Absa Bank Limited

Summary provisional consolidated financial results
For the reporting period ended 31 December 2018

Contents

The board of Directors overseas the Banks 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 Absa Group Limited financial reporting processes and serves as an independent control function advising business management, escalating identified risks and establishing policies or processes to manage risk.

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

Together with the GACC, the board has reviewed and approved the summary provisional consolidated financial results including the reporting changes contained in the announcement released on the Stock Exchange News Services (SENS) on 11 March 2019. The GACC and the Board of Directors are satisfied that the changes disclosed in the SENS result in fair presentation of the consolidated financial position and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides.

Absa Bank Limited
Summary provisional consolidated financial results
for the reporting period ended 31 December 2018.
Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/004794/06
Incorporated in the Republic of South Africa
JSE share code: ABSP
ISIN: ZAE000079810
(Absa, Absa Bank, the Bank or the Company)
These summary provisional annual financial results were prepared by Absa Group Financial Control under the direction and Supervision of the Absa Group Limited Financial Director, J P Quinn CA(SA).

Profit and dividend announcement

Overview of results

Absa Bank Limited (the Bank) is a subsidiary of Absa Group Limited (the Group), which is listed on the exchange operated by the JSE Limited. These audited summary provisional financial results are published to provide information to holders of the Bank's listed non-cumulative, non-redeemable preference shares.

Commentary relating to the Bank's summary provisional consolidated financial results is included in the Absa Group Limited results, as presented to shareholders on 11 March 2019.

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 Bank's summary provisional annual financial results have been prepared in accordance with the recognition and measurement requirements of 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 Johannesburg Stock Exchange (JSE) Listings Requirements and the requirements of the Companies Act of South Africa. The information disclosed in the SENS is derived from the information contained in the annual audited consolidated and separate financial statements (except items not indicated as audited) 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 are available on request. The presentation and disclosure of these summary provisional consolidated financial statements complies with IAS 34 Interim Financial Reporting (IAS 34).

The directors assess the Bank's future performance and financial position on an ongoing basis and have no reason to believe that the Bank 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.

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 Bank'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, offsetting of financial assets and liabilities and financial assets.

Basis of presentation (continued)

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"). The Bank will present normalised results for future periods where the financial impact of separation is considered material. Normalisation does not affect divisional disclosures.

Normalised results have been prepared for illustrative purposes only and because of their nature may not fairly present the Bank'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 Bank 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 Bank'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 audited summary provisional consolidated financial results are the same for those in place for the Bank's annual consolidated financial statements for the reporting period ended 31 December 2017, except for the adoption of IFRS 9, IFRS 15, internal accounting policy amendments and changes to the Bank's operating segments and business portfolios changes between operating segments. 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 Bank intends to apply the modified retrospective approach on adoption, with right of use assets measured retrospectively using the Bank'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 **R190m** and **R240m** (net of deferred tax 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 **R3bn** and the value of the increase in lease liabilities is expected to be less than **R3.7bn** (before the release of the IAS 17 straight-lining liability of approximately **R390m**).

Profit and dividend announcement

Audit report

Ernst & Young Inc. (EY), the Bank's independent auditor, has audited the annual consolidated and separate financial statements of the Bank 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 1 -3 and 9-65), excluding items indicated as unaudited. The audit report on the consolidated annual financial statements as well as the independent reporting accountants' reports on the normalised financial results is available for inspection at the Bank's registered office.

These summary provisional consolidated financial statements (on pages 1- 3 and 9-65) 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 is available for inspection at the company's registered office.

Events after the reporting period

Absa Bank 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 IAS10 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
Chairman

J P Quinn
Financial Director

Johannesburg
8 March 2019

Profit and dividend announcement

Declaration of preference share dividend number 26

Absa Bank non-cumulative, non-redeemable preference shares (Absa Bank preference shares)
The Absa Bank preference shares have an effective coupon rate of 70% of Absa Bank's average prime overdraft lending rate for 1 September 2018 to 28 February 2019. Absa Bank's prevailing prime overdraft lending rate as at 28 February 2019 was 10.25%.

Notice is hereby given that preference dividend number 26, equal to 70% of the average prime rate for 1 September 2018 to 28 February 2019, per Absa Bank preference share has been declared for the period 1 September 2018 to 28 February 2019. The dividend is payable on Monday, 15 April 2019, to shareholders of the Absa Bank preference shares recorded in the Register of Members of the Company at the close of business on Friday, 12 April 2019.

The directors of Absa Bank confirm that the Bank will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

Based on the average prime rate, the preference dividend payable for the period 1 September 2018 to 28 February 2019 is 3 518.6986 cents per Absa Bank preference share.

The dividend will be subject to dividend 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 3 518.6986 cents per preference share for shareholders exempt from the dividend tax.
- The net local dividend for shareholders subject to withholding tax at a rate of 20% amounts to 2 814.95888 cents per preference share.
- Absa Bank currently has 4 944 839 preference shares in issue.
- Absa Bank's income tax reference number is 9575117719.

In compliance with the requirements of Strate, the electronic settlement and custody system used by 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 shareholders.

On behalf of the Board

N R Drutman
Company Secretary

Johannesburg
8 March 2019

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

Summary provisional consolidated IFRS salient features

for the reporting period ended

	31 December 2018	31 December 2017
Statement of comprehensive income (Rm)		
Income	51 843	50 094
Operating expenses	34 341	31 609
Profit attributable to ordinary equity holders	7 480	8 068
Headline earnings[(1)]	7 853	8 549
Statement of financial position		
Loans and advances to customers (Rm)	735 200	660 492
Total assets (Rm)	1 079 679	988 358
Deposits due to customers (Rm)	605 647	583 825
Loans to deposits and debt securities ratio (%)	96. 0	91. 5
Financial performance (%)		
Return on equity (RoE)	10.4	11.8
Return on average assets (RoA)	0.77	0.91
Return on risk-weighted assets (RoRWA)	1.44	1.64
Stage 3 loans ratio on gross loans and advances	4.81	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[(2)]	3.65	3.80
Credit loss ratio on gross loans and advances to customers and banks	0.68	0.73
Non-interest as a percentage of total income	42.2	41.3
Cost-to-income ratio	66.2	63.1
Jaws	(5)	(12)
Effective tax rate	27.2	27.9
Share statistics (million)		
Number of ordinary shares in issue	448.3	448.3
Weighted average number of ordinary shares in issue	448.3	440.7
Diluted weighted average number of ordinary shares in issue	448.3	440.7
Share statistics (cents)		
Headline earnings per ordinary share (HEPS)	1 751.7	1 939.4
Diluted headline earnings per ordinary share (DHEPS)	1 751.7	1 939.4
Basic earnings per ordinary share (EPS)	1 668.7	1 830.3
Diluted basic earnings per ordinary share (DEPS)	1 668.7	1 830.3
Dividend per ordinary share relating to income for the reporting period	713.8	2 373
Dividend cover times (times)	2.5	0.8
Net asset value (NAV) per ordinary share	17 022	17 998
Tangible NAV per ordinary share	15 406	17 136
Capital adequacy (%)		
Absa Bank Limited	16.5	16.9
Common Equity Tier 1 (%)		
Absa Bank Limited	12.3	13.4

(1)After allowing for **R351m** (2017: R362m) profit attributable to preference equity holders and **R190m** (2017: R48m) profit attributable to Additional Tier 1 Capital holders.

(2)Net interest margin has been restated to reflect an update of the Bank'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 Bank's net interest margin would have been 3.79% (2017: 3.91%).

Summary provisional consolidated normalised salient features

for the reporting period ended

	31 December 2018	31 December 2017
Statement of comprehensive income (Rm)		
Income	50 987	49 689
Operating expenses	31 499	29 708
Profit attributable to ordinary equity holders	9 252	9 550
Headline earnings[(1)]	9 623	9 793
Statement of financial position		
Total assets (Rm)	1 076 520	987 446
Financial performance (%)		
Return on equity (RoE)	14.7	14.8
Return on average assets (RoA)	0.95	1.05
Return on risk-weighted assets (RoRWA)	1.77	1.88
Operating performance (%)		
Net interest margin on average interest-bearing assets[(2)]	3.63	3.79
Non-interest as a percentage of total income	41.9	41.5
Cost-to-income ratio	61.8	59.8
Jaws	(3)	(6)
Effective tax rate	25.7	27.0
Share statistics (million)		
Weighted average number of ordinary shares in issue	448.3	440.8
Diluted weighted average number of ordinary shares in issue	448.3	440.8
Share statistics (cents)		
Headline earnings per ordinary share (HEPS)	2 146.6	2 221.9
Diluted headline earnings per ordinary share (DHEPS)	2 146.6	2 221.9
Basic earnings per ordinary share (EPS)	2 063.6	2 166.5
Diluted basic earnings per ordinary share (DEPS)	2 063.6	2 166.5
Dividend per ordinary share relating to income for the reporting period	713.8	2 372.7
Dividend cover times (times)	3.0	0.9
NAV per ordinary share	15 013	15 599
Tangible NAV per ordinary share	13 997	14 913
Capital adequacy (%)		
Absa Bank Limited	15.4	15.0
Common Equity Tier 1 (%)		
Absa Bank Limited	11.2	11.6

[(1)]After allowing for **R351m** (2017: R362m) profit attributable to preference equity holders and **R190m** (2017: R48m) profit attributable to Additional Tier 1 Capital.

