



# Absa Bank Limited

Annual consolidated and separate financial statements  
for the reporting period ended 31 December 2018

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**Absa Bank Limited**

**(1986/004794/06)**

**Annual consolidated and separate financial statements for the reporting period ended 31 December 2018**

These audited annual consolidated and separate financial statements (financial statements) were prepared by Absa Bank Financial Reporting under the direction and supervision of the Bank Financial Director, J P Quinn CA(SA).

## Directors' approval

### Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 17, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the financial statements of Absa Bank Limited and its subsidiaries (the Bank).

The directors are responsible for overseeing the preparation, integrity and objectivity of the financial statements that fairly present the state of the affairs of the Bank and Absa Bank Limited standalone (the Company) at the end of the reporting period and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- › All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- › The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statement of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of all responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- › The Board and management identify all key areas of risk across the Bank and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- › The Bank's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the Group Audit and Compliance Committee (GACC), appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- › The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors are independent.
- › The Board approves the Enterprise Risk Management Framework (ERMF) through recommendation by the Group Capital Management Committee (GRCMC).
- › The Board, through the GACC which is assigned by the GRCMC in respect of risk matters, reviewed the compliance practices and procedures to enable the Board to discharge their regulatory responsibilities, by overseeing the plan and progress management makes in improving compliance in respect of Know Your Customer, Anti-Money Laundering and Sanctions requirements; and by considering that the Bank's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 46.
- › The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

Based on the above, and to the best of their knowledge and belief, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the current reporting period.

The financial statements of the Bank and the Company have been prepared in accordance with the provisions of the Companies Act and the Banks Act, Johannesburg Stock Exchange (JSE) Listings Requirements and the South African Institute of Chartered Accountants (SAICA) financial reporting guides, and comply with the requirements of International Financial Reporting Standards (IFRS), and all applicable legislation.

Based on forecasts and available cash resources, the directors have no reason to believe that the Bank and the Company will not be going concerns in the next reporting period. These financial statements have been prepared on this basis.

It is the responsibility of the independent external auditor to report on the financial statements. Their report to the shareholders of the Bank and the Company is set out on page 13 of this report.

The directors' report on pages 8 to 11 and the annual financial statements of the Bank and the Company were approved by the Board of directors and are signed on their behalf by:

**W E Lucas-Bull**  
*Group Chairman*

**J P Quinn**  
*Financial Director*

Johannesburg  
8 March 2019

## Group Audit and Compliance Committee report

This report, issued by the Group Audit and Compliance Committee (Committee), provides stakeholders with a summary of activities for 2018 while taking into account the requirements of section 94(7) (f) of the Companies Act, No 71 of 2008 (as amended) (the Companies Act), the King IV Report on Corporate Governance for South Africa 2016 (King IV) and other regulatory requirements.

As a whole, the members have the necessary financial literacy, skills and experience to execute their duties effectively. Further information on the membership and composition of the GACC, are set out in the Committee's mandate on the Bank's website.<sup>1</sup>

The Committee, all independent non-executive board members, held five meetings in 2018. The management team is regularly engaged and the Chief Internal Auditor and the external auditors have direct access to the Committee, including closed sessions without management, on any matters that they regard as relevant to the fulfilment of the Committee's responsibilities.

Member	Meeting attendance
Colin Beggs (Chairman)	5/5
Alex Darko	5/5
Daisy Naidoo	5/5
Mohamed Husain	5/5
Paul O'Flaherty	4/5*
René van Wyk	5/5**
Tasneem Abdool-Samad	4/5***

\* Paul O'Flaherty resigned from the Committee in November 2018 on becoming head of the engineering services division of the Bank.

\*\* René van Wyk resigned as a member from the Committee on 1 February 2019 on becoming executive director and thereafter Chief Executive Officer on 1 March 2019.

\*\*\* Tasneem Abdool-Samad was appointed in April 2018.

### Significant matters considered by the Committee included:

Matter	Committee action, discussions and decisions
<b>1. Control environment</b>	<ul style="list-style-type: none"> <li>› Critically assessed and continuously monitored steps taken to remedy material controls identified as requiring remedial action. Inputs considered included the Chief Risk Officer's report, the key risk and combined assurance assessments, as well as risk and control assessments.</li> <li>› Assessed actual, and potential, impacts of the changing business operating model of the Bank as a result of the separation from Barclays PLC to ensure that the Bank maintains a strong control environment.</li> <li>› Considered reports from Internal Audit on the reallocation of risk, control and governance responsibilities between business and functions as a result of the changed business operating model.</li> <li>› Engaged with Internal Audit on the soundness of risk management, and the robustness of the internal control framework over financial, operational and compliance issues which support the validity, accuracy and completeness of financial information. Where areas of improvement were identified, management has completed corrective actions, or is in the process of implementing corrective action, and progress is tracked by Internal Audit.</li> <li>› Received confirmation from an Internal Audit review that the Board and Board committees apply the King IV principles on the roles and responsibilities of the Bank's governance forums.</li> <li>› Confirmed that the finance function meets the King IV requirements to fulfil all financial reporting and control functions.</li> </ul>
<b>2. IFRS 9 implementation</b>	<ul style="list-style-type: none"> <li>› Considered the impact of the IFRS 9 implementation and its effect on classification and measurement of financial instruments, as well as the changes of credit loss and hedge accounting models.</li> <li>› Approved the IFRS 9 Directive 5 that was submitted to the South African Reserve Bank as well as the transitional disclosures presented to the market in August 2018 detailing the impact of the reporting standard on opening balances and capital adequacy. The Committee also considered and approved the further adjustment made thereafter to the opening balances resulting from an evaluation of the impairment recoveries. Refer to note 1.19.5</li> <li>› Received regular updates from external auditor and internal auditor on assurance activities relating to IFRS 9 to ensure that management processes, judgements and assumptions are in line with expectations.</li> </ul>
<b>3. Combined assurance</b>	<p>The Committee provided oversight over the design, implementation and sustainability of the Bank's combined assurance model, oversight of assurance testing results, as well as management's responses to control risks identified. Emphasis is placed on a strong embedment of first and second line of defence as the foundation of a sound control environment. To improve alignment to the principles and standards of King IV, the Committee continuously reviews the combined assurance model for refinement in conjunction with Internal Audit and External Audit, to ensure that they leverage off each other's insight and intelligence for enhanced efficiency and effectiveness of the risk management systems which the Bank has in place.</p>

<sup>1</sup> Absa Bank Limited website can be accessed at [www.absa.africa](http://www.absa.africa)

# Group Audit and Compliance Committee report

## Significant matters considered by the Committee included: (continued)

Matter	Committee action, discussions and decisions
4. Separation	<p>The Committee also received regular reports from a separation-specific combined assurance forum which included Internal Audit, External Audit, and the Programme Independent Quality Assurance team from PwC. The updates included details on the implementation of a combined approach towards assurance planning, coordination and execution within the separation programme. The accounting for the separation expenditure including allocation to capitalised assets and expenses reviewed in conjunction with the financial controls was included in the Committee's oversight role.</p>
5. Fraud and cyber risk	<p>The Committee received confirmation from the Chief Internal Auditor to ensure that Internal Audit monitors internal fraud, including management efforts to raise awareness and address the culture regarding collusion.</p> <p>The Committee noted the updated fraud model and the new Engineering Services structure, which better support the new corporate strategy:</p> <ul style="list-style-type: none"><li>› Responsibility for operational and customer fraud as well as appropriate data elements is with business units. The business unit chief information officers will report into the Chief Information Officer and the business unit chief executive.</li><li>› The Chief Security Office (CSO) manages cyber, forensics, resilience, physical security and the fraud centre of excellence.</li><li>› The Bank Chief Data Officer has the overall and coordinated view of data.</li></ul> <p>The Committee also received reports to confirm that the CSO and Financial Crime division have strengthened their collaboration by:</p> <ul style="list-style-type: none"><li>› Sharing current and emerging threats, through a combined monthly working group;</li><li>› Coordinating actions to proactively identify and disrupt criminal activity; and</li><li>› Sharing data descriptors and indicators regarding accounts linked to possible mule activity.</li></ul> <p>The Committee also considered a special report on the Bank's fraud risk management capability and its adoption of the converged security strategy.</p> <p>The Committee in conjunction with the board IT committee reviewed the ongoing development of a platform for preventing and detecting fraud and other irregularities, which will assist in safeguarding the assets of the Bank, especially the resilience of core infrastructure to protect against increasingly sophisticated cybercrime.</p>
6. Audit quality	<p>Following the decision leading to EY being the sole group auditor, the Audit Committee and senior financial management spent considerable time in ensuring that the comprehensive plans and arrangements by EY would provide a high quality audit across the Bank, supported by appropriate expertise and experienced local and international engagement professionals.</p> <p>A comprehensive effectiveness and quality review of the external auditors was conducted subsequent to the completion of the year-end audit. Specific feedback was presented to the Committee on independence, objectivity, courage to challenge and professional scepticism of the External Audit. No issues have been identified regarding the quality of the audit and the Committee was satisfied with management's assessment of the effectiveness and quality of the external auditors.</p> <p>The Committee also considers and evaluates information from external sources (in line with JSE regulations) through an annual accreditation process by considering the Independent Regulatory Board of Auditors (IRBA) inspection reports, EY's internal quality reviews, as well as their committed actions to address any concerns raised.</p> <p>The Internal Audit Quality Assurance and Professional Practices unit performs an annual assessment of the Internal Audit function. During 2018, Deloitte performed an External Quality Assurance Review (EQAR) of the Internal Audit function. It was concluded that Internal Audit generally conforms with the Institute of Internal Auditors (IIA) Standards, the International Professional Practices Framework (IPPF), the requirements embodied in the South African Banks Act and King IV, and applies global guidance recommended by Basel guidance on Internal Audit in Banks and requirements of the Committee on Internal Audit Guidance for Financial Services.</p>

# Group Audit and Compliance Committee report

## External audit

The Committee is responsible for the appointment, compensation and oversight of the external auditors, including assessment of independence. In 2018, the Committee:

- › Nominated Ernst & Young Inc. (EY) and KPMG Inc. (KPMG) as external auditors for the 2018 financial year, but subsequently withdrew its support to reappoint KPMG. KPMG ceased to be the Bank's external auditor (other than in certain subsidiaries in the African regions) on completion of the statutory and regulatory audit and reporting matters relating to the 2017 financial year.
- › Ensured that the external auditor appointment complied with the Companies Act, the JSE Listings Requirements and all other applicable legal and regulatory requirements. While the South African Reserve Bank (SARB) requires that the Bank retain two external auditors acting jointly, it gave approval for EY to be the sole auditor of the Bank while a process to appoint new auditors is being pursued.
- › Approved the:
  - External audit plan to address significant focus areas, which similarly receive focus by the Committee and which will be reported in the current financial statements, and specifically considered the external auditor's findings in this regard.
  - Budgeted fee for the current reporting period and the terms of engagement of the external auditor.
  - Bank's policy on allowable non-audit services permitted to be provided by the external auditor.
  - Proposed engagements, including proposed fees, with the external auditor for the provision of non-audit services taking into account the non-audit services policy. These engagements were evaluated by either the Committee Chairman or the Committee as a whole who, before confirming any approval, assured themselves that there was justifiable reason for engaging the auditor and that its independence and objectivity would not be threatened.
- › Assessed the quality and effectiveness of the external audit function, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory.
- › Ensured that adequate time was set aside for private discussions with the external auditor.
- › Confirmed that the external auditor would attend and address queries at any general shareholders' meeting.
- › Considered if any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005, and determined that there were no such reportable irregularities.
- › Reviewed:
  - Findings and recommendations of the external auditor and confirmed that no unresolved issues of concern exist between the Bank and the external auditor in relation to the Bank or any of its business units and subsidiaries.
  - External auditor's reports and obtained assurances from the external auditor that adequate accounting records were maintained at all times.

The Committee is satisfied that EY is independent of the Bank. This conclusion was arrived at by taking, inter alia, the following factors into account:

- › Conducted an accreditation review as requested by the JSE on the quality processes of EY, including the review of reports of the IRBA relating to the firm and the Group reporting auditor and verified credentials of the reporting auditor to conduct audits of listed companies;
- › Criteria specified for independence by the Independent Regulatory Board for Auditors;
- › A submission from EY setting out the terms and conditions on which EY agrees to act as independent auditor of the Bank for the 2018 year, including the respective responsibilities of directors and auditors;
- › Confirmation from the external auditors that they were not aware of any relationships during the year that may reasonably be thought to bear on their independence in respect of the statutory audit; and
- › Representations from EY confirming their independence and that nothing had taken place which would impair this at any time, including obtaining confirmation that no restrictions had been placed upon EY that limited their scope or access.

The Committee confirmed that:

- › The auditor did not, except as external auditor or in providing permitted non-audit services, receive any other remuneration or benefit from the Bank.
- › The auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor.
- › The auditor's independence was not prejudiced as a result of any previous appointment as auditor.

## Financial statements and accounting practices

The Committee is responsible for ensuring that the Bank's financial reporting information is valid, accurate and complete and that the interim financial results and annual financial statements fairly present the financial position of the Bank and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and Interpretations of IFRS, and the SAICA Reporting Guides. During the reporting period the Committee:

- › Satisfied itself on the appropriateness of the going concern assumption as the basis of preparation of the interim and annual financial statements.
- › Confirmed, through consultation with Internal Audit, that the Bank's internal controls support the preparation of consolidated financial reporting information.

# Group Audit and Compliance Committee report

## Financial statements and accounting practices (continued)

- › Recommended to the Board for approval:
  - Interim financial results and annual financial statements and reporting thereon on the Stock Exchange News Services (SENS).
  - Reporting changes announced on SENS in respect of the current year.
  - The interim and final dividend proposals for approval by the Board.
- › Considered the:
  - Effects of the Barclays PLC separation to the reported results and received a letter from the external auditor providing assurance of normalised earnings for the full year 2018 as per JSE requirements.
  - The accounting policies and practices and the controls of the Bank to ensure they are adhered to.
- › Reviewed:
  - Significant accounting and reporting issues, sustainability of the control environment, significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements.
  - The tax governance, tax philosophy and significant tax matters arising during the reporting period, emphasising the importance of managing tax risk on the separation contributions.
  - Significant matters which are not a normal part of the Bank's business, but which are referred to the Committee by the Board or management.

## Solvency and liquidity tests

The Committee considered the solvency and liquidity tests as required by sections 45 and 46 of the Companies Act requirements and confirmed to the Board that the Bank would remain solvent for the year ahead after the dividend distributions and financial assistance for the current year.

## Internal Audit and the internal control environment

The Committee utilises the skills and expertise of Internal Audit to review the Bank's internal control environment and thus must monitor and review the effectiveness of Internal Audit and ensure that the function is free to work independently and objectively. The Committee:

- › Approved the Bank's Internal Audit charter, noting the changes to the purpose, authority and responsibility of Internal Audit.
- › Reviewed:
  - Internal Audit's medium-term strategy, which specifically focuses on separation as well as the Bank's new corporate strategy.
  - The adequacy of Internal Audit's skills, resources and budget.
  - Management's actions in remedying control deficiencies reported by Internal Audit.
- › Confirmed that there was no restriction on scope or access, and noted the completion of the current reporting period's internal audit plan. The risk-based audit plan included several audits to test financial reporting internal controls as well as business monitoring activities to support the Bank's control environment assessment and inform Internal Audit's planning activities.
- › Considered a special report on the fraud risk management capability across the Bank including the converged security strategy adopted by the Bank.
- › Assessed the competency of the Chief Internal Auditor to be appropriate.

## Compliance, legal and regulatory requirements, to the extent they may have an impact on the financial results

The Committee monitors the Bank's compliance with legal mandates and applicable regulatory requirements. During the reporting period the Committee:

- › Approved:
  - The Bank's compliance monitoring plan, methodology and structure, as well as the Bank's compliance coverage plan and compliance charter.
  - The regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Bank to comply with applicable laws, rules, codes and standards.
- › Ensured that:
  - The Bank has the necessary infrastructure in place to risk score the customer base, allowing effective and appropriate due diligence standards, and ensuring that the Bank's risk-based approach methodology has been successfully implemented into this solution.
  - Procedures are in place for receiving reports from internal lawyers (and, where relevant, external lawyers) relating to breaches of laws and regulations.
  - Adequate time was set aside for private discussions with the Chief Internal Auditor and Chief Compliance Officer.

## Group Audit and Compliance Committee report

### Compliance, legal and regulatory requirements, to the extent they may have an impact on the financial results (continued)

- Reviewed:
  - Compliance practices and procedures for enabling the directors of the Bank to discharge their regulatory responsibilities.
  - The Banks Act, No 94 of 1990 (the Banks Act) section 64B (2)(e) statement as to the Directors' Affairs Committee, and recommended this to the Board for approval.
  - Monitored the Bank's approach to risk assessment to ensure the integrity of the Bank's internal controls.
  - The overall status of compliance in the Bank and any significant breakdowns that could cause material loss or penalty.
- Considered:
  - Compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the Board for approval.
  - The adequacy of resources and budget available to Bank Compliance.
  - Any significant compliance risk matters reported by Bank Compliance and monitored progress in rectifying these matters.
- Satisfied itself that the functioning of Bank Compliance is in line with relevant regulatory requirements, including without limitation, section 60A and regulation 49 of the Banks Act; Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS), section 17 and regulation 4, regulation 5 and Board Notice 126 and 127, Financial Intelligence Centre Act, No 38 of 2001 (FICA), section 42 and King IV, Principle 6.
- Assessed the adequacy and effectiveness of Bank Compliance's performance, including receiving confirmation that there was no restriction on scope or access.
- Received confirmation that all significant control issues are reported in a timely manner to the relevant Bank governance structures.

### Governance, risk management and control effectiveness

The Committee needs to satisfy itself with the degree to which management has assumed ownership for risk and control and that the key business risks are identified, evaluated and managed. It should monitor whether controls are fit for purpose and that they are working as intended and that a rigorous and comprehensive review process is in place. During the reporting period the Committee:

- Received a statement (in accordance with King IV requirements) from Internal Audit on the effectiveness of the Bank's governance, risk management and control processes. The statement confirmed that:
  - The Bank has an established risk and control governance structure and a formally approved risk management framework in place which is reviewed and refreshed to respond to developments in the Bank's business environment;
  - Clear lines of defence are defined, with primary ownership of risks and controls in the first line of defence, while the second line of defence own policies and responsibility for independent oversight of the first line of defence; and
  - The Bank has a combined assurance model in place, which is continuously refined in conjunction with Internal Audit (third line of defence) and External Audit (fourth line of defence) to optimise assurance activities.
- Confirmed that where needs for improvements have been identified, corrective actions have been taken by management or are in process, with progress being tracked to completion. These required improvements are not indicative of any pervasive breakdown in the effectiveness of the Bank's governance, risk management and control processes.
- Confirmed that management's remedial actions implemented throughout the reporting period have benefited the Bank's governance, risk management and control processes.
- Reviewed the Chief Risk Officer's report, the key risk and combined assurance assessments, as well as the risk and control assessments.



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## Group Audit and Compliance Committee report

### Regulatory and corporate governance requirements

In accordance with the provisions of the JSE Listings Requirements, the Committee:

- › Completed the annual assessment of the suitability for reappointment of the Bank's current audit firm and designated individual partner including confirmation that the appointed external auditor is duly accredited on the JSE's list of auditors;
- › Determined that the Group Financial Director, J P Quinn, has appropriate expertise and experience; and
- › Is satisfied that the composition, experience and skills set of the finance function are adequate to fulfil all financial, control and reporting requirements of the Bank.

The separate audit committees of material subsidiaries are overseen by the Group Committee, and together with the chairmen of these audit committees, reviews the control environment of material subsidiaries.

### Conclusion

The Committee is satisfied that it has complied with all statutory duties and duties given to it by the Board under its terms of reference.

The Committee is satisfied that the financial and internal controls are adequate in all aspects and that no material breakdowns took place that resulted in material loss to the Bank.

The Committee reviewed the Bank and separate Company financial statements for the year ended 31 December 2018 and recommended them to the Board for approval on 8 March 2019.

On behalf of the Committee

**C Beggs**

*Chairman of the Committee*

Johannesburg

8 March 2019

## Directors' report

### General information and nature of activities

Absa Bank Limited (the Company) is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, and wealth management products and services. The Company and its subsidiaries (the Bank) operate primarily in South Africa and employ 28 329 people. The address of the registered office of the Bank is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001. The Company has preference shares listed on the Johannesburg Stock Exchange (JSE).

The Bank is a subsidiary of Absa Group Limited.

The Bank is one of South Africa's largest financial services organisations, serving retail, business and corporate customers and clients in South Africa. The Bank also provides products and services to selected markets in Nigeria.

The Bank interacts with its customers and clients through a combination of physical and electronic channels, offering a comprehensive range of banking services (from basic products and services for the low-income personal market, to customised solutions for the commercial and corporate markets), financial services and wealth management products and services.

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the Absa Group Limited Board, on 8 March 2019.

The financial statements present the financial positions, results of operations and cash flows for the Bank and the Company for the reporting period ended 31 December 2018.

### Group Audit and Compliance Committee report

Refer to pages 2 to 7.

### Bank results

#### *Main business and operations*

The Bank recorded a decrease of 8% in headline earnings to **R7 853m** (2017: R 8 548m) for the reporting period. Headline earnings per share (HEPS) and fully diluted HEPS decreased by 10% to **1 751.7** cents (2017: 1 939.4 cents). Refer to note 35 for the Headline earnings note.

Some segmental comparative information contained in this set of financial statements has been restated due to business portfolio changes. Refer to note 1.19 of the accounting policies and note 50.1 for further details.

### Headline earnings were derived from the following activities:

	Bank	
	2018 Rm	2017 <sup>1</sup> Rm
Retail and Business Banking South Africa (RBB SA)	8 646	8 507
Retail Banking South Africa	6 088	5 950
Business Banking South Africa	2 558	2 557
Corporate and Investment Bank South Africa (CIB SA)	2 819	3 355
Wealth	(388)	(418)
Head office, Treasury and other operations in South Africa	(1 454)	(1 651)
Barclays separation	(1 770)	(1 245)
<b>Headline earnings (refer to note 35)</b>	<b>7 853</b>	<b>8 548</b>

<sup>1</sup> These numbers have been restated, refer to notes 1.19 and 50.1.

## Directors' report

Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
W E Lucas-Bull	Independent non-executive director, Chairman	
C Beggs	Independent non-executive director	
M Ramos	Chief Executive Officer	Retired 28 February 2019
M J Husain	Lead independent director	
D W P Hodnett	Deputy Chief Executive Officer	Resigned 15 May 2018
T S Munday	Lead independent director	Retired 15 May 2018
P S O'Flaherty	Independent non-executive director	Resigned 5 November 2018
J P Quinn	Financial Director	
T Abdool-Samad	Independent non-executive director	Resigned 31 January 2018
R van Wyk <sup>1</sup>	Chief Executive Officer	Appointed as CEO 1 March 2019

### Re-election of retiring directors

In line with international best practice, the Company has a requirement in terms of which all directors on the Board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM). M J Husain is the only director who will be required to retire in terms of the above arrangement and will be eligible for re-election at the 2018 AGM.

In terms of the Company's Memorandum of Incorporation (MOI), one-third of the directors are required to retire at each AGM and may offer themselves for re-election.

### Directors' interests in Absa Bank Limited preference shares

As at the reporting date, no director held any preference shares in the Company.

### Directors' and officers' personal financial interests in contracts

Transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Executive directors are entitled to share awards, the details of which are included in note 58.

No other contracts were entered into in which directors and officers of the Bank had a personal financial interest and which significantly affected the business of the Bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the Bank.

### Directors' and prescribed officers' emoluments

The emoluments and services of executive directors are determined by the Absa Group Limited Remuneration Committee (Remco) as disclosed in note 58.

### Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 40 to the consolidated financial statements.

### Acquisitions and disposals during the current and prior reporting periods

Apart from non-current assets/liabilities held for sale disposed of (refer to note 7) 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 **R205m**.

### Barclays separation

All contributions from Barclays PLC were received in 2016 and 2017.

As part of the separation, Barclays PLC sold ordinary Absa Group Limited shares representing 12.2% of issued ordinary share capital in May 2016 and 33.7% during the course of 2017. Barclays PLC currently holds 126.2m ordinary Absa Group Limited shares representing approximately 14.9% of the total issued ordinary shares. The remaining 85.1% of the Absa Group Limited shares are widely held on the JSE.

Barclays PLC contributed £765 million to Bank, primarily to replenish the diminution in capital caused by the need to make investments necessary for the Bank to continue to operate sustainably. The contributions received were mainly as additions to the Bank's equity and also a reimbursement of costs incurred by the Bank on the separation transaction. The contributions are being applied towards delivering on rebranding, technology and other separation related projects and it is expected that over time, the separation related investments will be capital and cash flow neutral.

CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. In 2017 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.

<sup>1</sup> René van Wyk was an independent non-executive director until 31 January 2019, and became an executive on 1 February 2019, prior to his appointment as Chief Executive Officer on 1 March 2019.

## Directors' report

### Dividends

- › On 1 March 2018, a final dividend of 669.1928 cents per ordinary share was announced to the ordinary shareholder registered on 13 April 2018.
- › On 1 March 2018, a final dividend of 3 588.01 cents per preference share was announced to the preference shareholders registered on 13 April 2018.
- › On 6 August 2018, an interim dividend of 602.27349 cents per ordinary share was announced to the ordinary shareholder registered on 14 September 2018.
- › On 6 August 2018, an interim dividend of 3 542.67 cents per preference share was announced to preference shareholders registered on 14 September 2018.
- › On 11 March 2019, a dividend of 111.532 cents per ordinary share was declared. The dividend was announced on 1 March 2019 to the ordinary shareholders registered on 13 April 2019. This dividend is payable on 12 April 2019.
- › On 11 March 2019, a dividend of 3 518.6986 cents per preference share was declared. The dividend was announced on 1 March 2019 to preference shareholders registered on 13 April 2019. The dividend is payable on 12 April 2019.

