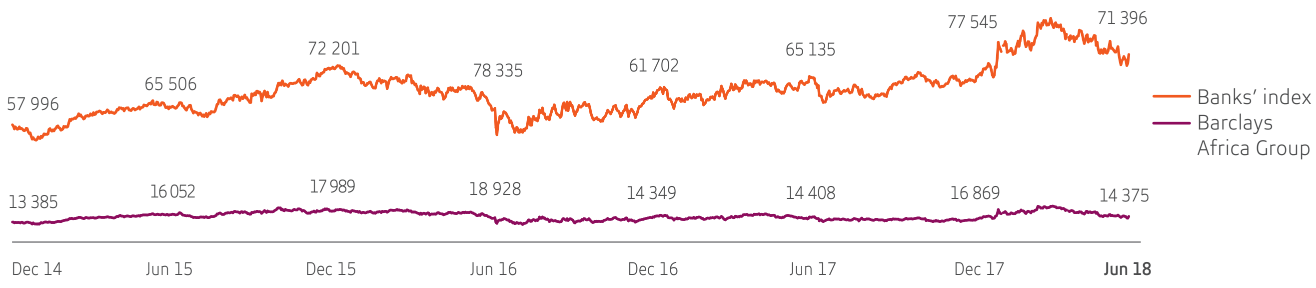
[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

Investment Bank				Total CIB			
30 June			31 December	30 June			31 December
2018	2017[1]	Change %	2017[1]	**2018**	2017[1]	Change %	2017[1]
1 650	1 746	(5)	3 357	**5 293**	5 210	2	10 547
2 423	2 405	1	4 552	**3 384**	3 319	2	6 477
4 073	4 151	(2)	7 909	**8 677**	8 529	2	17 024
(338)	(209)	62	(450)	**(392)**	(329)	19	(906)
(1 814)	(1 749)	4	(3 494)	**(4 225)**	(3 891)	9	(7 950)
(60)	(116)	(48)	(174)	**(33)**	(130)	(75)	(207)
1 861	2 077	(10)	3 791	**4 027**	4 179	(4)	7 961
(309)	(376)	(18)	(632)	**(853)**	(960)	(11)	(1 744)
1 552	1 701	(9)	3 159	**3 174**	3 219	(1)	6 217
1 434	1 618	(11)	2 983	**2 931**	2 989	(2)	5 759
45	42	7	78	**137**	167	(18)	311
45	41	10	87	**69**	63	10	129
28	—	100	11	**37**		100	18
1 552	1 701	(9)	3 159	**3 174**	3 219	(1)	6 217
1 433	1 618	(11)	2 983	**2 929**	2 989	(2)	5 759
163 884	143 729	14	146 974	**277 794**	244 396	14	258 302
38 299	27 382	40	30 934	**44 347**	30 036	48	33 139
31 530	24 215	30	26 357	**37 166**	28 970	28	31 719
150 447	119 012	26	140 903	**239 719**	236 254	1	237 769
384 160	314 338	22	345 168	**599 026**	539 656	11	560 929
36 771	32 559	13	27 761	**240 509**	241 509	(0)	224 876
11 109	12 277	(10)	12 532	**11 109**	12 282	(10)	12 532
331 850	265 104	25	299 136	**342 699**	280 350	22	315 245
379 730	309 940	23	339 429	**594 317**	534 141	11	552 653

Share performance

for the reporting period ended

Share performance (cents)

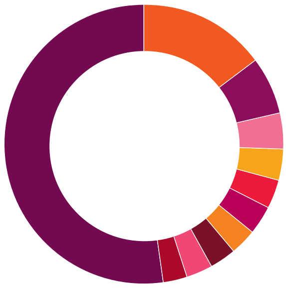


Share performance on the JSE	30 June 2018	30 June 2017	Change %	31 December 2017
Number of shares in issue, which includes 3 293 577 (2017: 680 929) treasury shares	**847 750 679**	847 750 679	—	847 750 679
Market prices (cents per share):				
closing	**15 999**	14 375	11	18 199
high	**15 999**	14 450	11	18 199
low	**15 460**	14 149	9	17 650
average	**17 979**	15 215	18	15 006
Normalised closing price/NAV per share (excluding preference shares) (%)	**1.37**	1.28	7	1.58
Normalised price-to-earnings ratio (closing price/HEPS) (%)	**8.53**	7.83	9	9.9
Volumes of shares traded (million)	**427.4**	621.9	(31)	1 072.0
Value of shares traded (million)	**77 069.5**	91 785.7	(16)	160 223.5
Market capitalisation (Rm)	**135 631.6**	121 864.2	11	154 282.1
Annual total return (%)	**18.7**	6.9	>100	14.1