[(2)]Net interest margin has been restated to reflect an update of the Bank'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 Bank's net interest margin would have been 3.77% (2017: 3.90%).

Summary provisional consolidated normalised reconciliation

for the reporting period ended

	IFRS Bank performance[1]	31 December Barclays PLC separation effects[2]	Normalised Bank performance[3]
	2018	2018	2018
Statement of comprehensive income (Rm)			
Net interest income	29 952	331	29 621
Non-interest income	21 891	525	21 366
Total income	51 843	856	50 987
Impairment losses	(5 078)	-	(5 078)
Operating expenses	(34 341)	(2 841)	(31 500)
Other expenses	(1 579)	(173)	(1 406)
Share of post-tax results of associates and joint ventures	179	-	179
Operating profit before income tax	11 024	(2 158)	13 182
Tax expenses	(3 002)	388	(3 390)
Profit for the reporting period	8 022	(1 770)	9 792
Profit attributable to:			
Ordinary equity holders	7 481	(1 770)	9 251
Preference shares	351	-	351
Additional Tier 1	190	-	190
	8 022	(1 770)	9 792
Headline earnings	7 853	(1 770)	9 623
Operating performance (%)			
Net interest margin on average interest - bearing assets	3.65	n/a	3.63
Credit loss ratio on gross loans and advances to customers and banks	0.68	n/a	0.68
Non - interest income as % of total income	42.2	n/a	41.9
Income growth	3	n/a	3
Operating expenses growth	9	n/a	6
Cost-to-income ratio	66.2	n/a	61.8
Effective tax rate	27.2	n/a	25.7
Statement of financial position (Rm)			
Loans and advances to customers	735 200	-	735 200
Loans and advances to banks	40 533	-	40 533
Investment securities	93 576	-	93 576
Other assets	210 370	3 159	207 211
Total assets	1 079 679	3 159	1 076 520
Deposits due to customers	605 647	-	605 647
Debt securities in issue	160 042	-	160 042
Other liabilities	230 304	(5 845)[4]	236 149
Total liabilities	995 993	(5 845)	1 001 838
Equity	83 686	9 004	74 682
Total equity and liabilities	1 079 679	3 159	1 076 520
Key performance ratios (%)			
RoA	0.77	n/a	0.95
RoE	10.4	n/a	14.7
Capital adequacy	16.5	n/a	15.4
Common Equity Tier 1	12.3	n/a	11.2
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 751.7	n/a	2 146.6

[1]IFRS performance, presents the IFRS information as extracted from the Bank'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 Bank.
[3]Normalised performance, presents the summary provisional consolidated financial results of the Bank, 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 normalised reconciliation

for the reporting period ended

	IFRS Bank performance	31 December Barclays PLC separation effects	Normalised Bank performance
	2017	2017	2017
Statement of comprehensive income (Rm)			
Net interest income	29 413	325	29 088
Non-interest income	20 681	80	20 601
Total income	50 094	405	49 689
Impairment losses	(5 113)	-	(5 113)
Operating expenses	(31 608)	(1 901)	(29 707)
Other expenses	(1 788)	(394)	(1 394)
Share of post-tax results of associates and joint ventures	170	-	170
Operating profit before income tax	11 755	(1 890)	13 645
Tax expenses	(3 278)	408	(3 687)
Profit for the reporting period	8 477	(1 482)	9 959
Profit attributable to:			
Ordinary equity holders	8 067	(1 482)	9 549
Preference shares	362	-	362
Additional Tier 1	48	-	48
	8 477	(1 482)	9 959
Headline earnings	8 548	(1 245)	9 793
Operating performance (%)			
Net interest margin on average interest - bearing assets[1]	3.80	n/a	3.79
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	41.3	n/a	41.5
Income growth	3	n/a	2
Operating expenses growth	15	n/a	8
Cost-to-income ratio	63.1	n/a	59.8
Effective tax rate	27.9	n/a	27.0
Statement of financial position (Rm)			
Loans and advances to customers	660 492	-	660 492
Loans and advances to banks	43 217	-	43 217
Investment securities	76 524	-	76 524
Other assets	208 125	912	207 213
Total assets	988 358	912	987 446
Deposits due to customers	583 825	-	583 825
Debt securities in issue	137 942	-	137 942
Other liabilities	181 262	(9 840)[2]	191 102
Total liabilities	903 029	(9 840)	912 869
Equity	85 329	10 752	74 577
Total equity and liabilities	988 358	912	987 446
Key performance ratios (%)			
RoA	0.91	n/a	1.05
RoE	14.3	n/a	14.8
Capital adequacy	16.9	n/a	15.0
Common Equity Tier 1	13.4	n/a	11.6
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 939.4	n/a	2 221.9

[1]Net interest margin has been restated to reflect an update of the Bank'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 Bank's net interest margin would have been 3.79% (2017:3.91%) on IFRS and 3.77% (2017: 3.90%) on normalised basis.
[2]This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Summary provisional consolidated statement of financial position

as at 31 December 2018

	Note	31 December 2018 Rm	31 December 2017 Rm
Assets			
Cash, cash balances and balances with central banks		22 679	28 792
Investment securities		93 576	76 524
Loans and advances to banks	2	40 533	43 217
Trading portfolio assets		101 271	104 781
Hedging portfolio assets		2 407	2 667
Other assets		22 294	15 513
Current tax assets		366	57
Non-current assets held for sale		50	1 119
Loans and advances to customers	2	735 200	660 492
Loans to Group Companies		37 363	36 530
Investments in associates and joint ventures		1 310	1 235
Investment property		180	-
Property and equipment		13 609	13 519
Goodwill and intangible assets		7 246	3 861
Deferred tax assets		1 595	51
Total assets		1 079 679	988 358
Liabilities			
Deposits from banks		127 959	74 110
Trading portfolio liabilities		46 280	59 834
Hedging portfolio liabilities		1 343	1 117
Other liabilities		31 907	27 824
Provisions		2 682	2 073
Current tax liabilities		66	55
Deposits due to customers		605 647	583 825
Debt securities in issue		160 042	137 942
Borrowed funds	3	20 052	15 866
Deferred tax liabilities		15	383
Total liabilities		995 993	903 029
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Ordinary share capital		304	304
Ordinary share premium		36 879	36 879
Preference share capital		1	1
Preference share premium		4 643	4 643
Additional Tier 1 Capital		2 741	1 500
Retained earnings		35 209	37 855
Other reserves		3 918	4 145
		83 695	85 327
Non-controlling interest - ordinary shares		(9)	2
Total equity		83 686	85 329
Total liabilities and equity		1 079 679	988 358

Summary provisional consolidated statement
for the period ended

	Note	31 December 2018 Rm	Restated 2017 Rm
Net interest income		29 952	29 413
Interest and similar income		74 155	71 438
Effective interest income [1]		72 565	70 161
Other interest income [1]		1 590	1 277
Interest expense and similar charges		(44 203)	(42 025)
Effective interest expense		(44 203)	(42 025)
Non-interest income	4	21 891	20 681
Net fee and commission income		18 491	17 279
Fee and commission income		19 781	18 608
Fee and commission expense		(1 290)	(1 329)
Gains and losses from banking and trading activities		3 177	2 860
Gains and losses from investment activities		1	3
Other operating income		222	539
Total Income		51 843	50 094
Impairment losses on loans and advances		(5 078)	(5 113)
Operating income before operating expenditure		46 765	44 981
Operating expenditure		(34 341)	(31 608)
Other expenses		(1 579)	(1 788)
Other impairments	5	(433)	(512)
Indirect taxation		(1 146)	(1276)
Share of post-tax results of associates and joint ventures		179	170
Operating profit before income tax		11 024	11 755
Taxation expense		(3 002)	(3 278)
Profit for the reporting period		8 022	8 477
Profit attributable to:			
Ordinary equity holders		7 481	8 067
Preference equity holders		351	362
Additional Tier 1 Capital		190	48
		8 022	8 477
Earnings per share:			
Basic earnings per share (cents per share)		1 668.7	1 830.3
Diluted earnings per share (cents per share)		1 668.7	1 830.3

[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 Bank has elected to apply the same approach in presenting 'interest expense and similar charges' to achieve consistency.

