Absa Group Limited

Summary consolidated financial results
for the reporting period ended 31 December 2018

Contents

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 Interim 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 summary provisional consolidated financial statements including the reporting changes contained in the announcements released on the Stock Exchange News Services (SENS) on 11 March 2019.

The GACC and the Board are satisfied that the changes disclosed in the SENS result is fair presentation of the provisional 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
(formerly known as Barclays Africa Group Limited)
Absa Group Limited summary provisional consolidated annual financial results
for the reporting period ended 31 December 2018

Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/003934/06
Incorporated in the Republic of South Africa
JSE share code: ABG
ISIN: ZAE000255915

These summary provisional consolidated annual financial results were prepared by
Absa Group Financial Control under the direction and supervision of the Financial Director, J P Quinn

Profit and dividend announcement

for the reporting period ended 31 December

Salient features

Absa Group Limited (the Group) discloses International Financial Reporting Standards (IFRS) financial results and a normalised view, which adjusts for the financial consequences of separating from Barclays PLC.

IFRS basis

- Headline earnings per share (HEPS), which included R3.2bn of separation costs, recognised as operating expenses, decreased 1% to 1 703.7 cents from 1 724.5 cents.
- The Group declared a 4% higher full year dividend per share (DPS) of 1 110 cents.
- Retail and Business Banking (RBB) South Africa headline earnings grew 2% to R8.9bn, Corporate and Investment Banking (CIB) South Africa declined 1% to R3.4bn, Absa Regional Operations (ARO), previously known as Rest of Africa Banking, rose 9% to R3.2bn and Wealth, Investment Management and Insurance (WIMI) increased 3% to R1.3bn.
- Return on Equity (RoE) declined to 13.4% from 14.2%.
- Revenue increased 4% to R76.5bn and costs rose 8% to R46.8bn.
- Pre-provision profit (total income less operating expense) decreased 1% to R29.7bn.
- Credit impairments fell 10% to R6.3bn, resulting in a 0.73% credit loss ratio from 0.87%.
- Net Asset Value (NAV) per share increased 1% to 13 233 cents.

Normalised basis

- Diluted normalised HEPS grew 4% to 1 910.0 cents from 1 845.4 cents
- RoE increased slightly to 16.8%
- Revenue grew 4% to R75.7bn and operating expenses rose 5% to R43.6bn
- Pre-provision profit increased 1% to R32.0bn
- Absa Group's normalised Common Equity Tier 1 (CET1) ratio of 12.0% remains above regulatory requirements and the Board's target range. Its statutory CET1 was 12.8%.
- NAV per share rose 4% to 11 985 cents.

Normalised reporting

Given the process of separating from Barclays PLC, Absa Group continues to report IFRS-compliant financial results and a normalised view. The latter adjusts for the consequences of the separation and better reflects the Group's underlying operational 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: R330m of interest earned on Barclays PLC's separation contribution (2017: R325m); hedging revenue linked to separation activities of R525m (2017: R80m); operating expenses of R3 161m (2017: R1 901m) and R194m of other expenses (2017: R394m), plus a R484m (2017: 408m) tax impact of the aforementioned items. In total, these adjustments added R1 986m (2017: R1 245m) to the Group's normalised headline earnings during the period. Since normalisation occurs at a Group level, it does not affect divisional disclosures. Non-IFRS measures such as normalised results are considered pro forma financial information as per JSE listing requirements. The pro forma financial information, is the responsibility of the Group's Board of the directors and is presented for illustrative purpose only and because of its nature may not fairly present the Group's financial position, changes in equity, and results in operations or cash flows.

Overview of results

The Group's IFRS headline earnings declined 1% to R14 142m from R14 378m and diluted HEPS decreased 1% to 1 700.4 cents. The Group's IFRS RoE fell to 13.4% from 14.2%, largely due to the higher capital base from the Barclays PLC separation contribution and costs, while its return on average assets declined to 1.17% from 1.27%. Net interest income increased 3% and non-interest income grew 5%, resulting in 4% higher total revenue. Operating expenses grew 8%, increasing the cost-to-income ratio to 61.2% from 59.0%. Pre-provision profit decreased 1% to R29,7bn. The Group's NAV per share rose 1% to 13 233 cents including Barclays PLC's remaining separation contribution in equity.

On a normalised basis, Group's headline earnings grew 3% to R16 128m from R15 623m and diluted HEPS rose 4% to 1 910.0 cents from 1 845.4 cents. The Group's normalised RoE was 16.8% from 16.5% and its return on assets was 1.34% from 1.39%. Revenue grew 4% to R75.7bn, with net interest income and non-interest income rising 3% and 5%, respectively. The Group's net interest margin on average interest-bearing assets decreased to 4.64% from 4.83%, largely due to adopting IFRS 9. Gross loans and advances to customers grew 13% to R872bn, while deposits due to customers rose 7% to R736bn. With operating expenses growing 5%, the normalised cost-to-income ratio increased to 57.7% from 56.7%, and pre-provision profit rose 1% to R32,0bn. In constant currency (CCY), pre-provision profit grew 2% and headline earnings 4%. Credit impairments fell 10% to R6.3bn, resulting in a 0.73% credit loss ratio from 0.87%. The Group's normalised NAV per share increased 4% to 11 985 cents and it declared a 4% higher full year DPS of 1110 cents.

RBB South Africa's headline earnings rose 2% to R8 880m primarily due to 10% lower credit impairments. Retail Banking South Africa headline earnings grew 2% to R6 359m, while Business Banking South Africa increased 1% to R2 521m. CIB South Africa's earnings declined 1%, given 76% higher credit impairments. Corporate South Africa grew 4% to R1 171m and Investment Banking South Africa decreased 4% to R2 196m. ARO's headline earnings grew 9% to R3 218m (CCY 13%), with RBB up 26% (CCY 29%) and CIB increasing 7% (CCY 11%). WIMI's headline earnings increased 3% to R1 268m, with continuing business line earnings up 8%.

South African earnings grew 3% to R13.0bn, while Africa Regions rose 6% (CCY 10%) to account for 20% of the Group's earnings.

Operating environment

For the year, global growth is estimated to have remained at 3.7%, but was less synchronized among the larger developed markets. Growth in the United States (US) accelerated, supported by tax cuts, while political uncertainty and concern over trade slowed growth in the Euro Area and the United Kingdom (UK). Global trade tensions, a stronger dollar and concerns about US policy tightening increased market volatility. Global inflation firmed on higher oil prices and weaker emerging market currencies. Monetary policy continued on a gradual tightening path but is likely to become more restrictive by end of 2019.

South Africa recorded its first recession since the last global financial crisis in the first half of2018. The recession was short-lived as economic activity rebounded in the 3rd quarter at an annualized rate of 2.6% from negative 0.5% in the previous quarter. In the fourth quarter, GDP growth slowed to an annualized rate of 1.4% as gross fixed capital formation fell for the fourth consecutive quarter. For the year, GDP growth moderated to 0.8% from 1.4% in 2017. Weak labour markets and moderating confidence weighed on consumers appetite for credit and willingness to spend. Headline consumer price inflation finished 2018 at 4.5% year on year, broadly similar to its level at the beginning of the year, having ranged from 3.8% to 5.2% in the intervening months. The Reserve Bank cut the repurchase rate by 25bps in March but reversed this in November (+25bps), citing upside risks to the inflation outlook.

Economic growth in our key Africa regions faced significant uncertainties and headwinds during 2018. On a GDP-weighted basis and excluding South Africa, the region's economy grew by an estimated 5.6% in 2018, down from 5.8% in 2017. Monetary policy tightened in a number of markets on the back of weaker currencies and rising inflation.

Group performance

Statement of financial position

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 (ECL) approach. The Group applied IFRS 9 retrospectively, with an adjustment to retained earnings and other reserves as at 1 January 2018, and elected not to restate comparative periods. The Group has reconsidered the treatment of post write-off recoveries in the calculation of the portfolio's accounting for LGD, since the previously published results as at 30 June 2018. The Group will exclude post write-off recoveries from LGD for accounting purposes.

The exclusion of post write-off recoveries from LGD has significantly increased the allowance for ECL as at 1 January 2018:

- The restated allowance for ECL is R29 703m (including interest in suspense and ECL provision on off balance sheet items), relative to the amount of R27 767m, as previously published.
- This has resulted in a reduction in the Group's retained income as at 1 January 2018 of R5 413m (after taxation adjustment of R2 063m and non-controlling interest of R328m), relative to the amount previously published of R4 106m (after taxation adjustment of R1 572m and non-controlling interest of R190)

The IFRS 9 transition disclosures previously published as at 30 June 2018 have been restated. Total IFRS assets increased 10% to R1 289bn at 31 December 2018, largely due to 13% growth in loans and advances to customers.

Gross Loans and advances to customers

Gross loans and advances to customers increased 13% to R871bn. RBB South Africa loans rose 6% to R488bn. Retail Banking South Africa's loans grew 5% to R416bn, reflecting 12% growth in Vehicle and Asset Finance (VAF) and Personal Loans, 2% growth in Home Loans, while Card increased 4% despite a reduced store card portfolio. Business Banking South Africa's gross loans rose 11% to R72bn, with term loans increasing 19%. CIB South Africa's gross loans grew 25% to R275bn, including 23% higher term loans and reverse repurchase agreements up 52%. ARO's gross loans increased 26% to R102bn or 12% in CCY.

Funding

The Group's liquidity position remains strong, with liquid assets and other sources of liquidity growing 2% to R218bn which equates to 30% of customer deposits. The Group's average liquidity coverage ratio for the fourth quarter was 117%, comfortably above the minimum regulatory hurdle of 90% during 2018. Deposits due to customers grew 7% to R736bn. The Group's loans to deposit and debt securities ratio increased to 93.8% from 90.6%. Deposits due to customers constituted 72.3% of total funding. RBB South Africa's deposits grew 11% to R333bn, with Retail Banking South Africa up 11% to R208bn and Business Banking South Africa increasing 10% to R125bn. CIB South Africa's deposits fell 2% to R174bn. ARO's deposits increased 23% to R134bn, or 10% in CCY.

Net asset value

The Group's IFRS NAV rose 1% to R109bn despite a R5.5bn reduction on adoption of IFRS 9 on 1 January 2018 and the NAV per share grew 1% to 13 233 cents. During the year the Group generated retained earnings of R13.9bn, from which it paid R9.0bn in ordinary dividends. Its foreign currency translation reserve increased by R2.6bn. On a normalised basis, NAV rose 3% to R101bn.

Capital to risk-weighted assets

Group risk-weighted assets (RWAs) grew 11% to R819bn at 31 December 2018, largely due to increased credit risk RWAs. The Group remains well capitalised, comfortably above minimum regulatory capital requirements. It's normalised CET1 and total capital adequacy ratios were 12.0% and 15.4% (from 12.1% and 14.9%), respectively. 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 CET1 ratio by 7bps, as we opted to phase it in over three years. Declaring of a 4% higher full year DPS of 1 110 cents on a dividend cover of 1.7 times took into account the operating environment, the Group's strong capital position, internal capital generation, strategy and growth plans.

Statement of comprehensive income

Net interest income

IFRS net interest income increased 3% to R43 755m from R42 644m (Normalised: increased 3% to R43 425m from R42 319m) , while average interest-bearing assets grew 7%. The Group's net interest margin (to average interest-bearing assets) declined to 4.64% from 4.83%, mostly due to transitioning to IFRS 9, which reduced the margin by 12bps. Excluding the impact of IFRS 9, loan pricing decreased 3bps, while composition added 3bps to margin, given slower growth in Home Loans. Deposit pricing reduced the margin by 3bps, primarily due to competitive pricing on fixed retail deposits in South Africa. Deposit composition decreased the margin by 3bps, as average wholesale funding balances grew faster than customer deposits. With lower average interest rates in South Africa, the equity and deposit endowment reduced the Group margin by 5bps. The structural hedge released R545m to the income statement, 3bps more than the prior year, to largely offset the reduced endowment contribution. ARO reduced the margin by 2bps due to lower interest rates. Treasury's improving asset/liability construct in South Africa added 6bps, partially offset by the reduction between prime and Johannesburg Interbank Average Rate (JIBAR).

Non-interest income

Non-interest income grew 7% to R32 760m from R30 571m (normalised: increased 5% to R32 235m from R30 671m) to account for 43% of total revenue from 42%. On a CCY basis, the growth was 6%.

Net fee and commission income grew 4% to R22 523m, which represented 70% of total non-interest income. Within this, cheque account fees increased 9% to R5 401m, electronic banking grew 3% to R5 335m, while credit cards and merchant income rose by 6% and 9%, respectively.

Net trading excluding hedge accounting grew 7% to R5 183m, reflecting CIB Markets South Africa increasing10%, while ARO Markets decreased 2%.

RBB South Africa's non-interest income grew 5% to R18 083m, as Retail Banking South Africa increased 6% and Business Banking South Africa grew 2%. Within Retail Banking, Transactional and Deposits rose 8%, reflecting price increases, debit card turnover, cheque account growth and the reclassifying of fee write-offs to credit impairments. CIB South Africa increased 7% to R4 589m, with 2% higher Corporate transactional banking revenue.

ARO non-interest income grew 6% to R5 157m, or 9% in CCY, as CIB increased 3% and RBB 8%.

WIMI's non-interest income increased 6% to R5 514m, including 10% higher Life Insurance net premium income and 8% growth in Short-term Insurance net premium income.

Impairment losses on loans and advances

Implementing IFRS 9 increased the Group's IAS 39 credit provisions and interest in suspense by R7.0bn or 36% at 1 January 2018 to R28.9bn. This impact is R1.9bn higher than the amount previously published following a change in the treatment of post write-off recoveries in the calculation of accounting LGD. Previously reported IAS 39 impairment ratios in respect of performing and non-performing portfolios are not comparable to similar ratios under IFRS 9. At 31 December 2018 the Group's stage 3 (defaulted) loans were 5.10% of gross loans and advances from 5.53% at 1 January 2018 and the ECL coverage ratios on these were 45.1% and 43.7%, respectively.

At the IFRS Interpretations Committee (IFRS-IC) meeting held in November 2018, the committee concluded that any unrecognised interest, which is subsequently recovered should be presented as a credit impairment gain. Following this decision, the Group has amended its accounting treatment. This change does not impact profit or loss, but it does reduce both the Group's ECL and interest income by R608m for the year ending 31 December 2018 (30 June 2018: R292m).

Credit impairments decreased 10% to R6 324m from R7 022m, which improved the Group's credit loss ratio to 0.73% from 0.87% of gross loans and advances to customers and banks. Excluding the IFRS-IC conclusion's impact credit impairments declined 1%.

RBB South Africa credit impairments decreased 10% to R4 555m, resulting in a 0.94% credit loss ratio from 1.10%. Retail Banking South Africa credit impairments declined 9% to R4 313m, improving its credit loss ratio to 1.04% from 1.20%. Home Loans' charge fell 84% to R113m resulting in a 0.05% credit loss ratio from 0.30%. Card and Payments' credit loss ratio declined to 3.42% from 4.53%, given 23% lower credit impairments of R1 478m. Vehicle and Asset Finance credit impairments grew 29% to R1 096m, increasing its credit loss ratio to 1.02% from 0.87%. Personal Loans' charge fell 1% to R1 105m and its credit loss ratio improved to 5.51% from 6.09%. Business Banking South Africa credit impairments decreased 12% to R242m, improving its credit loss ratio to 0.35% from 0.43%.

CIB South Africa credit impairments increased 76% to R998m from R567m, due to a large single name exposure. Its credit loss ratio increased to 0.36% from 0.24%.

ARO's credit impairments fell 38% to R794m from R1 289m, reducing its credit loss ratio to 0.77% from 1.34%. Within this, RBB's charge declined 14% to R820m, a 1.80% credit loss ratio, while CIB's fell 91% to R32m or a 0.07% credit loss ratio.

Operating expenses

Group operating expenses grew 8% (CCY +6%) on an IFRS basis, to R46 803m from R43 304m, resulting in a 61.2% cost-to-income ratio from 59.0%. On a normalised basis operating expense increased 5% to R43 642m from R41 403 resulting in a 57.7% cost-to-income from 56.7%.