Shareholder information and diary

Major ordinary shareholders (%)

14.88 (23.38) Barclays Bank PLC (UK)[1]
6.53 (7.12) Public Investment Corporation (SA)
4.28 (0.14) Deutsche Securities (SA)
3.56 (4.62) Old Mutual Asset Managers (SA)
3.48 (2.95) Black Rock Incorporated (US)
3.18 (0.00) Fidelity International Limited (UK)



3.18 (2.95) Prudential Investment Managers (SA)
3.01 (0.00) Citigroup Global Markets (SA)
3.00 (2.70) The Vanguard Group Incorporated (US, AU)
2.92 (1.96) Schroders Plc (US)
51.98 (54.18) Other

Major shareholding by geography (%)

27.27 (32.69) United Kingdom
40.47 (38.36) South Africa
17.64 (15.85) United States and Canada
14.62 (13.10) Other countries

Dividend	Declaration date	Last day to trade	Ex-dividend date	Record date	Payment date
Interim	6 August 2018	11 September 2018	12 September 2018	14 September 2018	17 September 2018
Final[1]	7 March 2019	09 April 2019	10 April 2019	12 April 2019	15 April 2019

[1] Subject to change.

Glossary

Amounts written off

Once an advance has been identified as impaired and an impairment allowance has been raised, circumstances may change and indicate that the prospect of further recovery does not exist. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable. A write-off policy based on an age-driven concept drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions, making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off, are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

Approaches (FIRB, AIRB, AMA and IMA)

Methods available to banks to calculate their regulatory capital requirements, based on their own risk estimates. These include the foundation internal ratings-based (FIRB) and advanced internal ratings-based (AIRB) approaches for credit risk, the advanced measurement approach (AMA) for operational risk and the internal models approach (IMA) for market risk.

Average interest-bearing assets

Average interest-bearing assets consist of all accounts that are not impaired and thus attract interest within the asset categories of cash, cash balances and balances with central banks, loans and advances to banks and customers and investment securities (including cash and short-term assets, money market assets and capital market assets).

Balance sheet

The term 'balance sheet' is used in the same context as the 'statement of financial position'.

Bank

Absa Bank Limited, together with its subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Bank' or 'Absa Bank' in this report.

Banking average assets

Banking average assets consist of all average assets related to the banking activities of the Group. Banking average assets exclude 'Other assets', 'Current tax assets', 'Non-current assets held for sale', 'Reinsurance assets', 'Goodwill and intangible assets', 'Property and equipment' and 'Deferred tax assets', and includes 'Trading portfolio liabilities'.

Banking book annual earnings at risk

A measure of the sensitivity of net interest income over a one-year horizon due to a change in the level of interest rates. Calculated as the difference between the estimated income using the current yield curve, and the lowest estimated income following an increase or decrease in interest rates. As per regulatory requirement, a 200 bps downward shock is applied.

Banking income yield

Income as a proportion of banking average assets.

Banking interest yield

Net interest income after credit losses, as a proportion of banking average assets.

Banking non-interest yield

Non-interest income as a proportion of banking average assets.

Banks Act

This means the Banks Act, No 94 of 1990 and its accompanying regulations relating to banks published in the Government Gazette on 12 December 2012.

Barclays

Barclays PLC, registered in England under registration number 1026167.

Basel Capital Accord (II, II.5 and III)

The Basel Capital Accord of the Bank for International Settlements is an improved capital adequacy framework aimed at closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.

Borrowed funds

Subordinated callable notes qualifying as long-term Tier 2 capital in terms of section 1 of the Banks Act, No 94 of 1990.

Capital adequacy ratio

The capital adequacy of South African banks is measured in terms of the requirements of the SARB. The ratio is calculated by the aggregate amount of qualifying capital and reserve funds divided by RWA. The base minimum South African total capital adequacy ratio for banks is 10% of RWA. Non-South African banks in the Group have similar capital adequacy methodology requirements.