Summary provisional consolidated statement of comprehensive income

for the period ended

	31 December 2018 Rm	2017 Rm
Profit for the reporting period	8 022	8 477
Other comprehensive income		
Items that will not be reclassified to profit or loss	(11)	(154)
Fair value gain on equity instruments measured at fair value through other comprehensive income (FVOCI)	19	-
Fair value gains	27	-
Deferred tax	(8)	-
Movement of 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	(17)	(7)
Increase in retirement benefit surplus	(24)	(10)
Deferred tax	7	3
Items that are or may be subsequently reclassified to profit or loss	(236)	677
Movement in foreign currency translation reserve	-	55
Differences in translation of foreign operations	-	3
Release to profit or loss	-	52
Movement in cash flow hedging reserve	(247)	794
Fair value gains	207	1465
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	11	-
Fair value gains	26	-
Release to profit or loss	(9)	-
Deferred tax	(6)	-
Movement in available-for-sale reserve	-	(172)
Fair value losses	-	(307)
Release to profit or loss	-	67
Deferred tax	-	68
Total comprehensive income for the reporting period	7 775	9 000
Total comprehensive income attributable to:		
Ordinary equity holders	7 234	8 590
Preference equity holders	351	362
Additional Tier 1 Capital	190	48
	7 775	9 000

Summary provisional consolidated statement

for the period ended

	Number of ordinary shares [1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 Capital Rm
Balance at the end of the previous reporting period	448 301	304	36 879	1	4 643	1 500
IFRS 9	-	-	-	-	-	-
IFRS 15	-	-	-	-	-	-
Adjusted balance at the beginning of the reporting period	448 301	304	36 879	1	4 643	1 500
Total comprehensive income	-	-	-	-	351	190
Profit for the period	-	-	-	-	351	190
Other comprehensive income	-	-	-	-	-	-
Dividends paid during the reporting period	-	-	-		(351)	-
Distributions paid during the reporting period	-	-	-	-	-	(190)
Issuance of Additional Tier 1 Capital	-	-	-	-	-	1 241
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	-	-	-	-
Movement in share-based payment reserve	-	-	-	-	-	-
Transfer from share-based payment reserve	-	-	-	-	-	-
Value of employee services	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-
Share of post-tax results of associates and joint ventures	-	-	-	-	-	-
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	2 741

All movements are reflected net of taxation.

[1] This includes ordinary shares and 'A' ordinary shares.

Summary provisional consolidated statement of changes in equity

for the period ended

2018

Retained earnings Rm	Total other reserves Rm	Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital Reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Total equity attributable to equity holders Rm	Non-controlling interest - ordinary shares Rm	Total equity Rm
37 855	4 145	87	649	1	1 422	749	1 237	85 327	2	85 329
(4 000)	(236)	(132)	-	-	-	-	(104)	(4 236)	-	(4 236)
(44)	-	-	-	-	-	-	-	(44)	-	(44)
33 811	3 909	(45)	649	1	1 422	749	1 133	81 047	2	81 049
7 449	(215)	32	(247)	-	-	-	-	7 775	-	7 775
7 481	-	-	-	-	-	-	-	8 022	-	8 022
(32)	(215)	32	(247)	-	-	-	-	(247)	-	(247)
(5 700)	-	-	-	-	-	-	-	(6 051)	(11)	(6 062)
-	-	-	-	-	-	-	-	(190)	-	(190)
-	-	-	-	-	-	-	-	1 241	-	1 241
(172)	-	-	-	-	-	-	-	(172)	-	(172)
-	45	-	-	-	-	45	-	45	-	45
-	(429)	-	-	-	-	(429)	-	(429)	-	(429)
-	497	-	-	-	-	497	-	497	-	497
-	(23)	-	-	-	-	(23)	-	(23)	-	(23)
(179)	179	-	-	-	-	-	179	-	-	-
35 209	3 918	(13)	402	1	1 422	794	1 312	83 695	(9)	83 686

Summary provisional consolidated statement of changes in equity

for the period ended

	Number of ordinary shares [1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 Capital[5] Rm
Balance at the beginning of the reporting period	431 318	304	24 964	1	4 643	-
Total comprehensive income for the reporting period	-	-	-	-	-	-
Profit for the reporting period	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Dividends paid during the reporting period	-	-	-	-	-	-
Distributions paid during the reporting period	-	-	-	-	-	-
Shares issued	16 983	-	3 500	-	-	-
Issuance of Additional Tier 1 Capital	-	-	-	-	-	1 500
Purchase of Barclays Africa Group Limited shares in respect of equity-settled share-based payment arrangements	-	-	-	-	-	-
Movement in share-based payment reserve	-	-	-	-	-	-
Transfer from share-based payment reserve	-	-	-	-	-	-
Value of employee services	-	-	-	-	-	-
Conversion from cash-settled schemes	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-
Share of post-tax results of associates and joint ventures	-	-	-	-	-	-
Disposal of non-controlling interest and related transaction costs [2]	-	-	-	-	-	-
Barclays PLC separation [3]	-	-	8 415	-	-	-
Shareholder contribution - fair value of investment [4]	-	-	-	-	-	-
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	1 500

All movements are reflected net of taxation.

[1]This includes ordinary shares and 'A' ordinary shares.
[2]The Bank disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.
[3]As part of the Barclays PLC disinvestment, the Bank issued 10 Ordinary Shares to Barclays Bank PLC for R8,4bn and received an additional R3,7bn as a cash contribution. The resultant cash received meets the definition of a transaction with a shareholder.
[4]CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the prior reporting period these shares were transferred back to the Bank for a nominal consideration of one British Pound Sterling (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.
[5] The additional Tier1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) on 12 September 2022 subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

Summary provisional consolidated statement of changes in equity

for the period ended

2017

Retained earnings Rm	Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Total equity attributable to equity holders Rm	Non-controlling interest - ordinary shares Rm	Total equity Rm
36 099	3 262	259	(145)	(54)	1 422	713	1 067	69 273	26	69 299
8 323	677	(172)	794	55	-	-	-	9 000	-	9 000
8 477	-	-	-	-	-	-	-	8 477	-	8 477
(154)	677	(172)	794	55	-	-	-	523	-	523
(9 962)	-	-	-	-	-	-	-	(9 962)	-	(9 962)
(48)	-	-	-	-	-	-	-	(48)	-	(48)
-	-	-	-	-	-	-	-	3 500	-	3 500
-	-	-	-	-	-	-	-	1 500	-	1 500
(125)	-	-	-	-	-	-	-	(125)	-	(125)
-	36	-	-	-	-	36	-	36	-	36
-	(586)	-	-	-	-	(586)	-	(586)	-	(586)
-	590	-	-	-	-	590	-	590	-	590
-	-	-	-	-	-		-	-	-	-
-	32	-	-	-	-	32	-	32	-	32
(170)	170	-	-	-	-	-	170	-	-	-
-	-	-	-	-	-	-	-	-	(24)	(24)
3 690	-	-	-	-	-	-	-	12 105	-	12 105
48	-	-	-	-	-	-	-	48	-	48
37 855	4 145	87	649	1	1 422	749	1 237	85 327	2	85 329

Summary provisional consolidated statement of cash flows

for the period ended

	Note	2018[1] Rm	Restated 2017[1] Rm
Net cash generated from/(utilised in) operating activies		6 346	(4 478)
Income taxes paid		(3 614)	(3 513)
Net cash generated from/(utilised in) other operating activies		9 960	(965)
Net cash utilised in investing activities		(5 482)	(3 906)
Purchase of property and equipment		(2 641)	(2 622)
Proceeds from sale of non-current assets held for sale		1 079	672
Net cash utilised in other investing activities		(3 920)	(1 956)
Net cash (utilised)/generated from financing activities		(1 946)	7 008
Net cash generated from Barclays PLC separation		-	12 106
Issue of ordinary shares		-	3 500
Issue of Additional Tier 1 Capital		1 241	1 500
Proceeds from borrowed funds		6 432	2 841
Repayment of borrowed funds		(3 195)	(2 805)
Dividends paid		(6 062)	(9 962)
Net cash utilised in other financing activities		(362)	(172)
Net (decrease)/increase in cash and cash equivalents		(1 082)	(1 376)
Cash and cash equivalents at the beginning of the reporting period	1	11 040	12 416
Cash and cash equivalents at the end of the reporting period	2	9 958	11 040

Notes to the summary provisional consolidated statement of cash flows

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

	2018 Rm	2017 Rm
Cash, cash balances and balances with central banks[2]	9 684	9 662
Loans and advances to banks[3]	1 356	2 754
	11 040	12 416

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

	2018 Rm	2017 Rm
Cash, cash balances and balances with central banks[2]	9 570	9 684
Loans and advances to banks[3]	388	1 356
	9 958	11 040

[1]In order to provide more transparent disclosures, the summary provisional 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, cash generated from Barclays PLC separation, Issue of shares, Issue of additional tier 1 capital, proceeds/repayments of borrowed funds, dividends paid. Comparative statements of cash flows have 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 for the Bank.

Summary provisional notes to the consolidated financial results

for the period ended

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.
- 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 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 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.
- Corporate and Investment Banking South Africa (CIB SA) 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.