Staff costs grew 5% and accounted for 53% of total operating expenses. Salaries rose 8% and total incentives fell 2%.

On a normalised basis staff costs grew 4% and accounted for 55% of total operating expenses. Salaries rose 7% and total incentives fell 2%. Headcount decreased 2% to 40 856, largely due to reductions in South Africa and a disposal in WIMI.

Non-staff costs grew 7%. Professional fees grew 17% (normalised: 7%) to R2 700m, while telephone and postage increased 1% and printing and stationary decreased 1%. Operating leases on properties were flat at R1 606m and property costs increased 4% to R1 816 (normalised: 2% to R1 759m). Marketing costs increased 9% to R1 962m from R1 793m due to the brand launch (normalised: decreased 7% to R1 595m reflecting lower product campaign spend). Total IT-related spend grew 7% to R7 886m and constituted 18% of Group operating expenses. Amortisation of intangible assets rose 30% to R846 (normalised: 25% to R815m), while cash transportation increased 16% to R1266m. The 18% growth in depreciation reflects investment in technology and optimisation of the corporate property portfolio and branch network.

RBB South Africa costs grew 5% to R25 770m. Retail Banking South Africa increased 5% and Business Banking South Africa 5%, due to salary increases, amortization of IT infrastructure, digital fraud losses and one-off restructuring and rebranding initiatives. CIB South Africa expenses grew 12% to R6 304m, after two years of low cost growth, due to investment in systems and technology and building out capabilities after separating from Barclays PLC. ARO's expenses increased 6%, or 8% in CCY, to R9 535m due to incremental costs following separation from Barclays PLC and high inflation rates in some countries. CIB increased 13% and RBB grew 3%. WIMI's costs declined 5% to R3 098m, due to disposals, as continuing business line costs grew 4%. Positive operating Jaws improved its cost-efficiency ratio to 33.3%.

Taxation

The Group's taxation expense increased 7% to R6 282 (normalised: 8% to R6 766m), slightly above the 5% pre-tax profit, resulting in a 29.2% (normalised: 28.1%) effective tax rate from 28.1% (normalised: 27.5%).

Segment performance

RBB South Africa

Headline earnings increased 2% to R8 880m, due to 10% lower credit impairments as pre-provision profits declined 2%. Revenue grew 2% to R43 591m, with non-interest income increasing 5%. Costs rose 5% to R25 770m, resulting in a 59.1% cost-to-income ratio from 57.4%. The credit loss ratio improved to 0.94% from 1.10%. RBB South Africa generated a return on regulatory capital (RoRC) of 24.0% and constituted 53% of total normalised headline earnings excluding the Group centre.

Retail Banking South Africa

Headline earnings grew 2% to R6 359m, primarily due to 9% lower credit impairments. Card and Payments earnings grew 15% to R1 723m, as a result of 23% lower credit impairments and 13% growth in acquiring turnover. Despite 7% higher pre-provision profits, Transactional and Deposits earnings fell 3% to R2 311m, because of significantly higher credit impairments. Home Loans earnings were flat at R1 736m, as credit impairments fell 84% to offset 9% lower revenue due to the impact of IFRS 9 and IFRS-IC conclusion. Vehicle and Asset Finance earnings fell 9% to R877m, as 29% higher credit impairments outweighed 5% higher pre-provision profits. Personal Loans earnings increased 7% to R461m, due to a combination of pre-provision profits rising 2% and credit impairments declining by 1%. Retail Banking South Africa accounted for 38% of normalised headline earnings excluding the Group centre.

Business Banking South Africa

Headline earnings increased 1% to R2 521m. Pre-provision profits were flat, given 5% cost growth due to continued investment in frontline staff and systems. Credit impairments fell 12%, due to IFRS-IC conclusion. Business Banking South Africa generated 15% of overall normalised headline earnings excluding the Group centre.

CIB South Africa

Headline earnings decreased 1% to R3 367m, primarily due to 76% higher credit impairments. Pre-provision profits grew 5% although 12% higher costs exceeded 8% revenue growth. Corporate earnings grew 4% to R1 171m, largely due to 11% revenue growth. Investment Bank earnings decreased 4% to R2 196m, due to 70% higher credit impairments. CIB South Africa contributed 20% of total normalised headline earnings excluding the Group centre and generated a 15.6% RoRC.

ARO

Headline earnings grew 9%, or 13% in CCY, to R3 218m, largely due to 38% lower credit impairments. Pre-provision profits increased 3%. Revenue grew 5% to R16 323m. Costs grew 6% to R9 535m, resulting in a 58.4% cost-to-income ratio. RBB earnings increased 26% to R844m, or 29% in CCY, given positive operating leverage and 14% lower credit impairments. CIB earnings grew 7%, or 11% in CCY, to R2 508m as its credit impairments dropped 91%. ARO accounted for 19% of total normalised headline earnings excluding the Group centre and produced a 18.5% RoE.

Wealth, Investment Management and Insurance

Headline earnings grew 3% to R1 268m, while earnings from continuing business lines increased 8% to R1 195m. Gross operating income grew 10% to R6 869m and costs decreased 3% to R3 740m. Life insurance earnings grew 4% to R870m. The embedded value of new business increased 15%. Investment Cluster earnings declined 6%, largely due to margin compression since assets under management grew 1% to R337bn. Short-term insurance earnings grew 32% to R299m. South Africa underwriting margins increased to 9.6%. WIMI's South Africa earnings increased 9% to R1 326m, while Africa Regions reported a loss of R58m. WIMI's RoE improved to 21.7% and it generated 8% of total earnings excluding the Group centre.

Prospects

South Africa's economic growth outlook for 2019 appears relatively modest. We see only tentative growth for consumer spending of 1.5%, with probably more downside than upside risks. On the view that the consumer remains constrained and business confidence tentative, we forecast GDP growth of 1.7% in 2019. Eskom's challenges are one key uncertainty for 2019, as is the global environment. Beyond the election, the economy is likely to remain a challenge for fiscal policy, while we expect the Reserve Bank to leave interest rates unchanged for some time.

In our Africa regions markets, we forecast real GDP growth of 5.9% with risks tilted to the downside. Infrastructure investment, improved mining output and agriculture should help support growth in 2019. Global uncertainties will continue to weigh on the currency, inflation and interest rate outlook in the region.

Based on these assumptions, and excluding any major unforeseen political, macroeconomic or regulatory developments, we expect stronger deposit growth this year and it should exceed our loan growth. We again see better loan growth from ARO in CCY than from South Africa, where momentum should continue. Our net interest margin is likely to decline slightly. Costs will remain well controlled and we are targeting positive operating Jaws for the full year, although this could be challenging in the first half, given the slow start we expect from the economy and financial markets. Our credit loss ratio is likely to increase off a low base. Our Group CET1 ratio should remain above board targets and we are comfortable with our dividend cover at current levels. Lastly, our RoE should increase slightly in 2019, on the path to achieving our target of 18% to 20% by 2020.

Normalised financial results as a consequence of Barclays PLC separation

On 1 March 2016, Barclays PLC announced its intention to sell down its 62,3% interest in the Group. A comprehensive separation programme was initiated by Barclays PLC and the Group to determine possible interactions between the companies to ensure that the Group can operate as an independent and sustainable group without the involvement of Barclays PLC.

Barclays PLC currently holds 14,9% in the Group.

As part of its divestment Barclays PLC contributed £765m to the Group, primarily in recognition of the investments required for the Group to separate from Barclays PLC. Investments will be made primarily in rebranding, technology and separation-related projects and it is expected that these will neutralise the capital and cash flow impact of separation investments on the Group over time.

The separation process will have an impact on the Group's financial results for the next few of years, most notably by increasing the capital base in the near-term and generating endowment revenue thereon, with increased costs over time as the separation investments are concluded ahead of the associated benefit realisation. International Financial Reporting Standards (IFRS) require that the Barclays PLC contribution be recognised directly in equity, while the subsequent investment expenditure (including the depreciation or amortisation of capitalised assets), will be recognised in profit or loss. The aforementioned will result in a disconnect between underlying business performance and the IFRS financial results during the separation period. Normalised financial results will therefore be disclosed while the underlying business performance is materially different from the IFRS financial results.

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

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

Basis of presentation

IFRS financial results

The Group's summary provisional consolidated 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 information disclosed in the SENS is derived from the information contained in the audited annual consolidated financial statements and does not contain full or complete disclosure details. Any investment decisions by shareholders should be based on consideration of the audited annual consolidated financial statements, which is available on request. The presentation and disclosures comply with International Accounting Standards 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 fair value through other comprehensive income financial assets (2018)/available-for-sale financial assets (2017), 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.

CCY

CCY pro forma financial information has been presented to illustrate the impact of changes in the Group's major foreign currencies, namely the, Botswana Pula, Ghanaian Cedi, Kenyan Shilling, Mauritius Rupee, Mozambique Metical, Seychelles Rupee, Tanzanian Shilling, Uganda Shelling and Zambia Kwacha. Because of its nature, the CCY pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows. In determining the CCY pro forma financial information, amounts denoted in the above listed currencies for the current period have been converted to the presentation currency using the spot exchange rate as at 31 December 2017. The CCY pro forma financial information is the responsibility of the directors.

Normalised financial results

The summary provisional consolidated normalised financial results (normalised results) have been prepared to illustrate the impact of the separation from Barclays PLC and adjust for the interest income on Barclays PLC's separation contribution, hedging linked to the separating activities, operating expenses and other expenses, as well as the tax impact of the aforementioned items (collectively the "separation").

Normalised results have been prepared for illustrative purposes only and because of their nature may not fairly present the Group's financial position, changes in equity, cash flows and results of operations.

The normalised results have not been prepared using the accounting policies of the Group and do not comply with IFRS. These results are considered to be pro forma financial information and have been prepared in terms of the Johannesburg Stock Exchange listing requirements. The pro forma financial information, is the responsibility of the Group's Board of the directors.

The pro forma financial information contained in this announcement has been reviewed by the group's external auditors and their unmodified limited assurance report prepared in terms of ISAE 3420 is available for inspection at the company's registered office on weekdays from 09:00 to 16:00

Accounting policies

The accounting policies applied in preparing the summary provisional consolidated financial statements are the same as those in place for the Group's annual consolidated financial statements for the reporting period ended 31 December 2017 except for the adoption of IFRS 9 Financial Instruments (IFRS 9), IFRS 15 Revenue from Contracts with Customers (IFRS 15), internal accounting policy amendments and changes to the Group's operating segments and business portfolios changes. Refer to note 15.

Standards issued not yet effective

IFRS 16 Leases (IFRS 16) 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 a single lessee accounting model.

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

- 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
- 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.

During 2018, the joint leases programme (incorporating corporate real estate services and finance) has focused its efforts on implementing the IT solution, which will ensure that leases are recognised and disclosed in terms of the requirements of IFRS 16, collating the required lease data, designing and testing new processes, and ensuring appropriate financial disclosures.
The effective date of IFRS 16 is 1 January 2019. The Group intends to apply the modified retrospective approach on adoption, with right of use assets measured retrospectively using the Group's transition date incremental borrowing rate.

The implementation of IFRS 16 will require the recognition of right-of-use assets (presented as part of property and equipment) and lease liabilities, together with a debit against retained earnings of between R225m and R285m (net of deferred tax, non-controlling interests and the release of IAS 17 straight line reserves). Right-of-use assets will be risk weighted in line with the nature of the underlying assets, and the debit to retained income will reduce CET1. The value of the right-of-use assets recognised is expected to be less than R3.8bn and the value of the increase in lease liabilities is expected to be less than R4.6bn (before the before the release of the IAS 17 straight-lining liability of approximately R400m).

IFRS 17 – Insurance contracts

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles for reinsurance contracts held and issued investment contracts with discretionary participation features. The standard brings a greater degree of comparability and transparency about an insurer's financial health and the profitability of new and in-force insurance business.

IFRS 17 introduces a general measurement model that measures groups of insurance contracts based on fulfilment cash flows (comprising probability-weighted current estimates of future cash flows and an explicit entity specific adjustment for risk) and a contractual service margin. The premium allocation approach (PAA) is a simplified measurement model that may be applied when certain conditions are fulfilled. Under the premium allocation approach, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. The general measurement model has specific modifications applicable to accounting for reinsurance contracts, direct participating contracts and investment contracts with discretionary participation features.

At a Board meeting held on 14 November 2018, the IASB tentatively decided to propose amending the IFRS 17 effective date for reporting periods beginning on or after 1 January 2022. This is a deferral of 1 year compared to the current date of 1 January 2021 and is subject to public consultation, which is expected to take place in 2019.

A joint insurance programme incorporating finance, actuarial, data and IT was started in the last quarter of 2017 to address the implementation requirements of IFRS 17. It is a multi-year programme impacting models, data, systems and business processes. During 2018, the programme has focused on interpreting the requirements, project design and model prototyping as well as the commencement of impact assessment. 2019 will see the programme move into a 'build and test' phase with planned parallel testing ahead of the 2021/2022 implementation.

Auditor report

Ernst & Young Inc. (EY), the Group's independent auditor, has audited the annual consolidated and separate financial statements of the Group from which management prepared the summary provisional consolidated financial results. The auditor has expressed an unqualified audit opinion on the consolidated annual financial statements. The summary provisional consolidated financial results comprise: the summary provisional consolidated statement of financial position at 31 December 2018, summary provisional consolidated statement of comprehensive income, summary provisional consolidated statement of changes in equity and summary provisional consolidated statement of cash flows for the reporting period then ended and selected explanatory notes (on pages 21 to 70), excluding items indicated as unaudited. The audit report on the consolidated annual financial statements as well as the independent reporting accountants' report on the normalized financial results and the CCY pro forma financial information is available for inspection at the Group's registered office.

The summary provisional consolidated statements (on pages 13 to 20) for the year ended 31 December 2018 have been audited by EY, who expressed an unmodified opinion thereon. A copy of the auditor's report on the summary provisional consolidated financial statements are available for inspection at the Group's registered office.

Events after the reporting period

Absa Group Limited CEO, Maria Ramos announced her retirement on the 29 January 2019, effective 28 February 2019. The Board has appointed René van Wyk as Absa's Chief Executive with effect from 1 March 2019.

Apart from the above mentioned, the directors are not aware of any other events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2018 and the date of authorisation of these annual consolidated and separate financial statements.

On behalf of the Board

W E Lucas-Bull

Group Chairman

J P Quinn

Financial Director

Johannesburg

8 March 2019

Declaration of ordinary dividend number 65

Shareholders are advised that an ordinary dividend of 620 cents per ordinary share was declared on 11 March 2019, for the period ended 31 December 2018. The ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 12 April 2019. The directors of Absa Group Limited confirm 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 620 cents per ordinary share for shareholders exempt from the dividend tax.
- The net local dividend amount is 496 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 20 273 811[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, 9 April 2019
Shares commence trading ex-dividend	Wednesday, 10 April 2019
Record date	Friday, 12 April 2019
Payment date	Monday, 15 April 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 10 April 2019 and Friday, 12 April 2019, both dates inclusive. On Monday, 15 April 2019, 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, 15 April 2019.

On behalf of the Board

N R Drutman

Group Company Secretary

Johannesburg

8 March 2019

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 Group shares to be used in the furtherance of the Group's objective of establishing a BBBEE structure.