### Special resolutions

The following special resolutions were passed by the Bank's ordinary shareholders at the AGM held on 11 July 2018, in accordance with the Companies Act:

- › **Special resolution number 1 – Remuneration of non-executive directors**  
Resolved to approve the proposed remuneration to be payable to non-executive directors from 1 May 2018 to and including the last day of the month preceding the date of the next AGM thereafter.
- › **Special resolution number 2 – Financial assistance to a related or inter-related company/corporation**  
Resolved to enable the Company, in terms of a general authority contemplated in section 45(3)(a)(ii) of the Companies Act, for a period of two years from the date of this resolution, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and/or to a member of a related or inter-related company/corporation.
- › **Special resolution number 3 – Amendment of the Company's MOI**  
Resolved that the Company's MOI be and is hereby amended by the deletion of the existing clauses 20.8.3 and 20.8.4 in their entirety and replacing them with the new clauses 21.8.3 and 21.8.4.

### Company Secretary

N R Drutman is the Company Secretary. Her contact details are as follows:

7th Floor, Absa Towers West  
15 Troye Street  
Johannesburg, 2001

Telephone: (+27 11) 350 5347

Email: groupsec@absa.africa

### Auditors

Ernst & Young was appointed as auditor of the Bank for the 2018 reporting period, effective 1 January 2018. E van Rooyen is the individual registered auditor that has undertaken the audit.

### Authorised and issued share capital

#### Authorised

The authorised ordinary share capital of the Company of R322 500 000 (2017: R322 800 000) consists of:

- › 320 000 000 (2017: 320 000 000) ordinary shares of R1.00 each;
- › 250 000 000 (2017: 250 000 000) 'A' ordinary shares of R0.01 each.

The authorised preference share capital of the Company of R300 000 (2017: R300 000) consists of:

- › 30 000 000 (2017: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each.

#### Issued

An additional 16 983 265 'A' ordinary shares were issued in the current reporting period (2017: 18 520 042).

The total issued ordinary share capital at the reporting date, consists of:

- › 302 609 369 (2017: 302 609 369) ordinary shares of R1.00 each;
- › 145 691 959 (2017: 145 691 959) 'A' ordinary shares of R0.01 each.

The total issued preference share capital at the reporting date, consists of:

## Directors' report

> 4 944 839 (2017: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each.

### Shareholder information

	2018		2017	
	Number of shares/notes	% held	Number of shares/notes	% held
<b>Non-public shareholders</b>				
Ordinary shares	302 609 369	100.0	302 609 369	100.0
Absa Group Limited	302 609 369	100.0	302 609 359	100.0
Barclays Bank PLC (UK)	—	—	10	0.0
'A' Ordinary shares	145 691 959	100.0	145 691 959	100.0
Absa Group Limited	145 691 959	100.0	145 691 959	100.0
<b>Public shareholders</b>				
Preference shares	4 944 839	100.0	4 944 839	100.0
Standard Chartered Bank	487 326	9.9	312 516	6.3
Standard Bank	1 004 956	20.3	278 011	5.6
Nedbank Investor Services	876 707	17.7	358 621	7.3
Other preference shareholders	2 575 850	52.1	3 995 691	80.8
<b>Non-public noteholder</b>				
Additional Tier 1 capital <sup>1</sup>	2	100.0	1	100.0
Absa Group Limited	2	100.0	1	100.0

<sup>1</sup> The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) on 10 October 2023 (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.

## Company Secretary's certificate to the shareholders of Absa Bank Limited

In accordance with the provisions of the Companies Act, I certify that, in respect of the reporting period ended 31 December 2018, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

**N R Drutman**  
*Company Secretary*

Johannesburg  
8 March 2019

<sup>1</sup> The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) on 10 October 2023 (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.

# Independent auditors' report to the shareholders of Absa Bank Limited

## Report on the audit of the consolidated and separate financial statements

### Opinion

We have audited the consolidated and separate financial statements of Absa Bank Limited and its subsidiaries (the Group and company) set out on pages 19 to 237 which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies, but excludes the sections marked as 'unaudited' in notes 39, 44 and 55.5.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of Absa Bank Limited. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Absa Bank Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

# Independent auditors' report to the shareholders of Absa Bank Limited

Level	Key audit matter	How our audit addressed the matter
<p>Absa Bank Limited</p> <p>Absa Bank Company</p>	<p><b>Expected credit losses</b></p> <p>The disclosure associated with Retail credit risk and Wholesale credit risk is set out in the financial statements in the following notes:</p> <ul style="list-style-type: none"> <li>› Note 1.2.1.5 – Approach to credit risk and impairment of loans and advances (page 31)</li> <li>› Note 8 – Impairment losses on loans and advances to customers (page 69)</li> <li>› Note 55 – Credit risk (page 145)</li> </ul> <p><i>IFRS 9: Financial Instruments</i> was effective 1 January 2018. Absa has applied IFRS 9 using a modified retrospective approach, with an adjustment to retained earnings and other reserves on 1 January 2018. Comparative periods have not been restated.</p> <p>The IFRS 9 expected credit losses (ECL) approach is applicable to all financial assets at amortised cost and debt financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model, which excluded loan commitments and financial guarantee contracts.</p> <p>ECL represents management's best estimate of the losses expected to be incurred at reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances.</p> <p>The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective. The estimation uncertainty is heightened due to the ongoing subdued growth in the South African economy and the uncertainty in the wider African economies.</p>	<p><b>Accounting policies</b></p> <p>We have evaluated the IFRS 9 accounting policies and assessed the ECL methodologies applied, and compared these to the requirements of IFRS 9: Financial Instruments.</p> <p><b>Audit procedures</b></p> <p>We have performed our audit procedures to assess the amount of the 1 January 2018 adjustment to retained earnings and other reserves on the application of IFRS 9, the 31 December 2018 closing provision and the movement in ECL over the period.</p> <p>We have obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant key controls identified within these processes.</p>
	<p><b>Collective ECL recognition</b></p> <p>A significant portion of ECL is calculated on a collective basis, utilising statistical models. The development and execution of these models requires significant management judgement, including the estimation of key inputs such as the probability of default (PD); exposure at default (EAD) and loss given default (LGD). Further judgement is required in incorporating forward looking information into the ECL models and in determining the ECL stage allocation.</p>	<p><b>Collective ECL recognition</b></p> <p>Where expected credit losses are calculated on a collective modelled basis we have performed the following audit procedures, amongst others, with the assistance of our credit risk quantitative specialists:</p> <ul style="list-style-type: none"> <li>› Evaluated the control environment supporting the models as well as the governance processes over impairments as a whole.</li> <li>› We considered Internal Audit reports and the findings raised.</li> <li>› Assessed the design and implementation of the ECL models, including assessing the significant assumptions applied and the data used to derive model parameters with reference to the requirements of IFRS 9.</li> <li>› Evaluated the ECL modelling methodology applied by management to determine the PD, LGD, and EAD used to compute portfolio ECL allowances against the requirements of IFRS 9 and the Absa Bank's internal policies.</li> <li>› Assessed management's ECL models for mathematical accuracy and alignment to internally approved modelling methodology by reperforming the ECL models.</li> <li>› With assistance from our economics specialist, we have considered the macro-economic forecasts used in the models including benchmarking these against external evidence and economic data.</li> <li>› Performed sensitivity analyses on the forecasts and the assessed impacts on ECL against management's ECL estimate.</li> <li>› Assessed managements' post-model adjustments by evaluating the reasonability of the assumptions and judgements applied when making their assessment of the qualitative and quantitative impact of economic, legal and operational events.</li> <li>› We have recalculated post-model adjustments.</li> </ul>



# Independent auditors' report to the shareholders of Absa Bank Limited

Level	Key audit matter	How our audit addressed the matter
Individual ECL recognition (continued)	<p><b>Individual ECL recognition</b></p> <p>A significant portion of loans and advances are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Bank portfolios. Significant judgements, estimates and assumptions are applied by management to:</p> <ul style="list-style-type: none"> <li>› Determine if the financial asset is impaired;</li> <li>› Evaluate the valuation and recoverability of collateral;</li> <li>› Determine the expected future cash flows to be collected; and</li> <li>› Estimate the timing of the future cash flows.</li> </ul>	<p><b>Individual ECL recognition</b></p> <p>We have tested management's processes and judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments against Absa Bank internal policy and the requirements of IFRS 9.</p> <p>Where these assessments are based on uncertain future events, we have considered a range of possible outcomes, formed an independent view of the most likely outcome including the ECL impact and compared our view to management's.</p>
		<p>Where exposures were determined to be credit impaired, our procedures focused on assessing the reasonability of the estimate of the expected future cash flows used in measuring ECL. This included testing the following elements, with the support of our corporate finance valuation specialists for more complex assessments:</p> <ul style="list-style-type: none"> <li>› Where exposures are collateralised, we tested the Absa Bank's legal right to the collateral, as well as the valuation of the collateral. Key considerations included valuation model assumptions, external market data and the historical accuracy of management's valuation estimates.</li> <li>› Where future cash flows are estimated based on the financial prospects of the counterparty to the loan, we have tested these estimates with reference to available market financial and performance information, external valuations, industry performance, historical trends and counterparty specific information.</li> </ul>
Absa Bank Limited Absa Bank Company	<p><b>Valuation of complex financial instruments</b></p> <p>The disclosure associated with the valuation of complex financial instruments is set out in the financial statements in the following notes:</p> <ul style="list-style-type: none"> <li>› Note 1.2.3 – Fair value measurement (page 35)</li> <li>› Note 53 – Fair value disclosures (page 135) (consolidated financial statements)</li> <li>› Note 44 – Fair value disclosures (page 229) (separate financial statements)</li> </ul> <p>Valuation of financial instruments, such as derivatives and investment securities, requires significant judgement in determining the appropriate valuation techniques to apply.</p> <p>Fair value calculations, especially level 3 financial instruments, are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value these financial instruments disclosed in the financial statements.</p> <p>Unobservable inputs are frequently used in the valuation of fair value instruments. Limited market data on risk inputs, including volatilities, results in material judgement being exercised. Consequently, this makes it a key area of focus where applying significant judgement in assessing the reasonability of these instruments.</p> <p>Fair value measurement of financial instruments significantly affects profit or loss, other comprehensive income and disclosures in the financial statements and is therefore considered to be a key audit matter.</p>	<p>We performed, amongst others, the following procedures:</p> <ul style="list-style-type: none"> <li>› We have obtained an understanding of management's processes for ensuring that correct external and internal data is used as inputs into the models and have tested the relevant key controls and governance process in place.</li> <li>› For a sample of financial instruments, and with the assistance of our valuation specialist, we have assessed the valuation models used with reference to the valuation approaches commonly used in the industry.</li> <li>› We have assessed the judgements and estimates applied by management against our understanding of the current market practice and conditions. We have also obtained independently sourced inputs where available, which have been compared against the inputs used by management.</li> <li>› Where valuation inputs are unobservable, we involved our valuation specialists to assist us in assessing the valuation inputs based on supportable and comparable information and compared these to management's valuation inputs.</li> </ul>

# Independent auditors' report to the shareholders of Absa Bank Limited

Level	Key audit matter	How our audit addressed the matter
Absa Bank Limited	<p><b>Separation from Barclays PLC</b></p> <p>The disclosure associated with the separation from Barclays PLC is set out in the financial statements in the following notes:</p> <ul style="list-style-type: none"> <li>› Note 31 – Operating expenses (page 85)</li> <li>› Note 13 – Goodwill and intangible assets (page 72)</li> </ul>	
Absa Bank Company	<p>The separation from Barclays PLC increases the potential for operational risk of the Group, which in turn increases the audit risk.</p> <p>The impact of the separation was a significant area of audit focus as a result of the separation affecting a large number of financial and operational processes and outputs, including:</p> <ul style="list-style-type: none"> <li>› Changes in the control environment and key controls;</li> <li>› Changes of platforms and/or migration to new platforms and;</li> <li>› Changes in outsourcing arrangements and agreements with third parties.</li> </ul> <p>In addition, the separation from Barclays PLC resulted in significant costs being incurred, some of which were capitalised in accordance with IAS 38. Management applies their judgement in determining the future economic benefits of costs incurred in relation to new systems, and changes to existing systems and processes.</p> <p>This is an area of significance to the audit due to the value of costs capitalised and the degree of estimation involved in assessing the future value.</p>	<p>We performed, amongst others, the following procedures:</p> <p>On the impact of changing systems:</p> <ul style="list-style-type: none"> <li>› We established a specialist audit team to test the impact of Absa Bank's separation on the financial statement audit.</li> <li>› We relied on Internal Audit for testing certain separation projects and considered the impact of Absa Bank's combined assurance model.</li> <li>› We assessed the design, and tested the operating effectiveness of the controls over key financial statement processes that have changed or have been replaced with a new control that the audit team relied upon.</li> <li>› We continued to test the effectiveness of key controls of legacy systems still in operation during the audit period.</li> <li>› We tested the completeness and accuracy of data migrated from legacy systems to new systems implemented during the audit period.</li> <li>› Our cyber risk specialists performed threat and vulnerability risk assessment, with a focus on the risk to the financial statements.</li> <li>› We obtained an understanding of significant outsourced services, including the nature of the relationship between the entity and the service organisation. We assessed and tested the key controls with an impact on the financial systems.</li> </ul> <p>On the capitalisation of costs incurred:</p> <ul style="list-style-type: none"> <li>› We understood management's process and controls in place for identifying costs to be capitalised.</li> <li>› We assessed the accounting policy against the requirements of IAS 38.</li> <li>› We performed analytical procedures and relevant tests of detail over the classification of costs as an expense or capitalised intangible asset.</li> <li>› We considered management's rationale for the capitalisation of significant projects, and considered the potential future economic benefit of these systems.</li> <li>› We tested management's judgements and estimates made in the capitalisation of costs, and assessment of impairment.</li> </ul>

# Independent auditors' report to the shareholders of Absa Bank Limited

## Other information

The directors are responsible for the other information. The other information comprises the Group Audit and Compliance Committee report, the Company Secretary's certificate to the shareholders of Absa Bank Limited, the Directors' report, as required by the Companies Act of South Africa and the Directors' approval, which we obtained prior to the date of this report, and the Integrated Report and supplementary fact sheets, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditors' report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- › Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- › Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- › Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- › Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- › Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- › Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# Independent auditors' report to the shareholders of Absa Bank Limited

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the joint auditor of Absa Bank Limited for 25 years and the sole auditor of Absa Bank Limited for one year.

**Ernst & Young Inc.**

*Director: E van Rooyen CA(SA)*

*Registered Auditor*

102 Rivonia Road, Sandton

8 March 2019

# Consolidated statement of financial position

as at 31 December

		Bank	
	Note	2018 Rm	2017 Rm
<b>Assets</b>			
Cash, cash balances and balances with central banks	2	22 679	28 792
Investment securities	3	93 576	76 524
Loans and advances to banks	4	40 533	43 217
Trading portfolio assets	5	101 271	104 781
Hedging portfolio assets	5	2 407	2 667
Other assets	6	22 294	15 513
Current tax assets		366	57
Non-current assets held for sale	7	50	1 119
Loans and advances to customers	8	735 200	660 492
Loans to Group Companies	9	37 363	36 530
Investments in associates and joint ventures	10	1 310	1 235
Investment property	11	180	—
Property and equipment	12	13 609	13 519
Goodwill and intangible assets	13	7 246	3 861
Deferred tax assets	14	1 595	51
<b>Total assets</b>		<b>1 079 679</b>	<b>988 358</b>
<b>Liabilities</b>			
Deposits from banks	15	127 959	74 110
Trading portfolio liabilities	16	46 280	59 834
Hedging portfolio liabilities	16	1 343	1 117
Other liabilities	17	31 907	27 824
Provisions	18	2 682	2 073
Current tax liabilities		66	55
Deposits due to customers	19	605 647	583 825
Debt securities in issue	20	160 042	137 942
Borrowed funds	21	20 052	15 866
Deferred tax liabilities	14	15	383
<b>Total liabilities</b>		<b>995 993</b>	<b>903 029</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Attributable to ordinary equity holders:			
Ordinary share capital	22	304	304
Ordinary share premium	22	36 879	36 879
Preference share capital	22	1	1
Preference share premium	22	4 643	4 643
Additional Tier 1 capital	22	2 741	1 500
Retained earnings	23	35 209	37 855
Other reserves	23	3 918	4 145
		<b>83 695</b>	<b>85 327</b>
Non-controlling interest – ordinary shares		(9)	2
<b>Total equity</b>		<b>83 686</b>	<b>85 329</b>
<b>Total liabilities and equity</b>		<b>1 079 679</b>	<b>988 358</b>

# Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Bank	
	Note	2018 Rm	Restated 2017 Rm
Net interest income		29 952	29 413
Interest and similar income <sup>1</sup>	24	74 155	71 438
Effective interest income		72 565	70 161
Other interest income		1 590	1 277
Interest expense and similar charges	25	(44 203)	(42 025)
Effective interest expense		(44 203)	(42 025)
Non-interest income		21 891	20 681
Net fee and commission income		18 491	17 279
Fee and commission income	26	19 781	18 608
Fee and commission expense	26	(1 290)	(1 329)
Gains and losses from banking and trading activities	27	3 177	2 860
Gains and losses from investment activities	28	1	3
Other operating income	30	222	539
<b>Total income</b>		<b>51 843</b>	<b>50 094</b>
Impairment losses	29	(5 078)	(5 113)
<b>Operating income before operating expenditure</b>		<b>46 765</b>	<b>44 981</b>
Operating expenditure	31	(34 341)	(31 608)
Other expenses		(1 579)	(1 788)
Other impairments	32	(433)	(512)
Indirect taxation	33	(1 146)	(1 276)
Share of post-tax results of associates and joint ventures		179	170
<b>Operating profit before income tax</b>		<b>11 024</b>	<b>11 755</b>
Taxation expense	34	(3 002)	(3 278)
<b>Profit for the reporting period</b>		<b>8 022</b>	<b>8 477</b>
<b>Profit attributable to:</b>			
Ordinary equity holders		7 481	8 067
Preference equity holders		351	362
Additional Tier 1 capital		190	48
		<b>8 022</b>	<b>8 477</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents)	42	1 668.7	1 830.3
Diluted earnings per share (cents)	42	1 668.7	1 830.3

<sup>1</sup> 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.

# Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Bank	
	Note	2018 Rm	2017 Rm
<b>Profit for the reporting period</b>		<b>8 022</b>	8 477
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>		<b>(11)</b>	(154)
Movement on equity instruments designated at FVOCI		<b>19</b>	—
Fair value gains		<b>27</b>	—
Deferred tax		<b>(8)</b>	—
Movement on liabilities designated at FVTPL due to changes in own credit risk		<b>(13)</b>	(147)
Fair value losses		<b>(71)</b>	(147)
Deferred tax		<b>58</b>	—
Movement in retirement benefit fund assets and liabilities		<b>(17)</b>	(7)
Decrease in retirement benefit surplus	36	<b>(24)</b>	(10)
Deferred tax	14	<b>7</b>	3
<b>Items that are or may be subsequently reclassified to profit or loss</b>		<b>(236)</b>	677
Movement in foreign currency translation reserve		<b>—</b>	55
Differences in translation of foreign operations		<b>—</b>	3
Release to profit or loss		<b>—</b>	52
Movement in cash flow hedging reserve		<b>(247)</b>	794
Fair value gains		<b>207</b>	1 465
Amounts transferred within other comprehensive income and recognised in profit or loss		<b>(550)</b>	(365)
Deferred tax		<b>96</b>	(306)
Movement in fair value of debt instruments measured at FVOCI		<b>11</b>	—
Fair value gains		<b>26</b>	—
Release to profit or loss	27	<b>(9)</b>	—
Deferred tax	14	<b>(6)</b>	—
Movement in available-for-sale reserve		<b>—</b>	(172)
Fair value losses		<b>—</b>	(307)
Release to profit or loss		<b>—</b>	67
Deferred tax		<b>—</b>	68
<b>Total comprehensive income for the reporting period</b>		<b>7 775</b>	9 000
<b>Total comprehensive income attributable to:</b>			
Ordinary equity holders		<b>7 234</b>	8 590
Preference equity holders		<b>351</b>	362
Additional Tier 1 capital		<b>190</b>	48
		<b>7 775</b>	9 000

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## Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares <sup>1</sup> '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
<b>Balance at the end of the previous reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 879</b>	<b>1</b>	<b>4 643</b>	<b>1 500</b>
IFRS 9	—	—	—	—	—	—
IFRS 15	—	—	—	—	—	—
<b>Adjusted balance at the beginning of the reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 879</b>	<b>1</b>	<b>4 643</b>	<b>1 500</b>
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	—	—	—	—	—	—
<b>Balance at the end of the reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 879</b>	<b>1</b>	<b>4 643</b>	<b>2 741</b>
Note	22	22	22	22	22	22

## Consolidated statement of changes in equity

for the reporting period ended 31 December

Bank

2018

Retained earnings	Total other reserves	Fair value through other comprehensive income reserve	Cash flow hedging reserve	Foreign currency translation reserve	Capital reserve	Share-based payment reserve	Associates and joint ventures reserve	Total equity attributable to equity holders	Non-controlling interest – ordinary shares	Total equity
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	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
		23	23	23	23	23	23			

# Consolidated statement of changes in equity

for the reporting period ended 31 December

Bank  
2017

	Number of ordinary shares <sup>1</sup> '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
<b>Balance at the beginning of the reporting period</b>	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 <sup>2</sup>	—	—	—	—	—	—
Barclays separation <sup>3</sup>	—	—	8 415	—	—	—
Shareholder contribution – fair value of investment <sup>4</sup>	—	—	—	—	—	—
<b>Restated balance at the end of the reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 879</b>	<b>1</b>	<b>4 643</b>	<b>1 500</b>
Note	22	22	22	22	22	22

All movements are reflected net of taxation.

<sup>1</sup> This includes ordinary shares and 'A' ordinary shares.

<sup>2</sup> The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

<sup>3</sup> 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.

<sup>4</sup> 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.

## Consolidated statement of changes in equity

for the reporting period ended 31 December

Bank 2017										
Retained earnings	Total other reserves	Available-for-sale reserve	Cash flow hedging reserve	Foreign currency translation reserve	Capital reserve	Share-based payment reserve	Associates and joint ventures reserve	Total equity attributable to equity holders	Non-controlling interest – ordinary shares	Total equity
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	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)
3 689	—	—	—	—	—	—	—	12 105	—	12 105
48	—	—	—	—	—	—	—	48	—	48
37 855	4 145	87	649	1	1 422	749	1 237	85 327	2	85 329
		23	23	23	23	23	23			

# Consolidated statement of cash flows

for the reporting period ended 31 December

		Bank	
	Note	2018 Rm	2017 Rm
<b>Cash flow from operating activities</b>			
Interest received		72 853	69 264
Interest paid		(40 137)	(40 378)
Fees and commission received		19 780	18 608
Fees and commission paid		(1 290)	(1 329)
Net trading and other income		737	528
Cash payments to employees and suppliers		(32 336)	(29 596)
Dividends received from banking and trading activities		69	69
Income taxes paid		(3 614)	(3 513)
Cash flow from operating activities before changes in operating assets and liabilities		16 062	13 653
Net decrease/(increase) in trading and hedging portfolio assets		1 117	(28 572)
Net increase in loans and advances to customers		(79 133)	(32 304)
Net (increase)/decrease in investment securities		(17 456)	7 295
Net decrease/(increase) in other assets		957	(15 388)
Net (decrease)/increase in trading and hedging portfolio liabilities		(13 242)	16 457
Net increase in amounts due to customers and banks		71 841	30 450
Net increase in other liabilities		26 200	3 931
<b>Net cash (utilised in)/generated from operating activities</b>		<b>6 346</b>	<b>(4 478)</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of non-current assets held for sale		1 079	672
Proceeds from disposal of investment properties	11	—	265
Purchase of property and equipment	12	(2 641)	(2 622)
Proceeds from disposal of properties and equipment		139	55
Purchase of intangible assets	13	(4 031)	(2 279)
Dividends received from investing activities		2	3
Acquisition of businesses	49	(30)	—
<b>Net cash utilised in investing activities</b>		<b>(5 482)</b>	<b>(3 906)</b>
<b>Cash flow from financing activities</b>			
Issue of ordinary shares		—	3 500
Purchase of Group shares in respect of equity-settled share-based payment schemes		(172)	(124)
Issue of Additional Tier 1 capital		1 241	1 500
Barclays PLC contribution		—	12 106
Proceeds from borrowed funds		6 432	2 841
Repayment of borrowed funds		(3 195)	(2 805)
Distribution to Tier 1 capital holders		(190)	(48)
Dividends paid		(6 062)	(9 962)
<b>Net cash generated from/(utilised in) financing activities</b>		<b>(1 946)</b>	<b>7 008</b>
Net (decrease) in cash and cash equivalents		(1 082)	(1 376)
Cash and cash equivalents at the beginning of the reporting period		11 040	12 416
<b>Cash and cash equivalents at the end of the reporting period</b>	47	<b>9 958</b>	<b>11 040</b>

<sup>1</sup> Numbers have been restated, refer to note 1.21.10 for further details.

<sup>2</sup> Net increase in other liabilities includes Debt Securities in issue.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies

### 1.1 Introduction

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

#### 1.1.1 Standards, amendments to standards and circulars adopted for the first time in the current reporting period

##### IFRS 9 Initial adoption of IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 was 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 Financial Instruments: Recognition and Measurement (IAS 39). It has however implemented the amended hedge accounting disclosures, as required by IFRS 7 Financial Instruments: Disclosures (IFRS 7).

The Bank has elected to not restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the Bank's opening retained earnings on 1 January 2018. Therefore comparative information in the prior period annual financial statements will not be amended for the impact of IFRS 9.

Refer to the transitional disclosure note set out in 1.19 for more information and note 1.7 for the accounting policies applicable under IFRS 9. Note 1.2 includes the relevant estimates and judgements made under IFRS 9.

##### IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 was 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.

Refer to note 1.19 for the impact of adopting the standard.

##### Amendment to IAS 1 Presentation of Financial Statements (IAS 1) and IAS 8 Accounting Policies Changes in Estimates and Errors (IAS 8) regarding the definition of material

The definition of material has been amended in order to clarify how the concept of materiality should be applied, as well as to align the definition of materiality across IFRS. The new definition states that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition:

- › Explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information, and include examples of circumstances that may result in material information being obscured;
- › Clarify that assessing materiality needs to take into account how primary users could reasonably be expected to be influenced in making economic decisions; and
- › Refer to primary users in order to respond to concerns that the term users may be interpreted too widely.