Glossary

Capital – Common Equity Tier 1

Common Equity Tier 1 capital consists of the sum of the following elements:

- Common shares issued by Absa Bank Limited that meet the criteria for classification as common shares for regulatory purposes (or the equivalent for non-joint stock companies);
- Stock surplus (share premium) resulting from the issue of instruments including CET 1;
- Retained earnings;
- Accumulated other comprehensive income and other disclosed reserves;
- Common shares issued by consolidated subsidiaries Absa Bank Limited and held by third parties (i.e., non-controlling interest) that meet the criteria for inclusion in CET 1; and
- Regulatory adjustments applied in the calculation of CET 1.

Capital – Additional Tier 1 capital

Additional Tier 1 capital consists of the sum of the following elements:

- Instruments issued by Absa Bank Limited that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in CET 1);
- Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital;
- Instruments issued by consolidated subsidiaries of Absa Bank Limited and held by third parties that meet the criteria for inclusion in Additional Tier 1 capital and are not included in Common Equity Tier 1. See section 4 for the relevant criteria; and
- Regulatory adjustments applied in the calculation of additional Tier 1 capital.

Capital – Common Equity Tier 1 capital adequacy ratio

A measurement of a bank's core equity capital compared with its total risk-weighted assets. This is the measure of a bank's financial strength. The Common Equity Tier 1 excludes any preference shares or non-controlling interests when determining the calculation.

Capital – Tier 2 capital

Tier 2 capital consists of the sum of the following elements:

- Instruments issued by Absa Bank Limited that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital); Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;
- Instruments issued by consolidated subsidiaries of Absa Bank Limited and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital;
- Certain loan loss provisions such as general provisions/general loan-loss reserve; and Regulatory adjustments applied in the calculation of Tier 2 capital.

Capital – Tier 2 ratio

A component of regulatory capital, comprising qualifying subordinated loan capital, related minority interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties.

Claims ratio

Net insurance claims and benefits paid as a percentage of net premium income.

Combined ratio

Insurance losses incurred and expenses as a percentage of insurance premiums earned.

Conduct risk

Conduct risk is the detriment caused to the Group's customers and clients, counterparties or Absa Bank Limited as a result of inappropriate execution of the business activities.

Constant currency

The selected line items from the Condensed consolidated statement of comprehensive income and Condensed consolidated statement of financial position for the rest of Africa market segment disclosed on pages 94 and 95 are derived by translating the Statement of comprehensive income and Statement of financial position from the respective individual entities' local currencies to rand.

The current reporting period's results are translated at the current reporting period's average rates for the Statement of comprehensive income, while the closing rate is used for the Statement of financial position in terms of IFRS.

The percentage change based on constant currency has been presented to provide information on the impact of foreign currency movements on the local currency earnings. This is calculated for the Statement of comprehensive income and Statement of financial position, by translating the previous and current reporting periods' results at the exchange rate as at the prior reporting date and comparing the two outcomes.

The percentage change based on constant currency is provided for illustrative purposes only and may not fairly present the Group's financial position and/or the results of its operations. The directors are responsible for the preparation of the constant currency information.

Glossary

Cost-efficiency ratio
'Operating expenses' as a percentage of income. Income consists of net interest income and non-interest income, net of reinsurance, unearned premiums, net insurance claims and benefits paid, changes in investment and insurance contract liabilities and acquisition costs.

Cost of equity
An estimate of the return that the market demands in exchange for the risk of ownership of equity.

Cost-to-income ratio
'Operating expenses' as a percentage of income (net interest income and non-interest income).

Coverage ratio
Impairment losses on loans and advances as a proportion of gross loans and advances.

Credit loss ratio
Impairment losses on loans and advances for the reporting period, divided by total average advances (calculated on a daily weighted average basis).

Debt securities in issue
Short-to medium-term instruments issued by the Group, including promissory notes, bonds and negotiable certificates of deposits.

Diluted headline earnings per share
Headline earnings for the reporting period that is attributable to ordinary equity holders, as a proportion of the weighted average number of ordinary shares in issue adjusted for the effect of all potential dilutive ordinary shares.

Distribution force
Number of active advisers.

Dividend cover
Headline earnings per share divided by dividend per share.