Summary provisional consolidated IFRS salient features

for the period ended 31 December

	2018	2017 Restated
Statement of comprehensive income (Rm)		
Income[1]	**76 515**	73 395
Operating expenses	**46 803**	43 304
Profit attributable to ordinary equity holders[1]	**13 917**	13 888
Headline earnings[1][2]	**14 142**	14 378
Statement of financial position		
Loans and advances to customers (Rm)[3]	**841 720**	749 772
Total assets (Rm)[4]	**1 288 744**	1 169 595
Deposits due to customers (Rm)	**736 305**	689 867
Loans to deposits and debt securities ratio (%)	**93.8**	90.6
Financial performance (%)		
Return on equity (RoE)	**13.4**	14.2
Return on average assets (RoA)	**1.17**	1.27
Return on risk-weighted assets (RoRWA)	**1.86**	2.00
Stage 3 loans ratio on gross loans and advances	**5.10**	n/a
Non-performance loans (NPL) ratio on gross loans and advances	**n/a**	3.75
Operating performance (%)		
Net interest margin on average interest-bearing assets[5]	**4.65**	4.83
Credit loss ratio on gross loans and advances to customers and banks	**0.73**	0.87
Non-interest as a percentage of total income	**42.8**	41.9
Cost-to-income ratio	**61.2**	59.0
Jaws	**(4)**	(7)
Effective tax rate	**29.2**	28.1
Share statistics (million)		
Number of ordinary shares in issue	**847.8**	847.8
Number of shares in issue (excluding treasury shares)	**827.5**	832.8
Weighted average number of ordinary shares in issue	**830.1**	833.7
Diluted weighted average number of ordinary shares in issue	**831.7**	833.8
Share statistics (cents)		
Headline earnings per ordinary share (HEPS)[1]	**1 703.7**	1 724.5
Diluted headline earnings per ordinary share (DHEPS)[1]	**1 700.4**	1 724.2
Basic earnings per ordinary share (EPS) [1]	**1 676.5**	1 665.7
Diluted basic earnings per ordinary share (DEPS) [1]	**1 673.3**	1 665.5
Dividend per ordinary share relating to income for the reporting period	**1 110**	1 070
Dividend cover times (times)	**1.5**	1.6
NAV per ordinary share[1]	**13 233**	13 042
Tangible NAV per ordinary share[1]	**12 185**	12 396
Capital adequacy (%)		
Absa Group Limited	**16.1**	**16.1**
Absa Bank Limited	**16.5**	16.9
Common Equity Tier 1 (%)		
Absa Group Limited	**12.8**	13.5
Absa Bank Limited	**12.2**	13.4

[1]Numbers have been restated, refer to note 15.3 for further details.
[2]After allowing for **R351m** (2017: R362m) profit attributable to preference equity holders and **R190m** (2017: R48m) profit attributable to Additional Tier 1 capital holders.
[3]Current year figures have been prepared in accordance with IFRS 9 reporting standards, whilst comparatives (2017) had been prepared in accordance with IAS 39 reporting standards.
[4]Numbers have been restated, refer to note 15.4 for further details.
[5]Net interest margin 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 reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been 4.77% (2017: 5.05%).

Summary provisional normalised salient features

for the period ended 31 December

	2018	2017 Restated
Statement of comprehensive income (Rm)		
Income[1]	**75 660**	72 990
Operating expenses	**43 642**	41 403
Profit attributable to ordinary equity holders[1]	**15 903**	15 370
Headline earnings[1][2]	**16 128**	15 623
Statement of financial position		
Total assets (Rm)[3]	**1 285 552**	1 168 683
Financial performance (%)		
Return on equity (RoE)	**16.8**	16.5
Return on average assets (RoA)	**1.34**	1.39
Return on risk-weighted assets (RoRWA)	**2.12**	2.17
Operating performance (%)		
Net interest margin on average interest-bearing assets[4]	**4.64**	4.83
Non-interest as a percentage of total income	**42.6**	42.0
Cost-to-income ratio	**57.7**	56.7
Jaws	**(2)**	(3)
Effective tax rate	**28.1**	27.5
Share statistics (million)		
Number of shares in issue (excluding treasury shares)	**840.2**	845.6
Weighted average number of ordinary shares in issue	**842.9**	846.5
Diluted weighted average number of ordinary shares in issue	**844.4**	846.6
Share statistics (cents)		
Headline earnings per ordinary share (HEPS)[1]	**1 913.4**	1 845.6
Diluted headline earnings per ordinary share (DHEPS)[1]	**1 910.0**	1 845.4
Basic earnings per ordinary share (EPS) [1]	**1 886.7**	1 815.7
Diluted basic earnings per ordinary share (DEPS) [1]	**1 883.3**	1 815.5
Dividend per ordinary share relating to income for the reporting period	**1 110**	1 070
Dividend cover times (times)	**1.7**	1.7
NAV per ordinary share[1]	**11 985**	11 573
Tangible NAV per ordinary share[1]	**11 273**	11 030
Capital adequacy (%)		
Absa Group Limited	**15.4**	14.9
Absa Bank Limited	**15.4**	15.0
Common Equity Tier 1 (%)		
Absa Group Limited	**12.0**	12.1
Absa Bank Limited	**11.2**	11.6

[1] Numbers have been restated, refer to note 15.3 for further details.
[2] After allowing for **R351m** (2017: R362m) profit attributable to preference equity holders and **R190m** (2017: R48m) profit attributable to Additional Tier 1 capital holders.
[3] Numbers have been restated, refer to note 15.4 for further details.
[4] Net interest margin 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 reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been 4.80% (2017: 4.95%).

Summary provisional consolidated reconciliation of IFRS to normalised results
for the period ended 31 December

	IFRS Group performance[1] 2018	Barclays PLC separation effects[2] 2018	Normalised Group performance[3] 2018
Statement of comprehensive income (Rm)			
Net interest income	43 755	330	43 425
Non-interest income	32 760	525	32 235
Total income	76 515	855	75 660
Impairment losses	(6 324)	–	(6 324)
Operating expenses	(46 803)	(3 161)	(43 642)
Other expenses	(2 026)	(194)	(1 832)
Share of post-tax results of associates and joint ventures	179	–	179
Operating profit before income tax	21 541	(2 500)	24 041
Tax expenses	(6 282)	484	(6 766)
Profit for the reporting period	15 259	(2 016)	17 275
Profit attributable to:			
Ordinary equity holders	13 917	(1 986)	15 903
Non-controlling interest – ordinary shares	801	(30)	831
Non-controlling interest – preference shares	351	–	351
Non-controlling interest – additional Tier 1	190	–	190
	15 259	(2 016)	17 275
Headline earnings	14 142	(1 986)	16 128
Operating performance (%)			
Net interest margin on average interest – bearing assets	4.65	n/a	4.64
Credit loss ratio on gross loans and advances to customers and banks	0.73	n/a	0.73
Non-interest income as % of total income	42.8	n/a	42.6
Income growth	4	n/a	4
Operating expenses growth	8	n/a	5
Cost-to-income ratio	61.2	n/a	57.7
Effective tax rate	29.2	n/a	28.1
Statement of financial position (Rm)			
Loans and advances to customers	841 720	–	841 720
Loans and advances to banks	53 140	–	53 140
Investment securities	135 420	–	135 420
Other assets	258 464	3 192	255 272
Total assets	1 288 744	3 192	1 285 552
Deposits due to customers	736 305	–	736 305
Debt securities in issue	160 971	–	160 971
Other liabilities	269 862	(5 561)[4]	275 423
Total liabilities	1 167 138	(5 561)	1 172 699
Equity	121 606	8 753	112 853
Total equity and liabilities	1 288 744	3 192	1 285 552
Key performance ratios (%)			
RoA	1.17	n/a	1.34
RoE	13.4	n/a	16.8
Capital adequacy	16.1	n/a	15.4
Common Equity Tier 1	12.8	n/a	12.0
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 700.4	n/a	1 910.0

[1] IFRS performance, presents the IFRS information as extracted from the Group's summary provisional consolidated financial results for the reporting period ended 31 December 2018.
[2] Barclays PLC separation effects, presents the financial effects of the separation on the summary provisional consolidated financial results of the Group.
[3] Normalised performance, presents the summary provisional consolidated financial results of the Group, after adjusting for the consequences of the separation.
[4] 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'.

Summary provisional consolidated reconciliation of IFRS to normalised results
for the period ended 31 December

	IFRS Group performance 2017	Barclays PLC separation effects 2017	Total Group normalised performance 2017
Statement of comprehensive income (Rm)			
Net interest income	42 644	325	42 319
Non-interest income [1]	30 750	80	30 670
Total income	73 395	405	72 990
Impairment losses	(7 022)	-	(7 022)
Operating expenses	(43 304)	(1 901)	(41 403)
Other expenses	(2 270)	(394)	(1 876)
Share of post-tax results of associates and joint ventures	170	-	170
Operating profit before income tax	20 969	(1 890)	22 859
Tax expenses[1]	(5 882)	407	(6 289)
Profit for the reporting period	15 087	(1 482)	16 569
Profit attributable to:			
Ordinary equity holders[1]	13 888	(1 482)	15 370
Non-controlling interest - ordinary shares	789	-	789
Non-controlling interest - preference shares	362	-	362
Non-controlling interest - additional Tier 1	48	-	48
	15 087	(1 482)	16 569
Headline earnings[1]	14 378	(1 245)	15 623
Operating performance (%)			
Net interest margin on average interest - bearing assets[2]	4.83	n/a	4.83
Credit loss ratio on gross loans and advances to customers and banks	0.87	n/a	0.87
Non-interest income as % of total income	41.9	n/a	42.0
Income growth	1	n/a	1
Operating expenses growth	8	n/a	3
Cost-to-income ratio	59.0	n/a	56.7
Effective tax rate	28.1	n/a	27.5
Statement of financial position (Rm)			
Loans and advances to customers	749 772	-	749 772
Loans and advances to banks	55 426	-	55 426
Investment securities	111 409	-	111 409
Other assets[3]	252 988	912	252 076
Total assets[3]	1 169 595	912	1 168 683
Deposits due to customers	689 867	-	689 867
Debt securities in issue	137 948	-	137 948
Other liabilities[3]	222 522	(9 840)[4]	232 362
Total liabilities[3]	1 050 337	(9 840)	1 060 177
Equity[3]	119 258	10 752	108 506
Total equity and liabilities[3]	1 169 595	912	1 168 683
Key performance ratios (%)			
RoA	1.27	n/a	1.39
RoE	14.2	n/a	16.5
Capital adequacy	16.1	n/a	14.9
Common Equity Tier 1	13.5	n/a	12.1
Share statistics (cents)			
Diluted headline earnings per ordinary share[1]	1 724.5	n/a	1 845.6

[1]Numbers have been restated, refer to note 15.3 for further details.
[2]Net interest margin 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 reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been 4.77% (2017: 5.05%) on IFRS and 4.80% (2017: 4.95%) on normalised basis.
[3]Numbers have been restated, refer to note 15.4 for further details.
[4]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'.

Summary provisional consolidated statement of financial position

as at 31 December

	Note	2018 Rm	2017 Restated Rm	2016 Restated Rm
Assets				
Cash, cash balances and balances with central banks		**46 929**	48 669	50 006
Investment securities		**135 420**	111 409	114 315
Loans and advances to banks		**53 140**	55 426	49 789
Trading portfolio assets		**128 569**	132 183	96 236
Hedging portfolio assets		**2 411**	2 673	1 745
Other assets[(1)]		**30 642**	24 576	28 107
Current tax assets		**819**	314	894
Non-current assets held for sale	1	**239**	1 308	823
Loans and advances to customers	2	**841 720**	749 772	720 309
Reinsurance assets		**618**	892	985
Investments linked to investment contracts		**18 481**	18 936	18 816
Investments in associates and joint ventures		**1 310**	1 235	1 065
Investment properties		**508**	231	478
Property and equipment		**15 835**	15 303	14 643
Goodwill and intangible assets		**8 672**	5 377	4 049
Deferred tax assets		**3 431**	1 291	1 328
Total assets		**1 288 744**	1 169 595	1 103 588
Liabilities				
Deposits from banks		**121 421**	67 390	53 192
Trading portfolio liabilities		**51 632**	64 047	47 429
Hedging portfolio liabilities		**1 343**	1 123	2 064
Other liabilities[(1)]		**36 662**	35 360	30 261
Provisions		**4 017**	3 041	3 005
Current tax liabilities		**236**	57	244
Non-current liabilities held for sale	1	**124**	48	9
Deposits due to customers		**736 305**	689 867	674 865
Debt securities in issue		**160 971**	137 948	139 714
Liabilities under investment contracts		**29 674**	30 585	29 198
Policyholder liabilities under insurance contracts[(2)]		**4 168**	4 342	4 283
Borrowed funds	3	**20 225**	15 895	15 673
Deferred tax liabilities[(2)]		**360**	634	1 237
Total liabilities		**1 167 138**	1 050 337	1 001 174
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital		**1 655**	1 666	1 693
Share premium		**10 205**	10 498	4 467
Retained earnings[(2)]		**91 237**	92 080	81 738
Other reserves		**6 387**	4 370	5 293
		109 484	108 614	93 191
Non-controlling interest - ordinary shares		**4 737**	4 500	4 579
Non-controlling interest - preference shares		**4 644**	4 644	4 644
Non-controlling interest - Additional Tier 1 Capital		**2 741**	1 500	-
Total equity		**121 606**	119 258	102 414
Total liabilities and equity		**1 288 744**	1 169 595	1 103 588

(1) Numbers have been restated, refer to note 15.4 for further details.
(2) Numbers have been restated, refer to note 15.3.1 for further details.

Summary provisional consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	2018 Rm	2017 Restated Rm
Net interest income		**43 755**	42 644
Interest and similar income		**89 236**	85 929
Effective interest income[(1)]		**87 634**	84 656
Other interest income[(1)]		**1 602**	1 273
Interest expense and similar charges		**(45 481)**	(43 285)
Effective interest expense[(1)]		**(45 481)**	(43 285)
Non-interest income	4	**32 760**	30 751
Net fee and commission income		**22 523**	21 711
Fee and commission income		**25 675**	24 724
Fee and commission expense		**(3 152)**	(3 013)
Net insurance premium income		**7 190**	6 598
Net claims and benefits incurred on insurance contracts		**(3 565)**	(3 334)
Changes in investment and insurance contract liabilities[(2)]		**808**	(2 023)
Gains and losses from banking and trading activities		**5 820**	5 246
Gains and losses from investment activities		**(636)**	1 905
Other operating income		**620**	648
Total income		**76 515**	73 395
Impairment losses		**(6 324)**	(7 022)
Operating income before operating expenditure		**70 191**	66 373
Operating expenditure		**(46 803)**	(43 304)
Other expenses		**(2 026)**	(2 270)
Other impairments	5	**(434)**	(648)
Indirect taxation		**(1 592)**	(1 622)
Share of post-tax results of associates and joint ventures		**179**	170
Operating profit before income tax		**21 541**	20 969
Taxation expense[(2)]		**(6 282)**	(5 882)
Profit for the reporting period		**15 259**	15 087
Profit attributable to:			
Ordinary equity holders[(2)]		**13 917**	13 888
Non-controlling interest - ordinary shares		**801**	789
Non-controlling interest - preference shares		**351**	362
Non-controlling interest - Additional Tier 1 Capital		**190**	48
		15 259	15 087
Earnings per share:			
Basic earnings per share (cents)[(2)]		**1 676.5**	1 665.7
Diluted earnings per share (cents)[(2)]		**1 673.3**	1 665.5

[(1)]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.
[(2)]Numbers have been restated, refer to note 15.3.1 for further details.