Summary provisional notes to the consolidated financial results

for the period ended

2. Loans and advances

	Carrying amount of financial assets at fair value through profit or loss Rm	Stage 1 Gross carrying value Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa	-	406 248	2 658	0.65
Retail Banking South Africa	-	344 824	2 116	0.61
Credit cards	-	24 568	650	2.65
Instalment credit agreements	-	73 805	582	0.79
Loans to associates and joint ventures	-	25 490	1	-
Mortgages	-	197 342	287	0.15
Other loans and advances	-	3 045	21	0.69
Overdrafts	-	4 847	61	1.26
Personal and term loans	-	15 727	514	3.27
Business Banking South Africa	-	61 424	542	0.88
CIB South Africa	45 263	195 618	415	0.21
Wealth	-	5 342	24	0.45
Head Office, Treasury and other operations in South Africa	-	300	(195)	
Loans and advances to customers	-	300	6	2.00
Reclassification to provisions[1]	-	-	(201)	-
Loans and advances to customers	45 263	607 508	2 902	0.48
Loans and advances to banks	19 800	18 307	7	0.04
Loans and advances to customers and banks	65 063	625 815	2 909	0.46

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

Summary provisional notes to the consolidated financial results

for the period ended

Stage 2			Stage 3			
Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	Net total exposure Rm
35 352	3 234	9.15	35 284	14 031	39.77	456 961
27 900	2 779	9.96	30 728	11 744	38.22	386 813
2 906	1 101	37.89	4 103	2 876	70.10	26 950
6 698	774	11.56	5 147	2 017	39.19	82 277
-	-	-	-	-	-	25 489
13 973	235	1.68	18 241	4 774	26.17	224 260
447	21	4.70	20	20	100.00	3 450
1 254	194	15.47	567	376	66.31	6 037
2 622	454	17.32	2 650	1 681	63.43	18 350
7 452	455	6.11	4 556	2 287	50.20	70 148
30 749	305	0.99	2 860	1 978	69.16	271 792
332	20	6.02	310	206	66.45	5 734
9	(191)	-	-	(18)	-	713
9	-	-	-	-	-	303
-	(191)	-	-	(18)	-	410
66 442	3 368	5.07	38 454	16 197	42.12	735 200
2 446	13	0.53	-	-	-	40 533
68 888	3 381	4.91	38 454	16 197	42.12	775 733

2. Loans and advances *(continued)*

	31 December 2017[1]						
	Performing loans			Non-performing loans			
	Exposure Rm	Impairment Rm	Coverage ratio %	Exposure Rm	Impairment Rm	Coverage ratio %	Net total exposure Rm
RBB South Africa	425 859	3 356	0.79	21 675	8 678	40.04	435 500
Retail Banking South Africa	363 074	2 583	0.71	18 340	7 582	41.34	371 249
Credit cards	26 849	578	2.15	3 622	2 626	72.50	27 267
Instalment credit agreements	74 429	687	0.92	2 360	1 112	47.12	74 990
Loans to associates and joint ventures	23 037	-	-	-	-	-	23 037
Mortgages	213 508	1 124	0.53	10 241	2 056	20.08	220 569
Other loans and advances	2 795	16	0.57	-	-	-	2 779
Overdrafts	5 349	51	0.95	384	236	61.46	5 446
Personal and term loans	17 107	127	0.74	1 733	1 552	89.56	17 161
Business Banking South Africa	62 785	773	1.23	3 335	1 096	32.86	64 251
Mortgages (including CPF)	27 010	140	0.52	1 477	519	35.14	27 828
Overdrafts	19 865	393	1.98	1 082	375	34.66	20 179
Term loans	15 910	240	1.51	776	202	26.03	16 244
CIB South Africa	218 383	559	0.26	2 019	832	41.21	219 011
Wealth	4 930	14	0.28	262	174	66.41	5 004
Head office, Treasury and other operations in South Africa	987	10	1.01	-	-	-	977
Loans and advances to customers	650 159	3 939	0.61	23 956	9 684	40.42	660 492
Loans and advances to banks	43 217	-	-	-	-	-	43 217
Loans and advances to customers and banks	693 376	3 939	0.57	23 956	9 684	40.42	703 709

[1]These numbers have been restated, refer to the reporting changes overview in note 15.

Summary provisional notes to the consolidated financial results
for the period ended

3. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: **R6 432m** (31 December 2017: R1 142m) of subordinated notes were issued and **R3 195m** (31 December 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	Wealth 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	17 490	2 143	202	(54)	-	19 781
Consulting and administration fees	232	21	8	-	-	261
Transactional fees and commissions	14 914	1 572	106	(2)	-	16 590
Cheque accounts	5 216	115	54	-	-	5 385
Credit cards	2 204	-	-	-	-	2 204
Electronic banking	4 144	1 082	17	1	-	5 244
Other [1]	1 287	374	34	(3)	-	1 692
Savings accounts	2 063	1	1	-	-	2 065
Merchant income	1 721	-	-	-	-	1 721
Asset management	22	2	37	1	-	62
Other fees and commissions	47	113	8	(53)	-	115
Insurance commissions received	554	-	2	-	-	556
Investment banking fees	-	435	41	-	-	476
Other income from contracts with customers	33	-	-	19	-	52
Other non-interest income, net of expenses	(323)	1 764	(25)	117	525	2 058
Total non-interest income	17 200	3 907	177	82	525	21 891

[1] Includes fees on mortgage loans and foreign currency transactions.

Summary provisional notes to the consolidated financial results

for the period ended

5. Other impairments

	2018 Rm	2017 Rm
Impairment raised on financial instruments[1]	-	(30)
Other	433	542
Goodwill	34	-
Intangible assets[2]	1	326
Property and equipment[3]	398	216
	433	512

6. Headline earnings

	2018 Gross Rm	2018 Net Rm	2017 Gross Rm	2017 Net Rm
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Bank		7 481		8 067
Total headline earnings adjustment:		372		481
IFRS 3 – Goodwill impairment	34	34	-	-
IFRS 5 – Loss/(profit) on disposal of non-current assets held for sale	40	40	33	34
IAS 16 –Loss/(profit) on disposal of property and equipment	17	12	(18)	(13)
IAS 21 – Recycled foreign currency translation reserve	-	-	52	52
IAS 36 – Impairment of property and equipment	398	297	216	155
IAS 36 – Impairment of intangible assets	1	1	326	238
IAS 39 – Release of available-for-sale reserves	-	-	67	49
IAS 40 – Change in fair value of investment properties	(15)	(12)	(37)	(29)
IAS 40 – Profit on disposal of investment property	-	-	(5)	(5)
Headline earnings/diluted headline earnings		7 853		8 548
Headline earnings per share/diluted headline earnings per share (cents)		1 751.7		1 939.4

[1]With the adoption of IFRS 9 the impairment on other financial instruments has been included as part of impairment losses.
[2]The impairment incurred during the prior reporting period mainly related to computer software, Barclays.Net which was fully impaired.
[3]Management have decided to dispose of certain property and equipment resulting in an impairment of **R398m** (31 December 2017: R216m). As the property will be disposed of, the impairment was calculated based on fair value less costs to sell.

Summary provisional notes to the consolidated financial results

for the period ended

7. Dividends per share

	2018 Rm	2017 Rm
Dividends declared to ordinary equity holders		
Interim dividend **(6 August 2018: 602.27349 cents)** (28 July 2017: 892.25702 cents)	2 700	4 000
Special dividend **(30 June 2017: 811.4669592 cents)**	-	3 500
Final dividend **(11 March 2019: 111.532 cents)** (1 March 2018: 669.1928 cents)	500	3 000
	3 200	10 500
Dividends declared to preference equity holders		
Interim dividend **(6 August 2018: 3 542.67 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		
Distributions **(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		
Final dividend **(16 April 2018: 669.1927668 cents)** (10 April 2017: 486.88017 cents)	3 000	2 100
Interim dividend**(17 September 2018: 602.27349 cents)** (11 September 2017: 892.25702 cents)	2 700	4 000
Special dividend (30 June 2017: 811.4669592 cents)	-	3 500
	5 700	9 600
Dividends paid to preference equity holders		
Final dividend **(16 April 2018: 3 558.01 cents)** (10 April 2017: 3 644.79452 cents)	176	180
Interim dividend **(17 September 2018: 3 542.67 cents)**(11 September 2017: 3 685.06849 cents)	175	182
	351	362
Distributions paid to Additional Tier 1 Capital note holders		
Distributions (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

8. Acquisitions and disposals of businesses and other similar transactions

8.1 Acquisitions of businesses during the current reporting period

During the current period, the Bank 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**.

The Bank also acquired a 100% holding in Home Obligors Mortgage Enhanced Securities (RF) Limited (Homes) a structured entity (SE) established in 2006 as a securitisation funding vehicle. Since its establishment in 2006, Homes has been accounted for as a subsidiary of Absa Group Limited.The transaction meets the definition of a business combination under common control, and in accordance with the Bank's policy, predecessor accounting is applied. The assets, liabilities and equity of Homes were transferred to the consolidated Bank financial statements at their carrying value on the date of transfer. The acquisition of Homes at R100 had an effective date of 01 December 2018.