Dividend per ordinary share relating to income for the reporting period
Dividend per ordinary share for the reporting period is the actual interim dividends paid and the final dividends declared for the reporting period under consideration, expressed as cents per share.

Special dividend per ordinary share is a payment made by the Group that is considered separate from the typical recurring dividend cycle, expressed as cents per share.

Earnings per share
Basic earnings per share
This constitutes the net profit for the reporting period, less earnings attributable to non-controlling interest, divided by the weighted average number of ordinary shares in issue during the reporting period.

Diluted basic earnings per share
The amount of profit for the reporting period that is attributable to ordinary equity holders, divided by the weighted average number of ordinary shares in issue during the reporting period, both adjusted for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Economic capital
Economic capital is an estimate of the maximum downward deviation from expectation in shareholder value, measured on an economic basis over a one-year time horizon and at a 99.95% confidence level. This sets the internal capital requirement deemed necessary by the Group to support the risks to which it is exposed.

Embedded value
The embedded value of the covered business is the discounted value of the future after-tax shareholder profits (net of the opportunity cost of the required capital) arising from covered business in force at the valuation date, together with the adjusted net worth of the covered business. Covered business is taken to be all long-term insurance business written under the Group's licence.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be two times the statutory capital adequacy requirement, in line with the results of internal capital models and the Group's dividend policy.

Glossary

Exchange differences
Differences resulting from the translation of a given number of units of one currency into another currency at different exchange rates.

Expected Credit Loss (ECL) coverage ratio
ECL allowance as a proportion of gross loans and advances to customers and banks.

Financial Markets Act
This means the Financial Markets Act No 19 of 2012 and its regulations. This Act is the primary legislation governing the regulation of financial markets, market infrastructure and securities services in South Africa. It focuses primarily on the licensing and regulation of exchanges, central securities depositories, clearing houses, trade repositories and market infrastructure. The Act also strengthens measures already in place aimed at prohibiting insider trading and other market abuses.

Foreign currency translation
Foreign currency accounts of the Group's subsidiaries translated to reporting currency, with the foreign adjusted currency translation included in a foreign currency translation reserve as equity capital.

Gains and losses from banking and trading activities
Banking and trading portfolios include:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries within the banking portfolios;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gains and losses from investment activities
Insurance and strategic investment portfolios include:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gross credit extended
Loans advanced to customers and banks, as well as off-balance sheet exposures.

Group
Absa Group Limited, together with its subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Group' or 'Absa Group' in this report.

Headline earnings
Headline earnings reflects the operating performance separated from remeasurements (an amount recognised in the statement of comprehensive income relating to any change (realised or unrealised) in the carrying amount of an asset/liability that arose after the initial recognition of such asset or liability) as well as non-controlling interest of preference shares or ordinary shares, where relevant.

Headline earnings per share
Profit attributable to ordinary equity holders after adjusting for separately identifiable remeasurements, net of tax and non-controlling interest, divided by the weighted average number of ordinary shares in issue. A remeasurement is an amount recognised in profit or loss relating to any change in the carrying amount of an asset or liability that arose after the initial recognition of such asset or liability.

Diluted headline earnings per share
Diluted headline earnings per share is calculated by adjusting both the headline earnings and the weighted average number of ordinary shares outstanding for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Impairments raised – Identified
Impaired loans with key indicators of default being:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising security held; and/or
- the borrower is overdue.

A retail identified impairment is triggered when a contractual payment is missed and is raised on a collective basis. Future cash flows for a group of financial assets, which are collectively evaluated for impaired purposes, are estimated based on the contractual cash flows of the assets in the Group and the historical loss experienced for assets with similar credit risk characteristics to those in the Group.

In the wholesale portfolio, an identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cash flows.

Glossary

Impairments raised – Unidentified
Allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since their original recognition, even though the decrease cannot yet be linked to individual assets in the Group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date.

Income statement
The term Income statement is used in the same context as the Statement of comprehensive income.

Indirect taxation
Indirect taxes are the taxes that are levied on transitions rather than on persons (whether individuals or corporate). These taxes include unclaimed value-added taxes, stamp duties on deposits and Regional Services Council levies.

Jaws
A measure used to demonstrate the extent to which the Group's income from operations growth rate exceeds operating expenses growth rate. Income from operations consists of net interest income and non-interest income.