The amendments are effective for reporting periods beginning 1 January 2020 and are required to be applied prospectively. The Bank has however elected to early adopt the amendments as they allow for an enhanced understanding of the materiality requirements. The adoption of the amendments did not have a significant impact on the Bank, but is fundamental to the preparation of financial reporting.

##### Amendment to IAS 1 Presentation of Financial Statements regarding the presentation of effective interest

As a consequence of IFRS 9, an amendment was made to IAS 1, which was 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. Further, it has elected to present all interest which falls outside the aforementioned scope (for example, interest earned on financial assets designated at fair value through profit or loss, and interest on finance leases) as a subcomponent 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

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.1 Introduction (continued)

#### 1.1.1 Standards, amendments to standards and circulars adopted for the first time in the current reporting period (continued)

##### **Amendment to IAS 28 Investments in Associates and Joint Ventures (IAS 28) regarding investments designated at fair value through profit or loss**

IAS 28 permits an investment in associate or a joint venture which is held (directly, or indirectly) by a venture capital organisation, mutual fund, unit trust fund or similar entity to be measured at fair value through profit or loss. As part of the Annual improvements 2014 – 2016 project, it was clarified that an entity may make this designation separately for each investment in associate or joint venture, and does not therefore have to apply the same measurement approach for all qualifying investments. This amendment was effective from 1 January 2018 and had no impact on the accounting treatment by the Bank of investments in associates and joint ventures.

##### **Amendment to IAS 40 Investment Property (IAS 40) regarding the transfer of assets**

This amendment was effective for reporting periods beginning on or after 1 January 2018 and serves to clarify when a transfer to, or from, investment property is required. This is when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. Adoption of this amendment did not have an impact on the Bank.

##### **IFRIC 22 Foreign Currency Transactions and Advance Considerations clarify the exchange rates to be used in foreign currency**

The Interpretation addresses foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. IFRIC 22 was effective as at 1 January 2018. Adoption did not have a material impact on the Bank.

#### 1.1.2 Basis of presentation

The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out as follows. These policies have been consistently applied, except for two internal accounting policy amendments as explained further in note 1.19. The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of Rand (Rm), which is the presentation and the functional currency of the Bank.

### 1.2 Process of determination, and use of estimates, assumptions and judgements

#### 1.2.1 Approach to credit risk and impairment of loans and advances

The Bank has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of loans and advances. The governance process includes the existence of the Absa Group Limited Models Committee (MC) (a Board committee), Relationship Banking Models Forum, Corporate and Investment Bank Models Forum, Homeloans Models Forum, Retail Unsecured Models Forum and AVAF Portfolio Quality Review Committee whose remit includes:

- › the development, implementation and evaluation of risk and impairment models;
- › periodic assessment (at least annually) of the accuracy of the models against actual results; and
- › the approval of new models or changes to models, in line with the model validation framework.

The aforementioned committees also approve post-model adjustments applied to models. Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Bank as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under IAS 39 (2017) and under IFRS 9 (2018).

##### 1.2.1.1 Approach to credit modelling/internal ratings

The key objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Bank is exposed. Integral to this, is the calculation of parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and IFRS impairment requirements.

The key credit parameters applied in the regulatory and accounting models are:

- › probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- › exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- › loss given default (LGD): an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives.

Whilst there is a close interaction and clear overlaps between the regulatory expected loss methodology and the accounting credit models, there are key departures which impact how the key risk parameters are modelled and applied. These are discussed further in section 1.2.1.4. and 1.2.1.5:

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.1 Approach to credit risk and impairment of loans and advances (continued)

##### 1.2.1.1 Approach to credit modelling/internal ratings (continued)

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Bank uses different modeling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications. For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months for a particular period in the credit cycle. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

These parameters are used for the following credit risk management purposes:

- › Credit approval: PD models are used in the approval process in both Retail and Wholesale portfolios. In high-volume Retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In Wholesale and certain Retail portfolios, PD models are used to direct applications to an appropriate credit sanctioning level.
- › Risk-reward and pricing: PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- › Risk appetite: Regulatory capital, economic capital and earnings volatility measures are used in the Bank's risk appetite framework.
- › Economic capital calculations: Credit economic capital calculations use PD, LGD and EAD inputs.
- › Risk profile reporting: Credit risk reports for senior management make use of model outputs to describe the Bank's credit risk profile.

##### 1.2.1.2 Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on an annual basis (ongoing validation). Models are approved by the respective Chief Risk Officers supported by either the Relationship Banking Models Forum or the CIB Credit Models Forum. The most material models require approval by the Absa Group Limited Models Committee (MC).

##### 1.2.1.3 Default grades

The Bank uses two types of PDs, namely:

- › The TTC PD, which reflects the Bank's assessment of the borrower's long-run average propensity to default in the next year; and
- › The PIT PD, which is calculated factoring the current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Bank's decision-making processes. For communication and comparison purposes, the Bank's 21 default grades (DGs), were mapped to external agency rating equivalents as well as the South African Reserve Bank's (SARB) 26 grade PD scale used for regulatory reporting purposes.

DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- › **DG 1 – 9:** assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating or better.
- › **DG 10 – 19:** financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Assets in this category, although currently protected, are potentially weaker credits. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.
- › **DG 20 – 21:** the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review, or are classified within default. Assets so classified must have well defined weaknesses that exacerbate the PD.
- › **Default:** assets classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Bank will sustain some loss when default occurs.

##### 1.2.1.4 Approach to impairment of loans and advances (2017)

The accounting policy for the impairment of loans and advances applied by the Group during 2017 is described in note 1.7.6.

For the purpose of a collective evaluation of impairment, financial assets were allocated to groups, based on similar risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics were relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets.

The Bank applied two alternative methods to calculate collective impairment allowances on homogenous groups of loans that were not considered individually significant:

- › When appropriate empirical information was available, the Bank applied a roll-rate methodology. This methodology employed statistical analysis of historical data and experience of delinquency and default to estimate the likelihood that loans would progress through the various stages of delinquency and ultimately prove irrecoverable. The estimated loss was the difference between the present value of expected future cash flows discounted at the original EIR of the portfolio, and the carrying amount of the portfolio.
- › In other cases, when the portfolio size was small or when information was insufficient or not reliable enough to adopt a roll-rate methodology, the Bank adopted a formulaic approach which allocated progressively higher percentage loss rates the longer a customer's loan was overdue. Loss rates were based on historical experience and were supplemented by management judgement.



# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.1 Approach to credit risk and impairment of loans and advances (continued)

##### 1.2.1.4 Approach to impairment of loans and advances (2017) (continued)

Both methodologies were subject to estimation uncertainty, in part because it was not practicable to identify losses on an individual loan basis because of the large number of individually insignificant loans in the portfolio.

An emergence period concept was applied to ensure that only impairments that existed at the reporting date were captured.

The emergence period was defined as the time lapse between the occurrence of a trigger event (that is, in order to capture unidentified impairment) and the impairment being identified at an individual account level (that is, identified impairment). The emergence periods, based on actual experience, varied across businesses and were reviewed annually. The PD for each exposure class was based on historical default experience, scaled for the emergence period relevant to the exposure class. This PD was then applied to all exposures in respect of which no identified impairments had been recognised.

Under IAS 39 the impairment allowance also took into account the expected severity of a loss at default, or the LGD, which is the amount outstanding that is expected to not be recovered over the full duration of the loan. Recovery was observed to vary by product and depended, for example, on the level of security held in relation to each loan as well as the Bank's position relative to other claimants. Two key aspects in the cash flow calculation are the valuation of all security and the timing of all asset realisations, after allowing for all collection and recovery costs. These characteristics are relevant to the estimation of future cash flows for such groups of assets, being indicative of the counterparty's ability to pay amounts due under the contractual terms of the assets. LGD estimates the historical economic loss experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected in the statistical models. Under IAS 39, historical loss experience data was then adjusted to add current economic conditions into the data set, which conditions did not exist at the time of loss experience and/or to remove the effects of conditions in the historical period no longer appropriate.

These key areas of judgement under IAS 39 were sensitive to factors such as loan portfolio growth, product mix, unemployment rates, bankruptcy trends, loan product features, economic conditions, the level of interest rates, account management policies and practices, changes in laws and regulations, and other factors that could affect customer patterns. These judgement areas were included in models which were used to calculate impairments. The assumptions underlying these judgements were highly subjective. The methodology and the assumptions used in calculating impairment losses were reviewed regularly in light of differences between loss estimates and actual loss experience. For example, roll-rates, loss rates and the expected timing of future recoveries were regularly benchmarked against actual outcomes to ensure they remained appropriate.

##### Identified impairments on financial assets

A Retail identified impairment on Retail accounts was triggered when a contractual payment was missed. This was not the same as the non-performing definition which applied to loans in a legal process or the regulatory default definition. The impairment calculation was based on a roll-rate approach where the percentage of assets moving from the initial delinquency state to default was derived from statistical probabilities, based on experience.

The PD was calculated within a certain outcome period. The outcome period was defined as the timeframe within which assets default.

Recovery amounts and contractual interest rates were calculated using a weighted average for the relevant portfolio.

In the Retail portfolio, identified impairment was calculated on a collective basis. For accounting purposes, these accounts were considered to be identified collective impairments.

In the Wholesale portfolio (including Business Bank and Wealth), the identified impairment was calculated on accounts reflected on management's early watch lists triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions, making it possible to quantify the extent of the advance that was beyond a realistic prospect of recovery. Nonetheless, non-performing loans and advances were reviewed at least quarterly, ensuring that irrecoverable loans and advances were written off in a systematic way and in compliance with local regulations.

Under IAS 39, assets were only written off once all necessary procedures had been completed and the amount of loss had been determined. Recoveries of amounts previously written off were reversed on a cash basis, through impairment and accordingly decreased the amount of the reported impairment charge in the statement of comprehensive income. Refer to notes 9 and 55.2.

##### 1.2.1.5 Approach to impairment of credit exposures (2018)

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of exposures at default and assessing significant increases in credit risk.

The calculation of ECL incorporates the probability that a credit loss will occur, as well as the probability that no credit loss occurs, even if the most likely outcome is no credit loss. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.1 Approach to credit risk and impairment of loans and advances (continued)

##### 1.2.1.5 Approach to impairment of credit exposures (2018) (continued)

Under IFRS 9, the Bank recognises 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 based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For IFRS 9 purposes, two distinct PD estimates are required:

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

For the purposes of credit modelling under IFRS 9, the PD is calculated on a PIT basis and reflects the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long-run average. This is a key distinction between the IFRS 9 ECL models and the Bank's Basel III models. Under Basel III, the PD is the average of default within the next 12 months, calculated based on the long-run historical average over the full economic cycle (that is, TTC).

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 which 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 LGDs to be applied at a portfolio level. 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 which are therefore forecast to be received post the point of write-off are excluded from the LGD model. 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.

In calculating LGD, losses are discounted to the reporting date using the EIR determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

The EAD model estimates the exposure that an account is likely to have at any point of default in future. This incorporates both the amortising profile of a term loan, as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.

Expert credit judgement may, in certain instances, be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short-term measures and will not be used to incorporate any continuous risk factors. The Bank has a robust policy framework which is applied in the estimation and approval of management adjustments.

#### Retail portfolio

Ratings assigned across each Retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate regulatory capital, economic capital and IFRS 9 ECL. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- › Internal risk estimates of PD, EAD and LGD are based on historical experience and are reliant on historical data.

PDs are assigned at account level, and consist of three elements, namely:

- › a term structure, capturing typical default behaviour by the months since observation;
  - › a behavioural model which incorporates client level risk characteristics; and
  - › a macroeconomic model that incorporates forward-looking macroeconomic scenarios.
- › EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- › LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.1 Approach to credit risk and impairment of loans and advances (continued)

##### 1.2.1.5 Approach to impairment of credit exposures (2018) (continued)

###### Wholesale portfolio

The Wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The Wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

- › PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information as well as quality assessments on strength of support. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:
  - a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven-year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
  - an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.
- › LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario as well as the exclusion of forecast recoveries expected beyond the point of write-off. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.
- › EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

##### 1.2.1.6 Critical areas of judgement with regards to IFRS 9

###### 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 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.

###### Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired, which, as discussed in 1.2.1. applies when an exposure is in default. Important to the Bank's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to a counterparty for reasons of financial difficulty that would not otherwise be considered by the Bank. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is 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 unlikelihood 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;
  - Advice is received of customer insolvency or death;
  - The obligor is past due 90 days or more on any credit obligation to the Bank.

In addition, within the Retail portfolios:

- › All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
- › The Bank requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.1 Approach to credit risk and impairment of loans and advances (continued)

##### 1.2.1.6 Critical areas of judgement with regards to IFRS 9 (continued)

###### Determination of the lifetime of a credit exposure

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

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

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

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

- › Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- › Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

###### Incorporation of forward-looking information into 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 macroeconomic variables and forecast scenarios are sourced from one of the world's largest research companies, and are reviewed and approved in accordance with the 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.

The projections incorporated into the IFRS 9 ECL model as at 31 December 2018 have been prepared within the context of the base and alternative macroeconomic scenarios detailed below. Please refer to section 19.6 for detail regarding the forward-looking assumptions applied to the ECL models as at 1 January 2018.

###### Base scenario

- › **Global:** Global growth is forecast to continue on the steady path but less synchronised and balanced among advanced economies than in previous years.
- › **South Africa:** The economy gained some traction since the recession in H1 18 but the near-term outlook remains muted.
- › **Africa Regional Operations:** Sub-Saharan Africa's economy continues to face significant uncertainties and downside risk. Global uncertainties, including US trade and monetary policies, capital outflows, domestic political risks, fiscal vulnerabilities, volatile weather conditions and weak policy implementation continue to weigh on the outlook.

###### Mild upside scenario: Stronger near term growth

- › **Global:** The global economy grows faster than expected, as global trade and political tensions subside. This boosts global business confidence, trade and investment.
- › **South Africa:** South Africa's economy grows faster than expected as political and policy certainty boosts confidence.
- › **Africa Regional Operations:** 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.

###### Mild downside scenario: Moderate recession

- › **Global:** Global output contracts over the first year of the forecast as economies experience a synchronised contraction in economic activity.
- › **South Africa:** A global recession pushes SA economy into recession at a time where growth is weak and the fiscal position deteriorates further.
- › **Africa Regional Operations:** Sub-Saharan Africa's markets would be affected through low commodity prices and currencies. Falling exports drive currencies weaker and inflation higher.

#### 1.2.2 Goodwill impairment

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, notwithstanding whether indicators of impairment exist. Impairment tests are performed by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit, which is the higher of the fair value less costs to sell and value-in-use. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognise an impairment loss.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.2 Goodwill impairment (continued)

The value in use calculation incorporates a number of variables which are determined and/or validated through the exercise of management judgement. These include, inter alia, an estimate of the amount and timing of future cash flows that the entity expects to derive, the time value of money represented by an appropriate discount rate, as well as other factors that market participants would reflect in pricing the future cash flows that the entity expects to derive.

The calculation of value in use is based on discounting expected risk adjusted pre-tax cash flows at a risk adjusted pre-tax interest rate appropriate to the operating unit. The estimation of cash flows is sensitive to the periods for which detailed forecasts are available (which is a period that is normally capped at five years), as well as to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Expected cash flows reflect management's best estimate of future performance, but are calibrated against actual performance and external sources of data. Further, assumptions regarding the growth rate are usually capped at inflation growth, notwithstanding the fact that higher growth may be forecasted by the cash-generating unit (CGU). Growth rates in the impairment calculations range from 0% to 10% (2017: 3% to 10%) and projected cash flow periods approximate five years (2017: five years).

The discount rate applied to the forecasted future cash flows in the value in use calculation is based on the Bank's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates a number of financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business that is being evaluated. These variables are subject to fluctuations in external market rates and economic conditions which are outside of management's control. As a consequence they may be established through the exercise of significant management judgement. The discount rate used in the impairment calculations is 12.65% (2017: 12.70% – 17.83%).

Note 13 includes details of the amount recognised by the Bank as goodwill.

#### 1.2.3 Fair value measurements

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs. Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 Fair Value Measurement does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximised. Where management is required to place greater reliance on unobservable inputs, the fair values may be more sensitive to assumption changes and different valuation methodologies that may be applied. For this reason, there is a direct correlation between the extent of disclosures required by IFRS 13 and the degree to which data applied in the valuation is unobservable.

#### Valuation inputs

IFRS 13 requires an entity to classify fair values according to a hierarchy that reflects the significance of observable market inputs. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input which is considered to be significant to the entire measurement. The three levels of the fair value hierarchy are specifically defined as follows:

##### › Quoted market prices – Level 1

Fair values are classified as Level 1 if they have been determined using unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date. The quoted prices are required to represent 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

Inputs classified as Level 2 are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices), but do not constitute quoted prices that are included within Level 1. 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 (that is, they are unobservable inputs). An input is deemed to be 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 as well as through employing other analytical techniques.

#### 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 Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Traded Risk and Valuation 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 GACC. The Traded Risk and Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.3 Fair value measurements (continued)

The IVC independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from independent external 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 independent external 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 independent external valuers. When the Bank's internal valuations are different to that of the independent external valuers, detailed procedures are performed to substantiate the differences, whereby the IVC verifies the procedures performed by front office and considers the appropriateness of any differences to independent external valuations.

#### 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 with reference to quoted market prices for similar instruments or, in the case of certain instruments, 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 with 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, depending on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price to earnings comparisons. The relevant methodology for each investment 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 pricing models.

##### › Loans and advances

The 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.

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.

#### Fair value adjustments

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

##### › 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 unless the relevant mid-prices are reflective of the appropriate exit price as a practical expedient given the nature of the underlying instruments. 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 the hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Bank 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.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.3 Fair value measurements (continued)

##### › Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, 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 the 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 at least annually.

#### Measurement of assets and liabilities 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	Valuation techniques applied	Significant observable inputs
<b>Loans and advances to banks</b>	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
<b>Trading and hedging portfolio assets and liabilities</b>		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Derivative assets		
Commodity derivatives	Discounted cash flow techniques, option pricing models such as the Black Scholes model, futures pricing models and/or Exchange Traded Fund (ETF) models	Spot price of physical or futures, market interest rates and/or volatilities
Credit derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate, recovery rate, credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow models, option pricing models and/or futures pricing models	Spot share prices, market interest rates, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate curves, repurchase agreements, money market curves and/or volatilities
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
<b>Loans and advances to customers</b>	Discounted cash flow models	Interest rates and/or money market curves
<b>Investment securities and investments linked to investment contracts</b>	Listed equities: market bid price	Underlying price of market traded instruments and/or interest rate curves
<b>Deposits from banks</b>	Discounted cash flow models	Interest rates and/or money market curves
<b>Deposits due to customers</b>	Discounted cash flow models	Interest rates and/or money market curves
<b>Debt securities in issue, liabilities under investment contracts and other liabilities</b>	Discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.3 Fair value measurements (continued)

##### Measurement of assets and liabilities at Level 3

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

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	2018	2017
			Range of unobservable inputs applied	
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	0.513% to 3.235%	0.3% to 2.3%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	Discount rate of 7.75% to 8%	Discount rates between 7% and 9%, comparator multiples between 5 and 10.5
<b>Trading and hedging portfolio assets and liabilities</b>				
Debt instruments	Discounted cash flow models	Credit spreads	0.15% to 8.2%	3% to 15%
Derivative assets				
Credit derivatives <sup>1</sup>	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	0.03% to 14%, 15% to 76%, 60% to 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 (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	0.20% to 9.34%	0.25% to 10.69%
Deposits due to customers	Discounted cash flow models	Absa Africa Group Limited's funding spreads (greater than 5 years)	1.3% to 1.8%	0.2% to 1.9%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	1.3% to 1.8%	0.2% to 1.9%
Investment properties	Discounted cash flow models	Estimates of the periods in which rental units will be disposed	1 to 6 years	1 to 6 years
		Annual selling price escalations	6%	6%
		Annual rental escalations	6%	6%
		Expense ratios	n/a	n/a
		Vacancy rates	n/a	n/a
		Income capitalisation rates	7.75% 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 applied. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. Where instruments mature in less than five years, these inputs may be 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, refer to note 53.7.

The sensitivity of a fair value measurement is correlated with the extent of reliance which is required to be placed on unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values.

<sup>1</sup> The range of estimates has been disaggregated to better reflect the individual assumptions used.



# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.4 Impairment of equity investments classified as available-for-sale under IAS 39

In assessing whether or not impairment of an equity available-for-sale instrument had occurred, consideration was given under IAS 39 as to whether or not there had been a significant or prolonged decline in the fair value of the security below its cost. Factors that were considered in determining this included:

- › the length of time and the extent to which fair value has been below cost;
- › the severity of the reduced fair value;
- › the cause of the reduced fair value and the financial condition and near-term prospects of the issuer;
- › activity in the market of the issuer which may indicate adverse credit conditions; and
- › the Group's ability and intent to hold the instrument for a period of time to allow for any anticipated recovery.

#### 1.2.5 Consolidation of structured or sponsored entities

The Bank consolidates entities over which it has control. This is considered to be the case when the Bank is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In some cases, judgement has been applied in determining first, whether an entity meets the definition of a structured or sponsored entity, and second, whether the Bank controls such entity. The key judgements are set out as follows:

##### Definition of a structured entity

SEs are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. These SEs are consolidated when they are controlled by the Bank. Judgement is required in assessing whether an entity is an SE, as well as in determining whether the Bank controls the SE. Refer to note 1.3.3 where the factors considered when assessing whether an SE is to be consolidated are outlined.

##### Assessment of agent versus principal

Acting as an agent, the Bank is primarily engaged to act on behalf and for the benefit of other parties. When assessing whether the Bank is acting as a principal or as an agent for an investee the judgement is made based on the following factors:

- › scope of our decision-making authority over the investee;
- › any rights held by other parties such as kick out rights;
- › exposure to variability from returns of an interest more than 20%; and
- › the remuneration to which the Bank is entitled.

##### Assessment of sponsored entities

In addition to the unconsolidated SEs in which the Bank has an interest, it also sponsors some unconsolidated SEs in which it has no interest, generally to facilitate client transactions. For the purposes of these disclosures, the Bank sponsors an entity when:

- › it is the majority user of the entity;
- › its name appears in the name of the entity or on the products issued by the entity;
- › it provides implicit or explicit guarantees of the entity's performances; or
- › it led the formation of the entity.

Refer to notes 40 and 43.

#### 1.2.6 Post-retirement benefits

The valuations of and contributions towards defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The year-end balances of subsidiaries' post-retirement benefit obligations are also affected by the closing foreign currency exchange rates.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

##### Exposure to actuarial risks

The defined benefit funds expose the Bank to the risk that the benefits promised in the various funds cost more than the accumulated assets set aside to meet such benefits, and ultimately will require additional funding from the Bank (or its subsidiaries).

This risk can be categorised into a number of actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

##### Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities, cash and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.6 Post-retirement benefits (continued)

##### Inflation/pension increase risk

Benefits in these plans are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the funds' promised benefits. However, the risk is mitigated by ceilings on mandatory benefit increases in most cases and subject to affordability in cases where the mandatory ceiling does not apply.

##### Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the funds' liabilities as benefits are paid for a longer term.

##### Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

Although the Absa Pension Fund has in its entirety been disclosed as a defined benefit plan, the defined contribution portion thereof does not retain salary risk.

##### Measurement risk

The IAS 19 Employee Benefits (IAS 19) liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk-free real return is used as a proxy). A decrease in the discount rate will, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' investments are matched against its liabilities.

Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

##### Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework within each country. To the extent that governments can change that regulatory framework, the subsidiaries are exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 36 for the specific assumptions used and carrying amounts of post-retirement benefits.

#### 1.2.7 Provisions

In terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37), a provision is recognised when the Bank has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation.

Further, a reliable estimate of the amount of the obligation is required to be made. Various assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Bank's legal counsel.

Refer to note 18 for details of provisions recognised and refer to note 46 for details of contingencies recognised.

#### 1.2.8 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. The dispute with the South African tax authority that was referred to in the 2017 financial statements has now been settled. The tax consequences of the outcome have been recognised in the current reporting period.

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.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption in determining the deferred tax asset to be recognised is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the Bank in order to utilise the deferred tax assets.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.2 Process of determination, and use of estimates, assumptions and judgements (continued)

#### 1.2.9 Share-based payments

The initial fair value of awards is determined at grant date, and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero strike price. In this case the Bank may consider the share price on the grant date to be the best indication of the grant date fair value. Where management determines this valuation approach to be less appropriate, based on the specific terms and conditions, then a Black Scholes option pricing model is applied. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

The cumulative expense recognised at each reporting date will reflect the extent to which the vesting period has expired as well as the Bank's best estimate of the number of equity instruments that will ultimately vest. A key assumption applied is staff turnover and expected forfeitures. Management calibrates this assumption based on historical data.

In the case of cash-settled share-based payment schemes, where fair value is required to be determined at each reporting date, a consistent fair value methodology is applied. The fair value of the awards at each reporting date will impact the expense recognised over each reporting period.

Note 48 includes details of the Bank's share awards. Refer to note 17 for the carrying amount of liabilities arising from cash-settled arrangements.

#### 1.2.10 Offsetting financial assets and financial liabilities

The Bank offsets certain financial assets and liabilities, when it has a legal right to offset and there is an intention to settle these financial instruments on a net basis. When determining whether it is appropriate to offset financial assets and liabilities, the following judgement is applied:

- › In determining whether the Bank has a legally enforceable right to offset financial assets and financial liabilities, the Bank considers the terms of the contractual arrangement as well as the applicable common law principles. The application of these common law principles is sometimes subject to a significant degree of interpretation. In these instances, management will seek the advice of legal counsel.
- › Management carefully considers past practice in determining whether there is an intention to settle a financial asset and a financial liability on a net basis. For example, customer accounts could be offset before the customer enters into a process of liquidation or customer accounts could be offset when the customer exceeds the limit of the facility granted. Management also evaluates whether the customer's accounts are managed on a net basis which would support the view that there is an intention to settle on a net basis.

The above are considered to ensure the Bank's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 41.