Summary provisional consolidated statement of other comprehensive income

for the reporting period ended 31 December

	2018 Rm	2017 Restated Rm
Profit for the reporting period[1]	**15 259**	15 087
Other comprehensive income		
Items that will not be reclassified to profit or loss	**53**	(179)
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)	**27**	-
Fair value gain	**38**	-
Deferred tax	**(11)**	-
Movement on liabilities designated at FVTPL due to changes in own credit risk	**(13)**	(147)
Fair value losses	**(71)**	(147)
Deferred tax	**58**	-
Movement in retirement benefit fund assets and liabilities	**39**	(32)
Decrease in retirement benefit surplus	**(26)**	(91)
Increase in retirement benefit deficit	**55**	45
Deferred tax	**10**	14
Items that are or may be subsequently reclassified to profit or loss	**2 215**	(1 327)
Movement in foreign currency translation reserve	**3 052**	(2 219)
Differences in translation of foreign operations	**3 052**	(2 271)
Release to profit or loss	**-**	52
Movement in cash flow hedging reserve	**(247)**	794
Fair value gains	**265**	1 465
Amounts transferred within other comprehensive income	**(58)**	-
Amount removed from other comprehensive income and recognised in profit or loss	**(550)**	(365)
Deferred tax	**96**	(306)
Movement in fair value of debt instruments measured at FVOCI	**(590)**	-
Fair value losses	**(750)**	-
Release to profit or loss	**(9)**	-
Deferred tax	**169**	-
Movement in available-for-sale reserve	**-**	98
Fair value gains	**-**	154
Release to profit or loss	**-**	67
Deferred tax	**-**	(123)
Total comprehensive income for the reporting period	**17 527**	13 580
Total comprehensive income attributable to:		
Ordinary equity holders[1]	**15 816**	12 654
Non-controlling interest - ordinary shares	**1 170**	516
Non-controlling interest - preference shares	**351**	362
Non-controlling interest - Additional Tier 1 capital	**190**	48

[1] Numbers have been restated, refer to note 15.3.1 for further details.

Summary provisional consolidated statement of changes in equity

as at 31 December

	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	–	–	–	(5 413)	(126)	–
IFRS 15	–	–	–	(44)	–	–
Adjusted balance at the beginning of the reporting period	832 838	1 666	10 498	86 623	4 244	779
Total comprehensive income	–	–	–	13 937	1 879	–
Profit for the period	–	–	–	13 917	–	–
Other comprehensive income	–	–	–	20	1 879	–
Dividends paid during the reporting period	–	–	–	(9 033)	–	–
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	–	–	(491)	(66)	–	–
Elimination of the movement in Treasury shares held by Group entities	(5 361)	(11)	(293)	–	–	–
Movement in share-based payment reserve	–	–	491	–	40	–
Transfer from share-based payment reserve	–	–	491	–	(491)	–
Value of employee services	–	–	–	–	554	–
Deferred tax	–	–	–	–	(23)	–
Movement in general credit risk reserve	–	–	–	(44)	44	44
Movement in foreign insurance subsidiary regulatory reserve	–	–	–	(1)	1	–
Share of post-tax results of associates and joint ventures	–	–	–	(179)	179	–
Balance at the end of the reporting period	827 477	1 655	10 205	91 237	6 387	823

Summary provisional consolidated statement of changes in equity

as at 31 December

2018

	Fair value through other compre-hensive 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)	–	–	–	–	(104)	(5 539)	(230)	–	–	(5 769)
	–	–	–	–	–	–	(44)	–	–	–	(44)
	423	650	431	6	837	1 118	103 031	4 270	4 644	1 500	113 445
	(503)	(247)	2 629	–	–	–	15 816	1 170	351	190	17 527
	–	–	–	–	–	–	13 917	801	351	190	15 259
	(503)	(247)	2 629	–	–	–	1 899	369	–	–	2 268
	–	–	–	–	–	–	(9 033)	(703)	(351)	–	(10 087)
	–	–	–	–	–	–	–	–	–	(190)	(190)
	–	–	–	–	–	–	–	–	–	1 241	1 241
	–	–	–	–	–	–	(557)	–	–	–	(557)
	–	–	–	–	–	–	(304)	–	–	–	(304)
	–	–	–	–	40	–	531	–	–	–	531
	–	–	–	–	(491)	–	–	–	–	–	–
	–	–	–	–	554	–	554	–	–	–	554
	–	–	–	–	(23)	–	(23)	–	–	–	(23)
	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	1	–	–	–	–	–	–	–
	–	–	–	–	–	179	–	–	–	–	–
	(80)	403	3 060	7	877	1 297	109 484	4 737	4 644	2 741	121 606

Summary provisional consolidated statement of changes in equity

as at 31 December

	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 a 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 PLC separation [(2)]	-	-	8 415	3 690	-	-
Barclays PLC 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 and was recognised in equity on the date that the Group became entitled to the contribution.

[(3)] As part of the separation, Barclays PLC contributed cash of R1 981m to the independent Absa Empowerment Trust to allow for its subsidiary to purchase 12 716 260 Group shares (1.5%) in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. In terms 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 current 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.

Summary provisional consolidated statement of changes in equity

as at 31 December

2017

Available-for-sale 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
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

Summary provisional consolidated statement of cash flows

as at 31 December

	Note	2018 Rm	2017 Restated[1] Rm
Net cash generated from/(utilised in) operating activities		**13 884**	(534)
Income taxes paid		**(6 648)**	(6 371)
Net cash generated from other operating activities		**20 532**	5 837
Net cash utilised in investing activities		**(6 577)**	(2 634)
Purchase of property and equipment		**(3 373)**	(3 263)
Proceeds from sale of non-current assets held for sale		**1 414**	1 146
Net cash utilised in other investing activities		**(4 618)**	(517)
Net cash (utilised)/generated from financing activities		**(6 521)**	2 593
Net cash generated from Barclays PLC separation		**-**	12 105
Issue of Additional Tier 1 Capital		**1 241**	1 500
Proceeds from borrowed funds		**6 571**	2 841
Repayment of borrowed funds		**(3 195)**	(2 805)
Dividends paid		**(10 087)**	(9 750)
Net cash utilised from other financing activities		**(1 051)**	(1 298)
Net increase/(decrease) in cash and cash equivalents		**786**	(575)
Cash and cash equivalents at the beginning of the reporting period	1	**17 320**	17 734
Effect of foreign exchange rate movements on cash and cash equivalents		**388**	161
Cash and cash equivalents at the end of the reporting period	2	**18 494**	17 320

Notes to the summary provisional consolidated statement of cash flows

1. Cash and cash equivalents at the beginning of the reporting		
Cash, cash balances and balances with central banks[2]	**13 518**	13 141
Loans and advances to banks[3]	**3 802**	4 593
	17 320	17 734

2. Cash and cash equivalents at the end of the reporting period		
Cash, cash balances and balances with central banks[2]	**14 252**	13 518
Loans and advances to banks[3]	**4 242**	3 802
	18 494	17 320

[1]In order to provide more transparent disclosures, the summary consolidated statement of cash flows has been expanded to include line items specifying significant cash flow movements. The effect of this is to provide specific disclosure of the following line items, rather than include them in the total cash generated by/used in operating, investing or financing activities: income taxes paid, purchase of property and equipment, proceeds from sale of non-current assets, Issue of Additional Tier 1 Capital, proceeds/repayments of borrowed funds, dividends paid. Comparative statement of cash flows has been restated to take account of this additional disclosure.

[2] Includes coins and bank notes.

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

1. Non-current assets and non-current liabilities held for sale

The following movements in non-current assets and non-current liabilities held for sale were effected during the current financial reporting period:

- Retail Banking South Africa disposed of a loan book with a carrying amount of **R1 118m** and property and equipment with a carrying amount of **R1m**.
- ARO disposed of investment property with a carrying amount of **R2m**, and transferred property and equipment with a carrying value of **R11m** to non-current assets held for sale.
- WIMI disposed of a subsidiary with assets of **R139m** and liabilities of **R34m** out of non-current assets and non-current liabilities held for sale, respectively.
- WIMI further disposed of a business line with assets of **R14m** and liabilities of **R14m** out of non-current assets and non-current liabilities held for sale, respectively.
- WIMI Africa transferred an entity with a net asset value of **R20m** to non-current assets and non-current liabilities held for sale. This transfer comprised of loans and advances to banks **R22m**, reinsurance assets **R73m**, investment securities **R8m**, property and equipment **R3m**, deferred tax assets **R11m**, other assets **R27m**, policyholder liabilities under insurance contracts **R92m** and other liabilities **R32m**.
- Head office transferred property and equipment with a carrying amount of **R50m** to non-current assets held for sale.

The following movements in non-current assets and non-current liabilities held for sale were effected during the previous financial reporting period:

- Retail Banking South Africa transferred loans and advances to customers of R1 118m and property and equipment of R1m to non-current assets held for sale. The Commercial Property Finance (CPF) Equity division in Business Banking South Africa disposed of a subsidiary with assets of R373m and liabilities of R26m out of non-current assets and non-current liabilities held for sale respectively. Business Banking South Africa further disposed of two investment properties with a total carrying value of R475m.
- ARO transferred property with a carrying value of R3m to non-current assets held for sale.
- CIB South Africa transferred investment securities with a carrying value of R547m to non-current assets held for sale. Prior to its disposal at a carrying value of R467m, a negative fair value adjustment of R80m was applied to the investment securities.
- WIMI transferred two subsidiaries to non-current assets and non-current liabilities held for sale. The subsidiaries held assets of R139m and R14m, and liabilities of R34m and R14m respectively.

2. Loans and advances

	Financial measurement at FVTPL	Stage 1		
	carrying value Rm	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
RBB South Africa	-	413 118	2 899	0.70
Retail Banking South Africa	-	352 726	2 356	0.67
Credit cards	-	30 913	832	2.69
Instalment credit agreements	-	73 806	582	0.79
Loans to associates and joint ventures	-	25 490	1	-
Mortgages	-	197 019	287	0.15
Other loans and advances	-	3 060	20	0.65
Overdrafts	-	4 847	61	1.26
Personal and term loans	-	17 591	572	3.25
Business Banking South Africa	-	60 392	543	0.90
CIB South Africa	45 263	195 965	415	0.21
Absa Regional Operations	-	87 849	879	1.00
WIMI	-	5 342	24	0.45
Head Office, Treasury and other operations in South Africa	-	269	(195)	-
Loans and advances to customers	-	269	6	2.23
Reclassification to provisions[1]	-	-	(201)	-
Loans and advances to customers	45 263	702 543	4022	0.57
Loans and advances to banks	19 800	30 191	9	0.03
Total loans and advances to customers and banks	65 063	732 734	4 031	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. The excess is recognised in “Provisions” in the statement of financial position.

31 December 2018

Stage 2			Stage 3			
Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Net total exposure Rm
37 333	3 886	10.41	37 963	15 708	41.38	465 921
29 881	3 431	11.48	33 407	13 422	40.18	396 805
4 503	1 578	35.04	5 810	4 033	69.41	34 783
6 698	774	11.56	5 147	2 017	39.19	82 278
–	–	–	–	–	–	25 489
14 096	235	1.67	18 441	4 774	25.89	224 260
447	21	4.70	20	20	100.00	3 465
1 254	194	15.47	567	376	66.31	6 037
2 883	629	21.82	3 422	2 202	64.35	20 493
7 452	455	6.11	4 556	2 286	50.18	69 116
30 749	305	0.99	2 860	1 978	69.16	272 139
8 491	842	9.92	6 034	3 409	56.50	97 244
332	20	6.02	310	206	66.45	5 734
9	(191)	–	–	(18)	–	682
9	–	–	–	–	–	272
–	(191)	–	–	(18)	–	410
76 914	4 862	6.32	47 167	21 283	45.12	841 720
3 173	14	0.44	–	–	–	53 140
80 087	4 876	6.09	47 167	21 283	45.12	894 860

2. Loans and advances *(continued)*

	2017[1]						
	Performing loans			Non-Performing loans			
Loans and advances	Exposure Rm	Impairment Rm	Coverage ratio %	Exposure Rm	Impairment Rm	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	374 761	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	682	0.92	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	16	0.57	-	-	-	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	63 398
Mortgages (including CPF)	26 158	141	0.54	1 477	519	35.14	26 975
Overdrafts	19 864	396	1.99	1 082	374	34.57	20 176
Term loans	15 912	237	1.49	775	202	26.06	16 248
CIB South Africa	218 437	559	0.26	2 019	832	41.21	219 065
ARO	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 in note 15.

3. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: **R 6 571m** (2017: R 2 841m) of subordinated notes were issued and **R 3 195m** (2017: R2 805m) were redeemed.

4. Disaggregation of non-interest income

The following table disaggregates non-interest income splitting it into income received from contracts with customers by major service lines and per reportable segment, and other items making up non-interest income:

	RBB SA Rm	CIB SA Rm	ARO Rm	WIMI Rm	Head Office, Treasury and other operations in SA Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	18 065	2 341	3 174	3 262	(1 167)	–	25 675
Consulting and administration fees	236	99	57	87	1	–	480
Transactional fees and commissions	15 318	1 576	2 756	107	(2)	–	19 755
Cheque accounts	5 216	115	16	54	–	–	5 401
Credit cards	2 608	–	162	–	–	–	2 770
Electronic banking	4 144	1 082	91	17	1	–	5 335
Other [1]	1 287	378	2 473	35	(3)	–	4 170
Savings accounts	2 063	1	14	1	–	–	2 079
Merchant income	1 902	–	164	–	–	–	2 066
Asset management	22	1	5	1 308	(15)	–	1 321
Other fees and commissions	27	230	104	608	(223)	–	746
Insurance commissions received	560	–	86	1 111	(927)	–	830
Investment banking fees	–	435	2	41	(1)	–	477
Other income from contracts with customers	68	–	15	–	7	–	90
Other non-interest income, net of expenses	(50)	2 248	1 968	2 252	52	525	6 995
Total non-interest income	18 083	4 589	5 157	5 514	(1 108)	525	32 760

5. Other impairments

	2018 Rm	2017 Rm
Impairment raised on financial instruments[2]	–	5
Other	434	643
Goodwill	34	38
Intangible assets[3]	2	384
Property and equipment[4]	398	221
	434	648

[1] Includes fees on mortgage loans and foreign currency transactions.
[2] With the adoption of IFRS 9 the impairment on other financial instruments has been included as part of impairment losses.
[3] The impairment incurred during the prior period on intangible assets mainly related to internally generated software, Barclays.Net which was fully impaired.
[4] Management have decided to dispose of certain property and equipment resulting in an impairment of **R398m** (2017: R221m). As the property will be disposed of, the impairment was calculated based on fair value less costs to sell.

6. Headline earnings

	2018		2017	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Group[2]		**13 917**		13 888
Total headline earnings adjustment:		**225**		490
IAS 36 – Goodwill impairment	**34**	**34**	38	38
IFRS 5 – Loss/(profit) on disposal of non-currents assets held for sale	**(142)**	**(80)**	36	39
IAS 16 – Loss/(profit) on disposal of property and equipment	**5**	**2**	(43)	(34)
IAS 21 – Recycled foreign currency translation reserve	**-**	**-**	52	52
IAS 36 – Impairment of property and equipment	**398**	**297**	221	159
IAS 36 – Impairment of intangible assets	**2**	**1**	384	280
IAS 39 – Release of available-for-sale reserves (2017)	**-**	**-**	67	49
IAS 40 – Change in fair value of investment properties	**(38)**	**(29)**	(105)	(87)
IAS 40 – Profit on disposal of investment property	**-**	**-**	(5)	(5)
Headline earnings/diluted headline earnings[2]		**14 142**		14 378
Headline earnings per share (cents)[2]		**1 703.7**		1 724.5
Diluted headline earnings per share (cents)[2]		**1 700.4**		1 724.2

[1]The net amount is reflected after taxation and non-controlling interest.
[2]Numbers have been restated, refer to note 15.3.1 for further details.

IAS 33 *Earnings per share* prescribes that the weighted average number of shares outstanding during a reporting period, and for all periods presented, should be adjusted for events that change the number of ordinary shares outstanding without a corresponding change in resources. The contribution of cash by Barclays PLC and acquisition of Absa Group Limited shares by a subsidiary of the independent Absa Empowerment Trust in the previous reporting period did not result in an adjustment to the net asset value of the Group. The weighted average number of shares outstanding in 2017 has been restated to reflect the acquisition from Barclays PLC of 12 716 260 (1.5%) Absa Group Limited shares in the prior reporting period. The acquisition of shares has been treated as treasury shares from the beginning of 2017, which has led to a reduction in the number of ordinary shares outstanding for the purposes of determining the weighted average number of shares in the Headline earnings per share and Diluted headline earnings per share.