Leverage
Average assets as a proportion of average equity.

Life new business margin
Embedded value of new business attained in the Life Insurance key business area of WIMI, as a proportion of the discounted value of the associated future premiums.

Loans-to-deposits and debt securities ratio
Loans and advances to customers as a percentage of deposits due to customers and debt securities in issue.

Long-term funding ratio
Funding with a term in excess of six months.

Market capitalisation
The Group's closing share price, times the number of shares in issue at the reporting date.

Merchant income
Income generated from the provision of point-of-sale facilities to the Group's merchant network customers. This income includes both rental income for the supply of point-of-sale units as well as transactional income for the transactions processed on the supplied terminals.

Net asset value per share
Total equity attributable to ordinary equity holders divided by the number of shares in issue. The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.

Net income
Net income consists of net interest income and non-interest income, net of impairment losses on loans and advances.

Net insurance premium income
The amount of insurance premiums received or receivable on insurance assets net of insurance claims and benefits paid on insurance liabilities.

Net interest income
The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin on average interest-bearing assets
Net interest income for the reporting period, divided by average interest-bearing assets (calculated on a daily weighted average basis), expressed as a percentage of average interest-bearing assets.

Net present value unwind on non-performing book
A net present value adjustment representing time value of money of expected cash flows within the impairment allowance. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

Glossary

Net trading result

Net trading result includes the profits and losses on CIB's trading desks arising from both the purchase and sale of trading instruments and the revaluation to market value, as well as CIB's hedge ineffectiveness. This includes the interest income and interest expense from these instruments and related funding cost. It also includes similar activities from the African operations.

Non-interest income

Non-interest income consists of the following Statement of comprehensive income line items: 'net fee and commission income', 'net insurance premium income', 'net insurance claims and benefits paid', 'changes in investment contracts and insurance contract liabilities', 'gains and losses from banking and trading activities', 'gains and losses from investment activities as well as other operating income'.

Non-interest income as a percentage of income

Non-interest income as a percentage of income from operations. Income consists of net interest income and non-interest income.

Non-performing loans

A loan is typically considered non-performing once its delinquency reaches a trigger point. This is typically when interest is suspended (in accordance with Group policy) or if the loan is moved to the legal environment for recovery. As a consequence, a loan that has defaulted is not necessarily non-performing (unless certain criteria are met).

NPL coverage ratio

Net exposure, being the outstanding NPL balance, less expected recoveries and fair value of collateral, as a percentage of the total outstanding NPL balance.

NPL ratio on loans and advances to customers and banks

NPLs as a percentage of gross loans and advances to customers and banks.

Pre-provision profit

Total income less operating expenses.

Price-to-earnings ratio

The closing price of ordinary shares, divided by headline earnings per ordinary share for the reporting period.

Probability of default

The probability that a debtor will default within a one-year time horizon.

Regulatory capital

The capital that the Group holds, determined in accordance with the requirements of the Banks Act and regulations relating to banks.

Return on average assets

Annualised headline earnings as a proportion of total average assets.

Return on average equity

Annualised headline earnings as a proportion of average equity.

Return on average regulatory capital

Measure of efficient use, by segment, of regulatory capital.

Return on average risk-weighted assets

Annualised headline earnings as a proportion of average risk-weighted assets.

Income/total income

Income consists of net interest income and non-interest income.

Risk-weighted assets

Calculated by assigning a degree of risk, expressed as a percentage (risk weight) to an exposure, in accordance with the applicable standardised or internal ratings-based approaches rules. RWA are determined by applying the:

- AIRB approach for wholesale and retail credit; AMA for operational risk;
- Internal ratings-based market-based simple risk-weight approach for equity investment risk in the banking book; and
- Standardised approach for all African entities (both credit and operational risk).

Glossary

Solvency margin
The amount by which assets, at fair value, exceed liabilities and other comparable commitments.

Stage 1
Assets comprise exposures that are performing in line with expectations at origination. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1.

Stage 2
Exposures are required to be classified within stage 2 when a significant increase in credit risk has been observed. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices.

Stage 3
Credit exposures are classified within stage 3, when they are regarded as being credit impaired, which aligns to the bank's regulatory definition of default.