## 1.3 Consolidated financial statements of the Bank

### 1.3.1 Subsidiaries

The Bank controls and hence consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power exists where the Bank has existing rights that give it the current ability to direct the relevant activities of the investee (i.e. the activities that most significantly affect the entity's returns). These requirements apply to all entities, including voting right entities (also commonly known as an operating entities) and structured entities.

Only substantive rights, and not protective rights, are considered when assessing power. For rights to be substantive, the party must have the practical ability to exercise those rights, and such rights must not be protective in nature. Protective rights are designed at inception to protect the interests of the holder against future risks without giving that party participative power over the entity, and hence that party cannot at inception have power or prevent another party from having power over the entity.

The Bank does consolidate a number of investees in which it holds less than half of the voting rights, owing to the fact that voting rights are not the dominant factor in determining who controls the entity. These consolidated investees are typically structured entities. Factors that have been considered by the Bank in reaching this decision are as follows:

- › The commercial rationale for the inclusion of the structured entity within the given transaction structure;
- › Risks to which the entity was designed to be exposed;
- › Risks the entity was designed to pass on to the parties involved with the entity; and
- › Whether the Bank is exposed to some or all of those risks.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Bank for the purposes of the consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements of the investor.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.3 Consolidated financial statements of the Group (continued)

#### 1.3.2 Investments in associates and joint ventures

Associates are entities in which the Bank has significant influence, but not control, over its operating and financial policies. Generally the Bank holds more than 20%, but less than 50%, of the voting rights in associates. A joint arrangement is a contractual agreement between two or more parties to undertake an economic activity that is under joint control. Joint ventures are joint arrangements whereby the joint venturers that have joint control of the arrangement have rights to the net assets of the entity.

The Bank's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each reporting period by the Bank's share of the post-acquisition profit (or loss). In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.

Investments in associates and joint ventures are accounted for at cost less impairment in the separate financial statements of the investor.

#### 1.3.3 Structured entities

An interest in a structured entity is any form of investment or arrangement which creates variability in returns arising from the performance of the structured entity for the Bank. Such interests include but are not limited to holdings of debt or equity securities, derivatives that transfer financial risks to the Bank, and in some cases financial guarantees and investment management fee agreements. At market, plain-vanilla interest rate swaps and derivatives that are determined to introduce risk to a structured entity are not considered to be an interest in an entity.

Depending on the Bank's power over the activities of the entity and its exposure to and ability to influence its returns from it, it may consolidate the entity. To the extent that the Bank has an interest in a structured entity that it does not consolidate, it provides the disclosures as required by IFRS 12 Disclosures of Interests in Other Entities (IFRS 12).

#### 1.3.4 Common control

Common control transactions are considered as transactions between entities under common control. That is to say, the Bank controls the transferee and the transferor both before and after the business combination. Common control transactions may therefore include the following:

- › Transferring businesses, including net assets, from one Group entity to another.
- › Transferring investments in subsidiaries from one Group entity to another.
- › Transferring assets and liabilities that do not constitute a business from one Group entity to another.
- › Combinations of the above.

Common control transactions are scoped out of the requirements of IFRS 3 Business Combinations (IFRS 3). The Bank has therefore made a policy election to apply the predecessor accounting methodology when accounting for common control transactions. The assets and liabilities of the combining entities are not adjusted to fair value (as would be required under IFRS 3), but are reflected at their carrying amounts at the date of the transaction. The acquiring entity accounts for any difference between the consideration paid/transferred and the net asset value acquired as an adjustment to equity. No goodwill will be recognised as a result of the common control transaction.

The comparative statement of financial position and statement of comprehensive income are restated as if the entities had always been combined, regardless of the date of the transaction.

### 1.4 Segment reporting

The Bank's segmental reporting is in accordance with IFRS 8 Operating Segments (IFRS 8). Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Operating Decision Maker (CODM). All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office and inter-segment eliminations. Income and expenses directly associated with each segment are included in determining business segment performance.

### 1.5 Foreign currencies

#### 1.5.1 Foreign currency translations

The Bank has foreign operations that are based outside of South Africa, and in accordance with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates (IAS 21), have a functional currency that is different from the Bank's presentation currency (that is, the Rand). A foreign operation is a subsidiary, associate, joint venture, or branch whose activities are based in a country or currency other than that of the reporting entity. In accordance with IAS 21, the functional currency is the currency of the primary economic environment in which an entity operates.

Prior to consolidation (or equity accounting) the assets and liabilities of non-Rand operations are translated at the closing rate and items of income, expense and OCI are translated into Rand at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in the foreign currency translation reserve. The amount recognised in such reserve is transferred to profit or loss when the Bank loses control, joint control or significant influence over the foreign operation or upon partial disposal of the operation.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.5 Foreign currencies (continued)

#### 1.5.2 Foreign currency transactions

A foreign currency transaction should be recorded initially at the rate of exchange at the date of the transaction. The application of average exchange rates are permitted if they provide a reasonable approximation of the actual exchange rate (for example, in the case of foreign denominated interest income).

At each subsequent reporting date:

- › foreign currency monetary amounts should be reported using the closing rate;
- › non-monetary items carried at historical cost should be reported using the exchange rate at the date of the transaction; and
- › non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined.

### 1.6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

### 1.7 Financial instruments

The following section sets out the accounting policies that were applied in the 2017 reporting period, together with those that are applied under IFRS 9 during the 2018 reporting period.

IFRS 9 Financial Instruments (IFRS 9) was adopted by the Bank on 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). As permitted under IFRS 9, the Bank has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2017 reporting period has therefore been prepared under the framework for financial instrument accounting within IAS 39. The following section sets out the accounting policies that were applied in the 2017 reporting period, together with those that are applied under IFRS 9. Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as the impairment scope and methodology. Where there have been changes in accounting policies, those applied in 2017 have been clearly distinguished from the current reporting period. 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.

#### 1.7.1 Initial recognition

The Bank recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus/minus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, where transaction costs are expensed upfront.

#### 1.7.2 Day one profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price ('Day one profit') is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

#### 1.7.3 Classification and measurement of financial instruments (2018)

On initial recognition, the Bank classifies its financial assets into the following measurement categories:

- › Amortised cost;
- › Fair value through other comprehensive income; or
- › Fair value through profit or loss.

The classification and subsequent measurement of financial assets depends on:

- › The business model within which the financial assets are managed; and
- › The contractual cash flow characteristics of the asset (that is, whether the cash flows represent 'solely payments of principal and interest').

#### Business model assessment

The business model reflects how the Bank manages the financial assets in order to generate cash flows and returns. The Bank makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.3 Classification and measurement of financial instruments (2018) (continued)

##### Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Bank considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Bank considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

##### 1.7.3.1 Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Bank classifies its debt instruments into one of the following three categories:

- ▶ **Amortised cost** – Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as 'Effective interest' within 'Interest and similar income' using the EIR method. The carrying amount is adjusted by the cumulative ECL recognised.
- ▶ **Fair value through other comprehensive income** – This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, ECL and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to 'Gains and losses from banking and trading activities' in profit or loss. Interest income from these financial assets is included as 'Effective interest' within 'Interest and similar income' using the EIR method.
- ▶ **Fair value through profit or loss** – Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in 'Gains and losses from banking and trading activities' in profit or loss. The Bank may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as 'Gains and losses from banking and trading activities' or 'Gains and losses from investment activities' in profit or loss.

##### 1.7.3.2 Equity instruments

IFRS 9 (2018) provides that at initial recognition, an irrevocable election may be made to present subsequent changes in the fair value of an equity instrument in other comprehensive income, provided that the instrument is neither held for trading nor constitutes contingent consideration recognised in a business combination. Amounts recognised in other comprehensive income are not subsequently recognised in profit or loss. Dividends, when representing a return on investment, continue to be recognised in profit or loss when the Bank's right to receive payment is established. All equity instruments for which the designation at fair value through other comprehensive income has not been applied are required to be recognised at fair value through profit or loss. Gains and losses on equity instruments at fair value through profit or loss are recognised as 'Gains and losses from banking and trading activities' in profit or loss.

##### 1.7.3.3 Financial liabilities

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. The fair value designation is voluntary, but may only be applied at initial recognition and once applied cannot be reversed. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income, unless doing so would create or enlarge an accounting mismatch in profit or loss. In this case, own credit gains or losses are recognised in profit or loss. Amounts recognised in other comprehensive income are not subsequently recognised in profit or loss.

Where a financial liability has not been classified as held for trading or designated at fair value through profit or loss, it is held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the EIR of the liability.

Interest expense is recognised as 'Effective interest expense' within the income statement line item 'Interest expense and similar charges.' Terms included in a financial liability contract (the host) which, had it been a standalone contract, would have met the definition of a derivative are either separated from the host and accounted for in the same way as a derivative, or the entire contract is designated at fair value through profit or loss.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.3 Classification and measurement of financial instruments (2018) (continued)

##### 1.7.3.4 Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the statement of financial position. Derivatives are subsequently measured at fair value through profit or loss, with changes in their fair values recognised as 'Gains and losses from banking and trading activities' in profit or loss, except for changes in the fair value of derivatives used to economically hedge the Bank's interest rate risk which are recognised as 'Other interest income', or 'Other interest expense' in profit or loss.

#### 1.7.4 Classification and measurement of financial instruments (2017)

##### Financial instruments classified as held for trading

In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses from changes in fair value taken to 'Gains and losses from banking and trading activities' in profit or loss.

##### Financial instruments designated at fair value through profit or loss

Financial assets and financial liabilities may be designated at fair value, with gains and losses taken to profit or loss in 'Gains and losses from banking and trading activities' and 'Gains and losses from investment activities' depending on the nature of the instrument. In 2017, the Bank elected to early adopt the IFRS 9 requirement to present the effects of changes in the fair value of financial liabilities designated at fair value through profit or loss, attributed to changes in own credit, in other comprehensive income. The Bank has the ability to make the fair value designation when this reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by the Bank on the basis of its fair value, or includes terms that have substantive derivative characteristics.

##### Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the statement of financial position. Changes in the fair value of derivatives used to economically hedge the Bank's interest rate risk are recognised in 'Net interest income' in profit or loss.

##### Available-for-sale financial assets

Subsequent to initial recognition, the fair value adjustments which represent gains and losses, net of applicable taxes, are reported in other comprehensive income until such investments are sold or otherwise disposed of, or until such investments are determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest on available-for-sale financial instruments calculated is recognised directly in the income statement line item 'Interest and similar income' as 'Effective interest income'.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

##### Loans and receivables

Loans and receivables are held at amortised cost. That is, the initial fair value (which is normally the amount advanced) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the EIR of the asset. The effective interest is recognised as 'EIR' within the income statement line item 'Interest and similar income'.

##### Embedded derivatives

An embedded derivative is a feature within a contract, such that the cash flows associated with that feature behave in a similar fashion to a stand alone derivative. In the same way that derivatives must be accounted for at fair value on the balance sheet with changes recognised in the profit or loss, so must some embedded derivatives. IAS 39 requires that an embedded derivative be separated from its host contract, even if the host contract is not a financial instrument itself, and accounted for as a derivative when the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the entire instrument is not measured at fair value with changes in fair value recognised in profit or loss.

##### Financial liabilities

Where a financial liability has not been classified as held for trading or designated at fair value through profit or loss, it is held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the EIR of the liability. Interest expense is recognised as 'Effective interest expense' within the income statement line item 'Interest expense and similar charges'.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.5 Expected credit losses on financial assets (2018)

The Bank recognises ECL based on unbiased forward-looking information. ECL is recognised on all financial assets measured at amortised cost, lease receivables, debt instruments measured at fair value through other comprehensive income, loan commitments not measured at fair value and financial guarantee contracts not measured at fair value.

The Bank uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography or credit risk ratings. Credit losses are the present value of the difference between:

- › all contractual cash flows that are due to an entity in accordance with the contract; and
- › all the cash flows that the entity expects to receive.

#### Three-stage approach to ECL

IFRS 9 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 (hereafter referred to as 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 (hereafter referred to as lifetime ECL). In determining the forecast credit losses over the duration of an exposure, recoveries expected to be received post the designated point of write-off are excluded.

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the credit allowance).

The stage allocation is required to be performed as follows:

- › **Stage 1:** This stage comprises exposures which are performing in line with the Bank's credit expectations as at the date of origination. That is to say, the credit exposures which are assigned to stage 1 have not experienced a significant increase in credit risk since the date of initial recognition. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1. Exposures which were previously classified within stage 2 or stage 3, may also cure back to stage 1 in line with the Bank's credit risk management cure criteria. Whilst the standard does permit an accounting policy election to classify low credit risk assets within stage 1, such election has not been made by the Bank.
- › **Stage 2:** Exposures are required to be classified within stage 2 when a significant increase in credit risk is observed, although the exposure is not yet credit impaired. 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 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 factors have been set out in section 1.2.1.5. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and in accordance with the Bank's credit risk management cure criteria. The definition of high risk is, from a credit management perspective, central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary.
- › **Stage 3:** Credit exposures are classified within stage 3 when they are credit impaired, which is defined in alignment to the bank's regulatory definition of default. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. 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 is quite stringent, and assets will typically only cure from stage 3 to stage 2, but won't move directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1.

#### Expected credit loss calculation

The measurement of ECL must reflect:

- › an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- › the time value of money (represented by the EIR); and
- › reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

As noted, ECL comprises the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECL is calculated (for both 12-month ECLs and lifetime losses ECL) as a function of the EAD; PD and loss given default LGD. These terms are interpreted as follows per the requirements of IFRS 9:

- › EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- › PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- › LGD is calculated based on the difference between the contractual cash flows due and the cash flows expected to be received up until the designated point of write-off. These forecast losses are discounted to the reporting date based on the EIR, or, in the case of financial guarantee contracts or loan commitments for which the EIR cannot be determined, a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.



# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.5 Expected credit losses on financial assets (2018) (continued)

##### Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which ECL should be measured, is the maximum contractual period over which the Bank is exposed to credit risk. The Bank estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Bank uses the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, ECL is measured over the period that the Bank is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Bank, this applies to overdrafts, credit cards and other revolving products. These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products the expected life is based on the behavioural life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

##### Forward-looking information

Forward-looking information is factored into the measurement of ECL through the use of multiple expected macroeconomic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Base scenario

- › **Global:** Global growth is forecast to continue on the steady path but less synchronised and balanced among advanced economies than in previous years.
- › **South Africa:** The economy gained some traction since the recession in H1 18 but the near-term outlook remains muted.
- › **Africa Regional Operations:** Sub-Saharan Africa's economy continues to face significant uncertainties and downside risk. Global uncertainties, including US trade and monetary policies, capital outflows, domestic political risks, fiscal vulnerabilities, volatile weather conditions and weak policy implementation continue to weigh on the outlook.

Mild upside scenario: Stronger near term growth

- › **Global:** The global economy grows faster than expected, as global trade and political tensions subside. This boosts global business confidence, trade and investment.
- › **South Africa:** South Africa's economy grows faster than expected as political and policy certainty boosts confidence in the run up to 2019 elections.
- › **Africa Regional Operations:** 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.

Mild downside scenario: Moderate recession

- › **Global:** Global output contracts over the first year of the forecast as economies experience a synchronised contraction in economic activity.
- › **South Africa:** A global recession pushes SA economy into recession at a time where growth is weak and the fiscal position deteriorates further.
- › **Africa Regional Operations:** Sub-Saharan Africa's markets would be affected through low commodity prices and currencies. Falling exports drive currencies weaker and inflation higher.

##### Write-off

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; and
- › 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.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.6 Impairment of financial assets (2017)

##### Financial assets held at amortised cost

In accordance with IAS 39, the Bank assesses at each reporting date whether there is objective evidence that financial assets at amortised cost will not be recovered in full and, wherever necessary, recognises an impairment loss in profit or loss.

An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets. These events include:

- › becoming aware of significant financial difficulty of the issuer or obligor;
- › a breach of contract, such as a default or delinquency in interest or principal payments;
- › the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession that it would not otherwise consider;
- › it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- › the disappearance of an active market for that financial asset because of financial difficulties; and
- › observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual financial assets in the portfolio – such as adverse changes in the payment status of borrowers in the portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment assessments are conducted individually for significant assets, which comprise all Wholesale customer loans and larger Retail business loans, and collectively for smaller loans and for portfolio level risks, such as country or sectoral risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together, generally on the basis of their product type, industry, geographical location, collateral type, past due status and other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset, or the group of assets, which are then discounted using the original EIR calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Following impairment, interest income is recognised at the original EIR on the reduced carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans. The impairment allowance contains a net present value adjustment that represents the time value of money of expected cash flows. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets. Uncollectable loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to impairment losses on loans and advances in profit or loss.

##### Identified impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements by management are made in this process. Refer to note 1.2.1 in this regard.

Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken on a case by case basis.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

##### Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the Bank. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been evidenced individually.

In cases where the collective impairment of a portfolio cannot be evidenced individually, the Bank sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual borrower level at a future date.

To the extent that the unidentified impairments created by the banking operations of the Bank are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.6 Impairment of financial assets (2017) (continued)

##### Available-for-sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity (through other comprehensive income) is removed from equity (through other comprehensive income) and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

##### Available-for-sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity (through other comprehensive income) is removed from equity (through other comprehensive income) and recognised in profit or loss. Further declines in the fair value of equity instruments after impairment are recognised in profit or loss. Reversals of impairment of equity instruments are not recognised in profit or loss. Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

#### 1.7.7 Derecognition of financial assets

In the course of its normal banking activities, the Bank makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficially (where the Bank retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

Full derecognition occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Bank transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Bank may retain an interest in it (continuing involvement) requiring the Bank to repurchase it in certain circumstances for other than its fair value on that date.

#### 1.7.8 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

#### 1.7.9 Modification of financial assets and financial liabilities (2018)

##### 1.7.9.1 Modification of financial assets

With the implementation of IFRS 9 there are new disclosure requirements for modifications. The assessment of whether a modification to a financial asset results in derecognition or not, is relevant as it impacts the assessment of the initial credit risk of a financial asset against which any subsequent significant deterioration in credit risk would be assessed. The Bank assesses modifications to financial assets in the following manner:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

- › Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.
- › When the Bank modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

##### 1.7.9.2 Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.10 Offsetting of financial assets and financial liabilities

In accordance with IAS 32, the Bank reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 1.7.11 Hedge accounting (continued)

Upon the adoption of IFRS 9, the Bank continues to apply IAS 39 hedge accounting, although it has implemented the amended IFRS 7 Financial Instruments: Disclosures (IFRS 7) hedge accounting disclosure requirements. The accounting policies below are therefore applicable to both the 2017 and 2018 reporting periods.

The Bank applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its interest and currency risk management strategies. Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures as well as exposures to certain indices such as house price indices and retail price indices related to non-trading positions.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Bank applies fair value hedge accounting and cash flow hedge accounting as appropriate to the risks being hedged. The Bank assesses on an ongoing basis whether the hedge has been highly effective. A hedge is regarded as highly effective only when offsetting changes in fair value or cash flows attributable to the hedged risk during the period are within a range of between 80% and 125%.

Hedge accounting is discontinued when a derivative is not highly effective as a hedge, is sold, terminated, exercised or where the forecast transaction is no longer highly probable to occur. The same applies if the hedged item is sold or repaid. Instruments that have been designated as hedging instruments are reported in a separate line on the statements of financial position at each reporting date.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Prospective testing is based on the estimation of certain parameters to assess whether the hedging relationship will be effective or not. The estimation of these parameters is performed using best practice statistical forecasting and simulation methodologies based on current and historical market data. Resultant simulated hedging relationships are assessed by calculating a statistically based hedge effectiveness test criterion.

#### Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value changes adjust the carrying value of the hedged asset or liability held at amortised cost.

If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to profit or loss over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

#### Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss on the hedging instrument associated with the effective portion of the cash flow hedge is recognised initially in other comprehensive income, and then recycled to profit or loss in the reporting periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to profit or loss.

#### Hedges of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI. Any ineffective portion of the gain or loss is recognised immediately in profit or loss. Gains or losses on the hedging instrument relating to the effective portion of the hedge are reclassified to profit or loss, on disposal of the foreign operation.

#### 1.7.12 Equity instruments

Equity instruments are instruments that represent a residual interest in the Bank's net assets. The key feature which distinguishes an equity instrument from a financial liability is whether there is a contractual obligation of the issuer to deliver cash or another financial asset to the holder of the instrument.

#### 1.7.13 Compound financial instruments

The Bank applies IAS 32 to determine whether funding is either a financial liability (debt) or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Bank having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument. Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the balance of the proceeds is included within equity.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.7 Financial instruments (continued)

#### 1.7.14 Subordinated debt

The majority of subordinated debt is measured at amortised cost using the EIR method except where hedge accounting is applied.

#### 1.7.15 Repurchase and reverse repurchase agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the Bank provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Bank obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Bank purchases securities (under a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included on the statement of financial position as the Bank does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset. The Bank may also sell securities (under a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the statement of financial position since the Bank retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability.

#### 1.7.16 Loan commitments

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions.

Under IFRS 9 (2018), loan commitments must be measured with reference to the quantum of ECL required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

Under IAS 39 (2017), provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities, if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

#### 1.7.17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Financial guarantees are initially recognised at fair value on the date that the guarantee was given. Other than where the fair value option is applied subsequent to initial recognition, the Bank's liabilities under such guarantees are measured:

- › Under IFRS 9 (2018) at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party.
- › Under IAS 39 (2017) at the higher of the initial measurement, less amortisation of the cumulative fee income recognised within profit or loss, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

### 1.8 Share capital

#### 1.8.1 Ordinary share capital

Proceeds received upon the issuance of shares are included in equity, net of directly attributable transaction costs. Dividends and other distributions made to equity holders are recognised as a reduction in equity when they are appropriately authorised and are no longer at the discretion of the entity.

#### 1.8.2 Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the entity's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends which are therefore paid on these instruments are included in the cash flows applied in determining the EIR of the instrument. The accrual of dividends is presented as an interest expense in profit or loss.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.9 Revenue recognition

#### 1.9.1 Net interest income

Interest revenue and interest charges which are calculated using the effective interest method are separately presented on the face of the statement of comprehensive income. Effective interest is calculated on loans and advances which are classified at amortised cost, debt instruments at fair value through other comprehensive income (2018), and on instruments, which were classified as available-for-sale under IAS 39 (2017). Further, an effective interest expense will be calculated on financial liabilities held at amortised cost. Application of the effective EIR methodology results in the recognition of interest, together with direct and incremental fees and costs, on a time portion basis over the expected lives of the assets and liabilities. The expected life of an instrument or a portfolio of instruments may be modelled as being shorter than the contractual tenor where historical experience suggests that customer prepayment behaviour impacts the forecasted cash flow profile.

The Bank also presents as part of net interest income, other interest income and other interest charges, which are not calculated on the effective interest method.

#### Impact of IFRS 9 ECL on interest recognition

IFRS 9 requires interest income to be calculated on stage 1 or stage 2 financial assets by multiplying the EIR by the gross carrying amount of such assets. Dissimilar to stage 1 and stage 2 assets, IFRS 9 requires interest income on stage 3 financial assets to be calculated based on the net carrying value of the exposure, that is, the gross carrying value less the ECL allowance. In order to practically give effect to this requirement, the Group first suspends the recognition of contractual interest, and second, multiplies the net carrying value by the EIR. Unrecognised interest (which is referred to as interest in suspense) is the difference between the interest calculated on the gross carrying amount of the financial asset (that is, the interest charged), and the net interest amount, calculated based on the net carrying amount of the financial asset. 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 IIS recovered is presented as a gain within ECL.

#### 1.9.2 Net trading income

In accordance with IAS 39 (2017) and IFRS 9 (2018) trading positions are measured at fair value, with fair value gains and losses being recognised within profit or loss as part of 'Gains and losses from banking and trading activities'. Interest and dividends which are received or paid as a consequence of issuing or holding instruments that are managed as part of the Bank's trading activities are presented together with the fair value gains and losses on such instruments. Fair value gains or losses may be caused by movements in interest and exchange rates, equity prices and other market variables.

Gains and losses on derivatives linked to investment contracts are recognised in 'Gains and losses from investment activities'.

#### 1.9.3 Net fee and commission income

Net fee and commission income is calculated by subtracting fee and commission charges from fee and commission income. Fee and commission income relates to revenue earned for the rendering of services and is recognised net of any trade discounts, volume rebates and amounts received on behalf of third parties, such as sales taxes, goods and service taxes and value added taxes. When the Bank is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Bank is, in this case, recognised as income.

Under IFRS 15 Revenue from Contracts with Customers, entities are required to recognise revenue in a manner which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered. Fees earned on the execution of a significant act are recognised when the significant act has been completed.

Fee and commission expenses are expenses which are connected to the generation of fee and commission income. Operating expenses that happen to take the form of a fee payment are recognised within 'Operating expenditure', or other appropriate line item based on the nature of the cost.

### 1.10 Commodities

The Bank may actively buy and sell metals, for both physical and financial settlement. Positions are principally acquired or incurred for the purpose of selling or repurchasing in the near term and for short-term profit taking. When dealing activities are executed in this manner the Bank is considered to be a broker-trader of commodities. Inventories held by broker-traders are outside the measurement scope of IAS 2 Inventories (IAS 2) and are accordingly measured at fair value less cost to sell (with any changes in fair value less cost to sell recognised in profit or loss). Commodities held under this business model are presented within trading and hedging portfolio assets, and fair value measurement changes are presented within gains and losses from banking and trading activities.

The fair value for commodities is determined primarily using data derived from markets in which the underlying commodities are traded.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.11 Intangible assets

#### 1.11.1 Goodwill

Goodwill recognised in a business combination under IFRS 3 is an asset which represents the future economic benefits arising from other assets acquired in the business combination that are not individually identified and separately recognised. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units.

Goodwill arises on the acquisition of subsidiaries and is measured on initial recognition as the excess of (a) over (b) below:

- (a) The aggregate of:
- the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value;
  - the amount of any non-controlling interest in the acquiree, also measured in accordance with IFRS 3; and
  - in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3.

In accordance with the requirements of IAS 36, goodwill is tested for impairment on an annual basis, or more frequently when there are indications that impairment may have occurred. Impairment is tested by comparing the carrying amount of the cash-generating unit, including the goodwill, with the recoverable amount of the cash-generating unit. If the recoverable amount of the unit exceeds its carrying amount, the cash-generating unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognise an impairment loss.