7. Dividends per share

	2018 Rm	2017 Rm
Dividends declared to ordinary equity holders		
Interim dividend **(6 August 2018: 490 cents)** (28 July 2017: 475 cents)	**4 154**	4 027
Final dividend **(11 March 2019: 620 cents)** (1 March 2018: 595 cents)	**5 256**	5 044
	9 410	9 071
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend **(6 August 2018: 490 cents)** (28 July 2017: 475 cents)	**4 076**	4 024
Final dividend **(11 March 2019: 620 cents)** (1 March 2018: 595 cents)	**5 130**	4 955
	9 206	8 979
Dividends declared to non-controlling preference equity holders		
Interim dividend **(6 August 2018: 3 543.67 cents)** (28 July 2017: 3 685.06849 cents)	**175**	182
Final dividend **(11 March 2019: 3 518.6986 cents)** (1 March 2018: 3 558.01 cents)	**174**	176
	349	358
Distributions declared to Additional Tier 1 Capital note holders		
Distribution **(12 December 2018: 31 620.63 Rands) (12 September 2018: 31 675.726 Rands) (12 June 2018: 32 200 Rands) (12 March 2018: 31 500 Rands)** (12 December 2017: 31 990.79 Rands)	**190**	48
	190	48
Dividends paid to ordinary equity holders (net of treasury shares)[1]		
Final dividend **(16 April 2018: 595 cents)** (10 April 2017: 570 cents)	**4 962**	4 832
Interim dividend **(17 September 2018: 490 cents)** (11 September 2017: 475 cents)	**4 071**	3 989
	9 033	8 821
Dividends paid to non-controlling preference equity holders		
Final dividend **(16 April 2018: 3 588.01 cents)** (10 April 2017: 3 644.7952 cents)	**176**	180
Interim dividend **(17 September 2018:3 5432.67 cents)** (11 September 2017: 3 685.06849 cents)	**175**	182
	351	362
Distributions paid to Additional Tier 1 Capital note holders		
Distribution **(12 December 2018: 31 620.63 Rands) (12 September 2018: 31 675.726 Rands) (12 June 2018: 32 200 Rands) (12 March 2018: 31 500 Rands)** (12 December 2017: 31 990.79 Rands)	**190**	48
	190	48

[1]The dividends paid on treasury shares are calculated on payment date.

8. Acquisitions and disposals of businesses and other similar transactions

8.1.1 Acquisitions of businesses during the current reporting period

During the period, the Group acquired the remaining 50% in a non-core investment, which was previously held as an investment in associate at fair value. The acquisition of the investment had an effective acquisition date of 16 March 2018 and is a business combination within the scope of IFRS 3. The acquisition date fair value of the consideration transferred amounted to **R198m**.

	Fair value recognised on acquisition 2018 Rm
Consideration at date of acquisition:	
Cash	**30**
Acquisition- date fair value of initial interest	**168**
Total consideration	**198**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and balances at central banks	**15**
Other assets	**4**
Investment properties	**165**
Current tax assets	**1**
Other liabilities	**(14)**
Deferred tax liabilities	**(7)**
Total identifiable net assets	**164**
Total non-controlling interest	**-**
Goodwill	**34**
Total	**198**

A summary of the total net cash outflow and cash and cash equivalents related to acquisitions and disposals of businesses and other similar transactions is included below:

	2018 Rm	2017 Rm
Summary of net cash outflow due to acquisitions	**30**	-

8. Acquisitions and disposals of businesses and other similar transactions *(continued)*

8.1.1 Acquisitions of businesses during the current reporting period period *(continued)*

The profit recognised in the consolidated statement of comprehensive income as a result of the acquisition of a subsidiary is **R30.6m**.

8.1.2 Disposals of businesses during the current reporting period

Apart from the business classified as non-current assets/liabilities held for sale and disposed of (refer to note 1) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposal of subsidiary included in non-current assets/liabilities held for sale was **R1 398m**.

8.2.1 Acquisitions of businesses during the previous reporting period

There were no acquisitions of businesses during the previous reporting period.

8.2.2 Disposals of businesses during the previous reporting period

Apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 1) there were no other disposals of businesses that were finalised during the previous reporting period. The cash consideration received on the disposal of a subsidiary included in non-current assets/liabilities held for sale was R205m.

9. Related parties

There were no one-off significant transactions with related parties of Absa Group Limited during the current reporting period.

In the prior reporting period, as part of the separation, Barclays PLC sold ordinary Absa Group Limited shares representing 12.2% and 33.7% of issued ordinary share capital in May 2016 and June 2017, respectively. Barclays PLC currently holds 126.2m ordinary Absa Group Limited shares representing 14.9% of issued ordinary shares. The remaining 85.1 % of the shares are widely held on the JSE.

Barclays PLC contributed £765 million to the Group, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time.

Barclays PLC contributed cash of R1 891m to be used in the furtherance of the Group's objective of establishing Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 Absa Group shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital.

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

10. Commitments

	2018 Rm	2017 Rm
Authorised capital expenditure		
Contracted but not provided for	**1 337**	270
The Group has capital commitments in respect of computer equipment, software and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.		
Operating lease payments due		
No later than one year	**1 408**	1 365
Later than one year and no later than five years	**3 905**	3 056
Later than five years	**707**	948
	6 020	5 369

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Group. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

11. Contingencies

	2018 Rm	2017 Rm
Guarantees	**46 529**	38 799
Irrevocable debt facilities/other lending facilities	**199 062**	162 907
Irrevocable equity facilities	**8**	33
Letters of credit	**14 838**	7 814
Other	**63**	262
	260 500	209 815

Guarantees include performance guarantee contracts and financial guarantee contracts.

Financial guarantee contracts represent contracts where the Group undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Following the implementation of IFRS 9 other lending facilities in respect of which ECL's are recognised have been included above, as the Group does not enforce the ability to revoke these facilities in the normal day-to-day management thereof.

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.

An impairment provision of **R123m** has been raised on financial guarantees, **R48m** has been raised for letters of credit and **R497m** on irrevocable debt facilities/other lending facilities.

Irrevocable equity facilities and other contingencies fall outside the scope of the ECL's model of IFRS 9.

Legal matters

The Group has been party to proceedings against it during the reporting period. The following material cases were ongoing as at the reporting date:

- 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 for 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 R934m.

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.

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.

11. Contingencies (continued)

Regulatory matters *(continued)*

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, Boutique Collective Investments (Pty) Ltd (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 PLC 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.

Income Taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and provisions for income taxes necessarily involves a degree of estimation and judgement. There are many 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 provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment. The dispute with the South African tax authority that was referred to in the 2017 financial statements has now been settled.

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. These risks are managed in accordance with the Group's Tax Risk Framework.

12. Segment reporting

	2018 Rm	2017[1] Rm
12.1 Total headline earnings by segment		
RBB South Africa	**8 880**	8 748
CIB South Africa	**3 367**	3 411
ARO	**3 218**	2 954
WIMI	**1 268**	1 231
Head Office, Treasury and other operations South Africa[2]	**(605)**	(721)
Barclays PLC separation effects[2]	**(1 986)**	(1 245)
	14 142	14 378
12.2 Total income by segment		
RBB South Africa	**43 591**	42 607
CIB South Africa	**11 595**	10 706
ARO	**16 323**	15 617
WIMI	**5 831**	5 580
Head Office, Treasury and other operations South Africa[2]	**(1 680)**	(1 520)
Barclays PLC separation effects[2]	**855**	405
	76 515	73 395
12.3 Total internal income by segment		
RBB South Africa	**(8 466)**	(9 282)
CIB South Africa	**(6 738)**	(7 900)
ARO	**(625)**	(241)
WIMI	**(411)**	(471)
Head Office, Treasury and other operations South Africa[2]	**16 240**	17 569
Barclays PLC separation effects[2]	**–**	325
	–	–
12.4 Total assets by segment		
RBB South Africa	**803 985**	753 849
CIB South Africa	**531 839**	495 725
ARO	**192 960**	162 720
WIMI	**50 448**	50 697
Head Office, Treasury and other operations South Africa[2]	**(293 680)**	(294 308)
Barclays PLC separation effects[2]	**3 192**	912
	1 288 744	1 169 595
12.5 Total liabilities by segment		
RBB South Africa	**795 672**	741 550
CIB South Africa	**524 761**	488 926
ARO	**170 071**	142 394
WIMI	**44 947**	45 643
Head Office, Treasury and other operations South Africa[2]	**(362 752)**	(358 336)
Barclays PLC separation effects[2]	**(5 561)**	(9 840)
	1 167 138	1 050 337

[1]Operational changes, accounting policy changes, management changes and associated changes to the way in which the chief operating decision maker views the performance of each segment, have resulted in the allocation of earnings, assets and liabilities between segments, refer to note 15.5 for further details.
[2]These represent reconciling stripes and are not reporting segments.

13. Assets and liabilities not held at fair value

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

	2018		2017	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	**11 371**	**11 374**	10 281	10 281
Balances with the South African Reserve Bank	**13 108**	**13 108**	19 109	19 109
Coins and bank notes	**14 252**	**14 252**	13 519	13 519
Money market assets	**27**	**27**	–	–
Cash, cash balances and balances with central banks	**38 758**	**38 761**	42 909	42 909
Investment securities	**7 359**	**7 414**	–	–
Loans and advances to banks	**33 339**	**35 669**	38 228	39 037
Other assets	**27 468**	**27 356**	17 486	17 556
RBB South Africa	**465 921**	**467 096**	447 752	447 984
Retail Banking South Africa	**396 805**	**397 907**	383 495	383 727
Credit cards	**34 783**	**35 322**	35 223	35 224
Instalment credit agreements	**82 282**	**82 616**	77 044	77 275
Loans to associates and joint ventures	**25 489**	**25 489**	23 037	23 037
Mortgages	**224 260**	**224 260**	222 625	222 625
Other loans and advances	**3 461**	**3 461**	740	740
Overdrafts	**6 037**	**6 104**	5 443	5 443
Personal and term loans	**20 493**	**20 655**	19 383	19 383
Business Banking South Africa	**69 116**	**69 189**	64 257	64 257
Mortgages (including CPF)	**29 245**	**29 245**	27 833	27 833
Overdrafts	**20 018**	**20 088**	19 199	19 199
Term loans	**19 853**	**19 856**	17 225	17 225
CIB South Africa	**226 876**	**226 876**	192 257	192 257
ARO	**97 244**	**97 504**	77 005	77 137
WIMI	**5 734**	**5 985**	5 004	5 004
Head Office, Treasury and other operations in South Africa	**681**	**681**	943	943
Loans and advances to customers – net of impairment losses	**796 456**	**798 142**	722 961	723 325
Non-current assets held for sale	**30**	**30**	1 118	1 118
Total assets (not held at fair value)	**903 410**	**907 372**	822 702	823 945
Financial liabilities				
Deposits from banks	**75 651**	**79 757**	54 835	54 915
Other liabilities	**32 614**	**32 826**	27 833	27 832
Call deposits	**80 007**	**80 007**	81 076	81 076
Cheque account deposits	**199 053**	**199 053**	191 048	191 048
Credit card deposits	**1 904**	**1 904**	1 921	1 921
Fixed deposits	**155 184**	**155 184**	148 328	148 328
Foreign currency deposits	**35 597**	**35 597**	28 418	28 418
Notice deposits	**58 367**	**58 367**	58 459	58 459
Other deposits	**2 779**	**2 779**	2 629	2 629
Saving and transmission deposits	**164 321**	**164 321**	157 098	157 098
Deposits due to customers	**697 212**	**697 212**	668 977	668 977
Debt securities in issue	**145 382**	**147 666**	132 891	132 891
Borrowed funds	**20 225**	**20 225**	15 895	15 895
Total liabilities (not held at fair value)	**971 084**	**977 686**	900 431	900 510

14. Assets and liabilities held at fair value

14.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuations Committee and an Independent Valuation Control (IVC) team, which is independent from the front office.

The Traded Risk and Valuations Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the Absa Group Audit and Compliance Committee.

The Traded Risk and Valuations Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

The IVC team independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from external independent parties, as well as internal risk areas when performing independent price verification for all financial instruments held at fair value. They also assess and document the inputs obtained from external independent sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS and internal valuation policies.

Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account.

Where possible the fair value of the Group's investment properties is determined through valuations performed by external independent valuators.

When the Group's internal valuations are different to that of the external independent valuers, detailed procedures are performed to substantiate the differences, whereby the IVC team verifies the procedures performed by the front office and considers the appropriateness of any differences to external independent valuations.

14.2 Fair value measurements

Valuation inputs

IFRS 13 requires an entity to classify fair values measured and/or disclosed according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined as follows:

Quoted market prices – Level 1

Fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Fair values are classified as Level 2 if they have been determined using models for which inputs are observable in an active market.

A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Valuation technique using significant unobservable inputs – Level 3

Fair values are classified as Level 3 if their determination incorporates significant inputs that are not based on observable market data (unobservable inputs). An input is deemed significant if it is shown to contribute more than 10% to the fair value of an item. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

These instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

14. Assets and liabilities held at fair value *(continued)*

14.2 Fair value measurements *(continued)*

Judgemental inputs on valuation of principal instruments *(continued)*

Equity instruments

Equity instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price earnings comparisons. For each investment, the relevant methodology is applied consistently over time.

Derivatives

Derivative contracts can be exchange-traded or traded over-the-counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and advances

The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives as detailed above.

The fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value. For other financial liabilities at amortised cost the disclosed fair value approximates the carrying value because the instruments are short term in nature or have interest rates that reprice frequently.

14.3 Fair value adjustments

The main valuation adjustments required to arrive at a fair value are described below:

Bid-offer valuation adjustments

For assets and liabilities where the Group is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the firm is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used, since the bid-offer spread does not represent a transaction cost.

Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, the Group's own credit quality, as well as the cost of funding across all asset classes.

Model valuation adjustments

Valuation models are reviewed under the Group's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review on at least an annual basis.

14. Assets and liabilities held at fair value *(continued)*

14.4 Fair value hierarchy

The following table shows the Group's assets and liabilities that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety.

	2018				2017			
Recurring fair value measurements	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial Assets								
Cash, cash balances and balances with central banks	**2 142**	**6 029**	**–**	**8 171**	1 839	3 921	–	5 760
Investment securities	**52 990**	**63 079**	**11 991**	**128 060**	53 068	50 740	7 601	111 409
Loans and advances to banks	**–**	**19 800**	**–**	**19 800**	–	16 714	484	17 198
Trading and hedging portfolio assets	**61 083**	**65 144**	**3 449**	**129 676**	54 966	76 015	1 824	132 805
Debt instruments	**43 666**	**8 647**	**445**	**52 758**	29 668	5 133	177	34 978
Derivative assets	**–**	**44 495**	**2 450**	**46 945**	–	58 980	546	59 526
Commodity derivatives	**–**	**1 256**	**224**	**1 480**	–	981	124	1 105
Credit derivatives	**–**	**–**	**173**	**173**	–	–	165	165
Equity derivatives	**–**	**3 442**	**1 947**	**5 389**	–	2 371	173	2 544
Foreign exchange derivatives	**–**	**8 807**	**26**	**8 833**	–	15 878	8	15 886
Interest rate derivatives	**–**	**30 990**	**80**	**31 070**	–	39 750	76	39 826
Equity instruments	**15 848**	**–**	**–**	**15 848**	23 662	–	–	23 662
Money market assets	**1 569**	**12 002**	**554**	**14 125**	1 636	11 902	1 101	14 639
Other assets	**–**	**2**	**–**	**2**	–	2	2	4
Loans and advances to customers	**–**	**34 602**	**10 661**	**45 263**	–	22 070	4 741	26 811
Investments linked to investment contracts	**17 230**	**1 059**	**192**	**18 481**	17 906	1 030	–	18 936
Total financial assets	**133 445**	**189 715**	**26 293**	**349 453**	127 779	170 492	14 652	312 923
Financial liabilities								
Deposits from banks	**–**	**45 751**	**19**	**45 770**	–	12 555	–	12 555
Trading and hedging portfolio liabilities	**15 514**	**36 007**	**1 454**	**52 975**	11 946	52 279	945	65 170
Derivative liabilities	**–**	**36 007**	**1 454**	**37 461**	–	52 279	945	53 224
Commodity derivatives	**–**	**1 260**	**222**	**1 482**	–	1 172	121	1 293
Credit derivatives	**–**	**6**	**174**	**180**	–	10	148	158
Equity derivatives	**–**	**2 315**	**778**	**3 093**	–	1 973	423	2 396
Foreign exchange derivatives	**–**	**9 318**	**19**	**9 337**	–	14 874	4	14 878
Interest rate derivatives	**–**	**23 108**	**261**	**23 369**	–	34 250	249	34 499
Short positions	**15 514**	**–**	**–**	**15 514**	11 946	–	–	11 946
Other liabilities	**–**	**2**	**45**	**47**	–	3	5	8
Deposits due to customers	**238**	**36 031**	**2 823**	**39 092**	203	19 115	1 572	20 890
Debt securities in issue	**3**	**15 586**	**–**	**15 589**	214	4 355	488	5 057
Liabilities under investment contracts	**–**	**29 674**	**–**	**29 674**	–	30 585	–	30 585
Total financial liabilities	**15 755**	**163 051**	**4 341**	**183 147**	12 363	118 892	3 010	134 265
Non-financial assets								
Commodities	**1 304**	**–**	**–**	**1 304**	2 051	–	–	2 051
Investment properties	**–**	**–**	**508**	**508**	–	–	231	231
Non-recurring fair value measurements								
Non-current assets held for sale[(1)]	**–**	**–**	**239**	**239**	–	–	190	190
Non-current liabilities held for sale[(1)]	**–**	**–**	**124**	**124**	–	–	48	48

[(1)]Includes certain items classified in terms of the requirements of IFRS 5 which are measured in terms of their respective standards.