	Pacific Heights	Home Obligors Mortgage Enhanced	Bank
	2018		
	Fair value recognised on acquisition	Carrying value recognised on acquisition	
	Rm	Rm	Rm
Consideration at date of acquisition:			
Cash	30	-	30
Acquisition - date fair value of initial interest	168	-	168
Total consideration	198	-	198
Recognised amounts of identifiable assets acquired and liabilities assumed			
Cash and balances at central banks	15	-	15
Loans and advances to customers	-	1 754	1 754
Loans and advances to banks	-	48	48
Other assets	4	-	4
Investment properties	165	-	165
Current tax assets	1	4	5
Other liabilities	(14)	(1)	(15)
Deferred tax assets/(liabilities)	(7)	2	(5)
Subordinated liabilities	-	(1 807)	(1 807)
Total identifiable net assets	164	-	164
Goodwill	34	-	34
Total	198	-	198

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

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:

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

8.1.1 Acquisitions of businesses during the current reporting period

The profit recognised in the consolidated statement of comprehensive income as a result of the acquisition of Home Obligors Mortgage Enhanced Securities (RF) Limited is R1.2m and for Pacific Heights Investments 196 (Pty) Ltd is R30.6m.

8.1.2 Disposals of businesses during the current 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 current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was R1 079m.

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 disposals 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 the Absa Bank 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	589	257
The Bank 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	981	1 026
Later than one year and no later than five years	2 561	2 654
Later than five years	667	902
	4 209	4 582

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 Bank.

Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

11. Contingencies

	2018 Rm	2017 Rm
Guarantees	34 479	28 970
Irrevocable debt facilities/other lending facilities	166 198	145 087
Letters of credit	6 828	3 834
Other	63	151
	207 568	178 042

Guarantees include performance guarantee contracts and financial guarantee contracts.

Financial guarantee contracts represent contracts where the Bank 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 debt facilities are commitments to extend credit where the Bank 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 expected credit losses are recognised have been included above, as the Bank 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 R30m has been raised on financial guarantees, R43m has been raised for letters of credit and R409m on irrevocable debt facilities/other lending facilities.

Irrevocable equity facilities and other contingencies fall outside the scope of the expected credit losses model of IFRS 9.

Legal proceedings

The Bank has been party to proceedings against it during the reporting period. The following material cases were ongoing 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.

11. Contingencies *(continued)*

- 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 Bank 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 Bank 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 Bank is or has been engaged.

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

Regulatory matters

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

The Bank is continuously evaluating its programmes and controls in general relating to compliance with regulation. The Bank undertakes monitoring, review and assurance activities, and the Bank 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 Bank conducted a review of relevant activity, processes, systems and controls, and provided information to relevant authorities, in a process which has now largely concluded. No financial impact is anticipated.

In February 2017 the South African Competition Commission (SACC) referred Barclays PLC, BCI and Absa Bank Limited, a subsidiary of Absa Group Limited, among other banks, to the Competition Tribunal to be prosecuted for breaches of South African antitrust law related to Foreign Exchange trading of South African Rand. The SACC found from its investigation that between 2007 and 2013 the banks had engaged in various forms of collusive behaviour. Barclays 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 Bank is subject to income taxes in numerous jurisdictions and the calculation of the Bank'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 Bank's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Bank 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.

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 Bank's Tax Risk Framework.

Summary provisional notes to the consolidated financial results

for the period ended

12. Segment reporting

	2018 Rm	2017 [1] Rm
12.1 Headline earnings contribution by segment		
RBB South Africa	8 646	8 507
CIB South Africa	2 819	3 355
Wealth	(388)	(418)
Head Office, Treasury and other operations in South Africa[2]	(1 454)	(1 651)
Barclays PLC separation effects[2]	(1 770)	(1 245)
Total headline earnings	7 853	8 548
12.2 Total income by segment		
RBB South Africa	41 247	40 153
CIB South Africa	10 842	10 592
Wealth	430	430
Head Office, Treasury and other operations in South Africa [2]	(1 532)	(1 486)
Barclays PLC separation effects[2]	856	405
Total income	51 843	50 094
12.3 Total internal income by segment		
RBB South Africa	(7 868)	(8 471)
CIB South Africa	(8 230)	(2 885)
Wealth	34	6
Head Office, Treasury and other operations in South Africa[2]	14 210	15 982
Barclays PLC separation effects[2]	330	325
Total internal income	1 524	4 957
12.4 Total assets by segment		
RBB South Africa	791 709	740 856
CIB South Africa	521 468	486 168
Wealth	7 370	6 097
Head Office, Treasury and other operations in South Africa[2]	(244 027)	(245 675)
Barclays PLC separation effects[2]	3 159	912
Total assets	1 079 679	988 358
12.5 Total liabilities by segment		
RBB South Africa	784 795	730 734
CIB South Africa	517 415	481 646
Wealth	7 791	6 508
Head Office, Treasury and other operations in South Africa	(308 163)	(306 019)
Barclays PLC separation effects	(5 845)	(9 840)
Total liabilities	995 993	903 029

[1] Operational changes, management changes and associated changes to the way in which the CODM views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. For details on the business portfolio changes refer to note 16.

[2] These represent reconciling strips and are not reporting segments.

Summary provisional notes to the consolidated financial results

for the period ended

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.

	31 December			
	2018		2017	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the South African Reserve Bank	13 108	13 108	19 108	19 108
Coins and bank notes	9 571	9 571	9 684	9 684
Cash, cash balances and balances with central banks	22 679	22 679	28 792	28 792
Investment securities	6 219	6 270	-	-
Loans and advances to banks	20 733	23 191	26 020	26 020
Other assets	20 065	20 073	13 327	13 420
RBB South Africa	456 960	458 131	435 500	435 731
Retail Banking South Africa	386 815	387 912	371 248	371 479
Credit cards	26 950	27 484	27 267	27 267
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	220 569	220 569
Other loans and advances	3 447	3 447	726	726
Overdrafts	6 037	6 104	5 443	5 443
Personal and term loans	18 350	18 512	17 162	17 162
Business Banking South Africa	70 145	70 219	64 252	64 252
Mortgages (including CPF)	29 917	29 917	27 828	27 828
Overdrafts	20 027	20 098	19 199	19 199
Term loans	20 201	20 204	17 225	17 225
CIB South Africa	226 530	226 530	192 203	192 203
Wealth	5 734	5 985	5 004	5 004
Head Office, Treasury and other operations in South Africa	713	713	974	974
Loans and advances to customers – net of impairment losses	689 937	691 358	633 681	633 912
Loans to Group companies	37 363	37 363	36 530	36 530
Non-current assets held for sale	-	-	1 118	1 118
Total assets (not held at fair value)	796 996	800 935	739 468	739 792
Financial liabilities				
Deposits from banks	73 069	77 174	52 079	52 079
Other liabilities	29 641	29 654	25 709	25 724
Call deposits	57 981	57 981	62 725	62 725
Cheque account deposits	156 435	156 435	153 539	153 539
Credit card deposits	1 904	1 904	1 896	1 896
Fixed deposits	133 031	133 031	131 521	131 521
Foreign currency deposits	17 541	17 541	18 444	18 444
Notice deposits	58 367	58 367	58 460	58 460
Other deposits	1 473	1 473	1 414	1 414
Saving and transmission deposits	141 066	141 066	135 375	135 375
Deposits due to customers	567 798	567 798	563 374	563 374
Debt securities in issue	144 154	146 438	132 701	132 701
Borrowed funds	20 052	20 052	15 866	15 866
Total liabilities (not held at fair value)	834 714	841 116	789 729	789 744

14. Assets and liabilities held at fair value

14.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Bank 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 Bank's investment properties is determined through valuations performed by external independent valuators.

When the Bank'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.

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

14.2 Fair value measurements (continued)

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.

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. Assets and liabilities held at fair value (continued)

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 Bank 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 Bank's own credit quality, as well as the cost of funding across all asset classes.

Model valuation adjustments

Valuation models are reviewed under the Bank'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 Bank'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.