#### 1.11.2 Intangible assets other than goodwill

Intangible assets include brands, customer lists, internally generated software, and licences and are accounted for in accordance with IAS 38 Intangible Assets (IAS 38). Intangible assets may only be recognised when all of the requirements under IAS 38 are met. The asset, which is controlled by the entity, must be separately identifiable, reliably measurable, and it should be probable that future economic benefits will be derived from the asset. The asset is identifiable when it is either separable (that is, it is capable of being sold, transferred, licensed, rented or exchanged) or the asset should arise from contractual or other legal rights.

Development expenditure is capitalised only if development costs can be measured reliably, completion of development is technically and commercially feasible, the generation of future economic benefits is probable and the asset's capability of use can be demonstrated. Further, the Bank should have sufficient resources to complete development. The expenditure capitalised includes the cost of materials, staff costs and overhead costs that are directly attributable to preparing the asset for intended use. Other development expenditure which does not meet the above requirements is recognised in profit or loss when the Bank has right of access to the goods or as the services are received.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the fair value at acquisition date) less amortisation and any provision for impairment. The assets are amortised over their useful lives in a manner that reflects the pattern in which they contribute to future cash flows, as set out in the following table.

Intangible assets are reviewed for impairment when there are indicators that impairment may have occurred.

	Customer lists and relationships	Computer software development costs	Other
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised over the period of the expected use on a straight-line basis	Amortised over the period of the expected use from the related project on a straight-line basis	Amortised over the period of the expected use on a straight-line basis
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	20 – 33	10

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.12 Property and equipment

#### 1.12.1 Property and equipment not subject to lease agreements

Property and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset. Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to take account of any change in circumstances. The Bank uses the following annual rates in calculating depreciation:

Item	Annual depreciation rate (%)
Computer equipment	14 – 25
Freehold property	2
Furniture and other equipment	10 – 15
Motor vehicles	25
Leasehold improvements	10 – 15

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss within 'Other operating expenses' in the reporting period that the asset is derecognised.

#### 1.12.2 Property and equipment subject to lease agreements

##### Finance leases

A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where the Bank is the lessor, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Finance income on the receivable is allocated over the lease term on a systematic basis so as to reflect a constant periodic rate of return on the lessor's net investment in the finance lease.

Where the Bank is the lessee under a finance lease, the leased asset is recognised in property and equipment and a finance lease liability is recognised, representing the minimum lease payments payable under the lease, discounted at the rate of interest implicit in the lease. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. Leased assets are depreciated over the shorter of the term of the lease and the useful life of the asset.

##### Operating leases

An operating lease is a lease in which substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Bank is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Bank recognises leased assets on the statement of financial position within property and equipment.

Where the Bank is the lessee, rentals payable are recognised as an expense in profit or loss on a straight-line basis over the lease term unless another systematic basis is more appropriate.

#### 1.12.3 Investment properties

IAS 40 Investment Property applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). The Bank initially recognises investment properties at cost, and subsequently at fair value at each reporting date reflecting market conditions at the reporting date. Gains and losses on measurement are included in profit or loss, and presented within 'Other operating income'.

### 1.13 Repossessed properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are reported in 'other assets' as inventory as it is held for sale in the ordinary course of business. The repossessed properties are recognised when the risks and rewards of the properties have been transferred to the Bank. The corresponding loans are derecognised when the Bank becomes the holder of the title deed.

The properties acquired are initially recorded at cost, which is the lower of their fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. They are subsequently measured at the lower of the carrying amount or net realisable value. No depreciation is charged in respect of these properties. Any subsequent write-down of the acquired properties to net realisable value is recognised in the statement of comprehensive income, in 'Other impairments'. Any subsequent increase in net realisable value, to the extent that it does not exceed the cumulative write-down, is also recognised in 'Other impairments'.

Gains or losses on disposal of repossessed properties are reported in 'Other operating income' or 'Operating expenses', as the case may be.



# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.14 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Bank's accounting policies.

Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Bank's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss until finally sold.

Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

### 1.15 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises coins and notes, as well as demand deposits, while cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

### 1.16 Provisions, contingent liabilities and commitments

A provision is recognised to reflect a present obligation (legal or constructive) arising from a past event where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation. Further, the expected transfer of economic benefits must be reliably estimable.

A provision is recognised by the Bank to reflect the anticipated cost of restructuring when the general recognition criteria for a provision are met. In assessing whether a constructive obligation to restructure might exist the Bank assesses whether there is a detailed formal plan to execute the restructuring and the Bank has raised a valid expectation amongst those affected that such restructuring will be implemented.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

Prior to the adoption of IFRS 9, provisions were recognised for undrawn loan commitments, financial guarantees and letters of credit when it was considered probable that the facility would be drawn and would result in the recognition of an asset at an amount less than the amount advanced.

Under IFRS 9, the ECL calculated on financial guarantees and letters of credit are presented as provisions on the statement of financial position. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

### 1.17 Employee benefits

#### 1.17.1 Post-retirement benefits

The Bank operates a number of pension schemes including defined contribution and defined benefit schemes as well as post-retirement medical aid plans.

##### Defined contribution schemes

The Bank recognises contributions due in respect of the reporting period in profit or loss. Any contributions unpaid at the reporting date are included as a liability.

##### Defined benefit schemes

The Bank recognises its obligation (determined using the projected unit credit method) to members of the scheme at the reporting date, less the fair value of the scheme assets. Scheme assets are stated at fair value as at the reporting date.

Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements or contributions to the plan are recognised in profit or loss.

All actuarial gains and losses are recognised immediately through OCI in order for the net defined benefit scheme asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit, taking into account the asset ceiling.

Remeasurements of the net defined benefit liability (or asset, as the case may be) comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

Interest is calculated by applying the discount rate to the opening net defined liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contribution and benefit payments.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.17 Employee benefits (continued)

#### 1.17.1 Post-retirement benefits (continued)

Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation and the fair value of the assets. Where a scheme's assets exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

#### Post-employment medical aid plans

The cost of providing healthcare benefits to retired employees is accrued as a liability in the financial statements over the reporting period that the employees provide services to the Bank, using a methodology similar to that for defined benefit pension schemes.

#### 1.17.2 Staff costs

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Bank has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the services.

Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

#### 1.17.3 Share-based payments

The Bank operates equity-settled and cash-settled share-based payment plans.

#### Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the number of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Recharge arrangements that exist between entities within the Bank do not impact the nature of the share-based payment transaction, and therefore do not affect the classification as either equity-settled or cash-settled. Bank entities account for intergroup recharges within equity.

#### Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

### 1.18 Tax

#### 1.18.1 Current tax

Income tax payable on taxable profits (current tax) is recognised as an expense in the reporting period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period.

Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

#### 1.18.2 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the reporting date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

#### 1.18.3 Dividends withholding tax

The South African tax legislation provides that dividends are taxed at 15% in the hands of certain qualifying shareholders, rather than in the hands of the entity which declares such dividend. As such, where dividends are declared and paid by the Bank, the Bank does not recognise dividends tax.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.18 Tax (continued)

#### 1.18.4 Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- › where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset or expense; and
- › receivables and payables that are stated with the amount of VAT included.

Non-recoverable VAT on operating expenditure is disclosed separately in 'Other expenses' in profit or loss.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 1.19 Financial impact of reporting changes in 2018

A number of key financial reporting changes were effected during the current reporting period, including the adoption of IFRS 15, IFRS 9, and a consequential amendment to IAS 1. The other IFRS amendments, which were adopted for the first time during the current reporting period, and which are set out in note 1.1.1, had no impact on the financial results of the Bank.

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
<b>Balance reported as at 31 December 2017</b>	37 183	4 644	1 500	37 855	4 145	85 327	2	85 329
Restated impact of adopting IFRS 9	—	—	—	(4 000)	(235)	(4 235)	—	(4 235)
Impact of adopting IFRS 15	—	—	—	(44)	—	(44)	—	(44)
<b>Adjusted balance as at 1 January 2018</b>	37 183	4 644	1 500	33 811	3 910	81 048	2	81 050

#### 1.19.1 The impact of IFRS 9 on the Bank

IFRS 9 was effective from 1 January 2018 and introduces significant changes to three fundamental areas of 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. 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 (i.e. rate insensitive liabilities as well as the endowment associated with equity). Operational complexity would be introduced by adopting the revised IFRS 9 hedge accounting requirements ahead of the finalisation of the IASB's Dynamic Risk Management project in respect of macro hedging. The Bank has accordingly elected not to adopt the revised IFRS 9 hedge accounting requirements, but will adopt the revised disclosures set out in the amendments to IFRS 7, which include those relating to hedge accounting.

#### 1.19.2 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 has been reclassified from available-for-sale under IAS 39, to amortised cost. 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. 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, to the extent that they relate to changes in own credit risk. The Bank early adopted this requirement in 2017.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.19 Financial impact of reporting changes in 2018 (continued)

#### 1.19.3 The impact of adopting a revised IFRS 9 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, cumulative recoveries, debt collection costs, and the long-run actual credit losses incurred by the Bank will not be impacted by the change in accounting framework. The core processes remain the measurement of exposures and concentrations, performance monitoring and tracking of asset quality, and the write-off of assets when the whole or part of a debt is irrecoverable.

#### 1.19.4 Summary of the impact of IFRS 9 as at 1 January 2018

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

	31 December 2017 Rm	Classification and measurement <sup>1</sup> Rm	IFRS 9 ECL Rm	1 January 2018 Rm
<b>Assets</b>				
Investment securities	76 524	(195)	—	76 329
Loans and advances to banks	43 217	—	(26)	43 191
Loans and advances to customers	660 492	(20)	(5 073)	655 399
Investments in associates and joint ventures <sup>2</sup>	1 235	—	(104)	1 131
Other assets <sup>3</sup>	206 890	55	1 141	208 086
<b>Total assets</b>	<b>988 358</b>	<b>(160)</b>	<b>(4 062)</b>	<b>984 136</b>
<b>Liabilities</b>				
Trading portfolio liabilities	59 834	(20)	—	59 814
Provisions <sup>4</sup>	2 073	—	452	2 525
Other liabilities <sup>3</sup>	841 122	—	(419)	840 703
<b>Total liabilities</b>	<b>903 029</b>	<b>(20)</b>	<b>33</b>	<b>903 042</b>
<b>Equity</b>				
<b>Capital and reserves</b>				
Attributable to ordinary equity holders:				
Share capital	304	—	—	304
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	—	(4 000)	33 855
Other reserves	4 145	(140)	(95)	3 910
	85 327	(140)	(4 095)	81 092
Non-controlling interest – ordinary shares	2	—	—	2
<b>Total equity</b>	<b>85 329</b>	<b>(140)</b>	<b>(4 095)</b>	<b>81 094</b>
<b>Total liabilities and equity</b>	<b>988 358</b>	<b>(160)</b>	<b>(4 062)</b>	<b>984 136</b>

<sup>1</sup> 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.

<sup>2</sup> Reflects the change in the Bank's share of net assets from associates and joint ventures due to their adoption of IFRS 9.

<sup>3</sup> Relates to the adjustments to deferred tax and current tax assets.

<sup>4</sup> 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).

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.19 Financial impact of reporting changes in 2018 (continued)

#### 1.19.5 Reconciliation of the impairment allowance under IAS 39 and the ECL allowance under IFRS 9

##### 1.19.5.1 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:

	IAS 39 – 31 December 2017			IFRS 9 – 1 January 2018			Total IFRS 9 provision (incl. IIS) Rm	IFRS 9 transition adjustment Rm
	Total IAS 39 provision (excl. IIS) Rm	Interest in suspense Rm	Total IAS 39 (incl. IIS) Rm	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm		
Loans and advances to customers	13 623	2 279	15 902	3 118	3 039	14 818	20 975	5 073
Loans and advances to banks	—	—	—	4	22	—	26	26
Investment securities	—	—	—	9	—	—	9	9
<b>Total ECL allowance: On-statement of financial position exposures</b>	<b>13 623</b>	<b>2 279</b>	<b>15 902</b>	<b>3 131</b>	<b>3 061</b>	<b>14 818</b>	<b>21 010</b>	<b>5 108</b>
<b>Off-statement of financial position exposures</b>								
Undrawn committed facilities <sup>1</sup>	—	—	—	196	183	47	426	426
Financial guarantees	—	—	—	15	8	—	23	23
Letters of credit	—	—	—	1	2	—	3	3
<b>Total ECL allowance: Off-statement of financial position exposures</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>212</b>	<b>193</b>	<b>47</b>	<b>452</b>	<b>452</b>
<b>Total ECL allowance</b>	<b>13 623</b>	<b>2 279</b>	<b>15 902</b>	<b>3 343</b>	<b>3 254</b>	<b>14 865</b>	<b>21 462</b>	<b>5 560</b>

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 required under IFRS 9, and has resulted in an increase in the ECL allowance as at 1 January 2018, compared to what was previously reported in the Bank's interim results.
- › **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 and 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.

<sup>1</sup> PIs supply footnote

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.19 Financial impact of reporting changes in 2018 (continued)

#### 1.19.5 Reconciliation of the impairment allowance under IAS 39 and the ECL allowance under IFRS 9 (continued)

##### 1.19.5.1 Summary of ECL by segment and class of credit exposure (continued)

- › **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 recognised 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.

##### 1.19.5.2 Summary of ECL coverage per stage

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

1 January 2018

	Financial assets measured at FVTPL carrying amount	Stage 1			Stage 2			Stage 3			Net total exposure Rm
		Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	
Loans and advances to customers	26 899	542 683	3 118	0.57	69 422	3 039	4.38	37 370	14 818	39.65	655 399
Loans and advances to banks	17 197	24 092	4	0.02	1 928	22	1.14	—	—	—	43 191
<b>Total loans and advances</b>	<b>44 096</b>	<b>566 775</b>	<b>3 122</b>	<b>0.55</b>	<b>71 350</b>	<b>3 061</b>	<b>4.29</b>	<b>37 370</b>	<b>14 818</b>	<b>39.65</b>	<b>698 590</b>

#### 1.19.6 Incorporation of forward-looking information in the IFRS 9 modelling

The Bank has adopted the use of three economic scenarios: a base scenario, a mild upside scenario, and a mild downside scenario. The scenarios presented below are therefore reflective of the Bank's view of forecast economic conditions as at the date of initial adoption.

##### 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 to 2020 but this is not expected to be disruptive to emerging markets.
- › **South Africa:** The economy recovered from 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.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.19 Financial impact of reporting changes in 2018 (continued)

#### 1.19.6 Incorporation of forward-looking information in the IFRS 9 modelling (continued)

##### Mild upside scenario: Stronger near term growth

- › **Global:** The global economy grows faster than expected, and is supported by fiscal stimulus in the United States (US), and a quick negotiation of Britain's exit (Brexit) from the European Union (EU), which boosts global business confidence. Commodity prices rise sharply relative to the base scenario and the global financial markets improve. Globally, investor and consumer sentiment rise, due to the favourable financial environment.
- › **South Africa:** It is assumed there are no further rating downgrades. Policy and political stability boost business confidence and private sector fixed investment. We assumed a strong Rand compared to the base scenario that is driven by the sovereign rating being unchanged and the positive global sentiment toward emerging markets. Inflation moves lower on the back of the stronger Rand and continued moderation in food price inflation. Falling inflation and diminished risk at a domestic level gives the South African Reserve Bank room to provide stimulus to the economy by cutting interest rates to support the economy. The cumulative interest rate cuts, higher commodity prices and stronger global growth boost South Africa's GDP growth.
- › **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.

##### 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 fall 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, eurozone 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 results 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% to 6% target range in 2018 to 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.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.19 Financial impact of reporting changes in 2018 (continued)

#### 1.19.7 Impact of revised classification and measurement framework under IFRS 9

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 include the effects of ECL:

Assets	IAS 39			Re-measurement Rm	IFRS 9	
	Measurement category	Carrying amount Rm	Reclassification Rm		Measurement category	Carrying amount Rm
Cash, cash balances and balances with central banks	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
	AFS – designated	35 241	(5 902)	—	FVOCI – debt instruments	29 339
			287	—	FVOCI – equity instruments	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 trading	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 asset 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
<b>Total assets</b>		<b>988 358</b>	<b>(160)</b>	<b>(4 062)</b>		<b>984 136</b>



# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.19 Financial impact of reporting changes in 2018 (continued)

#### 1.19.7 Impact of revised classification and measurement framework under IFRS 9 (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 Bank's 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 6130m**, and a fair value loss of **R151m** would have been recognised in OCI during the reporting period.
- › Certain financial assets, including loans and advances in CIB and investments in WIMI, were designated at FVTPL under IAS 39 as they were managed on a fair value basis. In terms of IFRS 9, these assets are now required to be measured at FVTPL, and noted as mandatory designations.
- › Certain debt securities are held by Treasury in a separate portfolio to meet everyday liquidity needs. These were classified as available-for-sale under IAS 39. Treasury seeks to minimise the cost of managing liquidity needs and therefore actively manages the return on the portfolio. The return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The business model may result in sales activity and these instruments have therefore been classified at FVOCI under IFRS 9.
- › In a particular jurisdiction within the Africa Regional Operations, a small portfolio of debt securities held by Treasury have been reclassified from available-for-sale to amortised cost as there is limited evidence of an ability to sell these securities, and the portfolio is therefore aligned to a business model with the objective of collecting contractual cash flows.
- › Commodity-linked debt instruments within CIB were previously bifurcated and separately recognised as a loan at amortised cost and a derivative. These are now classified as FVTPL as their cash flows do not consist of SPPI.
- › Debt securities held by insurance entities within the Africa Regional Operations have been reclassified from available-for-sale to amortised cost. The objective of the portfolio is to collect contractual cash flows as the securities are neither held within a portfolio whose business model is to manage the securities and evaluate their performance on a fair value basis, nor is it possible to evidence an adequate frequency and volume of sales.

In October 2017, the IASB issued an amendment to IFRS 9 Prepayment Features with Negative Compensation. Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment clarifies how a company would classify and measure a debt instrument if the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Under the amendments, the sign of the prepayment amount is not relevant. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. This amendment was effective on 1 January 2019 and is not expected to have a significant impact on the Bank.

#### 1.19.8 Impact of the adoption of IFRS 15

IFRS 15 was 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 include 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.

#### 1.19.9 The presentation of net interest income under IAS 1

As a consequence of IFRS 9, an amendment was made to IAS 1 Presentation of Financial Statements, which was 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 elected 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.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.20 New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards have been issued but not yet effective for the reporting period and have not been applied in preparing these annual financial statements. Unless specifically noted to the contrary, these amendments are not expected to have a material impact on the Bank.

#### 1.20.1 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 of 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 CET 1. 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**).

#### 1.20.2 Amendments to IAS 19 Employee Benefits (IAS 19) regarding plan amendments, curtailments or settlements

This amendment aims to clarify the determination of current service cost and net interest in the instance that a defined benefit plan amendment, curtailment or settlement takes place, as well as the effect on the asset ceiling of a plan amendment, curtailment or settlement. The amendments are effective for periods beginning on, or after, 1 January 2019, with earlier application permitted. It is effective prospectively and does not impact the Bank's previously reported results. The accounting for any plan amendments, curtailments or settlements being considered after the effective date would need to take into account the impact of these amendments.

#### 1.20.3 IAS 28 Investments in Associates and Joint Ventures regarding long-term interests in associates and joint ventures

This amendment, which was effective on 1 January 2019, clarifies that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

#### 1.20.4 Amendments resulting from Annual Improvements 2015 – 2017 cycle

The following changes were effective for annual periods beginning on or after 1 January 2019:

- › **IFRS 3 Business Combinations:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
- › **IFRS 11 Joint Arrangements:** The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- › **IAS 12 Income Taxes:** This amendment clarifies that the income tax consequences of the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, should be recognised when a liability to pay dividend is recognised. The income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated distributable profits were originally recognised.
- › **IAS 23 Borrowing Costs:** The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

# Accounting policies

for the reporting period ended 31 December

## 1. Summary of significant accounting policies (continued)

### 1.20 New standards and interpretations not yet adopted (continued)

#### 1.20.5 IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 is effective on or after 1 January 2019, clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. The interpretation applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

#### 1.20.6 Amendments to IFRS 3 Business Combinations regarding the definition of a business

The amendments, which apply to business combinations for which the acquisition date is on or after 1 January 2020, revise the definitions included in the appendix to IFRS 3 in order to assist entities in determining whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

#### 1.20.7 Revised Conceptual Framework for Financial Reporting

The purpose of the Framework for Financial Reporting (Conceptual Framework) is to assist the IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place, and to assist all parties to understand and interpret the standards. The Conceptual Framework issued in March 2018 is effective immediately for the IASB and the IFRS Interpretations Committee. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>2. Cash, cash balances and balances with central banks</b>		
Balances with the SARB	13 108	19 108
Coins and bank notes	9 571	9 684
	<b>22 679</b>	<b>28 792</b>

The minimum reserve balance to be held in cash with the SARB is calculated under the provision of Regulation 27. The balance is 2.5% of the adjusted liabilities as set out in Regulation 27. The required average daily minimum reserve balance must be held with the SARB as from the fifteenth business day of the month following the month to which the BA310 return relates and cannot be utilised in the normal course of business.

	Bank	
	2018 Rm	2017 Rm
<b>3. Investment securities</b>		
Government bonds	43 445	34 321
Listed equity instruments	651	496
Other debt securities	22 379	15 881
Treasury bills	26 570	25 191
Unlisted equity and hybrid instruments	533	635
Gross investment securities	<b>93 578</b>	<b>76 524</b>
Impairment losses	(2)	—
	<b>93 576</b>	<b>76 524</b>

Government bonds valued at **R10 152m** (2017: R 12 922m) have been pledged with the SARB.

Impairment losses relates to expected credit losses raised on investment securities held at amortised cost.

**R35m** has been recognised as expected credit losses on investment securities measured at fair value through other comprehensive income.

	Bank	
	2018 Rm	2017 Rm
<b>4. Loans and advances to banks</b>		
Gross loans and advances to banks	40 553	43 217
Impairment losses	(20)	—
	<b>40 533</b>	<b>43 217</b>

Included above are reverse repurchase agreements of **R16 342m** (2017: R15 279) and other collateralised loans of **R1 505m** (2017: R529m) relating to securities borrowed.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>5. Trading and hedging portfolio assets</b>		
Commodities	1 304	2 051
Debt instruments	44 238	31 772
Derivative assets (refer to note 51.3)	43 723	56 473
Commodity derivatives	1 487	1 097
Credit derivatives	173	165
Equity derivatives	5 380	2 529
Foreign exchange derivatives	8 006	15 556
Interest rate derivatives	28 677	37 126
Equity instruments	533	567
Money market assets	11 473	13 918
Total trading portfolio assets	101 271	104 781
Hedging portfolio assets (refer to note 51.3)	2 407	2 667
	<b>103 678</b>	<b>107 448</b>

Trading portfolio assets with carrying values of **R42 705m** (2017: R7 361m) and **R3 434m** (2017: R6 278m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

Included within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposit, treasury bills, promissory notes, commercial paper and bankers' acceptance notes.

	Bank	
	2018 Rm	2017 Rm
<b>6. Other assets</b>		
Accounts receivable and prepayments	8 510	9 546
Deferred costs	165	162
Inventories	28	14
Cost	29	20
Write-down	(1)	(6)
Retirement benefit fund surplus (refer to note 36)	466	466
Settlement accounts	13 125	5 325
Gross other assets	22 294	15 513
Impairment losses	0	—
<b>Net other assets</b>	<b>22 294</b>	<b>15 513</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>7. Non-current assets and non-current liabilities held for sale</b>		
<b>Non-current assets held for sale</b>		
<b>Balance at the beginning of the reporting period</b>	1 119	367
Disposals	(1 119)	(840)
Transfer from cash, cash balances and balances with central banks	—	5
Transfer from loans and advances to customers	—	1 118
Transfer from investment securities	—	547
Transfer from property and equipment (refer to note 12)	50	1
Fair value adjustments of investment securities	—	(80)
Fair value adjustments of investment properties	—	1
<b>Balance at the end of the reporting period</b>	<b>50</b>	<b>1 119</b>
<b>Non-current liabilities held for sale</b>		
<b>Balance at the beginning of the reporting period</b>	—	9
Disposals	—	(26)
Transfer from other liabilities	—	17
<b>Balance at the end of the reporting period</b>	<b>—</b>	<b>—</b>

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

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

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>8. Loans and advances to customers</b>		
Corporate overdrafts and specialised finance loans	12 770	10 107
Credit cards	31 577	30 471
Foreign currency loans	36 462	25 678
Instalment credit agreements (refer to note 8.1) <sup>1</sup>	85 679	76 840
Loans to associates and joint ventures (refer to note 40.5)	28 259	26 054
Micro loans	3 970	3 895
Mortgages	289 698	273 443
Other advances <sup>1</sup>	11 276	8 845
Overdrafts <sup>1</sup>	50 648	46 552
Overnight finance	19 486	20 494
Personal and term loans	38 959	33 582
Preference shares	20 450	17 824
Reverse repurchase agreements (Carries)	29 414	19 316
Wholesale overdrafts <sup>1</sup>	99 019	81 014
Gross loans and advances to customers	<b>757 667</b>	674 115
Impairment losses	<b>(22 467)</b>	(13 623)
	<b>735 200</b>	660 492

The Bank has securitised certain loans and advances to customers, the total value of these securitised assets is **R3 277m** (2017: R2 078m). Included above are collateralised loans of **R888m** (2017: R253m) relating to securities borrowed.

The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Other advances include working capital solutions and collateralised loans.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R3 884m**. This represents a change in presentation of interest in suspense as a result of the adoption of IFRS 9. Refer to note 1.19.

	Bank					
	2018			2017		
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
<b>8.1 Instalment credit agreements</b>						
<b>Maturity analysis</b>						
Less than one year <sup>1</sup>	32 784	(8 181)	24 603	26 738	(7 292)	19 446
Between one and five years	70 672	(13 125)	57 547	65 364	(11 537)	53 827
More than five years	3 802	(273)	3 529	3 751	(184)	3 567
Gross carrying value	<b>107 258</b>	<b>(21 579)</b>	<b>85 679</b>	95 853	(19 013)	76 840

The Bank enters into instalment credit agreements in respect of motor vehicles, equipment and medical equipment. The majority of these agreements are denominated in South African Rand and the average term entered into is five years.