14. Assets and liabilities held at fair value (continued)

14.5 Measurement of assets and liabilities categorised at Level 2

The following table presents information about the valuation techniques and significant observable inputs used in measuring assets and liabilities categorised as Level 2 in the fair value hierarchy:

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Loans and advances to banks	Future cash flows are discounted using market-related interest rates, adjusted for credit inputs, over the contractual period of the instruments (that is, discounted cash flow)	Interest rates and/or money market curves, as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Derivatives		
Commodity derivatives	Discounted cash flow techniques, option pricing models such as the Black Scholes model, futures pricing models and/or Exchange Traded Fund (ETF) models	Spot price of physical or futures, market interest rates and/or volatilities
Credit derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate, recovery rate, credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow models, option pricing models and/or futures pricing models	Spot share prices, market interest rates, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate curves,repurchase agreements, money market curves and/or volatilites
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rates and/or money market curves
Investment securities and investments linked to investment contracts	Listed equities: market bid price	Underlying price of the market traded instrument and/or interest rate curves
Deposits from banks	Discounted cash flow models	Interest rate curves and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rate curves and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of the market traded instrument and/or interest rate curves

14. Assets and liabilities held at fair value *(continued)*

14.6 Reconciliation of Level 3 assets and liabilities

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

	2018							
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Investments linked to Investment contracts Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	**1 824**	**2**	**4 741**	**484**	**7 601**	**231**	**–**	**14 883**
Net interest income	**–**	**–**	**153**	**–**	**89**	**–**	**–**	**242**
Other income	**–**	**–**	**–**	**–**	**–**	**38**	**–**	**38**
Gains and losses from banking and trading activities	**1 240**	**–**	**427**	**–**	**199**	**–**	**–**	**1 866**
Gains and losses from investment activities	**–**	**–**	**–**	**–**	**23**	**–**	**–**	**23**
Purchases	**1 174**	**–**	**6 617**	**–**	**3 815**	**165**	**192**	**11 963**
Sales	**(257)**	**–**	**(156)**	**(18)**	**(516)**	**–**	**–**	**(947)**
Movement in other comprehensive income	**–**	**–**	**–**	**–**	**(41)**	**33**	**–**	**(8)**
Transferred to/(from) assets/liabilities	**–**	**–**	**–**	**–**	**–**	**41**	**–**	**41**
Transfer to Level 3	**357**	**–**	**–**	**–**	**2 928**	**–**	**–**	**3 285**
Transfer (out) of Level 3	**(889)**	**(2)**	**(1 121)**	**(466)**	**(1 914)**	**–**	**–**	**(4 392)**
Step acquisition of subsidiary	**–**	**–**	**–**	**–**	**(193)**	**–**	**–**	**(193)**
Closing balance at the end of the reporting period	**3 449**	**–**	**10 661**	**–**	**11 991**	**508**	**192**	**26 801**

	2017							
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Investments linked to Investment contracts Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 505	5	4 890	571	3 358	478	–	10 807
Net interest income	–	–	12	–	62	–	–	74
Other income	–	–	–	–	–	12	–	12
Gains and losses from banking and trading activities	(635)	–	29	–	–	–	–	(606)
Gains and losses from investment activities	–	–	–	–	2	–	–	2
Purchases	1 101	–	1 020	88	4 832	1	–	7 042
Sales	(147)	–	(1 112)	(175)	(579)	(260)	–	(2 273)
Movement in other comprehensive income	–	–	–	–	29	–	–	29
Settlements	–	(3)	–	–	(22)	–	–	(25)
Transfer (out) of Level 3	–	–	(98)	–	(81)	–	–	(179)
Closing balance at the end of the	1 824	2	4 741	484	7 601	231	–	14 883

14. Assets and liabilities held at fair value *(continued)*

14.6 Reconciliation of Level 3 assets and liabilities *(Continued)*

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

	2018					
	Deposits from Banks	Trading and Hedging Portfolio Liabilities	Other Liabilities	Deposits due to customers	Debt securities in issue	Total liabilities at Fair Value
	Rm	Rm	Rm	Rm	Rm	Rm
Opening balance at the beginning of the reporting period	**–**	**945**	**5**	**1 572**	**488**	**3 010**
Gains and losses from banking and trading activities	**–**	**(52)**	**–**	**5**	**–**	**(47)**
Movement in other comprehensive	**–**	**–**	**–**	**1**	**–**	**1**
Issues	**19**	**1 042**	**40**	**2 501**	**–**	**3 602**
Settlements	**–**	**(344)**	**–**	**(766)**	**–**	**(1 110)**
Transferred to/(from) assets/liabilities	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Transfer (out) of Level 3	**–**	**(137)**	**–**	**(489)**	**(488)**	**(1 114)**
Closing balance at the end of the reporting period	**19**	**1 454**	**45**	**2 823**	**–**	**4 341**

	2017					
	Deposits from Banks	Trading and Hedging Portfolio Liabilities	Other Liabilities	Deposits due to customers	Debt securities in issue	Total liabilities at Fair Value
	Rm	Rm	Rm	Rm	Rm	Rm
Opening balance at the beginning of the reporting period	-	308	41	1 139	604	2 092
Net interest income	-	-	-	7	-	7
Gains and losses from banking and trading activities	-	585	-	-	-	585
Issues	-	52	-	1 685	30	1 767
Settlements	-	-	(36)	(1 144)	(68)	(1 248)
Transfer out of Level 3	-	-	-	(115)	(78)	(193)
Closing balance at the end of the reporting period	-	945	5	1 572	488	3 010

14.6.1 Significant transfers between levels

During the 2018 and 2017 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity. Transfers have been reflected as if they had taken place at the beginning of the year.

14. Assets and liabilities held at fair value (continued)

14.7 Unrealised gains and losses on Level 3 assets and liabilities

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

	2018						
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	2 589	1 027	233	3 849	(174)	134	(40)

	2017						
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities[(1)] Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	67	761	88	916	284	-	284

14.8 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, we perform a sensitivity analysis on the significant unobservable parameters, in order to determine the impact of reasonably possible alternative assumptions on the valuation of level 3 financial assets and liabilities. The assets and liabilities that most impact this sensitivity analysis are those with more illiquid and/or structured portfolios. The alternative assumptions are applied independently and do not take account of any cross correlation between assumptions that would reduce the overall effect on the valuations.

The following tables reflects the reasonable possible variances applied to significant parameters utilised in our valuations:

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

[(1)] The gains and losses from banking and trading activities on investment securities have been restated to include unrealised gains on unlisted Private Equity investments, resulting in an increase of **R27.61m**. Previously only unrealised gains relating to unobservable corporate bonds were taken into account in the disclosure, and has therefore been corrected accordingly.

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value asset or liability by more than 10% of the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

14. Assets and liabilities held at fair value *(continued)*

14.8 Sensitivity analysis of valuations using unobservable inputs *(continued)*

	Significant unobservable parameters	2018 Potential effect recorded in profit or loss Favourable/(Unfavourable) Rm	2018 Potential effect recorded directly in equity Favourable/(Unfavourable) Rm
Deposits due to banks	**Absa Group Limited /Absa funding spread**	**-/-**	**-/-**
Deposits due to customers	**Absa Group Limited /Absa funding spread**	**178/(178)**	**-/-**
Investment securities and investments linked to investment contracts	**Risk adjustment yield curves, future earnings and marketability discount**	**-/-**	**(20)/20**
Loans and advances to customers	**Credit spreads**	**(323)/323**	**-/-**
Other assets	**Credit spreads**	**-/-**	**-/-**
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**162/(162)**	**-/-**
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**(224)/224**	**-/-**
Other liabilities	**Volatility, credit spreads**	**-/-**	**-/-**

	Significant unobservable parameters	2017 Potential effect recorded in profit or loss Favourable/(Unfavourable) Rm	2017 Potential effect recorded directly in equity Favourable/(Unfavourable) Rm
Deposits due to banks	**Absa Group Limited /Absa funding spread**	17/17	-/-
Deposits due to customers	**Absa Group Limited /Absa funding spread**	13/(12)	-/-
Investment securities and investments linked to investment contracts	**Risk adjustment yield curves, future earnings and marketability discount**	76/(76)	323/(306)
Loans and advances to customers	**Credit spreads**	70/(69)	-/-
Other assets	**Credit spreads**	-/-	-/-
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	33/(33)	-/-
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	17/(17)	-/-
Other liabilities	**Volatility, credit spreads**	-/-	-/-

14. Assets and liabilities held at fair value *(continued)*

14.9 Measurement of assets and liabilities at Level 3

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	**2018** Range of estimates utilised for the unobservable inputs	2017 Range of estimates utilised for the unobservable inputs
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0.513% to 3.235%**	0.3% to 2.3%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Marketability discounts and/or comparator multiples	**Discount rate of 7.75% to 8%**	Discount rates between 7% to 9%, comparator multiples between 5 and 10.5
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**0.15% to 8.2%**	3% to 15%
Derivative assets				
Credit derivatives[1]	Discounted cash flow and/ or credit default swap (hazard rate) models	Credit spreads, Recovery rates and/or, Quanto ratio	**0.03% - 14% , 15% - 76%, 60% - 90%**	(0.04%) to 9%, 15% to 76%, 54% to 90%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	**14.91% to 53.2%**	15.09% to 64.67%
Foreign exchange derivatives	Discounted cash flow and/ or option pricing models	African basis curves (greater than 1 year)	**(4.48)% to 24.7%**	(28%) to 29.5%
Interest rate derivatives	Discounted cash flow and/ or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	**0.20% to 9.34%**	0.25% to 10.69%
Deposits due to customers	Discounted cash flow models	Absa Group Limited's funding spreads (greater than 5 years)	**1.3% to 1.8%**	0.2% to 1.9%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**1.3% to 1.8%**	0.2% to 1.9%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of Annual selling price escalations Annual rental escalations Expense ratios Vacancy rates Income capitalisation rates Risk adjusted discount rates	**1 to 6 years 6% 6% n/a n/a 7.5% to 8% 10% to 15%**	1 to 6 years 0% to 6% 0% to 6% n/a n/a 7.75% to 8% 11% to 15%

For assets or liabilities held at amortised cost and disclosed in levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after 5 years. However, if the items mature in less than 5 years, these inputs are considered to be observable, depending on other facts and circumstances.

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument.

The sensitivity of the fair value measure is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values.

[1] The range of estimates has been disaggregated to better reflect the individual assumptions used.

14. Assets and liabilities held at fair value *(continued)*

14.10 Unrecognised losses/(gains) as a result of the use of valuation models using unobservable inputs

The amount that is yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	2018 Rm	2017 Rm
Opening balance at the beginning of the reporting period	**(134)**	(139)
New transactions	**(367)**	(27)
Amounts recognised in profit or loss during the reporting period	**73**	32
Closing balance at the end of the reporting period	**(428)**	(134)

14.11 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

15. Reporting changes overview

A number of key financial reporting changes were effected during the current reporting period, including the adoption of IFRS 15 and IFRS 9, and a consequential amendment to IAS 1. The Group elected to amend its accounting policy with regards to the presentation of interest expense, so as to align to the amendment for the presentation of effective interest under the IAS 1 amendment. In addition, the Group elected to amend its internal accounting policy governing the valuation of policyholder liabilities under the Group's life insurance contracts.

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.
- 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.

Amendments to IFRS:

- A change to the presentation of interest income, as required by an amendment to IAS 1. This amendment has resulted in the presentation of effective interest income as a separate line item within profit or loss on the face of the statement of comprehensive income.

Amendments to internal accounting policies:

- In addition to the amendment required to the presentation of effective interest income under IAS 1, the Group has voluntarily elected to bifurcate both interest income and interest expense, as presented on the face of the statement of comprehensive income. Further, the Group has voluntarily elected to restate the prior reporting period, and
- A change in the valuation method applied to policyholder liabilities under the Group's life insurance contracts.

Correction of prior period error:

- The Group determined that certain intra-day "due for settlement accounts" in respect of long and short proprietary positions with the JSE have been incorrectly netted in prior reporting periods, notwithstanding the fact that these accounts are not permitted to be net settled. Correction of this error did not have an impact on profit or loss, or equity, but it did result in a gross up of other assets and other liabilities.

The most significant reporting change effected during the current period was the adoption of IFRS 9. The project has been one of strategic importance to the Group over the past 5 years, with extensive work being performed in building new models, and developing the necessary infrastructure and data management systems to deliver a high quality implementation on 1 January 2018. A natural concomitant of adopting any new IFRS, particularly one of this level of complexity, is the evolution of technical interpretation, particularly in areas where diversity has been identified and challenged. There are two areas of technical interpretation which have evolved since the publication of the Group's IFRS 9 transitional disclosures within this report, as at 30 June 2018. These are as follows:

- **Exclusion of post write-off recoveries (PWOR) from loss given default (LGD) modeling**: IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the Group believes there to be no reasonable expectation of recovery. The Group has well-governed internal policies, which define how an individual account should be assessed for write-off, and ensure that post write-off recoveries remain insignificant over the long run. Further, the policies are recalibrated over time, as and when actual recovery experience changes. Whilst the Group's write-off policy determines the point of derecognition at an individual account level, it also impacts the level of recoveries modelled on a collective basis for the purposes of determining the LGDs to be applied at a portfolio level. The Group's LGD models have historically included the present value of all forecast recoveries on a pool of loans, over the full life of such loans, thereby including cash flows which would otherwise be classified as post-write off recoveries, from an accounting perspective.

  The IFRS 9 requirements for write-off have been one of the most robustly debated topics following the global banking industry's adoption of IFRS 9. Whilst the guidance regarding derecognition under IFRS 9 remains largely unchanged from IAS 39, IFRS 9 does explicitly provide that write-off constitutes a derecognition event. The IASB's intention in drafting IFRS 9, and specifically with regards to the treatment of post write-off recoveries in the calculation of LGD, has been the subject of extensive technical debate across the industry. This matter has not however been formally tested through international accounting forums, such as the IFRIC and the IFRS 9 Transition Resource Group. However, in line with evolving IFRS 9 technical interpretation, the Group has reconsidered the approach previously applied to LGD modelling for accounting purposes. The Group believes that under IFRS 9, the write-off assumptions should be consistently applied at both an individual account level and on a collective modelling basis. Accordingly, the Group will adjust the original treatment it applied as at 1 January 2018. The exclusion of post write-off recoveries from LGD, under IFRS 9, has resulted in a significant increase in the allowance for ECL recognised in the statement of financial position, as at 1 January 2018. The restated allowance for ECL is **R29 703m** (including interest in suspense and ECL provision on financial guarantee contracts, letters of credit and undrawn facilities**),** relative to the amount of **R27 767m** as previously published. This has further resulted in a reduction in the Group's retained income as at 1 January 2018 of **R1 307m** (after taxation adjustment of **R491m** and non-controlling interest of **R138m**). The 1 January 2018 IFRS 9 transition disclosures previously published in the 30 June 2018 report have been restated. The change in valuation methodology did not have a significant impact on the credit losses recognised during the current reporting period, since the impact on both the 1 January 2018 and 31 December 2018 ECL allowances, were of a similar magnitude. Please refer to section 15.1.2.6 for further information.