	31 December							
	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								
Investment securities	42 352	35 468	9 537	87 357	37 737	32 841	5 946	76 524
Loans and advances to banks	-	19 800	-	19 800	-	16 713	484	17 197
Trading and hedging portfolio assets	45 107	53 819	3 449	102 375	31 379	72 194	1 824	105 397
Debt instruments	43 005	789	445	44 239	29 185	2 410	177	31 772
Derivative assets	-	43 680	2 450	46 130	-	58 594	546	59 140
Commodity derivatives	-	1 263	224	1 487	-	973	124	1 097
Credit derivatives	-	-	173	173	-	-	165	165
Equity derivatives	-	3 433	1 947	5 380	-	2 356	173	2 529
Foreign exchange derivatives	-	7 980	26	8 006	-	15 548	8	15 556
Interest rate derivatives	-	31 004	80	31 084	-	39 717	76	39 793
Equity instruments	533	-	-	533	567	-	-	567
Money market assets	1 569	9 350	554	11 473	1 627	11 190	1 101	13 918
Loans and advances to customers	-	34 602	10 661	45 263	-	22 070	4 741	26 811
Total financial assets	87 459	143 689	23 647	254 795	69 116	143 818	12 995	225 929
Financial liabilities								
Deposits from banks	-	54 871	19	54 890	-	22 031	-	22 031
Trading and hedging portfolio liabilities	11 072	35 097	1 454	47 623	8 141	51 866	944	60 951
Derivative liabilities	-	35 097	1 454	36 551	-	51 866	944	52 810
Commodity derivatives	-	1 267	222	1 489	-	1 164	121	1 285
Credit derivatives	-	-	174	174	-	-	148	148
Equity derivatives	-	2 313	778	3 091	-	1 965	423	2 388
Foreign exchange derivatives	-	8 391	19	8 410	-	14 500	4	14 504
Interest rate derivatives	-	23 126	261	23 387	-	34 237	248	34 485
Short positions	11 072	-	-	11 072	8 141	-	-	8 141
Deposits due to customers	238	34 789	2 822	37 849	203	18 676	1 572	20 451
Debt securities in issue	3	15 885	-	15 888	399	4 354	488	5 241
Total financial liabilities	11 313	140 642	4 295	156 250	8 743	96 927	3 004	108 674
Non-financial assets								
Commodities	1 304	-	-	1 304	2 051	-	-	2 051
Investment properties	-	-	180	180	-	-	-	-
Non-recurring fair value measurements								
Non-current assets held for sale[1]	-	-	50	50	-	-	-	-

[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 price, interest rate, 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	Listed equities: market bid price	Underlying price of market traded instruments and/or interest rate curves
Deposits from banks	Discounted cash flow models	Interest rates and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rates and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of market traded instruments 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:

	31 December 2018					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 824	4 741	484	5 946	-	12 995
Net interest income	-	153	-	89	-	242
Other income	-	-	-	-	15	15
Gains and losses from banking and trading activities	1 240	427	-	26	-	1 693
Gains and losses from investment activities	-	-	-	23	-	23
Purchases	1 174	6 617	-	3 181	165	11 137
Sales	(257)	(156)	(18)	(507)	-	(938)
Movement in other comprehensive income	-	-	-	(37)	-	(37)
Transfer to Level 3	357	-	-	2 928	-	3 285
Transfer (out) of Level 3	(889)	(1 121)	(466)	(1 914)	-	(4 390)
Step acquistion of subsidiary	-	-	-	(198)	-	(198)
Closing balance at the end of the reporting period	3 449	10 661	-	9 537	180	23 827

	31 December 2017					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 505	4 890	571	1 062	222	8 250
Net interest income	-	12	-	62	-	74
Other income	-	-	-	-	37	37
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	4 789	-	6 998
Sales	(147)	(1112)	(175)	-	(259)	(1693)
Movement in other comprehensive income	-	-	-	31	-	31
Transfer (out) of Level 3	-	(98)	-	-	-	(98)
Closing balance at the end of the reporting period	1 824	4 741	484	5 946	-	12 995

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

14.6 Reconciliation of Level 3 assets and liabilities (continued)

	31 December 2018				
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	-	944	1 572	488	3 004
Gains and losses from banking and trading activities	-	(52)	5	-	(47)
Issues	19	1 043	2 500	-	3 562
Settlements	-	(344)	(766)	-	(1 110)
Transfer (out) of Level 3	-	(137)	(489)	(488)	(1 114)
Closing balance at the end of the reporting period	19	1 454	2 822	-	4 295

	31 December 2017			
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	307	1 139	604	2 050
Net interest income	-	7	-	7
Gains and losses from banking and trading activities	585	-	-	585
Issues	52	1 685	30	1 767
Settlements	-	(1 144)	(68)	(1 212)
Transfer (out) of Level 3	-	(115)	(78)	(193)
Closing balance at the end of the reporting period	944	1 572	488	3 004

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:

	31 December 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	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	2 589	1 027	233	3 849	(174)	134	(40)

	31 December 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	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	142	761	76	979	(284)	-	(284)

[(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.

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

14.8 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank'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 table 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

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:

		31 December 2018	
	Significant unobservable parameters	Potential effect recorded in profit or loss Favourable/(Unfavourable) Rm	Potential effect recorded directly in equity Favourable/(Unfavourable) Rm
Loans and advances to bank	Absa Group Limited/Absa funding	-/-	-/-
Deposits due to customers	Absa Group Limited/Absa funding	178/(178)	-/-
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	-/-	(20)/20
Loans and advances to customers	Credit spreads	(323)/323	-/-
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	-/-

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

14.8 Sensitivity analysis of valuations using unobservable inputs (continued)

		31 December 2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Loans and advances to banks	Absa Group Limited/Absa funding spread	17/(17)	-/-
Deposits due to customers	Absa Group Limited/Absa funding spread	13/(12)	-/-
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	59/(59)	253/(240)
Loans and advances to customers	Credit spreads	60/(69)	-/-
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)	-/-

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:

			31 December	
			2018	2017
Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	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	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 rate of 7% and 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 10%, 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 (less than 1 year), repurchase agreement curves (less than 1 year), funding spreads	**0.20% to 9.34%**	0.25% to 10.69%
Deposits due to customers	Discounted cash flow models	The group'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	**1 to 6 years**	1 to 6 years
		Annual selling price escalations	**6%**	6%
			6%	6%
		Annual rental escalations	**n/a**	n/a
		Expense ratios	**n/a**	n/a
		Vacancy rates	**n/a**	n/a
		Income capitalisation rates	**7.5% to 8%**	7.75% to 8%
		Risk adjusted discount rates	**10% to 15%**	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:

	31 December	
	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 during the current and previous reporting periods.

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 Bank 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.

Implementation of new International Financial Reporting Standards (IFRS):

- IFRS 9 Financial Instruments (IFRS 9) – The Bank 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 Bank has elected not to restate comparative periods (Audited).

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 Bank has voluntarily elected to bifurcate both interest income and interest expense, as presented on the face of the statement of comprehensive income. Further, the Bank has voluntarily elected to restate the prior reporting period.

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 Bank 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 Bank'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 Bank believes there to be no reasonable expectation of recovery. The Bank 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 Bank'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 Bank'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 Bank has reconsidered the approach previously applied to LGD modelling for accounting purposes. The Bank 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 Bank 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 R21 462m (including interest in suspense and ECL provision on financial guarantee contracts, letters of credit and undrawn facilities), relative to the amount of R20 216m as previously published. This has further resulted in a reduction in the Bank's retained income as at 1 January 2018 of R897m (after taxation adjustment of R349m). 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 Bank 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 Bank 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 Bank's 30 June 2018 reporting date, the Bank had elected to present an amount of **R292m** as interest income over the reporting period ending 30 June 2018. It was the Bank's view that presentation of the recovered interest previously unrecognised as a credit impairment gain would understate, and accordingly distort, the Bank's ECL. The Bank 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 Bank'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 Bank. 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 Bank in 2016. IFRIC 22 Foreign Currency Transactions and Advance Consideration is effective in the current reporting period.

The table below summarises the total impact on the Bank's statement of changes in equity:

	Share capital and share premium Rm	Preference share capital and share premium Rm	Additional Tier 1 Capital Rm	Retained earnings Rm	Other reserves Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest-ordinary shares Rm	Total equity Rm
Balance reported as at 31 December 2017	37 183	4 644	1 500	37 855	4 145	85 327	2	85 329
Reported impact of adopting IFRS 9	-	-	-	(3 103)	(204)	(3 307)	-	(3 307)
IFRS 9 LGD restatement[1]				(897)	(31)	(928)	-	(928)
Restated impact of adopting IFRS 9	-	-	-	(4 000)	(235)	(4 235)	-	(4 235)
Impact of adopting IFRS 15	-	-	-	(44)	-	(44)	-	(44)
Adjusted balance as at 1 January 2018	37 183	4 644	1 500	33 811	3 910	81 048	2	81 050

[1]The Bank 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 **R897m** in retained income as at 1 January 2018.

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 Bank

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

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

Whilst the adoption of a revised classification and measurement framework has had a less material impact on the Bank, 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 Bank going forward.

In accordance with the transition options allowable under IFRS 9, the Bank will continue to apply the hedge accounting requirements set out in IAS 39. The Bank 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 Bank 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 Bank's business model of holding the instruments to collect contractual cash flows. Other less significant reclassifications of financial assets were also recorded, although these did not have any impact on equity (refer to section 10). The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVTPL). Gains and losses on such financial liabilities are required to be presented in other comprehensive income (OCI), to the extent that they relate to changes in own credit risk. The Bank early adopted this requirement in 2017, and recognised a debit of **R147m** in OCI.