Included in the above table are both financing transactions, as well as finance lease receivables. Under the terms of the agreements, no contingent rentals are payable.

Unsecured residual values of finance lease receivables at the reporting date are **R9 666m** (2017: R7 783m).

Included in the allowance for impairments at the reporting date is **R3 369m** (2017<sup>1</sup>: R1 800m) which relates to finance lease receivables.

<sup>1</sup> Product level allocations were incorrectly disclosed in the prior year and have been restated to better reflect the commercial nature of products. The restatement resulted in R2 069m being moved from instalment credit agreements to other advances and R11 257m moved from wholesale overdrafts to overdrafts in 2017. As a result, the accumulated impairment allowance for instalment credit agreement for the prior has also been restated by R16m.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

		Bank	
		2018 Rm	2017 Rm
<b>9.</b>	<b>Loans and advances to Group companies</b>		
	Fellow Subsidiaries	37 363	36 530

		Bank	
		2018 Rm	2017 Rm
<b>10.</b>	<b>Investments in associates and joint ventures</b>		
	Unlisted investments	1 310	1 235
<b>10.1</b>	<b>Movement in carrying value of associates and joint ventures accounted for under the equity method</b>		
	<b>Balance at the beginning of the reporting period</b>	1 235	1 065
	Change in the Bank's share of net assets due to adoption of IFRS 9	(104)	—
	Share of current reporting period post-tax results	179	170
	Share of current reporting period results before taxation	250	222
	Taxation on reporting period results	(71)	(52)
	<b>Balance at the end of the reporting period</b>	1 310	1 235

## 10.2 Associates and joint ventures

The following information is presented in respect of associates and joint ventures accounted for under the equity method:

Bank share	Associates		Joint ventures	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Post-tax profit from continuing operations	25	8	154	162
Total comprehensive income	25	8	154	162

There were no cumulative unrecognised share of losses for associates and joint ventures for the current and previous reporting periods.

		Bank	
		2018 Rm	2017 Rm
<b>10.3</b>	<b>Analysis of carrying value of associates and joint ventures accounted for under the equity method</b>		
	<b>Unlisted investments</b>		
	Shares at cost	100	100
	Share of post-acquisition reserves	1 210	1 135
		1 310	1 235

	Bank			Bank		
	Associates Rm	Joint ventures Rm	Total Rm	Associates Rm	Joint ventures Rm	Total Rm
<b>10.4</b>	<b>Carrying value of associates and joint ventures</b>					
	233	1 077	1 310	208	1 027	1 235
	21	298	319	20	444	464
	254	1 375	1 629	228	1 471	1 699

Refer to note 40.5 for additional disclosure of the Bank's investments in associates and joint ventures.

The investments in associates and joint ventures designated at fair value through profit and loss are presented within listed equity instruments under 'Investment securities' (note 3).



# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>11. Investment properties</b>		
Balance at the beginning of the reporting period	—	222
Additions	165	—
Change in fair value (refer to notes 30)	15	37
Disposals	—	(259)
<b>Balance at the end of the reporting period</b>	<b>180</b>	<b>—</b>

Investment properties comprise a number of properties leased to third parties for either commercial or residential use. Each of the leases contain an initial rental period ranging from six months to ten years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

	Bank					
	2018			2017		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
<b>12. Property and equipment</b>						
Computer equipment	8 069	(4 658)	3 411	7 560	(4 016)	3 544
Freehold property	5 595	(367)	5 228	6 098	(350)	5 748
Furniture and other equipment	8 256	(3 287)	4 969	6 814	(2 588)	4 226
Motor vehicles	3	(2)	1	3	(2)	1
	<b>21 923</b>	<b>(8 314)</b>	<b>13 609</b>	<b>20 475</b>	<b>(6 956)</b>	<b>13 519</b>

	Bank								
	2018								
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers <sup>1</sup> Rm	to intangibles Rm	Transfer to non-current assets held for sale Rm	Depre- ciation Rm	Impairment Rm	Closing balance Rm
Computer equipment	3 544	1 154	(137)	27	2	—	(1 092)	(87)	3 411
Freehold property	5 748	1 206	(2)	(1 499)	—	(24)	(19)	(182)	5 228
Furniture and other equipment	4 226	281	(17)	1 472	—	(26)	(838)	(129)	4 969
Motor vehicles	1	—	—	—	—	—	—	—	1
	<b>13 519</b>	<b>2 641</b>	<b>(156)</b>	<b>—</b>	<b>2</b>	<b>(50)</b>	<b>(1 949)</b>	<b>(398)</b>	<b>13 609</b>
Note						7	31	32	

<sup>1</sup> An amount of **R1 499m** (2017: 2 001m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R27m** (2017: R244m) and 'Furniture and other equipment' **R1 472m** (2017: R1 757m) in accordance with the nature of these assets.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 12. Property and equipment (continued)

Reconciliation of property and equipment	2017								
	Opening balance Rm	Additions Rm	Disposals Rm	Transfers <sup>1</sup> Rm	Transfer to intangibles Rm	Transfer to non-current assets held for sale Rm	Depreciation Rm	Impairment Rm	Closing balance Rm
Computer equipment	3 442	733	(10)	244	—	(1)	(864)	—	3 544
Freehold property	6 054	1 734	(22)	(2 001)	—	—	(17)	—	5 748
Furniture and other	3 229	155	(5)	1 757	—	—	(694)	(216)	4 226
Motor vehicles	1	—	—	—	—	—	—	—	1
	12 726	2 622	(37)	—	—	(1)	(1 575)	(216)	13 519
Note						7	31	32	

Included in the above additions is **R1 155m** (2017: R1 130m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

**R1 499m** (2017: R2 001m) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R340m** (2017: R402m) of assets under construction relating to freehold property was brought into use during the reporting period.

During the current reporting period, a decision was made to dispose of certain property and equipment. As a result these items were impaired to zero.

	2018			2017		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
<b>13. Goodwill and intangible assets</b>						
Computer software development costs	10 608	(3 510)	7 098	6 568	(2 873)	3 695
Customer lists and relationships	410	(410)	—	410	(410)	—
Goodwill	183	(71)	112	151	(39)	112
Other	123	(87)	36	132	(78)	54
	11 324	(4 078)	7 246	7 261	(3 400)	3 861

<sup>1</sup> An amount of **R1 499m** (2017: 2 001m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R27m** (2017: R244m) and 'Furniture and other equipment' **R1 472m** (2017: R1 757m) in accordance with the nature of these assets.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 13. Goodwill and intangible assets (continued)

Reconciliation of goodwill and intangible assets	Bank						
	2018						
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Amor-tisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	3 695	4 032	—	(639)	(1)	11	7 098
Goodwill	112	—	34	—	(34)	—	112
Other	54	—	—	(7)	—	(11)	36
	<b>3 861</b>	<b>4 032</b>	<b>34</b>	<b>(646)</b>	<b>(35)</b>		<b>7 246</b>
Note				31	32		
Reconciliation of goodwill and intangible assets	2017						
	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Amor-tisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
	2 161	2 279	—	(419)	(326)	—	3 695
Goodwill	112	—	—	—	—	—	112
Other	66	—	—	(12)	—	—	54
	<b>2 339</b>	<b>2 279</b>	<b>—</b>	<b>(431)</b>	<b>(326)</b>	<b>—</b>	<b>3 861</b>
Note				31	32		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R5 743m** (2017: R2 939m) relating to assets under construction.

**R994m** of assets under construction relating to computer software was brought into use during the reporting period.

Included in 'Other' intangible assets are brands and licences.

The impairment incurred during the prior reporting period mainly related to internally generated software, Barclays.Net which was fully impaired.

In calculating the impairment to be recognised, the Bank determined the value in use based on a discounted cash flow methodology.

Composition of goodwill	Bank	
	2018 Rm	2017 Rm
Absa Vehicle and Management Solutions Proprietary Limited	<b>112</b>	112
	<b>112</b>	112

In considering reasonably possible changes to key assumptions, even if the estimated discount rate and/or growth rate was changed by **2%** (2017: 2%), no additional impairment loss would be recognised (2017: Rnil).

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>14. Deferred tax</b>		
<b>14.1 Reconciliation of net deferred tax (asset)/liability</b>		
Balance at the beginning of the reporting period	332	974
Effects of adopting IFRS 9	(1 474)	—
Deferred tax on amounts charged directly to other comprehensive income and equity	(124)	203
Charge to profit and loss (refer to note 34)	(314)	(845)
<b>Balance at the end of the reporting period</b>	<b>(1 580)</b>	<b>332</b>
<b>14.2 Deferred tax liability/(asset)</b>		
Tax effects of temporary differences between tax and book value for:		
<b>Deferred tax liability</b>	<b>15</b>	<b>383</b>
Prepayments, accruals and other provisions	15	111
Capital allowances	—	1 183
Cash flow hedge and available-for-sale reserve	—	264
Fair value adjustments on financial instruments	—	(144)
Impairment of loans and advances	(0)	(837)
Lease and rental debtor allowances	—	(231)
Property allowances	—	168
Retirement benefit fund asset and liabilities	—	179
Share-based payments	(0)	(310)
<b>Deferred tax asset</b>	<b>(1 595)</b>	<b>(51)</b>
Prepayments, accruals and other provisions	(512)	—
Capital Allowances	1 135	—
Cash flow hedge and financial assets at fair value through other comprehensive income reserve	180	—
Financial liabilities designated at fair value through profit and loss	(58)	—
Impairment of loans and advances	(1 865)	—
Lease and rental debtor allowances	(244)	5
Property allowances	188	—
Retirement benefit fund asset and liabilities	138	—
Fair value adjustments on financial instruments	(244)	—
Share-based payments	(313)	—
Other differences	—	(56)
<b>Net deferred tax (asset)/liability</b>	<b>(1 580)</b>	<b>332</b>

## 14.3 Future tax relief

The Bank has estimated tax losses of Rnil (2017: R8m) which are available for set-off against future taxable income.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>15. Deposits from banks</b>		
Call deposits	7 457	10 183
Fixed deposits	25 907	25 577
Foreign currency deposits	24 180	9 725
Notice deposits	2 452	1 031
Other	3 817	2 603
Repurchase agreements	64 146	24 991
	<b>127 959</b>	<b>74 110</b>

	Bank	
	2018 Rm	2017 Rm
<b>16. Trading and hedging portfolio liabilities</b>		
Derivative liabilities (refer to note 51.3)	35 208	51 693
Commodity derivatives	1 489	1 285
Credit derivatives	174	148
Equity derivatives	3 091	2 388
Foreign exchange derivatives	8 410	14 504
Interest rate derivatives	22 044	33 368
Short positions	11 072	8 141
Total trading portfolio liabilities	46 280	59 834
Hedging portfolio liabilities (refer to note 51.3)	1 343	1 117
	<b>47 623</b>	<b>60 951</b>

	Bank	
	2018 Rm	2017 Rm
<b>17. Other liabilities</b>		
Accruals	1 732	1 615
Audit fee accrual	15	14
Creditors	12 350	11 245
Deferred income	225	215
Liabilities under finance leases	28	—
Settlement balances	17 264	14 465
Share-based payment liability (refer to note 48)	293	270
	<b>31 907</b>	<b>27 824</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank		
	Staff bonuses and incentive provisions Rm	2018 Sundry provisions Rm	Total Rm
<b>18. Provisions</b>			
Balance at the beginning of the reporting period	1 544	529	2 073
Additions	1 621	224	1 845
Amounts used	(1 532)	(179)	(1 711)
Reversals	(4)	(3)	(7)
Total provisions before impairment provision	1 629	571	2 200
Impairment losses on financial guarantees and letters of credit (refer to note 54)	—	—	482
<b>Balance at the end of the reporting period</b>	<b>1 629</b>	<b>571</b>	<b>2 682</b>

In terms of the requirements of IFRS 9, a provision for expected credit losses has been raised on financial guarantees, letters of credit and undrawn committed facilities.

Refer to note 46 for the gross financial guarantees, undrawn committed facilities and letters of credit and refer to note 54 for detailed reconciliations of these expected credit losses.

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 539m** (2017: R1 625m).

Sundry provisions include amounts with respect to fraud cases, litigation and claims.

	Bank	
	2018 Rm	2017 Rm
<b>19. Deposits due to customers</b>		
Call deposits	57 981	62 725
Cheque account deposits	156 909	153 856
Credit card deposits	1 904	1 896
Fixed deposits	157 613	146 655
Foreign currency deposits	17 541	18 444
Notice deposits	58 367	58 460
Other deposits	1 473	1 414
Repurchase agreements	12 793	5 000
Savings and transmission deposits	141 066	135 375
	<b>605 647</b>	<b>583 825</b>

Other deposits due to customers include deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

	Bank	
	2018 Rm	2017 Rm
<b>20. Debt securities in issue</b>		
Commercial paper	1 436	227
Credit linked notes	9 049	8 375
Floating rate notes	64 181	63 126
Negotiable certificates of deposit	52 613	37 362
Other	963	1 288
Promissory notes	1 257	783
Senior notes	30 442	26 779
Structured notes and bonds	101	2
	<b>160 042</b>	<b>137 942</b>

# Notes to the consolidated financial statements

for the reporting period ended 31 December

			Bank	
			2018 Rm	2017 Rm
<b>21. Borrowed funds</b>				
<b>Subordinated callable notes issued by Absa Bank Limited</b>				
The following subordinated debt instruments qualify as Tier 2 capital in terms of Basel III.				
<b>Interest rate</b>	<b>Final maturity date</b>	<b>Note</b>		
8.295%	21 November 2023	i	—	1 188
Three-month JIBAR + 2.05%	21 November 2023	ii	—	2 007
Consumer Price Index (CPI) linked notes, fixed at the following coupon rates:				
5,50%	7 December 2028	iii	1 500	1 500
10.05%	5 February 2025	iv	807	807
10.835%	19 November 2024	v	130	130
11.365%	4 September 2025	vi	508	508
11.40%	29 September 2025	vii	288	288
11.74%	20 August 2026	viii	140	140
11.81%	3 September 2027	ix	737	737
12.43%	5 May 2026	x	200	200
Three-month Johannesburg Interbank Agreed Rate (JIBAR)				
Three-month JIBAR + 2.45%	29 November 2028	xi	1 500	—
Three-month JIBAR + 3.30%	19 November 2024	xii	370	370
Three-month JIBAR + 3.50%	5 February 2025	xiii	1 693	1 693
Three-month JIBAR + 3.50%	4 September 2025	xiv	437	437
Three-month JIBAR + 3.60%	3 September 2027	xv	30	30
Three-month JIBAR + 4.00%	5 May 2026	xvi	31	31
Three-month JIBAR + 4.00%	20 August 2026	xvii	1 510	1 510
Three-month JIBAR + 4.00%	3 November 2026	xviii	500	500
Three-month JIBAR + 3.78%	17 March 2027	xix	642	642
Three-month JIBAR + 3.85%	25 May 2027	xx	500	500
Three-month JIBAR + 3.85%	14 August 2029	xxi	390	390
Three-month JIBAR + 3.15%	30 September 2027	xxii	295	295
Three-month JIBAR + 3.45%	29 September 2029	xxiii	1 014	1 014
USD 6.25%	25 April 2028	xxiv	4 932	—
Accrued interest			1 222	918
Fair value adjustments on total subordinated debt instruments			63	31
Foreign exchange movement			613	—
			<b>20 225</b>	<b>15 866</b>

Included in interest paid on the statement of cash flows is **R1 880m** (2017: R1 484m) which relates to interest on borrowed funds.

- i. The 8.295% fixed rate notes were redeemed in full at the option of Absa Bank Limited on 21 November 2018. Interest was paid semi-annually in arrears on 21 May and 21 November of each year.
- ii. The three-month JIBAR plus 2.05% floating rate notes were redeemed in full at the option of Absa Bank Limited on 21 November 2018. Interest is paid quarterly on 21 February, 21 May, 21 August and 21 November of each year.
- iii. The 5.50% CPI linked notes may be redeemed in full at the option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrears on 7 June and 7 December of each year, provided that the last day of payment shall be 7 December 2028. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points ('bps') shall apply.
- iv. The 10.05% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- v. The 10.835% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Absa Bank Limited does not exercise the redemption option.
- vi. The 11.365% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 21. Borrowed funds (continued)

- vi. The 11.365% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- vii. The 11.40% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 29 September 2020. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- viii. The 11.74% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- ix. The 11.81% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- x. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xi. The three-month JIBAR plus 2.45% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 29 November 2023. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xii. The three-month JIBAR plus 3.30% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xiii. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xiv. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option Absa Bank Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xv. The three-month JIBAR plus 3.60% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xvi. The three-month JIBAR plus 4% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xvii. The three-month JIBAR plus 4% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xviii. The three-month JIBAR plus 4% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xix. The three-month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xx. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 21. Borrowed funds (continued)

- xxi. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xxii. The three-month JIBAR plus 3.15% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September and 30 December. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 30 September 2022. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xxiii. The three-month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.
- xxiv. The 6.25% fixed rate reset callable USD notes with the value USD 400m may be redeemed in full at the option of Absa Bank Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Bank Limited has the option to exercise the redemption on 25 April 2023. If Absa Bank Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on the reset determination date, 27 April 2023. The reset margin is 3.523% per annum.

Notes i to xxiii are listed on the Johannesburg Stock Exchange Debt Market.

Note xxiv is listed on the London Stock Exchange.

In accordance with the MOI, the borrowing powers of Absa Bank Limited are unlimited.

	Bank	
	2018 Rm	2017 Rm
<b>22. Share capital and premium</b>		
<b>22.1 Ordinary share capital</b>		
<b>Authorised</b>		
320 000 000 (2017: 320 000 000) ordinary shares of R1.00 each	320	320
250 000 000 (2017: 250 000 000) 'A' ordinary shares of R0.01 each	3	3
	<b>323</b>	<b>323</b>
<b>Issued</b>		
302 609 369 (2017: 302 609 369) ordinary shares of R1.00 each	303	303
145 691 959 (2017: 145 691 959) 'A' ordinary shares of R0.01 each	1	1
	<b>304</b>	<b>304</b>
<b>Total issued capital</b>		
Share capital	304	304
Share premium	36 879	36 879
	<b>37 183</b>	<b>37 183</b>

### Authorised shares

There were no changes to the authorised share capital during the current reporting period. All issued share capital is fully paid up.

### Unissued shares

The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming AGM.

### Shares issued during the year under review

There were no shares issued during the current reporting period.

### Shares issued during the prior year

An additional 10 ordinary shares were issued during the prior reporting period.

An additional 16 983 695 'A' ordinary shares were issued during the prior reporting period.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>22. Share capital and premium</b> (continued)		
<b>22.2 Preference share capital and premium</b>		
<b>Authorised</b> 30 000 000 (2017: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	1	1
<b>Issued</b> 4 944 839 (2017: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each	1	1
<b>Total issued capital</b>		
Share capital	1	1
Share premium	4 643	4 643
	<b>4 644</b>	<b>4 644</b>

The preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or a resolution is proposed by the Company which directly affects the rights attracted to the preference shares or the interest of the holders thereof.

### 22.3 Directors' interests in Absa Bank Limited preference shares

As at the reporting date, no director held any preference shares of Absa Bank Limited.

### 22.4 Additional tier 1 capital

	Bank	
	2018 Rm	2017 Rm
<b>Subordinated Callable notes issued by Absa Bank Limited</b>		
<b>Interest rate</b>		
Three-month JIBAR + 5.65%		
<b>Date of issue</b>		
11 September 2017	1 500	1 500
09 October 2018	1 241	—
	<b>2 741</b>	<b>1 500</b>

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) on 10 October 2023 (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.

## 23. Other reserves

### 23.1 Fair value reserve (2018)/Available-for-sale reserve (2017)

The fair value reserve (2018) comprises only the cumulative net change in the fair value of debt instruments designated at FVOCI, until such time as they are derecognised. Upon derecognition of debt instruments at FVOCI, the cumulative amount recognised in other comprehensive income is released to profit or loss. Since the cumulative net change in the fair value of equity instruments designated as at FVOCI is not recycled to profit or loss upon derecognition, the Bank recognises the cumulative net change in fair value in retained earnings.

The available-for-sale reserve (2017) comprises the cumulative net change in the fair value of available-for-sale financial assets until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit or loss component of the statement of comprehensive income.

### 23.2 Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### 23.3 Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 23. Other reserves (continued)

### 23.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of Absa Bank Limited.

### 23.5 Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

### 23.6 Associates' and joint ventures' reserve

The associates' and joint ventures' reserve comprises the Bank's share of its associates' and/or joint ventures' reserves.

### 23.7 Retained earnings

The retained earnings comprise of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to a separate reserve), reduced by dividends paid to date and any total comprehensive income relating to disposed subsidiaries and including changes in OCI with respect to the following:

- > movement in the fair value of equity instruments measured at FVOCI;
- > movement in own credit risk on liabilities designated at FVTPL;
- > movement in the actuarial valuation of retirement benefit fund assets and liabilities; and
- > direct shareholder contributions.

	Bank	
	2018 Total Rm	2017 Total Rm
<b>24. Interest and similar income</b>		
<b>Interest and similar income is earned from:</b>		
Cash, cash balances and balances with central banks	4	5
Interest on hedging instruments	201	428
Investment securities	7 254	5 875
Loans and advances to banks	1 235	1 318
Loans and advances to customers	63 938	62 138
Corporate overdrafts and specialised finance loans	889	752
Credit cards	4 396	4 567
Foreign currency loans	1 248	890
Instalment credit agreements <sup>1</sup>	8 641	7 983
Interest on impaired financial assets (2017)	—	707
Loans to associates and joint ventures	1 894	1 800
Microloans	622	903
Mortgages	24 949	25 272
Other advances <sup>1</sup>	1 121	894
Overdrafts	3 566	3 454
Overnight finance	1 934	2 222
Personal and term loans	5 087	4 175
Preference shares	1 386	1 307
Wholesale overdrafts	8 205	7 212
Other interest	1 523	1 675
	<b>74 155</b>	<b>71 438</b>

<sup>1</sup> Product level interest allocations have been restated to better reflect the commercial nature of products. The restatement increased interest income allocated to Other Advances (R170m) and decreased interest income allocated to Instalment credit agreements (R170m).

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Total Rm	2017 Total Rm
<b>24. Interest and similar income</b> (continued)		
<b>Classification of interest and similar income</b>		
Interest on hedging instruments	201	427
Cash flow hedges (refer to note 51.7)	545	264
Economic hedges	—	270
Fair value hedging	(344)	(107)
Interest on financial assets held at amortised cost	69 499	67 618
Interest on financial assets held as available-for-sale (2017) <sup>1</sup>	—	2 173
Interest on FVOCI	2 866	—
Interest on financial assets measured at FVTPL	1 590	1 220
Investment securities	353	644
Loans and advances to customers	1 237	576
	<b>74 155</b>	<b>71 438</b>

Interest income on 'Other advances' includes items such as interest on factored debtors' books.

Other interest includes items such as overnight interest on contracts for difference.

Due to the adoption of IFRS 9 in the current reporting period, interest on impaired assets is no longer required to be separately disclosed and has therefore been presented as a component of the interest income generated at a product level.

	Bank	
	2018 Total Rm	2017 Total Rm
<b>25. Interest expense and similar charges</b>		
<b>Interest expense and similar charges are paid on:</b>		
Borrowed funds	2 216	1 635
Debt securities in issue	11 565	10 586
Deposits due to customers	28 642	27 446
Call deposits	4 840	5 092
Cheque account deposits	2 996	2 934
Credit card deposits	7	7
Fixed deposits	9 519	8 857
Foreign currency deposits	167	169
Notice deposits	4 147	4 190
Other deposits	645	625
Savings and transmission deposits	6 321	5 572
Deposits from banks	1 862	1 813
Call deposits	471	638
Fixed deposits	1 391	1 175
Interest on hedging instruments	(179)	(136)
Other	97	681
	<b>44 203</b>	<b>42 025</b>
<b>Classification of interest expense and similar charges</b>		
Interest on hedging instruments	(178)	(136)
Cash flow hedges (refer to note 51.6)	(89)	(70)
Fair value hedges	(89)	(66)
Interest on financial liabilities held at amortised cost <sup>2</sup>	44 381	42 161
	<b>44 203</b>	<b>42 025</b>

Other interest and similar charges includes items such as overnight interest on contracts for difference.

<sup>1</sup> In the current reporting period interest income on financial assets in a fair value hedging relationship has been included in interest on financial assets measured at amortised cost and interest on financial assets at fair value through OCI to align with the appropriate IFRS 9 classification. This has resulted in R213m being reallocated to financial assets held as available-for-sale in the previous reporting period.

<sup>2</sup> In the current reporting period interest expense on financial liabilities in a fair value hedging relationship has been included in interest on financial liabilities measured at amortised cost to align with the appropriate IFRS 9 classification. This has resulted in R956m being reallocated to financial assets held as amortised cost in the previous reporting period.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>26. Net fee and commission income</b>		
Asset management and other related fees	25	21
Consulting and administration fees	261	243
Credit-related fees and commissions	16 590	15 533
Cheque accounts	5 385	4 818
Credit cards	2 204	2 132
Electronic banking	5 244	5 019
Other	1 692	1 515
Savings accounts	2 065	2 049
Insurance commission received	556	525
Asset management, markets execution and investment banking fees	476	568
Merchant income	1 721	1 571
Other	105	108
Trust and other fiduciary services	47	39
Portfolio and other management fees	37	27
Trust and estate income	10	12
<b>Fee and commission income</b>	<b>19 781</b>	<b>18 608</b>
<b>Fee and commission expense</b>	<b>(1 290)</b>	<b>(1 329)</b>
Brokerage fees	(1)	(1)
Cheque processing fees	(122)	(121)
Clearing and settlement charges	(688)	(640)
Notification fees	(180)	(198)
Insurance commission paid	(17)	-
Other	(207)	(294)
Valuation fees	(75)	(75)
	<b>18 491</b>	<b>17 279</b>

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Some of these services involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.