15. Reporting changes overview *(continued)*

- **Interest recoveries on cured stage 3 financial assets: IFRS 9** requires interest income on stage 3 assets to be calculated based on the net carrying value of the exposure, that is, the gross carrying value less the ECL allowance. In order to practically give effect to this requirement, the Group first suspends the recognition of contractual interest, and second, multiplies the net carrying value by the effective interest rate (EIR). Interest income recognised on stage 3 assets will therefore be less than the contractual interest charged. In some instances, the Group may recover contractual interest which is in excess of that previously recognised under IFRS 9. This prompted extensive industry debate regarding whether such excess should be presented as a credit impairment gain, reflecting a credit recovery event, or as interest income, reflecting recovery of interest in the ordinary course of business. A request for clarification regarding this IFRS 9 requirement was submitted by the banking industry through the South African Institute of Chartered Accountants (SAICA) to the IFRIC in August 2018. At the IFRIC meeting held in November 2018, the committee observed that any unrecognised interest, which is subsequently recovered, should be presented as a credit impairment gain. Since such clarification was only provided post the Group's 30 June 2018 reporting date, the Group had elected to present an amount of R292m as interest income over the reporting period ending 30 June 2018. It was the Group's view that presentation of the recovered interest previously unrecognised as a credit impairment gain would understate, and accordingly distort, the Group's ECL. The Group has however amended its accounting treatment following the decision made by the IFRIC. The accounting treatment does not impact profit or loss, but it does reduce both the Group's ECL and interest income. As at 31 December 2018, the interest recoveries on cured stage 3 assets amounted to R608m and was presented within ECL as a credit impairment gain. This is discussed further in section 15.1.2.8.

Other less significant amendments to IFRS became effective during the current reporting period, although these had no impact on the financial results of the Group. These amendments 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.

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
Balance reported as at 31 December 2016	**6 160**	**81 604**	**5 293**	**93 057**	**4 579**	**4 644**	**–**	**102 280**
Restatement owing to change in life insurance accounting policy	**–**	**134**	**–**	**134**	**–**	**–**	**–**	**134**
Restated balance as at 31 December	**6 160**	**81 738**	**5 293**	**93 191**	**4 579**	**4 644**	**–**	**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**
Restatement owing to change in life insurance accounting policy	**–**	**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**
Reported impact of adopting IFRS 9	**–**	**(4 106)**	**(95)**	**(4 201)**	**(131)**	**–**	**–**	**(4 332)**
IFRS 9 LGD restatement [1]	**–**	**(1 307)**	**(31)**	**(1 338)**	**(99)**	**–**	**–**	**(1 437)**
Restated impact of adopting IFRS 9	**–**	**(5 413)**	**(126)**	**(5 539)**	**(230)**	**–**	**–**	**(5 769)**
Impact of adopting IFRS 15	**–**	**(44)**	**–**	**(44)**	**–**	**–**	**–**	**(44)**
Adjusted balance as at 1 January 2018	**12 164**	**86 623**	**4 244**	**103 031**	**4 270**	**4 644**	**1 500**	**113 445**

[1] The Group has restated the 1 January 2018 ECL allowance, and the related effects on retained income, which it previously presented in this report, as at 30 June 2018. Under this amendment, which follows from the adoption of IFRS 9, post write-off recoveries have been excluded from LGD, thereby resulting in a reduction of **R1 307m** in retained income as at 1 January 2018.

15. Reporting changes overview (continued)

15. 1. Initial adoption of IFRS 9 Financial Instruments

15.1.1. Overview and highlights

15.1.1.1. 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 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. The Group employs a governed hedging programme to reduce margin volatility associated with structural balances (that is, 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 IASB's Dynamic Risk Management project in respect of macro hedging. The Group has accordingly elected not to adopt the revised IFRS 9 hedge requirements.

15.1.1.2. 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 under IFRS 9. 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 15.1.10). 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 therefore recognised a debit of **R147m** in OCI in that reporting period.

15.1.1.3. 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. From an economic perspective, total long-run credit losses incurred by the Group will not be impacted by the change in accounting framework. The Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and to correctly reflecting 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 in accordance with the Group's credit risk policies.

15.1.1.4. 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:

- The Group's ECL allowance has increased from **R21 899m** as at 31 December 2017 to an amount of **R29 703m** as at 1 January 2018. This includes the provision recognised in respect of off-statement of financial position items. The ECL allowance post the adoption of IFRS 9, as previously reported, was **R27 767m**. The exclusion of post write-off recoveries has therefore increased the ECL allowance post adoption by **R1 936m**.
- Retained income decreased by **R5 413m** (net after a taxation adjustment of **R2 063m** and a decrease in non-controlling interest of **R328m**). The impact of IFRS 9 on retained income, as at 1 January 2018, was previously reported to be **R4 106m**, with a tax adjustment of **R1 572m**, and a decrease in non-controlling interest of **R190m**). The net impact on retained income of excluding post write-off recoveries is therefore **R 1 307m.**
- Other reserves decreased by **R126m** (previously reported **R95m**), owing principally to the reclassification of investment securities from available-for-sale to amortised cost.
- The Group remains strongly capitalised notwithstanding a **R3 456m** decrease in CET 1 (previously reported to be **R2 118m**) and a **28bps** decrease in the CET1 ratio (previously reported **21 bps**). The decrease of **28bps** is the amount determined before the application of the transitional arrangement elected by the Group, which will spread the CET 1 impact over three years. This deferral reduces the impact on the CET 1 ratio on the date of initial adoption to **7bps** (previously reported **5bps**).

15. Reporting changes overview *(continued)*

15. 1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.1. Overview and highlights *(continued)*

15.1.1.5. Condensed consolidated statement of financial position for the Group

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	Reported ECL [2] Rm	Exclusion of PWOR from LGD [3] Rm	Total IFRS 9 ECL impact Rm	1 January 2018 Rm
Assets						
Cash, cash balances and balances with central banks [4]	48 669	-	(10)	-	(10)	**48 659**
Investment securities	111 409	(195)	(2)	-	(2)	**111 212**
Loans and advances to banks	55 426	-	(67)	-	(67)	**55 359**
Loans and advances to customers	749 772	(20)	(5 034)	(1 936)	(6 970)	**742 782**
Investments in associates and joint ventures [5]	1 235	-	(73)	(31)	(104)	**1 131**
Other assets [6]	199 468	55	1 149	530	1 679	**201 202**
Total assets	1 165 979	(160)	(4 037)	(1 437)	(5 474)	**1 160 345**
Liabilities						
Trading portfolio liabilities	64 047	(20)	-	-	-	**64 027**
Provisions [7]	3 041	-	574	-	574	**3 615**
Other liabilities [6]	979 831	-	(419)	-	(419)	**979 412**
Total liabilities	1 046 919	(20)	155	-	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)	(1 307)	(5 413)	**86 469**
Other reserves	4 370	(140)	45	(31)	14	**4 244**
Ordinary equity holders	108 416	(140)	(4 061)	(1 338)	(5 399)	**102 877**
Non-controlling interest - ordinary	4 500	-	(131)	(99)	(230)	**4 270**
Non-controlling interest - preference	4 644	-	-	-	-	**4 644**
Non-controlling interest - Additional Tier 1 Capital	1 500	-	-	-	-	**1 500**
Total equity	119 060	(140)	(4 192)	(1 437)	(5 629)	**113 291**
Total liabilities and equity	1 165 979	(160)	(4 037)	(1 437)	(5 474)	**1 160 345**

[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, and 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] Reflects the IFRS 9 ECL impact as previously presented in this report as at 30 June 2018, (not extracted from the consolidated annual financial statements).

[3] Reflects the financial impact of amending the Group's methodology for calculating LGD of loans and advances to customers, (not extracted from the consolidated annual financial statements).

[4] Relates predominantly to a central bank within ARO.

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

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

[7]The increase in the carrying value of provisions relates to the ECL's 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).

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

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

15.1.2.1. 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 which 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 15.1.2.3.
- **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. Purchased or originated credit impaired lending facilities are classified on the date of origination within stage 3. This definition is discussed further in section 15.1.2.3.

15.1.2.2. 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 are 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 which share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average 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.

Stage 2 assets are considered to be cured (that is, reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and a defined period of performance has been observed. 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.

15.1.2.3. Definition of credit impaired assets

Assets classified within stage 3 are considered to be credit impaired, which, as discussed in section 15.1.2.1 applies when an exposure is in default. Whilst IAS 39 does not prescribe any alignment between the accounting and regulatory definition of default, this has been implemented by the Group as an amendment under IFRS 9. This departure from IAS 39 has resulted in a large increase in the number of exposures which are classified within stage 3, and accordingly within accounting default.

The default definition applied within Wholesale and Retail is now 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.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.2. Key elements of the revised impairment model under IFRS 9 *(continued)*

15.1.2.3. Definition of credit impaired assets *(continued)*

Further, within the Retail portfolios, two additional requirements for the classification of default are applied. These have historically been included as criteria for determining whether default exists from a regulatory perspective, but not from an accounting perspective under IAS 39:

- Assets within forbearance/debt counselling 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 cured from default.

Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) have been met. In the Retail portfolio, the cure definition applied, per the credit risk management policy is stringent, and assets will typically only cure from stage 3 to stage 2, and therefore won't normally move directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1.

15.1.2.4. Determination of the lifetime of a credit exposure

The point of initial recognition and asset duration (lifetime) are critical judgements to be applied in determining the quantum of lifetime losses to be recognised. 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.

In defining the period over which the entity is typically 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 the results of collective data modelling and the evidence accordingly provided of:

- The period over which the entity is 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.

15.1.2.5. Write-off policy

The gross carrying amount of a financial asset shall be directly reduced (that is, written off) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a derecognition event for accounting purposes. Depending on the nature of the account, balances are written off when:

- There has been less than one qualifying payment received within the last 12 months; or
- It is no longer economically viable to keep the debt on the statement of financial position.

A qualifying payment, for use in the write-off assessment, is defined as the minimum monthly contractual payment due.

Indicators which suggest that an account is not economically viable to retain on the statement of financial position are as follows (but do not represent an exhaustive list):

- The exposure is unsecured i.e. there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Group pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure; or
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding cost and rates and taxes.

Under IFRS 9, the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.2. Key elements of the revised impairment model under IFRS 9 *(continued)*

15.1.2.6. General IFRS 9 ECL parameters and modelling approach

15.1.2.6.1 Introduction

The estimate of ECL is required to reflect an unbiased and probability-weighted estimate of future losses, which should be 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.

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.

15.1.2.6.2 Probability of default (PD)

The PD is the likelihood of default assessed based 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 and it will not therefore equate to a long run average. For IFRS 9 purposes, two distinct PD estimates are required:

- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.
- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.

15.1.2.6.3 Loss given default (LGD)

LGD is defined as the percentage loss rate suffered by a lender on a credit exposure if the obligor defaults. In other words, even if the counterparty fails to repay the amount owed, the lender will usually succeed in recovering some percentage of the current amount owed in the process of workout or sale of the obligor's assets. This percentage is termed the recovery rate (RR), that is, the following relation holds: RR = 1 – LGD. LGD can be estimated on the basis of historical data on realised losses.

The modelling of loan behavior and cash recoveries on a collective basis has, theoretically, a risk diversification effect which would cause the inclusion of some recoveries that would technically be defined as post write-off recoveries at an individual account level. Due to this fact, collective data modelling has historically been considered to more appropriately represent the forecast performance of a portfolio of loans, which is influenced by prepayments, late payments, PD, LGD and modifications. To illustrate this point, consider the assessment of whether an individual home loan will be prepaid. The entity may observe prepayment behaviour across its home loans portfolio, but might find it difficult to ascribe a probability of prepayment to an individual account.

From a regulatory perspective LGD parameters are modelled by forecasting full lifetime economic losses over the duration of the portfolio. Accordingly, the points of write-off applied at an individual account level (for example, 12 months of no payments), would not necessarily be aligned with those incorporated into the regulatory LGD models (which would include recoveries on a derecognised accounts received beyond the 12 month write-off period). In line with the regulatory treatment of LGD, and in the absence of clear accounting guidance regarding the treatment under IAS 39, this approach has historically been accepted as a more appropriate manner in which to present the accounting performance on a portfolio of loans with similar characteristics, predominantly in the retail portfolios.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.2. Key elements of the revised impairment model under IFRS 9 *(continued)*

15.1.2.6.3 Loss given default (LGD) *(continued)*

Whilst the guidance regarding derecognition under IFRS 9 remains largely unchanged from IAS 39, IFRS 9 does specifically provide that write-off constitutes a derecognition event. This has prompted the Group to reconsider the treatment of post write-off recoveries in the calculation of accounting LGD. In line with evolving IFRS 9 technical interpretation, the Group has resolved to amend the approach historically applied to LGD modelling for accounting purposes. The Group believes that under IFRS 9, the write-off assumptions should be consistently applied at both an individual account level and on a collective modelling basis. The decision to exclude post write-off recoveries from the LGD models applied across the Group's portfolios has resulted in a significant increase in the allowance for ECL recognised in the statement of financial position, as at 1 January
2018. The ECL allowance as previously published has increased from **R27 767m** to a restated amount of **R29 703m** (including the ECL provision on financial guarantee contracts, letters of credit and undrawn facilities). This means that the total increase in the allowance for ECL under IFRS 9 is **36%** (27% previously published) greater than the impairment allowance under IAS 39. This has resulted in a reduction in the Group's retained income as at 1 January 2018 of **R1 307m** (from the previously published reduction in retained earnings of **R4 106m**, to a restated reduction amount of **R5 413m**).
This change does not reflect a worsening of the Group's view of credit quality, and full lifetime losses are not expected to change with this adoption. The regulatory treatment of LGD remains unchanged.

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).

15.1.2.6.4 Exposure at default (EAD)

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.

15.1.2.7. Interaction of the IFRS 9 ECL model with the Basel Framework

The Group applies both the standardised approach (TSA) and advanced internal ratings-based (AIRB) approaches to calculate its regulatory capital requirements relating to credit risk. While, the Group's operations across ARO 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, specifically within Wholesale South Africa, on 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:

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.2.7. Interaction of the IFRS 9 ECL model with the Basel Framework *(continued)*

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. The LGD model includes forecast economic recoveries over the full duration of the loan, thereby incorporating cash recoveries forecast to be received post the IFRS 9 point of write-off. 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 LGD model excludes post write-off 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.

15.1.2.8. Impact of IFRS 9 on interest

15.1.2.8.1 Impact on the statement of comprehensive income

IFRS 9 requires interest income to be calculated on stage 1 or stage 2 financial assets by multiplying the effective interest rate (EIR) by the gross carrying amount of such assets. Hypothetically, should the EIR per IFRS 9 equal the contractual interest rate charged, any interest income recognised will be aligned with the amount charged to the client as per the Group's product system. In contrast to the treatment of stage 1 and stage 2 assets, IFRS 9 requires interest income on stage 3 financial assets to be calculated based on the net carrying value of the exposure, that is, the gross carrying value less the ECL allowance. In order to practically give effect to this requirement, the Group first suspends the recognition of contractual interest, and second, multiplies the net carrying value by the EIR. Interest income recognised on stage 3 assets will therefore be less than the amount of contractual interest charged. In principle, this means that an exposure classified within stage 3 will realise lower interest income than that which would be recognised had it been classified within stage 1 or stage 2 over the same period.