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 Bank will not be impacted by the change in accounting framework. The Bank 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 Bank'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 Bank 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 Bank 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 Bank, as follows:

- The Bank's ECL allowance has increased from **R15 902m** as at 31 December 2017 to an amount of **R21 462m** 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 **R20 216m**. The exclusion of post write-off recoveries has therefore increased the ECL allowance post adoption by **R1 236m**.
- Retained income decreased by **R4 000m** (net after a taxation adjustment of **R1 560m**). The impact of IFRS 9 on retained income, as at 1 January 2018, was previously reported to be **R3 103m**, with a tax adjustment of **R1 211m**. The net impact on retained income of excluding post write-off recoveries is therefore **R897m**.
- Other reserves decreased by **R235m** (previously reported **R204m**), owing principally to the reclassification of investment securities from available-for-sale to amortised cost.
- The Bank remains strongly capitalised notwithstanding a **R2 096m** decrease in common equity tier 1 supply (CET1) (previously reported to be **R1 558m**) and a **8bps** decrease in the CET1 ratio (previously reported **16bps**). The decrease of **8bps** is the amount determined before the application of the transitional arrangement elected by the Bank, 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 **2bps** (previously reported **4bps**).

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

15.1.1 Overview and highlights *(continued)*

15.1.1.5 Summary consolidated statement of financial position for Absa Bank Limited

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

	31 December 2017	Impact of IFRS9				
		Classification and Measurement[1]	Reported ECL[2]	Exclusion of PWOR from LGD[3]	Total IFRS 9 ECL impact	1 January 2018
	Rm	Rm	Rm	Rm	Rm	Rm
Assets						
Investment securities	76 524	(195)	-	-	-	76 329
Loans and advances to banks	43 217	-	(26)	-	(26)	43 191
Loans and advances to customers	660 492	(20)	(3 827)	(1 246)	(5 073)	655 399
Investments in associates and joint ventures[4]	1 235	-	(73)	(31)	(104)	1 131
Other assets[5]	206 890	55	792	349	1 141	208 086
Total assets	988 358	(160)	(3 134)	(928)	(4 062)	984 136
Liabilities						
Trading portfolio liabilities	59 834	(20)	-	-	-	59 814
Provisions[6]	2 073	-	452	-	452	2 525
Other liabilities[5]	841 122	-	(419)	-	(419)	840 703
Total liabilities	903 029	(20)	33	-	33	903 042
Equity						
Capital and reserves						
Attributable to equity holders:						
Ordinary share capital	304	-	-	-	-	304
Ordinary share premium	36 879	-	-	-	-	36 879
Preference share capital	1	-	-	-	-	1
Preference share premium	4 643	-	-	-	-	4 643
Additional Tier 1 capital	1 500	-	-	-	-	1 500
Retained earnings	37 855	-	(3 103)	(897)	(4 000)	33 855
Other reserves	4 145	(140)	(64)	(31)	(95)	3 910
	85 327	(140)	(3 167)	(928)	(4 095)	81 092
Non-controlling interest - ordinary shares	2	-	-	-	-	2
Total equity	85 329	(140)	(3 167)	(928)	(4 095)	81 094
Total liabilities and equity	988 358	(160)	(3 134)	(928)	(4 062)	984 136

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

[2]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 Bank's methodology for calculating LGD of loans and advances to customers, (not extracted from the consolidated annual financial statements).
[4]Reflects the change in the Bank's share of net assets from associates and joint ventures due to their adoption of IFRS 9.
[5]Relates to the adjustments to deferred tax and current tax assets.
[6]The increase in the carrying value of provisions relates to the expected credit losses recognised on financial guarantee contracts, letters of credit and undrawn facilities (to the extent that it exceeds the gross carrying amount of loans and advances to customers at an account level).

Summary provisional notes to the consolidated financial results

for the period ended

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

Key drivers of a significant increase in credit risk include:

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

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 2.1 applies when an exposure is in default. Whilst IAS 39 does not prescribe any alignment between the accounting and regulatory definition default, this has been implemented by the Bank 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 Bank considers that the obligor is unlikely to pay its credit obligations without recourse by the Bank to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
  - The Bank 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 Bank.

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 Bank requires an exposure to reflect 12 consecutive months of performance, in ordered to be considered to have been 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 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 Bank 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 Bank can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Bank 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
- 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 Bank applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Bank'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.

15.1 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 Bank 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; 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.

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 Bank to reconsider the treatment of post write-off recoveries in the calculation of accounting LGD. In line with evolving IFRS 9 technical interpretation, the Bank has resolved to amend the approach historically applied to LGD modelling for accounting purposes. The Bank 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 Bank'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 **R20 216m** to a restated at amount of **R21 462m** (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 **35%** (27% previously published) greater than the impairment allowance under IAS 39. This has resulted in a reduction in the Bank's retained income as at 1 January 2018 of **R897m** (from the previously published reduction in retained earnings of **R3 103m**, to a restated reduction amount of **R4 000m**).

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 (continued)

15.1.2.6.3 Loss given default (LGD) (continued)

This change does not reflect a worsening of the Bank'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 Bank 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 Bank'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 Bank's own measures of PD, EAD and LGD. In designing IFRS 9 compliant ECL models, the Bank 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:

Key risk parameter	Basel III	IFRS 9
Probability of default (PD)	Average of default within the next 12 months, but calculated based on the long-run historical average over the whole economic cycle (that is, through the cycle).	For stage 1 assets, the PD is measured for the next 12 months, whilst in the case of stage 2 and stage 3 assets, PD is measured over the remaining life of the financial instrument. The PD should reflect the current and future economic cycles to the extent relevant to the remaining life of the loan calculated at a point in time, as at the reporting date.
Loss Given Default (LGD)	LGD is a downturn based metric, representing a prudent view of recovery in adverse economic conditions. The LGD calculation incorporates both direct and indirect costs associated with the collection of the exposure. Cash flows are discounted at the risk free rate plus an appropriate premium.	A current or forward-looking LGD is used to reflect the impact of economic scenarios, with no bias to adverse economic conditions. Collection costs incorporated into the LGD calculation include only those that are directly attributable to the collection of recoveries. The 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 Initial adoption of IFRS 9 Financial Instruments (continued)

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

15.1.2.8 Impact of IFRS 9 on interest recognition (continued)

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 Bank'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 Bank 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 Bank 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, as 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 does not impact the net carrying value of the exposure.

Had the revised presentation requirement been applied as at 31 December 2017, the Bank would have recognised a larger gross carrying value, and a larger impairment allowance of **R2 279m**.

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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	3 356	8 678	12 034	2 131	14 165
Retail Banking	2 583	7 582	10 165	1 082	11 247
Credit cards	578	2 626	3 204	-	3 204
Instalment credit agreements	703	1 112	1 815	93	1 908
Loans to associates and joint ventures	-	-	-	-	-
Mortgages	1 124	2 056	3 180	822	4 002
Other loans and advances	-	-	-	-	-
Overdrafts	51	236	287	69	356
Personal and term loans	127	1 552	1 679	98	1 777
Business Banking South Africa	773	1 096	1 869	1 049	2 918
CIB South Africa	559	832	1 391	123	1 514
Wealth	14	174	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	3 939	9 684	13 623	2 279	15 902
Loans and advances to banks	-	-	-	-	-
Investment securities	-	-	-	-	-
Total ECL allowance: On-statement of financial position	3 939	9 684	13 623	2 279	15 902
Off - statement of financial position exposures					
Undrawn committed facilities[1]	-	-	-	-	-
Financial guarantees	-	-	-	-	-
Letters of credit	-	-	-	-	-
Total ECL allowance: Off - statement of financial position	-	-	-	-	-
Total ECL allowance	3 939	9 684	13 623	2 279	15 902

[1]Relates to ECL on undrawn committee facilities to the extent that it exceeds the gross carrying amount on loans and advances at an account level.

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		IFRS 9 - 1 January 2018				
Reported IFRS 9 Rm	PWOR Impacts Rm	Total IFRS 9 provision (including IIS) Rm	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	IFRS 9 transaction adjustment[2] Rm
18 049	1 246	19 295	2 797	2 821	13 677	5 130
14 479	1 176	15 655	2 147	2 478	11 030	4 408
4 236	533	4 769	603	1 072	3 094	1 565
2 580	334	2 914	686	629	1 599	1 006
2	-	2	2	-	-	2
4 966	61	5 027	306	255	4 466	1 025
34	-	34	8	18	8	34
411	86	497	57	160	280	141
2 250	162	2 412	485	344	1 583	635
3 570	70	3 640	650	343	2 647	722
1 821	-	1 821	482	384	955	307
266	-	266	27	6	233	53
(407)	-	(407)	(188)	(172)	(47)	(417)
19	-	19	8	11	-	9
(426)	-	(426)	(196)	(183)	(47)	(426)
19 729	1 246	20 975	3 118	3 039	14 818	5 073
26	-	26	4	22	-	26
9	-	9	9	-	-	9
19 764	1 246	21 010	3 131	3 061	14 818	5 108
426	-	426	196	183	47	426
23	-	23	15	8	-	23
3	-	3	1	2	-	3
452	-	452	212	193	47	452
20 216	1 246	21 462	3 343	3 254	14 865	5 560

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

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 **R2 279m**. 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 Bank 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 Bank 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 Bank 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 **R26m.**

- **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 **R9m** to the Bank's total ECL allowance.