	Bank	
	2018 Rm	2017 Rm
<b>26.1 Included above are net fees and commissions linked to financial instruments not at fair value</b>		
Cheque accounts	5 385	4 818
Credit cards	2 204	2 132
Electronic banking	5 244	5 019
Other	1 692	1 515
Savings accounts	2 065	2 049
<b>Fee and commission income</b>	<b>16 590</b>	<b>15 533</b>
<b>Fee and commission expense</b>	<b>(1 147)</b>	<b>(1 152)</b>
	<b>15 443</b>	<b>14 381</b>

Credit cards include acquiring and issuing fees.

Other credit-related fees and commission income include service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>27. Gains and losses from banking and trading activities</b>		
Net gains on investments	174	63
Debt instruments mandatorily held at FVTPL	113	36
Equity instruments mandatorily held at FVTPL	52	94
Unwind from reserves for debt instruments at FVOCI	9	—
Available-for-sale unwind from reserves	—	(67)
Net trading result	2 494	2 585
Net trading income excluding the impact of hedge accounting	2 706	2 633
Ineffective portion of hedges	(212)	(48)
Cash flow hedges (refer to note 51.7.2)	(198)	17
Fair value hedges (refer to note 51.7.1)	(14)	(65)
Other gains	509	212
	<b>3 177</b>	<b>2 860</b>
<b>Net trading result and other gains on financial instruments</b>		
Net trading income excluding the impact of hedge accounting	2 706	2 633
Losses on financial instruments designated at FVTPL	(1 740)	(2 757)
Net gains/(losses) on financial assets designated at FVTPL	1 384	(33)
Net losses on financial liabilities designated at FVTPL	(3 124)	(2 724)
Gains on financial instruments mandatorily held at FVTPL	4 446	5 390
Other gains	509	212
(Losses)/gains on financial instruments designated at FVTPL	(90)	10
Gains on financial instruments mandatorily held at FVTPL	599	202

	Bank	
	2018 Rm	2017 Rm
<b>28. Gains and losses from investment activities</b>		
Other gains	1	3

	Bank	
	2018 Rm	2017 Rm
<b>29. Impairment losses</b>		
Impairment losses raised during the reporting period	5 903	—
Stage 1 expected losses	(4 104)	—
Stage 2 expected losses	7 488	—
Stage 3 expected losses	2 519	—
Impairments raised during the previous reporting period on loans and advances to customers	—	5 920
Identified impairments	—	6 229
Unidentified impairments	—	(309)
Losses/(gains) on modification	22	—
Recoveries of loans and advances previously written off	(847)	(807)
	<b>5 078</b>	<b>5 113</b>

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>30. Other operating income</b>		
Foreign exchange differences, including amounts recycled from other comprehensive income	22	(43)
Income from investment properties	17	68
Change in fair value (refer to note 11)	15	37
Rentals	2	31
Income arising from contracts with customers	52	84
Income from maintenance contracts	39	45
Profit on sale of investment property	—	5
Profit/(loss) on disposal of property and equipment	(17)	18
Profit/(loss) on sale of repossessed properties	30	16
Gross sales	56	98
Cost of sales	(26)	(82)
Rental income	36	24
Sundry income	95	406
	<b>222</b>	<b>539</b>

	Bank	
	2018 Rm	2017 Rm
<b>31. Operating expenses</b>		
Administration fees <sup>1</sup>	504	617
Amortisation of intangible assets (refer to note 13)	646	431
Auditors' remuneration	257	190
Audit fees – current reporting period	181	163
Audit fees – underprovision	6	5
Audit-related fees	18	19
Other services	52	3
Cash transportation	1 166	987
Depreciation (refer to note 12)	1 949	1 575
Equipment costs	180	217
Rentals	72	81
Maintenance	108	136
Information technology	2 914	2 842
Marketing costs	1 604	1 530
Operating lease expenses on properties	1 226	1 198
Other	591	530
Printing and stationery	229	230
Professional fees	2 224	1 947
Property costs	1 397	1 335
Staff costs	17 960	16 690
Bonuses	1 628	1 552
Other	402	439
Salaries and current service costs on post-retirement benefit funds	14 899	13 545
Deferred cash and share-based payments (refer to note 48)	687	741
Training costs	344	413
TSA direct costs <sup>1</sup>	820	650
Telephone and postage	674	639
	<b>34 341</b>	<b>31 608</b>

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totaling **R255m** (2017: R439m). Other operating expenses include fraud losses as well as travel and entertainment costs. Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

<sup>1</sup> Given the material nature of separation activities, the Transitional Service Agreement (TSA) costs have been disclosed separately, resulting in a restatement of R650m from administration fees to TSA costs in the previous reporting period.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>32. Other impairments</b>		
Reversal of impairment raised on financial instruments <sup>1</sup>	—	(30)
Other	433	542
Goodwill (refer to note 13)	34	—
Intangible assets (refer to note 13)	1	326
Property and equipment (refer to note 12)	398	216
	433	512
	Bank	
	2018 Rm	2017 Rm
<b>33. Indirect taxation</b>		
Training levy	159	136
VAT net of input credits	987	1 140
	1 146	1 276
	Bank	
	2018 Rm	2017 Rm
<b>34. Taxation expense</b>		
<b>Current</b>		
Foreign and other taxation	99	123
South African current tax	3 087	3 872
South African current tax – previous reporting period	130	128
	3 316	4 123
<b>Deferred</b>		
Deferred tax (refer to note 14.1)	(314)	(845)
Capital allowances	(37)	272
Expected credit losses/allowances for loan losses	521	(363)
Provisions	(194)	(45)
Movements in prepayments, accruals and other provisions	(525)	(87)
Fair value and similar adjustments through profit and loss	(54)	(380)
Fair value and similar adjustments in relation to prior year	—	(255)
Share-based payments	(25)	13
	3 002	3 278
<b>Reconciliation between operating profit before income tax and the taxation expense</b>		
Operating profit before income tax	11 024	11 755
Share of post-tax results of associates and joint ventures (refer to note 11)	(179)	(170)
	10 845	11 585
Tax calculated at a tax rate of 28%	3 037	3 244
Effect of different tax rates in other countries	62	42
Expenses not deductible for tax purposes <sup>2</sup>	417	438
Dividend income <sup>3</sup>	(394)	(382)
Non-taxable interest <sup>3,4</sup>	(53)	(13)
Other income not subject to tax <sup>3</sup>	(14)	—
Non-taxable portion of capital gain	45	(76)
Other	(98)	25
	3 002	3 278

<sup>1</sup> With the adoption of IFRS 9 the impairment on other financial instruments has been included as part of impairment losses, refer to note 29.

<sup>2</sup> This includes donations, non-deductible expenses.

<sup>3</sup> In the prior reporting period 'Income not subject to tax' of R395m has been disaggregated to 'Dividend income' R382m, 'Non-taxable interest' R13m.

<sup>4</sup> This relates to interest earned from certain governments in Africa as well as interest earned on certain capital instruments, which is exempt from tax.



# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank			
	2018		2017	
	Gross Rm	Net Rm	Gross Rm	Net Rm
<b>35. Headline earnings</b>				
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 (refer to note 32)	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 (refer to note 32)	398	297	216	155
IAS 36 – Impairment of intangible assets (refer to note 32)	1	1	326	238
IAS 39 – Release of available-for-sale reserves (2017) (refer to note 27)	—	—	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 ordinary share/diluted headline earnings per ordinary share (cents)		1 751.7		1 939.4

The net amount is reflected after taxation and non-controlling interest.

## 36. Retirement benefit fund obligations

### 36.1 Absa Pension Fund

The Absa Pension Fund (the Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the Fund be carried out at least once every three years. The most recent statutory valuation of the Fund was effected on 31 March 2018 and confirmed that the Fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the PF Act).

The valuation has been performed using the projected unit credit method in respect of the defined benefit portion. The asset ceiling of the Fund is limited to the Employer Surplus Accounts (ESA). According to the Fund rules and the PF Act, the ESA can be used for a number of purposes including funding a deficit in the Fund, enhancing benefits of the Fund or enabling a contribution holiday.

In terms of section 7 of the PF Act, notwithstanding the rules of a fund, every fund must have a board of trustees consisting of at least four Board members, at least 50% of whom the members of the Fund have the right to elect. The objective of the board is to direct, control and oversee the operations of a fund in accordance with the applicable laws and the rules of the Fund. In carrying out this objective, the Board must take all reasonable steps to ensure that the interests of members in terms of the rules of the Fund and the provisions of this Act are protected at all times that they act with due care, diligence and good faith; and avoid conflicts of interest. The Board must act independently and with impartiality in respect of all members and beneficiaries. The members of the board have a fiduciary duty to members and beneficiaries in respect of accrued benefits or any amount accrued to provide a benefit, as well as a fiduciary duty to the Fund, to ensure that the Fund is financially sound and is responsibly managed and governed in accordance with the rules and the PF Act.

The rules of the Fund were amended in July 2015 to allow a retiring member who had joined the Fund before 1 July 2015 the choice to receive either a conventional annuity or a living annuity from the Fund (as was previously the case) or to purchase a pension from a registered insurer (new option). Members joining the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

Should a retiree elect a conventional annuity, the Bank is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Bank is therefore not exposed to any asset return risk prior to the election of this option, i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. Pensioners who have elected to receive a living annuity as well as members who joined the Fund on/after 1 July 2015 have been excluded from the IAS 19 disclosures as the employer is not exposed to any longevity or other actuarial risk in respect of these members. Net defined benefit plans assets relating to these pensioners that have elected to receive a living annuity, amount to **R3 696m** (2017: R3 584m).

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank Absa Pension Fund	
	2018	2017
<b>36. Retirement benefit fund obligations</b> (continued)		
<b>36.1 Absa Pension Fund</b> (continued)		
<b>Categories of the Fund</b>		
Defined benefit active members	17	18
Defined benefit deferred pensioners	2	2
Defined benefit pensioners	8 303	8 401
Defined contribution active members	23 884	26 044
Defined contribution pensioners	2 839	2 779
Duration of the scheme – defined benefit (years)	9	9
Duration of the scheme – defined contribution (years)	21.3	22.3
Duration of the scheme – defined contribution option (years)	15.2	15.2
Expected contributions to the Fund for the next 12 months (Rm)	1 438.6	1 463.2

The benefits provided by the defined benefit portion of the Fund are based on a formula, taking into account years of membership and remuneration levels. The benefits provided by the defined contribution portion of the Fund are determined by accumulated contributions and return on investments.

While the Fund as a whole has been classified as a defined benefit fund for IAS 19 purposes, the defined contribution portion provides its members with an asset-based return. The Bank has measured the liability for the defined contribution portion of the Fund at the fair value of the assets upon which the benefits are based.

The Fund is financed by employer and employee contributions and investment income. Employer contributions in respect of the defined benefit portion are based on actuarial advice. The expense or income recorded in profit or loss includes the current service cost, interest income on plan assets as well as interest expense on the defined benefit obligation and the irrecoverable surplus. It is the Bank's policy to ensure that The Fund is adequately funded to provide for the benefits due to members, and particularly to ensure that any shortfall with regard to the defined benefit portion will be met by way of additional contributions.

The Fund investments are managed on a Liability Driven Investment (LDI) mandate. This mandate has been introduced in the current year as previously, the Fund was managed on a target return basis. The primary objective of the portfolio manager for the defined benefit section of the Fund to achieve is a net real return of 4.5% per annum, measured over rolling 36-month periods.

	Bank	
	2018 Rm	2017 Rm
<b>36.1.1 Reconciliation of the net defined benefit plan surplus</b>		
<b>Reconciliation of the net surplus</b>		
Present value of funded obligations	(26 529)	(27 265)
Defined benefit portion	(7 055)	(7 335)
Defined contribution portion	(19 474)	(19 930)
Fair value of the plan assets	28 601	29 766
Defined benefit portion	9 127	9 836
Defined contribution portion	19 474	19 930
<b>Funded status</b>	2 072	2 501
Irrecoverable surplus (effect of asset ceiling)	(1 606)	(2 035)
<b>Net surplus arising from the defined benefit obligation</b>	466	466

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>36. Retirement benefit fund obligations</b> (continued)		
<b>36.1 Absa Pension Fund</b> (continued)		
<b>36.1.2 Reconciliation of movement in the funded obligation</b>		
<b>Balance at the beginning of the reporting period</b>	(27 265)	(25 037)
Defined benefit portion	(7 335)	(7 491)
Defined contribution portion	(19 930)	(17 546)
<b>Reconciling items – defined benefit portion</b>	280	156
Actuarial (losses)/gains – financial	543	582
Actuarial (losses)/gains – experience adjustments	(15)	(85)
Benefits paid	716	674
Current service costs	(22)	(32)
Interest expense	(704)	(666)
Defined contribution member transfers	(238)	(317)
<b>Reconciling items – defined contribution portion</b>	456	(2 384)
Increase in obligation linked to plan assets return	127	(3 228)
Employer contributions	(884)	(882)
Employee contributions	(586)	(597)
Disbursements and member transfers	1 799	2 323
<b>Balance at the end of the reporting period</b>	(26 529)	(27 265)
<b>36.1.3 Reconciliation of movement in the plan assets</b>		
<b>Balance at the beginning of the reporting period</b>	29 766	27 102
Defined benefit portion	9 836	9 556
Defined contribution portion	19 930	17 546
<b>Reconciling items – defined benefit portion</b>	(709)	280
Benefits paid	(716)	(674)
Employer contributions	1	1
Interest income	950	854
Return on plan assets in excess of interest	(1 182)	(218)
Defined contribution member transfers	238	317
<b>Reconciling items – defined contribution portion</b>	(456)	2 384
Return on plan assets	(127)	3 228
Employer contributions	884	882
Employee contributions	586	597
Disbursements and member transfers	(1 799)	(2 323)
<b>Balance at the end of the reporting period</b>	28 601	29 766
<b>36.1.4 Reconciliation of movement in the irrecoverable surplus</b>		
<b>Balance at the beginning of the reporting period</b>	(2 035)	(1 599)
Interest on irrecoverable surplus	(202)	(146)
Changes in the irrecoverable surplus in excess of interest	631	(290)
<b>Balance at the end of the reporting period</b>	(1 606)	(2 035)

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank			
	2018			
	Fair value of plan assets			Total Rm
Debt instruments Rm	Equity instruments Rm	Other instruments Rm		
<b>36. Retirement benefit fund obligations</b> (continued)				
<b>36.1 Absa Pension Fund</b> (continued)				
<b>36.1.5 Nature of the pension fund assets</b>				
Plan assets relating to the defined benefit plan				
<b>Defined benefit portion</b>	3 924	4 953	252	9 129
Quoted fair value	3 884	4 953	124	8 961
Unquoted fair value	6	—	(29)	(23)
Own transferable financial instruments	34	—	1	35
Investments in listed property entities/funds	—	—	156	156
<b>Defined contribution portion</b>	2 990	12 426	4 058	19 474
Quoted fair value	2 601	12 425	2 140	17 166
Unquoted fair value	145	1	1 012	1 158
Own transferable financial instruments	244	—	10	254
Investments in listed property entities/funds	—	—	896	896
	<b>6 914</b>	<b>17 379</b>	<b>4 310</b>	<b>28 603</b>

	2017			
	Fair value of plan assets			
	Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
<b>Defined benefit portion</b>	4 137	5 109	592	9 838
Quoted fair value	3 999	5 109	315	9 423
Unquoted fair value	7	—	70	77
Own transferable financial instruments	131	—	8	139
Investments in listed property entities/funds	—	—	199	199
<b>Defined contribution portion</b>	2 909	12 309	4 710	19 928
Quoted fair value	2 299	12 309	2 478	17 086
Unquoted fair value	218	—	912	1 130
Own transferable financial instruments	392	—	17	409
Investments in listed property entities/funds	—	—	1 303	1 303
	<b>7 046</b>	<b>17 418</b>	<b>5 302</b>	<b>29 766</b>

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>36. Retirement benefit fund obligations</b> (continued)		
<b>36.1 Absa Pension Fund</b> (continued)		
<b>36.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income</b>		
<b>Recognised in profit or loss:</b>		
Net interest income	(44)	(42)
Current service cost	22	32
	(22)	(10)
<b>Recognised in other comprehensive income:</b>		
Actuarial (gains)/losses – financial	(543)	(582)
Actuarial adjustments (gains)/losses – experience	15	85
Return on plan assets in excess of interest	1 182	218
Changes in the irrecoverable surplus in excess of interest	(631)	290
	23	11
<b>36.1.7 Actuarial assumptions used:</b>		
Discount rate (%) p.a.	10.1	9.9
Inflation rate (%) p.a.	6.4	6.8
Expected rate on the plan assets (%) p.a.	10.2	10.6
Future salary increases (%) p.a.	7.4	7.8
Average life expectancy in years of pensioner retiring at 60 – male	21.5	21.4
Average life expectancy in years of pensioner retiring at 60 – female	26.4	26.3

	Bank	
	2018	
	Reasonable possible change Rm	Increase/ (decrease) on defined benefit obligation Rm
<b>36.1.8 Sensitivity analysis of the significant actuarial assumptions</b>		
Increase in discount rate (%)	0.5	(416)
Increase in inflation (%)	0.5	449
Increase in life expectancy (years)	1	282
		2017
	Reasonable possible change Rm	Increase/ (decrease) on defined benefit obligation Rm
Increase in discount rate (%)	0,5	(440)
Increase in inflation (%)	0,5	479
Increase in life expectancy (years)	1	301

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 36. Retirement benefit fund obligations (continued)

### 36.1 Absa Pension Fund (continued)

#### 36.1.9 Sensitivity analysis of the significant assumptions

##### Sensitivity analysis

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R7 055m** (2017: R7 336m).

The sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth. In presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period. The defined contribution obligation of **R19 474m** (2017: R19 930m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

	Bank 2018 Rm	2017 Rm
<b>37. Dividends per share</b>		
<b>Dividends declared to ordinary equity holders</b>		
Interim dividend ( <b>6 August 2018: 602.27349 cents</b> ) (28 July 2017: 892.25702 cents)	2 700	4 000
Special dividend ( <b>30 June 2017: 811.4669592 cents</b> )	—	3 500
Final dividend ( <b>11 March 2019: 111.532 cents</b> ) (1 March 2018: 669.1928 cents)	500	3 000
	<b>3 200</b>	<b>10 500</b>
<b>Dividends declared to preference equity holders</b>		
Interim dividend ( <b>6 August 2018: 3 542.67 cents</b> ) (28 July 2017: 3 685.06849 cents)	175	182
Final dividend ( <b>11 March 2019: 3 518.6986 cents</b> ) (1 March 2018: 3 558.01 cents)	174	176
	<b>349</b>	<b>358</b>
<b>Distributions declared to Additional Tier 1 capital note holders</b>		
Distributions ( <b>12 December 2018: R31 620.63</b> ) ( <b>12 September 2018: R31 675.726</b> ) ( <b>12 June 2018: R32 200</b> ) ( <b>12 March 2018: R31 500</b> ) (12 December 2017: 31 990.79 Rands)	190	48
	<b>190</b>	<b>48</b>
<b>Dividends paid to ordinary equity holders</b>		
Final dividend ( <b>16 April 2018: 669.1927668 cents</b> ) (10 April 2017: 486.88017 cents)	3 000	2 100
Interim dividend ( <b>17 September 2018: 602.27349 cents</b> ) (11 September 2017: 892.25702 cents)	2 700	4 000
Special dividend (30 June 2017: 811.4669592 cents)	—	3 500
	<b>5 700</b>	<b>9 600</b>
<b>Dividends paid to preference equity holders</b>		
Final dividend ( <b>16 April 2018: 3 558.01 cents</b> ) (10 April 2017: 3 644.79452 cents)	176	180
Interim dividend ( <b>17 September 2018: 3 542.67 cents</b> ) (11 September 2017: 3 685.06849 cents)	175	182
	<b>351</b>	<b>362</b>
<b>Distributions paid to Additional Tier 1 Capital note holders</b>		
Distributions ( <b>12 December 2018: R31 620.63</b> ) ( <b>12 September 2018: R31 675.726</b> ) ( <b>12 June 2018: R32 200</b> ) ( <b>12 March 2018: R31 500</b> ) (12 December 2017: R31 990.79)	190	48
	<b>190</b>	<b>48</b>

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 38. Securities borrowed/lent and repurchase/reverse repurchase agreements

### 38.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R77 469m** (2017: R45 234m) of which **R46 288m** (2017<sup>1</sup>: R20 937m) have been sold or repledged.

### 38.2 Repurchase agreements and securities lent

The following table shows the carrying amount of transferred assets that have not resulted in any derecognition, together with the associated liabilities.

	Bank				
	2018				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	52 857	(51 330)	52 857	(51 330)	1 527
Equity instruments	3 434	(1 085)	3 434	(1 085)	2 348
	2017				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	20 283	(19 891)	20 283	(19 891)	392
Equity instruments	6 278	(1 309)	6 278	(1 309)	4 969

The transferred assets are presented in the 'Trading portfolio assets' and 'Investment securities' lines on the statement of financial position.

## 39. Transfer of financial assets

### 39.1 Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Bank transfers financial assets to SEs, either legally (where legal rights to the cash flows from the asset are transferred to the counterparty) or beneficially (where the Bank retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition of the assets or no derecognition of the assets.

### 39.2 Transfer of financial assets that does not result in derecognition

	Bank				
	2018				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	25	(25)	25	(25)	—
	2017				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	74	(74)	74	(74)	—

Balances included within loans and advances to customers represent instances where substantially all the risks and rewards (credit risk and prepayment risk) of the financial asset have been retained by the Bank.

The relationship between the transferred assets and the associated liabilities is that holders of the associated liabilities may only look to cash flows from the transferred assets for payments due to them, although the contractual terms may differ from those of the transferred assets.

The tables above exclude balances disclosed in Note 38.

<sup>1</sup> The fair value of securities that have been repledged or sold has been restated to take into account the selling of borrowed securities (i.e. short positions) which was previously erroneously excluded. This has resulted in an increase of R8 141m from R12 796m previously reported.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 39. Transfer of financial assets (continued)

### 39.3 Transfer of financial assets that results in partial derecognition

The Bank invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise corporate loans. The assets are included in the statement of financial position under 'Loans and advances to customers'. The carrying amount of the loans before transfer was **R1 175m** (2017: R1 175m) and the current carrying amount as at the reporting date is R747m (2017: R748m). There are no liabilities associated with the assets transferred.

### 39.4 Continuing involvement in financial assets that have been derecognised in their entirety

The instance may arise where the Bank transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2018, the Bank had no continuing involvement where financial assets have been derecognised in their entirety (31 December 2017: None).

## 40. Related parties

### 40.1 Transactions with key management personnel

IAS 24 Related Party Disclosures (IAS 24), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee (Exco). A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related-party transactions conducted during the reporting period are as follows:

	Bank	
	2018 Rm	2017 Rm
<b>Key management personnel compensation</b>		
<b>Directors</b>		
Deferred cash payments	9	5
Non-deferred cash payments	—	8
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	35	48
Share-based payments	33	41
	<b>78</b>	<b>103</b>
<b>Other key management personnel</b>		
Deferred cash payments	18	8
Non-deferred cash payments	—	9
Post-employment benefit contributions	2	1
Salaries and other short-term benefits	57	48
Share-based payments	75	57
	<b>152</b>	<b>123</b>



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 40. Related parties (continued)

### 40.1 Transactions with key management personnel (continued)

	2018		Bank		2017	
	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm
<b>Loans</b>						
Balance at the beginning of the reporting period	29	15	49	9		
Inception/(discontinuance) of related-party relationships <sup>1</sup>	16	(1)	(29)	—		
Loans issued and interest earned	101	—	65	9		
Loans repaid	(59)	6	(56)	(3)		
<b>Balance at the end of the reporting period</b>	<b>87</b>	<b>20</b>	<b>29</b>	<b>15</b>		
<b>Interest income</b>	<b>(6)</b>	<b>(1)</b>	<b>(3)</b>	<b>(1)</b>		
<b>Deposits</b>						
Balance at the beginning of the reporting period	27	—	18	—		
Inception/(discontinuance) of related-party relationships <sup>1</sup>	4	24	(2)	—		
Deposits received	145	(18)	203	—		
Deposits repaid and interest paid	(149)	—	(192)	—		
<b>Balance at the end of the reporting period</b>	<b>27</b>	<b>6</b>	<b>27</b>	<b>—</b>		
<b>Interest expense</b>	<b>1</b>	<b>—</b>	<b>1</b>	<b>—</b>		
<b>Guarantees</b>	<b>109</b>	<b>24</b>	<b>55</b>	<b>24</b>		
<b>Other investments</b>						
Balance at the beginning of the reporting period	119	48	105	39		
(Discontinuance)/inception of related-party relationships <sup>1</sup>	(33)	—	(12)	—		
Value of new investments/contributions	29	2	85	9		
Value of withdrawals/disinvestments	(15)	(4)	(61)	(2)		
Fees and charges	—	—	(1)	—		
Investment returns	34	(2)	3	2		
<b>Balance at the end of the reporting period</b>	<b>134</b>	<b>44</b>	<b>119</b>	<b>48</b>		

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Bank, including interest rates and collateral requirements. No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable.

In addition to the specific guarantees, a number of key management personnel and entities controlled by key management personnel have unlimited surety with the Bank.

#### Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R1.3m** (2017: R0.570m) and received claims of **R0m** (2017:R 0.16m)

<sup>1</sup> Includes balances relating to key management personnel who resigned during the reporting periods.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 40. Related parties (continued)

### 40.2 Transactions with Barclays PLC, fellow subsidiaries, and associates and joint ventures of Barclays PLC

	Bank <sup>1</sup> 2017	
	Barclays PLC <sup>2</sup> Rm	Fellow subsidiaries and associates and joint ventures of Barclays PLC Rm
<b>Transactions</b>		
Interest and similar income	(34)	—
Interest expense and similar charges	12	—
Gains and losses from banking and trading activities	9	—
Net fee and commission income	(3)	—
Other operating income	4	—
Operating expenditure/(recovered expenses)	45	(326)

Trade balances must be settled in accordance with market conventions applicable to the underlying transaction. Non-trade balances must be settled by the close of the month immediately following the month in which the transaction occurred. Settlement must be in the currency required by the related-party. In exceptional cases, it may be impractical or inefficient to settle balances monthly. In such cases, the unsettled balances must be explicitly agreed to on a monthly basis in writing and full settlement must be made at least quarterly.

There were no bad debt expenses and provisions for bad debts that related to balances and transactions with the parent company, fellow subsidiaries, and associates and joint ventures of the parent company.