Stage 3 loans ratio on gross loans and advances
Stage 3 loans and as a percentage of gross loans and advances.

Tangible net asset value per share
Total equity attributable to ordinary equity holders less goodwill and intangible assets, divided by the number of shares in issue. The tangible net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.

Underwriting margin
Net insurance premium income remaining after losses have been paid and administrative expenses have been deducted.

Value-at-risk model
A technique that measures the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Value of new business
The discounted value, at the date of sale, of the projected after-tax shareholder profits from new covered business, net of the opportunity cost of the required capital for new business. New covered business is defined as long-term insurance contracts written by the Group during the reporting period and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Weighted average number of shares
The number of shares in issue at the beginning of the reporting period increased by shares issued during the reporting period, weighted on a time basis for the period during which they participated in the income, less treasury shares held by entities, weighted on a time basis for the period during which the entities held these shares

Abbreviations and acronyms

A

AEaR	Annual earnings at risk
AERC	AGL Executive Risk Committee
AFR	Available financial resources
AFS	Annual financial statements
AGL	Absa Group Limited
AIRB	advanced internal ratings-based approach
AMA	advanced measurement approach
ATC	Africa Treasury Committee
ATM	automated teller machine

B

Basel	Basel Capital Accord
BBBEE	Broad-based black economic empowerment
BIA	Basic Indicator Approach
bps	basis points
BU	business unit

C

CAR	capital adequacy requirement
CCF	credit conversion factor
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
CLGD	country loss given default
CMRA	conduct material risk assessments
CoRC	Concentration Risk Committee
CPF	Commercial Property Finance
CPRF	Conduct Principal Risk Framework
CR	credit risk
CRC	Control Review Committee
CRCC	Country Risk and Control Review Committee
CRM	credit risk mitigation
CRRC	Conduct and Reputational Risk Committee
CSA(s)	collateral support annexure(s)
CVA	credit valuation adjustment

D

DGS	Deposit Guarantee Scheme
D-SIBs	domestic-systemically important banks
DVaR	daily value at risk

E

EAD	exposure at default
EC	economic capital
ECA	economic capital adequacy
Edcon	Edcon Store Card portfolio
EL	expected loss
ERC	Executive Risk Committee
ERMF	Enterprise Risk Management Framework
EVE	economic value of equity
EWIs	early warning indicators

F

FRTB	Fundamental Review of the Trading Book
FX	foreign exchange

G

GAC	Group Actuarial Committee
GACC	Group Audit and Compliance Committee
GCC	Group Credit Committee
GCCO	Group Chief Credit Officer
GCE	Group Chief Executive
GCRO	Group Chief Risk Officer
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
GWWR	general wrong way risk

H

HQLA	high-quality liquid assets
HR	high risk

I

IAA	internal assessment approach
IAS	International Accounting Standard(s)
IAS 10	Events after reporting period
IAS 28	Investments in Associates
IAS 34	Interim Financial Reporting
IAS 39	Financial Instruments: Recognition and Measurement
ICAAP	internal capital adequacy assessment process
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standard(s)
IFRS 9	Financial Instruments
IFRS 11	Joint Arrangements
IFRS 15	Revenue from contracts with customerss
IMA	internal models approach
IMM	interest models method
IRB	interest ratings-based
IRRBB	interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
IT	information technology
IVC	Independent Valuation Committee

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

Abbreviations and acronyms

M

MC	Models Committee
MR	market risk

N

NCWO	No-credit-worse-off
NII	net interest income
NPL(s)	Non-performing loan(s)
NSFR	Net stable funding ratio

O

OR&CC	Operational Risk and Control Committee
ORMF	Operational Risk Management Framework
ORSA	Own Risk and Solvency Assessment
ORX	Operational risk data exchange
OTC	over-the-counter

R

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

S

SA	Standardised approach
SA-CCR	Standardised approach for counterparty credit risk
SAM	Solvency Assessment and Management
SARB	South African Reserve Bank
SEC	securitisations
SFA	supervisory formula approach
SL	specialised lending
SME	small and medium-sized enterprises
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

VAF	Vehicle and Asset Finance
VaR	value at risk

W

WIMI	Wealth, Investment Management and Insurance
WL	watch list

Administration

f

Absa Group Limited

Incorporated in the Republic of South Africa

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