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

15.1.4 Analysis of the ECL allowance as at 1 January 2018 *(continued)*

15.1.4.1 Summary of ECL coverage for loans and advances to banks and customers

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.

	Stage 1			
	Financial assets measurement at FVTPL Carrying value Rm	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
RBB South Africa	26 899	381 576	2 797	0.73
Retail Banking South Africa	-	326 985	2 147	0.66
Credit cards	-	23 116	603	2.61
Installment credit agreements	-	67 498	686	1.02
Loans to associates and joint ventures	-	23 037	2	0.01
Mortgages	-	192 272	306	0.16
Other loans and advances	-	2 439	8	0.33
Overdrafts	-	4 362	57	1.31
Personal and term loans	-	14 261	485	3.40
Business Banking South Africa	-	54 591	650	1.19
CIB South Africa	26 899	156 231	482	0.31
Wealth	-	4 658	27	0.58
Head Office, Treasury and other operations in South Africa	-	218	(188)	-
Loans and advances	-	218	8	3.68
Reclassification to provisions[(1)]	-	-	(196)	-
Loans and advances to customers	26 899	542 683	3 118	0.57
Loans and advances to banks	17 197	24 092	4	0.02
Total Loans and advances	44 096	566 775	3 122	0.55

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

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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
33 192	2 821	8.82	34 897	13 677	39.19	430 370
26 284	2 478	9.97	29 227	11 030	37.74	366 841
3 122	1 072	32.70	4 233	3 094	73.09	25 702
5 217	629	11.69	4 167	1 599	38.37	73 968
-	-	-	-	-	-	23 035
14 290	255	2.55	18 009	4 466	24.80	219 544
345	18	5.22	11	8	72.73	2 761
1 024	160	12.40	416	280	67.31	5 305
2 286	344	21.04	2 391	1 583	66.21	16 526
6 908	343	4.46	5 670	2 647	46.68	63 529
						-
35 232	384	1.09	2 143	955	44.56	218 684
229	6	2.62	330	233	70.61	4 951
769	(172)	-	-	(47)	-	1 394
769	11	1.43	-	-	-	968
-	(183)	-	-	(47)	-	426
69 422	3 039	4.53	37 370	14 818	39.65	655 399
1 928	22	1.14	-	-	-	43 191
71 350	3 061	4.44	37 370	14 818	39.65	698 590

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

15.1.5 The impact of IFRS 9 on regulatory capital (unaudited)

15.1.5.1 Adoption of IFRS 9 and its impact on the Bank's regulatory capital

The Bank 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 (RWA)	Impact on other reserves	Release of RWA on non-performing loans	Eligible General Provisions (Tier 2)	Fully loaded capital position	Transitional capital position
Note		15.1.5.1.1.	15.1.5.1.2	15.1.5.1.3	15.1.5.1.4	15.1.5.1.5.	15.1.5.1.6.		
Capital Supply (Rm)									
Common equity tier 1	72 648	(4 000)	2 139		(235)			70 552	72 124
Tier 1 capital	76 460	(4 000)	2 139		(235)			74 364	75 936
Total capital	91 484	(4 000)	2 139		(235)		113	89 501	90 989
Risk weighted assets	542 199			2 690		(15 103)		529 785	539 094
Capital Ratios (%)[1]									
Common equity tier 1	13.4	(0.7)	0.4	(0.1)	-	0.4		13.3	13.4
Tier 1	14.1	(0.7)	0.4	(0.1)	-	0.4		14.0	14.1
Total capital	16.9	(0.7)	0.4	(0.1)	-	0.4	-	16.9	16.9
Leverage									
Leverage exposure	1 149 575	(5 560)	2 139	1 409	(290)			1 147 273	1 148 999
Leverage ratio (%)	6.7	(0.3)	0.2	-	-			6.5	6.6

[(1)]The Bank's capital ratios decreased as follows as a result of the adoption of IFRS 9:
- CET1 ratio decreased by 8bps on a fully loaded basis and 2bps after phase-in.
- Tier 1 ratio decreased by 6bps on a fully loaded basis and 2bps after phase-in.
- Total Capital ratio decreased by 2bps on a fully loaded basis and 1bps after phase-in.

15.1. Initial adoption of IFRS 9 *(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 Bank'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 **R5 560m** (Reported: R4 314m) which is partially offset by the recognition of a net tax credit of **R1 560m** (Reported: R1 211m). 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 Bank'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 **R2 690m** (Reported: R2 331m), and accordingly, a decrease in the CET1 ratio.

15.1.5.1.4. Impact on other reserves under IFRS 9

Other reserves decreased by **R235m** (Reported: R204m) (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 Bank'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 **R15 103m** (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 the Bank's AIRB portfolio exceeds the regulatory ECL. The excess is added back as Tier 2 capital, but the quantum is capped at 0.6% of the AIRB credit RWA. In respect of the Bank'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 **R113m** (Reported: R53m).

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.

15.1. Initial adoption of IFRS 9 *(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 Bank'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 Bank 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.

15.1.7. Impact of IFRS 9 on the Bank'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. Initial adoption of IFRS 9 *(continued)*

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

The Bank'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 Bank'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 Bank 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 Bank'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.

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 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

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. Initial adoption of IFRS 9 *(continued)*

15.1.8. Incorporation of forward-looking information in their IFRS 9 modelling

15.1.8.2. Mild upside scenario: Stronger near term growth

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 growth slowing. Commodity prices fall on the back of weaker global growth.

South Africa

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

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.

15.1.9 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 Payment 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 Bank 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.

15.1.10 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	Reclassi-fication	Remeas-urement	Measurement Category	Carrying amount
Assets		Rm	Rm	Rm		Rm
Cash, cash balances and balances with central						
	Amortised cost - designated	28 792	-	-	Held at amortised cost	28 792
		28 792	-	-		28 792
Investment securities						
	Designated at FVTPL	20 866	(9 503)	-	Designated at FVTPL	11 363
			9 503	-	Mandatorily at FVTPL	9 503
	Available for sale (AFS) - designated	35 241	(5 902)	-	FVOCI - debt instruments	29 339
			287	-	FVOCI - equity	287
	AFS - hedged items	20 417	-	-	FVOCI - hedged items	20 417
		-	5 420		Amortised cost -debt instruments	5 420
		76 524	(195)	-		76 329
Loans and advances to banks						
	Designated at FVTPL	17 197	(15 745)	-	Designated at FVTPL	1 452
			15 745	-	Mandatorily at FVTPL	15 745
	Amortised cost - designated	26 020	-	(26)	Amortised cost - debt instruments	25 994
		43 217	-	(26)		43 191
Trading portfolio assets	FVTPL - held for	102 730	-	-	Mandatorily at FVTPL	102 730
Hedging portfolio assets	FVTPL - hedging Instrument	2 667	-	-	FVTPL - hedging Instrument	2 667
Other assets	Amortised cost - designated	13 327	-	-	Held at amortised cost	13 327
Loans and advances to customers						
	Designated at FVTPL	26 811	(19 378)	-	Designated at FVTPL	7 433
			19 466	-	Mandatory at FVTPL	19 466
	Amortised cost - designated	633 635	(108)	(5 073)	Amortised cost - designated	628 454
	Amortised cost - hedged items	46	-	-	Amortised cost - hedged items	46
		660 492	(20)	(5 073)		655 399
Loans to Group companies	Amortised cost - designated	36 530	-	-	Held at amortised cost	36 530
Non-current assets held for sale	Amortised cost - designated	1 118	-	-	Held at amortised cost	1 118
Assets outside the scope of IFRS 9		22 961	55	1 037	Assets outside the scope of IFRS 9	24 053
Total assets		988 358	(160)	(4 062)		984 136

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

15.1.10 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 Bank'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 Banks 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 Wealth 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.
- 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.
- Commodity-linked debt instruments within CIB that 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.
- 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 Bank.

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 Bank'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 Bank'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 Bank'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.

15.3. Internal accounting policy amendments

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 Bank 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 Bank 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.

15.4. 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 Bank's segmental disclosures to align with how the banking operations are now managed.

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

- The Bank refined its treasury allocation methodology, resulting in the following restatements:
    - Net interest income from RBB South Africa of R122m and CIB South Africa R2m to and Head Office, Treasury and other operations R124m;
    - Non-interest income from Head Office, Treasury and other operations to CIB South Africa R92m; and
- The Bank continued refining its cost allocation methodology, resulting in restatement of operating expenses from RBB South Africa R42m to, CIB South Africa R24m, Wealth R16m and Head Office, Treasury and other operations R2m.

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