Cured stage 3 assets

In some instances, an entity may recover cash flows which are in excess of the cumulative interest previously suspended over the life of the instrument. The accounting treatment to be applied when interest is recovered on a credit-impaired financial asset which subsequently cures (that is, when it is paid in full or is no longer credit-impaired), prompted a significant amount of technical debate during the current reporting period. The Group elected to present such excess interest received, amounting to **R292m**, within interest income, and not as a gain within ECL in its 30 June 2018 financial results.

The existence of diverging interpretations across the local industry prompted a formal request for clarification to be made by SAICA to the IFRIC. In a meeting held on 27 November 2018, the IFRIC observed that the curing of the asset is a credit recovery event and that interest previously unrecognised, should be presented as a credit impairment gain, and not as interest income.

Application of the revised accounting treatment observed by the IFRIC to be correct resulted in an amount of **R608m** being presented as a gain within credit impairment losses, and accordingly, resulted in a reduction in interest income. There is no related corresponding amount presented for 2017 as this relates to the new presentation requirements of IFRS 9 which is being applied from 1 January 2018.

15.1.2.8.2 Impact on the statement of financial position

Under IFRS 9, Interest in Suspense (IIS) is required to be presented as part of both the gross carrying value of the financial instrument and the related ECL allowance. Under IAS 39, cumulative suspended interest was not reflected on the statement of financial position at all. Accordingly,

Under IFRS 9, both the gross carrying value and the ECL allowance will be larger than it was under IAS 39, however, this amendment will not impact the net carrying value of the exposure.

Had the revised presentation requirement been applied as at 31 December 2017, the Group would have recognised a larger gross carrying value, and a larger impairment allowance of **R3 025m**.

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15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

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

15.1.3.1. 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 (excl. 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
ARO	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	-	-	-	-	-
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[(1)]	-	-	-	-	-
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[(2)]	-	-	-	-	-
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)]Relates predominantly to a central bank within ARO.
[(2)] Relates to ECL on undrawn committed facilities to the extent that it exceeds the gross carrying amount on loans and advances at an account level.

		IFRS 9 - 1 January 2018 (Restated)				
Reported IFRS 9	Post write-off recoveries Impacts	Total IFRS 9 provision (including IIS)	Stage 1	Stage 2	Stage 3	IFRS 9 transition adjustment (Restated) [2]
Rm	Rm	Rm	Rm	Rm	Rm	Rm
20 278	1 456	21 734	3 029	3 427	15 278	5 753
16 708	1 386	18 094	2 379	3 084	12 631	5 031
5 724	727	6 451	816	1 431	4 204	2 034
2 580	334	2 914	686	629	1 599	1 005
2	-	2	2	-	-	2
5 004	50	5 054	308	257	4 489	1 029
34	-	34	8	18	8	34
412	86	498	58	160	280	139
2 952	189	3 141	501	589	2 051	788
3 570	70	3 640	650	343	2 647	722
1 821	-	1 821	482	384	955	307
4 975	480	5 455	1 090	798	3 567	1 274
266	-	266	27	6	233	53
(407)	-	(407)	(188)	(172)	(47)	(417)
19	-	19	8	11	-	9
(426)	-	(426)	(196)	(183)	(47)	(426)
		-				
26 933	1 936	28 869	4 440	4 443	19 986	6 970
67		67	40	27	-	67
27 000	1 936	28 936	4 480	4 470	19 986	7 037
183	-	183	65	118	-	183
10	-	10	3	7	-	10
27 193	1 936	29 129	4 548	4 595	19 986	7 230
		-				
426	-	426	196	183	47	426
139	-	139	91	48	-	139
9	-	9	9	-	-	9
574	-	574	296	231	47	574
27 767	1 936	29 703	4 844	4 826	20 033	7 804

[2] IFRS 9 transaction adjustment' is calculated as 'Total IFRS 9 provision (including IIS)' less 'Total IAS 39 (including IIS).

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

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

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.

Key drivers of the ECL allowance are as follows:

- **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.

- **Removal of post write-off recoveries from LGD:** The Group has adopted a revised approach to the collective data modelling of LGD, and has specifically excluded post write-off recoveries from the forecast recoverable cash flows. This is an amendment under IFRS 9, and has resulted in an increase in the ECL allowance as at 1 January 2018.

- **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 has been observed and 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.

- **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 since origination are required to carry a lifetime ECL allowance.

- **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 differences have been discussed further in section 5 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.

- **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 recognized 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.**

- **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.

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15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

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

15.1.4.1. 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 (EL) 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.

	1 January 2018			
	Financial assets measurement at FVTPL	Stage 1		
	Carrying Value Rm	Carrying Value Rm	ECL allowance Rm	ECL coverage %
RBB South Africa	-	390 374	3 029	0.78
Retail Banking South Africa	-	336 635	2 379	0.71
Credit cards	-	29 329	816	2.78
Installment credit agreements	-	67 498	686	1.02
Loans to associates and joint ventures	-	23 037	2	0.01
Mortgages	-	193 979	308	0.16
Other loans and advances	-	2 453	8	0.33
Overdrafts	-	4 360	58	1.33
Personal and term loans	-	15 979	501	3.14
Business Banking South Africa	-	53 739	650	1.21
CIB South Africa	26 899	156 286	482	0.31
ARO	-	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 to customers	-	187	8	4.28
Reclassification to provisions[(1)]	-	-	(196)	-
Loans and advances to customers	26 899	617 167	4 440	0.72
Loans and advances to banks	17 198	36 163	40	0.11
Total loans and advances to customers and banks	44 097	653 330	4 480	0.69

[(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. To the extent that such occurs a provision is recognised on the Group's statement of financial position.

Stage 2			Stage 3			
Carrying Value	ECL allowance	ECL coverage	Carrying Value	ECL allowance	ECL coverage	Net total exposure
Rm	Rm	%	Rm	Rm	%	
34 888	3 427	9.82	37 612	15 278	40.62	441 140
27 980	3 084	11.02	31 942	12 631	39.54	378 463
4 392	1 431	32.58	5 918	4 204	71.04	33 188
5 217	629	12.06	4 167	1 599	38.37	73 968
-	-	-	-	-	-	23 035
14 461	257	1.78	18 213	4 489	24.65	221 599
345	18	5.22	11	8	72.73	2 775
1 024	160	15.63	416	280	67.31	5 302
2 541	589	23.18	3 217	2 051	63.76	18 596
6 908	343	4.97	5 670	2 647	46.68	62 677
35 232	384	1.09	2 143	955	44.56	218 739
10 732	798	7.44	5 650	3 567	63.13	76 589
229	6	2.62	330	233	70.61	4 951
769	(172)	-	-	(47)	-	1 363
769	11	1.43	-	-	-	937
-	(183)	-	-	(47)	-	426
81 850	4 443	5.43	45 735	19 986	43.70	742 782
2 065	27	1.31	-	-	-	55 359
83 915	4 470	5.33	45 735	19 986	43.70	798 141

15. Reporting changes overview *(continued)*

15.1.Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.5. The impact of IFRS 9 on regulatory capital

15.1.5.1. Adoption of IFRS 9 and its impact on the Group's regulatory capital *(unaudited)*

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:

								1 January 2018	
IFRS (Including Unappropriated profits)	**31 December 2017 (IAS 39)**	**Initial recognitio n of ECL**	**Release of EL shortfall**	**Deferred tax**	**Impact on other reserves**	**Release of RWA on non-performing loans**	**Eligible General Provisions (Tier 2)**	**Fully loaded capital position**	**Transitional capital position**
Note		15.1.5.1.1.	15.1.5.1.2.	15.1.5.1.3.	15.1.5.1.	15.1.5.1.5.	15.1.5.1.6.		
Capital Supply (Rm)									
Common equity tier 1	99 295	(5 413)	2 083		(126)			95 839	98 431
Tier 1 capital	103 659	(5 413)	2 083		(126)			100 203	102 795
Total capital	118 916	(5 413)	2 083		(126)		1 795	117 255	118 501
Risk weighted assets	736 892			3 922		(14 300)		726 514	734 298
Capital Ratios (%)[(1)]									
Common equity tier 1	13.5	(0.73)	0.28	(0.07)	(0.02)	0.25		13.2	13.4
Tier 1	14.1							13.8	14.0
Total capital	16.1						0.25	16.1	16.1
Leverage									
Leverage exposure	1 312 889	(7 804)	2 083	1 902	(220)			1 308 851	1 311 880
Leverage ratio (%)	7.9	(0.40)	0.15	(0.01)	(0.01)			7.7	7.8

[(1)] The Group's IFRS capital ratios decreased as follows as a result of the adoption of IFRS 9:

- CET 1 ratio decreased by 28bps on a fully loaded basis and 7bps after phase-in.
- Tier 1 ratio decreased by 27bps on a fully loaded basis and 7bps after phase-in.
- Total capital ratio decreased by 1bps on a fully loaded basis and 0bps after phase-in.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

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

15.1.5.1. Adoption of IFRS 9 and its impact on the Group's regulatory capital *(unaudited)*

15.1.5.1.1. Increase in ECL provision under IFRS 9

The adoption of the revised IFRS 9 ECL model has reduced shareholders equity by **R7 804m** (previously reported: R5 868m) which is partially offset by the recognition of a net tax credit of **R2 063m** (previously reported: R1572m). The tax credit includes current and deferred tax.

15.1.5.1.2. 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.

15.1.5.1.3. Recognition of a higher deferred tax asset balance

As discussed in point 15.1.5.1.1, 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 15.1. 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 922m** (previously reported: R3 221m), and accordingly, a decrease in the CET1 ratio.

15.1.5.1.4. Impact on other reserves under IFRS 9

Other reserves decreased by **R126m** (previously reported: 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.

15.1.5.1.5. 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 **R14 300m** (previously reported: 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.

15.1.5.1.6. Tier 2 eligible provisions

Under IFRS 9, the total stage 1 and stage 2 ECL provision calculated in respect of Group's AIRB portfolio exceeds the regulatory EL. The excess is added back to Tier 2 capital, subject to a limit of 0.6% of the AIRB credit RWA. 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 885m**.

15.1.5.1.7. 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.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.6. Drivers of the impairment charge under IFRS 9

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 forwarding 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 macro-economic environment, which could make the impairment charge more susceptible to volatility.

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.

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15.1.7. 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.

15.1.8. 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 macro-economic 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.

15.1.8.1. 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.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

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

15.1.8.1. Base scenario *(continued)*

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.

Africa Regions

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.

15.1.8.2. Mild upside scenario: Stronger near term growth

Global

The global economy grows faster than expected, and is supported by fiscal stimulus in the 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.

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 (SARB) 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.

Africa Regions

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.

15.1.8.3. Mild downside scenario: Moderate recession

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.

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.

Africa Regions

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.

15. Reporting changes overview *(continued)*

15.1. Initial adoption of IFRS 9 Financial Instruments *(continued)*

15.1.9. 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 (that is, 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.

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	
	Measurement Category	Carrying amount	Reclassification	Remeasurement	Measurement category	Carrying amount
Assets		Rm	Rm	Rm		Rm
Cash, cash balances and balances with central banks						
	Designated at	4 808	(4 808)	-	Designated at	-
		-	4808	-	Mandatorily at	4 808
	Available for Sale (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	26 335	(14 972)	-	Designated at	11 363
		-	14 972	-	Mandatorily at	14 972
	AFS - designated	64 657	(7 593)	-	FVOCI - debt	57 064
		-	752	-	FVOCI - equity	752
	AFS - hedged	20 417	-	-	FVOCI - hedged	20 417
		-	6 646	(2)	Amortised cost - debt instruments	6 644
		111 409	(195)	(2)		111 212
Loans and advances to						
	Designated at	17 198	(15 747)	-	Designated at	1 451
			15 747		Mandatorily at	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	130 132	-	-	Mandatorily at	130 132
Hedging portfolio assets	FVTPL - hedging Instrument	2 673	-	-	FVTPL - hedging Instrument	2 673
Other assets						
	Designated at	4	(4)	-	Designated at	-
		-	4	-	Mandatorily at	4
	Amortised cost - designated	17 486	-	-	Amortised cost - designated	17 486
		17 490	-	-		17 490
Loans and advances to customers						
	Designated at	26 811	(19 378)	-	Designated at	7 433
			19 466	-	Mandatory at	19 466
	Amortised cost - designated	722 915	(108)	(6 970)	Amortised cost - designated	715 837
	Amortised cost - hedged items	46	-	-	Amortised cost - hedged items	46
		749 772	(20)	(6 970)		742 782
Investments linked to						
	Designated at	18 877	(18 877)	-	Designated at	-
		-	18 877	-	Mandatory at	18 877
	FVTPL - held for	59	-	-	FVTPL - held for	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		1 575	Assets outside the scope of IFRS 9	31 984
Total assets		**1 165 979**	**(160)**	**(5 474)**		**1 160 345**

15. Reporting changes overview *(continued)*

15.1 Initial adoption of IFRS9 Financial Instruments *(continued)*

15.1.10. The key elements of classification and measurement requirements under IFRS 9 *(continued)*

Classification and Measurement Impact *(continued)*

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 630m**, and a fair value loss of **R151m** 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 the Africa Regions, 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 Africa Regions, 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

15.1.11. Governance

15.1.11.1. 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 and Compliance Committee (GACC), who have approved key judgments and decisions.

15.1.11.2. 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.

15.2. 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 change in the accounting treatment of a loyalty programme which resulted in a reduction in retained earnings of **R44m**, net of tax.

15. Reporting changes overview (continued)

15.3. Accounting policy amendments

15.3.1. 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	Restated	
	31 December 2017	Change in accounting policy	31 December 2017
	Rm	Rm	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

15. Reporting changes overview (continued)

15.3. Internal accounting policy amendments *(continued)*

15.3.1. The accounting treatment of policyholder liabilities under life insurance contracts *(continued)*

The impact of this change on the Group's condensed statement of financial position as at 31 December 2016 is set out in the following table:

	As previously reported	Restated	
	31 December	Change in accounting policy	31 December
	2016		2016
	Rm	Rm	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

15. Reporting changes overview *(continued)*

15.3. Internal accounting policy amendments *(continued)*

15.3.1. The accounting treatment of policyholder liabilities under life insurance contracts *(continued)*

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	Restated	
	31 December	Change in accounting policy	31 December
	2017		2017
	Rm	Rm	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

The extent to which the change has impacted the Group's condensed statement of cash flows for the reporting period ended 31 December 2017 is disclosed in the following table:

	As previously reported	Restated	
	31 December	Change in accounting policy	31 December
	2017		2017
	Rm	Rm	Rm
Cash flows from operating activities			
Changes in insurance premiums and claims/investment and contract liabilities	2 703	-	2 703
Insurance premiums and claims	1 153	90	1 243
Net increase/(decrease) in insurance and investment funds	1 550	(90)	1 460

15.3.2. 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.

15. Reporting changes overview (continued)

15.4. Correction of prior period error

The Group determined that certain due for settlement accounts in respect of long and short proprietary positions with the JSE have been incorrectly netted in prior reporting periods, notwithstanding the fact that these accounts are not permitted to be net settled. Correction of this error did not have an impact on profit or loss, or equity, but it did result in a gross up of other assets and other liabilities in the previous reporting period of R3 616m (2016: R2 565m).

15.5. Changes to reportable segments and business portfolios

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.

Rest of Africa Banking was renamed to ARO in order to align to the new Absa Group.

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 for the Group.

- The Group refined its treasury allocation methodology, resulting in the following restatements:
  - Net interest income from CIB South Africa of R3m and Head Office, Treasury and other operations of R124m to RBB South Africa R121m;
  - Non-interest income from Head Office, Treasury and other operations of R92m to CIB SA of R88m and RBB SA of R4m; and
- The Group continued refining its cost allocation methodology, resulting in restatement of operating expenses from CIB South Africa R27m, WIMI R14m and Head Office, Treasury and other operations R4m to RBB South Africa R45m.

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