	Bank <sup>1</sup>			
	2018		2017	
	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent company Rm	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent company Rm
<b>Balances</b>				
Loans and advances to banks	—	176	—	98
Trading portfolio assets	—	(2)	—	(20)
Other assets	—	—	—	184
Loans to ABSA group companies	—	37 363	—	36 530
Deposits from banks	—	(10 335)	—	(10 592)
Other liabilities	—	—	—	—
Borrowed funds	—	(17 685)	—	(10 402)
Trading portfolio liabilities	—	—	—	—
<b>Transactions</b>				
Dividends paid	5 700	—	9 600	—
Distributions paid to Tier 1 capital holders	(190)	—	—	—
Interest and similar income	—	(1 091)	—	(1 152)
Interest expense and similar charges	193	2 357	41	1 681
Fee and commission income	(1)	(503)	(3)	(481)
Fee and commission expense	—	(75)	-	(19)
Gains and losses from banking and trading activities	(22)	1 052	80	(5 082)
Gains and losses from investing activities	—	1	-	—
Other operating income	—	(2)	—	(22)
Operating expenditure/(recovered expenses)	—	(952)	—	584

<sup>1</sup> Debit amounts are shown as positive, credit amounts are shown as negative.

<sup>2</sup> Barclays PLC was a majority shareholder and parent company of the bank until June 2017.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 40. Related parties (continued)

### 40.3 Subsidiaries and consolidated structured entities

The following information provided is in respect of the Bank's main subsidiaries. The main subsidiaries are those entities whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Bank's subsidiaries, on the figures shown in the consolidated financial statements. The significance of this impact is judged from both a qualitative and a quantitative perspective and is assessed on a half yearly basis.

Name	Nature of business	Country of incorporation	Bank	
			2018 % holding	2017 % holding
Absa Capital Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	100	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	100	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	100	100
Alberton Industrial Properties Proprietary Limited	Obtains loans from Absa Bank to finance Devco subsidiaries.	South Africa	100	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	100	100
<b>Structured entities</b>				
Absa Bond Fund	Fund used to invest in unit trusts.	South Africa	n/a	n/a
Absa Foundation trust	Fund used to invest in unit trusts. Provides funding for community upliftment. It receives a percentage of the group's dividends which it distributes to identified community-related projects.	South Africa	n/a	n/a
Home Obligor Mortgages Enhanced Securities Proprietary Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	n/a	n/a
Impumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed commercial		n/a	n/a
Maravedi Financial Services-Life Cell	Credit life insurance.	South Africa	n/a	n/a

A full list of subsidiaries and consolidated Structured Entities (SE's) is available, on request, at the registered address of the Bank.

### 40.4 Nature and extent of significant restrictions relating to investments in subsidiaries

There are significant restrictions on the ability of the Bank to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from regulatory and contractual requirements and from the protective rights of non-controlling interests.

#### Regulatory requirements

The Bank's banking and insurance subsidiaries are subject to the regulatory capital (RC) requirements of the countries in which they operate. These require, inter alia, that these entities maintain minimum capital ratios which restrict the ability of these entities to make distributions to the parent company. Distributions are also restricted by leverage constraints, large exposure limits and local legal licence requirements.

The requirements to maintain capital also affect certain equity and non-equity instruments in these subsidiaries such as Tier 1 and Tier 2 capital instruments and other subordinated liabilities which enable subsidiaries to meet their ratios. To the extent that these are retired, they must be replaced with instruments of similar terms.

The minimum amount of RC required to be maintained by the Bank was **R63.4bn** (2017: R58.2bn).

#### Contractual requirements

Certain of the Bank's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Bank has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2018 was **R10bn** and **R9.9bn** respectively (2017: R5.5bn and R5.4bn respectively).

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 40. Related parties (continued)

#### 40.5 Associates, joint ventures and retirement benefit fund

The Bank provides certain banking and financial services to associates and joint ventures. The Bank also provides a number of current and interest-bearing cash accounts to the Absa Pension Fund. These transactions are generally conducted on the same terms as third-party transactions.

In aggregate, the amounts included in the Bank's consolidated financial statements are as follows:

	Bank		
	Associates and joint ventures Rm	2018 Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Bank	—	7 055	7 055
Value of Absa defined contribution pension fund investments managed by the Bank	—	19 474	19 474
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	—	—
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	34	34
<b>Statement of financial position</b>			
Other assets	—	468	468
Loans and advances to customers (refer to note 8)	28 259	—	28 259
<b>Statement of comprehensive income</b>			
Interest income from joint ventures and associates and on plan assets	2 094	1 294	3 388
Interest expense on defined benefit obligations	—	(1 035)	(1 035)
Fee and commission income	154	—	154
Fee and commission expense	(107)	—	(107)
Current service costs (refer to note 36)	—	(51)	(51)
Staff Costs (contributions to Absa Pension Fund)	—	(0)	(0)
Operating expenses	(1 185)	—	(1 185)
		2017	
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Bank	—	9 836	9 836
Value of Absa defined contribution pension fund investments managed by the Bank	—	19 930	19 930
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	59	59
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	131	131
<b>Statement of financial position</b>			
Other assets	—	466	466
Loans and advances to customers (refer to note 8)	26 054	—	26 054
<b>Statement of comprehensive income</b>			
Interest and similar income	1 800	854	2 654
Interest expense and similar charges	—	(812)	(812)
Fee and commission income	148	—	148
Fee and commission expense	(114)	—	114
Current service costs (refer to note 36)	—	(32)	(32)
Staff Costs (contributions to Absa Pension Fund)	—	(749)	(749)
Operating expenses	956	—	956

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 40. Related parties (continued)

#### 40.5 Associates, joint ventures and retirement benefit fund (continued)

The information provided below is in respect of the Bank's main associates and joint ventures. The main associates and joint ventures are those arrangements whose results or financial position, in the opinion of the directors, had the most significant impact, relative to all the Bank's associates and joint ventures, on the Bank's consolidated financial statements. Despite these investments having the most significant impact relative to all the Bank's associates and joint ventures, none of the Bank's associates or joint ventures are considered to have an impact that is individually material. Materiality and the relative significance of the Bank's associates and joint ventures are judged from a qualitative and quantitative perspective and is assessed half-yearly.

Name	Nature of business	Bank	
		2018 Ownership %	2017 Ownership %
<b>Equity-accounted associates</b>			
SBV Services Proprietary Limited	Cash transportation services.	25	25
The Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	25	25
The South African Bankers Services Company Proprietary Limited	Automatic clearing house.	23	23
<b>Equity-accounted joint ventures</b>			
FFS Finance South Africa Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	50	50
Integrated Processing Solutions	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	50	50
MAN Financial Services (S.A.) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	50	50
<b>Associates and joint ventures designated at fair value through profit or loss</b>	Various	<b>Various</b>	Various

All associates and joint ventures are incorporated in South Africa.

A full list of associates and joint ventures is available, on request, at the registered address of the Bank.

SBV Services Proprietary Limited and The South Africa Bankers Services Company Proprietary Limited have a reporting date of 30 June.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 41. Offsetting financial assets and financial liabilities

Where relevant the Bank reports derivative financial instruments and reverse repurchase and repurchase agreements and other similar secured lending and borrowing agreements on a net basis.

The following table shows the impact of netting arrangements on the statement of financial position for recognised financial assets and financial liabilities that are reported net on the statement of financial position. Also presented are derivative financial instruments and reverse repurchase and repurchase agreements and other similar lending and borrowing agreements that are subject to enforceable master netting or similar agreements which did not qualify for presentation on a net basis. The table also shows potential netting not recognised on the statement of financial position that results from arrangements that do not meet all the IAS 32 netting criteria, because there is no intention to net settle or realise simultaneously, and related financial collateral that mitigates credit risk.

The net amounts presented are not intended to represent the Bank's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements

	Bank							
	2018							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position <sup>1</sup> Rm	Offsetting financial instruments Rm	Financial collateral <sup>2</sup> Rm	Net amount Rm	Amounts not subject to enforceable netting arrangements <sup>3</sup> Rm	Total per statement of financial position <sup>4</sup> Rm	
Derivative financial assets	50 684	(6 322)	44 362	(33 074)	(4 422)	6 866	1 768	46 130
Reverse repurchase agreements and other similar secured lending	48 148	—	48 148	—	(48 148)	—	—	48 148
<b>Total assets</b>	<b>98 832</b>	<b>(6 322)</b>	<b>92 510</b>	<b>(33 074)</b>	<b>(52 570)</b>	<b>6 866</b>	<b>1 768</b>	<b>94 278</b>
Derivative financial liabilities	(42 398)	7 415	(34 983)	33 074	—	(1 909)	(1 568)	(36 551)
Repurchase agreements and other similar secured borrowings	(79 651)	—	(79 651)	—	79 651	—	—	(79 651)
<b>Total liabilities</b>	<b>(122 049)</b>	<b>7 415</b>	<b>(114 634)</b>	<b>33 074</b>	<b>79 651</b>	<b>(1 909)</b>	<b>(1 568)</b>	<b>(116 202)</b>

<sup>1</sup> Net amounts reported on the statement of financial position comprise exposures that have been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.

<sup>2</sup> Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.

<sup>3</sup> In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.

<sup>4</sup> Total per statement of financial position is the sum of 'Net amounts reported on the statement of financial position' which are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 41. Offsetting financial assets and financial liabilities (continued)

Bank 2017								
Amounts subject to enforceable netting arrangements								
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position <sup>1</sup> Rm	Offsetting financial instruments Rm	Financial collateral <sup>2</sup> Rm	Net amount Rm	Amounts not subject to enforce- able netting arrange- ments <sup>3</sup> Rm	Total per statement of financial position <sup>4</sup> Rm
Derivative financial assets	53 199	(5 785)	47 414	(30 082)	(2 009)	15 323	11 727	59 141
Reverse repurchase agreements and other similar secured lending	35 378	—	35 378	—	(35 378)	—	—	35 378
<b>Total assets</b>	<b>88 577</b>	<b>(5 785)</b>	<b>82 792</b>	<b>(30 082)</b>	<b>(37 387)</b>	<b>15 323</b>	<b>11 727</b>	<b>94 519</b>
Derivative financial liabilities	(44 993)	6 045	(38 948)	30 096	—	(8 852)	(13 862)	(52 810)
Repurchase agreements and other similar secured borrowing	(31 827)	—	(31 827)	—	31 827	—	—	(31 827)
<b>Total liabilities</b>	<b>(76 820)</b>	<b>6 045</b>	<b>(70 775)</b>	<b>30 096</b>	<b>31 827</b>	<b>(8 852)</b>	<b>(13 862)</b>	<b>(84 637)</b>

### Offsetting and collateral arrangements

#### Derivative assets and liabilities

Credit risk is mitigated where possible through netting arrangements, such as the International Swaps and Derivative Association (ISDA) Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral (cash and non-cash) is also obtained, often daily, for the net exposure between counterparties where possible to further mitigate credit risk.

#### Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Bank are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 55.

<sup>1</sup> Net amounts reported on the statement of financial position comprise exposures that have been netted on the statement of financial position in compliance with IAS 32 (net exposure) and exposures that are subject to legally enforceable netting arrangements but have not been netted on the statement of financial position.

<sup>2</sup> Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.

<sup>3</sup> In certain jurisdictions a contractual right of set-off is subject to uncertainty under laws of the jurisdiction and therefore netting is not applied and the amounts are classed as not subject to legally enforceable netting arrangements.

<sup>4</sup> Total per statement of financial position is the sum of 'Net amounts reported on the statement of financial position' which are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank	
	2018 Rm	2017 Rm
<b>42. Earnings per share</b>		
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period. Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are no instruments that would have a dilutive impact.		
Basic and diluted earnings attributable to ordinary equity holders	7 481	8 067
Weighted average number and diluted number of ordinary shares in issue (millions)	448.3	440.7
Issued shares at the beginning of the reporting period	448.3	431.3
Shares issued during the reporting period (weighted)	—	9.4
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	1 668.7	1 830.3

## 43. Structured entities

### Exchange-traded funds

Exchange Traded Funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a market maker to ensure that liquidity is always maintained, and in many instances, the Bank will act in this capacity. The Bank will therefore hold a direct interest in the funds, but the magnitude of such interest will vary with sufficient regularity. Whether the Bank consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Bank's ability to direct the relevant activities of the funds, either directly or indirectly. The Bank, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Bank earns management fee income from its involvement in the funds. To the extent that the Bank holds participatory units in the funds, the Bank will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof. ETFs are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act, No 45 of 2002.

### Securitisation vehicles

The Bank has used SEs in order to securitise loans that were originated by the Bank. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Bank transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Bank purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Bank, the Bank will not have power over the relevant activities of the vehicle. The Bank earns interest income on the notes issued by the vehicles, together with management fees from the Bank's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Bank in profit or loss.

### Structured investment vehicles

The Bank holds investments in a number of vehicles which were established and are managed by third-party fund managers. These vehicles are generally not consolidated by the Bank on the basis that the relevant activities of the vehicles are directed by the fund manager, and no substantive kick-out rights exist. The investments held in the vehicles are measured at fair value with changes therein being recognised in profit or loss. Distributions made by the vehicles will be recognised as investment income in profit or loss. The vehicles are funded through the commitment and provision of capital by investors.

### Preference share funding vehicles

The Bank provides financing to a number of SEs, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Bank recognises interest income from its investments. Often the Bank subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Bank does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated. An entity which forms part of the same Bank of companies as the preference share funding vehicle, most commonly the parent company, writes the Bank a financial guarantee or a put option, so as to provide security in the event of default.

### Funding vehicles

The Bank provides funding in the form of loans to bankruptcy remote SEs to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same Bank of companies. The Bank earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 43. Structured entities (continued)

### 43.1 Consolidated structured entities

During the reporting period the Bank provided financial or other support to the following consolidated SEs despite not being contractually obliged to do so:

Name	Nature of support	Reason for providing support	Bank	
			2018 Rm	2017 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	78	79
Various ETF portfolios	Expense subsidy	Subsidising the fixed cost incurred by the new ETF funds as the funds cannot yet cover their own costs due to low levels of market capitalisation.	4	9

The Bank has consolidated the Absa Foundation Trust since 2006 and new ETFs since 2017.

The Bank intends to provide financial support to the Absa Foundation Trust and any new ETFs in 2019.

### 43.2 Unconsolidated structured entities

The level of risk that the Bank is exposed to is determined by the nature and purpose of it holding an interest in the entity. Owing to the large number of SEs in which the Bank holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Bank					Total Rm
	2018					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	
<b>Assets</b>						
Trading portfolio assets	—	—	—	—	—	—
Investment securities	—	503	—	431	—	934
Debt securities	—	503	—	—	—	503
Equity securities	—	—	—	431	—	431
Loans and advances to customers	18 127	—	2 541	—	68	20 736
Derivatives held for trading	—	—	3	—	—	3
Interest rate derivatives (carrying value)	—	—	3	—	—	3
Interest rate derivatives (notional value)	—	—	280	—	—	280
Undrawn liquidity facilities and financial guarantees (notional value) <sup>1</sup>	—	—	350	—	—	350
Other assets <sup>1</sup>	—	—	—	—	—	—
	18 127	503	2 894	431	68	22 023
<b>Liabilities</b>						
Derivatives held for trading	—	—	10	—	—	10
Interest rate derivatives (carrying value)	—	—	10	—	—	10
Interest rate derivatives (notional value)	—	—	703	—	—	703
Deposits due to customers	—	—	1 118	—	—	1 118
	—	—	—	—	—	1 128
<b>Maximum exposure to loss<sup>2</sup></b>	18 127	503	2 894	431	68	22 023
<b>Total size of entities<sup>3</sup></b>	89 587	503	4 139	18 485	68	112 782

<sup>1</sup> There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

<sup>2</sup> The Bank's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

<sup>3</sup> Total size of entities is measured relative to total assets.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 43. Structured entities (continued)

### 43.2 Unconsolidated structured entities (continued)

	2017					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
<b>Assets</b>						
Trading portfolio assets	—	—	—	—	—	—
Investment securities	—	477	926	510	—	1 913
Debt securities	—	477	926	—	—	1 403
Equity securities	—	—	—	510	—	510
Loans and advances to customers <sup>4</sup>	12 272	—	2 016	—	61	14 350
Derivatives held for trading	—	—	21	—	—	21
Interest rate derivatives (carrying value)	—	—	21	—	—	21
Interest rate derivatives (notional value)	—	—	280	—	—	280
Undrawn liquidity facilities and financial guarantees (notional value)	—	—	288	—	—	288
	12 272	477	3 251	510	61	16 571
<b>Liabilities</b>						
Derivatives held for trading	—	—	11	—	—	11
Interest rate derivatives (carrying value)	—	—	11	—	—	11
Interest rate derivatives (notional value)	—	—	848	—	—	848
Deposits due to customers	—	—	1 143	—	—	1 143
	—	—	1 154	—	—	1 154
<b>Maximum exposure to loss<sup>2,4</sup></b>	12 272	477	3 251	510	61	16 571
<b>Total size of entities<sup>3,4</sup></b>	61 360	477	6 071	28 013	61	95 982

The Bank did not incur any losses related to its interests in unconsolidated structured entities in the current financial reporting period (2017: Rnil).

### 43.3 Sponsored entities

The Bank did not earn material income from its involvement in the unconsolidated SEs which it sponsors.

#### Assets transferred to unconsolidated sponsored structured entities

The Bank did not transfer assets during the current reporting year (2017: Rnil) to its unconsolidated sponsored structured entities.

<sup>1</sup> There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

<sup>2</sup> The Bank's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

<sup>3</sup> Total size of entities is measured relative to total assets.

<sup>4</sup> Certain unconsolidated preference funding vehicles were erroneously excluded from this disclosure in the prior year. As a result, the maximum exposure to loss has been restated and increased by R4.3bn, and the total size of entities has been restated and increased by R20.3bn. The maximum exposure was however appropriately reflected in the 2017 statement of financial position.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

	Bank (unaudited) 2018 Rm	(unaudited) 2017 Rm
<b>44. Assets under management and administration</b>		
Alternative asset management and exchange-traded funds	19 977	28 044
Other managed funds	2 038	2 168
Portfolio management	3 135	2 947
	<b>27 280</b>	<b>35 595</b>

	Bank 2018 Rm	2017 Rm
<b>45. Commitments</b>		
<b>Authorised capital expenditure</b>		
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.		
<b>Operating lease payments due</b>		
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
	<b>4 209</b>	<b>4 582</b>

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.

	Bank 2018 Rm	2017 Rm
<b>46. Contingencies</b>		
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
	<b>207 568</b>	<b>178 042</b>

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 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. Refer to note 18.

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

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 46. Contingencies (continued)

### Legal proceedings

The Bank has been party to proceedings against it during the reporting period. As at reporting date the material cases are disclosed below:

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

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 46. Contingencies (continued)

### 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.

	Bank	
	2018 Rm	2017 Rm
<b>47. Cash and cash equivalents</b>		
Cash, cash balances and balances with central banks <sup>1</sup>	9 571	9 684
Loans and advances to banks <sup>2</sup>	388	1 356
	<b>9 959</b>	<b>11 040</b>

	Bank	
	2018 Rm	2017 Rm
<b>48. Deferred cash and share-based payments</b>		
<b>Share-based payments expense</b>	<b>514</b>	<b>527</b>
Equity-settled arrangements:		
Absa Group Limited Long-Term Incentive Plan (LTIP)	103	131
Absa Group Limited Joiners Share Value Plan (JSVP)	32	33
Absa Group Limited Share Value Plan (SVP)	243	188
Absa Group Limited Share Incentive Awards (SIA)	(10)	72
Absa Group Limited Retention Share Value Plan (SVP Cliff)	(2)	28
Absa Group Limited Restricted Share Value Plan (RSVP)	112	15
Cash-settled arrangements:		
Absa Group Limited Long-Term Incentive Plan (LTIP)	2	16
Absa Group Limited Phantom Joiners Share Award Plan (JSAP)	—	1
Absa Group Limited Joiners Share Value Plan (JSVP)	8	4
Absa Group Limited Share Value Plan (SVP)	11	16
Absa Group Limited Retention Share Value Plan (SVP Cliff)	—	2
Absa Group Limited Role Based Pay (RBP)	(1)	3
Absa Group Limited Restricted Share Value Plan (RSVP)	16	18
<b>Deferred cash expense</b>		
Absa Group Limited cash value plan (CVP)	173	214
<b>Total deferred cash and share-based payments (refer to note 31)</b>	<b>687</b>	<b>741</b>
<b>Total carrying amount of liabilities for cash-settled arrangements (refer to note 17)</b>	<b>293</b>	<b>270</b>
<b>Total carrying amount of the equity-settled share-based payment (refer to the statement of changes in equity)</b>	<b>794</b>	<b>749</b>

<sup>1</sup> Includes coins and bank notes.

<sup>2</sup> Includes call advances, which are used as working capital by the Bank.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 48. Deferred cash and share-based payments (continued)

Following regulatory deconsolidation from Barclays PLC in July 2018, the Bank is no longer required to comply with the UK Prudential Regulatory Authority Remuneration Rulebook which required material risk takers to have a deferral period of five years. The Bank has subsequently reassessed the vesting periods for incentive awards and has reduced the vesting period for affected populations to three years, which is aligned with local market practice. This modification in the vesting period resulted in an increase in the share-based payment expense for the current year of **R33m**.

During the prior reporting period, two of the Bank's cash value plans (CVP) share plans were converted into equity-settled share-based payment schemes. In addition, the vesting periods of certain tranches were changed from being a period of two or three years to a period ranging between two and five years. The reclassification, coupled with the modification in vesting period, resulted in a reduction in the share-based payment expense for the year of **R23.5m**.

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

### Absa Group Limited Long-Term Incentive Plan

Qualifying participants of the Long-Term Incentive Plan (LTIP) will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The Bank retains the obligation to settle in cash certain LTIP awards that are prohibited from being equity-settled. The award will be issued by the employing entity or subsidiary in the Bank. In order for the participant to be entitled to these awards, the participant needs to render three years of service and the requisite performance conditions need to be met. Dividends accumulate and are reinvested over the vesting period.

### Absa Group Limited Phantom Joiners Share Award Plan

The Phantom Joiners Share Award Plan (JSAP) enables the Bank to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period, which can be over one to seven years.

### Absa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan (JSVP) enables the Bank to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to seven years.

### Absa Group Limited Share Value Plan

The Share Value Plan (SVP) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one to five years. The Bank retains the obligation to settle in cash certain SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

### Absa Group Limited Restricted Share Value Plan

The Restricted Share Value Plan (RSVP) awards (and any associated notional dividends) are awarded at no cost to the participants. Vesting periods range from two to five years, with each tranche subject to its own independent non-market-related performance condition on vesting. The Bank retains the obligation to settle in cash certain RSVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

### Absa Group Limited Share Incentive Awards

The Share Incentive Award (SIA) is a scheme for certain employees previously identified as Code Staff for Absa Group Limited. The award which is 50% of the participant's non-deferred annual incentive, will vest up to 12 months from the date on which it is granted.

### Absa Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years or in equal tranches over three years, subject to their own independent non-market-related performance condition on vesting. The Bank retains the obligation to settle, in cash, certain historic SVP Cliff awards that were not converted to equity-awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Deferred cash and share-based payments (continued)

#### Absa Bank Limited Role Base Pay

The Role Based Pay (RBP) is a cash settled share scheme for Code staff. It limits the maximum level of variable compensation that may be paid to certain employees to 1x fixed pay, or 2x fixed pay with shareholder approval. The cash element will be paid at the same time as the salaries and the share element will be delivered quarterly, with the shares subject to a holding period. Dividends accumulate and are reinvested over the vesting period.

	2018					Number of awards '000					
	Opening balance	Granted/transferred	Forfeited	Exercised	Closing balance	Opening balance	Effect of conversion	Granted/transferred	Forfeited	Exercised	Closing balance
Equity-settled:											
LTIP	7 676	128	(518)	(5)	7 281	4 631	—	3 107	(8)	(54)	7 676
JSAP	—	—	—	—	—	1	—	—	—	(1)	—
JSVP	258	266	(14)	(161)	349	260	—	276	(15)	(263)	258
SVP	2 528	1 490	(107)	(1 232)	2 679	2 607	(5)	1 281	(133)	(1 222)	2 528
SIA	455	—	(111)	(270)	74	454	—	392	—	(391)	455
RSVP	2 016	—	(79)	(589)	1 348	—	2 016	—	—	—	2 016
SVP Cliff	346	—	(16)	(330)	—	1 878	—	2	(54)	(1 480)	346
Cash-settled:											
LTIP	484	—	(42)	—	442	203	—	484	—	(203)	484
JSVP	1	18	—	—	19	3	—	—	—	(2)	1
SVP	23	—	—	(2)	21	91	5	3	(5)	(71)	23
RSVP	305	—	—	(73)	232	—	305	—	—	—	305
SVP Cliff	—	—	—	—	—	239	—	—	—	(239)	—
RBP	67	—	—	(53)	14	76	—	11	—	(20)	67

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

	Weighted average share price at exercise date during the reporting period (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2018	2017	2018	2017	2018	2017
Equity-settled:						
LTIP	144.69	138.87	1.58	2.58	—	144.69
JSAP	—	134.03	—	—	—	—
JSVP	162.78	161.68	1.63	1.76	158.76	152.74
SVP	161.24	156.86	1.39	1.93	194.59	157.91
SIA	198.50	157.91	0.16	0.67	198.50	157.91
RSVP	153.00	—	1.10	2.55	—	146.01
SVP Cliff	182.98	174.98	—	0.43	—	—
Cash-settled:						
LTIP	—	138.87	2.58	2.58	—	144.69
JSVP	—	151.45	2.40	0.95	178.67	—
SVP	198.50	151.71	0.93	0.51	—	157.91
RSVP	152.41	—	1.13	2.38	—	142.79
SVP Cliff	—	155.25	—	—	—	—
RBP	162.08	157.89	1.82	2.39	—	151.38

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 48. Deferred cash and share-based payments (continued)

#### Future cash flow effects associated with equity-settled share-based payments

2018

	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	207	437	—	644

2017

	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	204	643	—	847

The estimates provided above indicate the amounts which are expected to be transferred to tax authorities relating to the employees' tax obligations on equity schemes which have been granted but which vest in future periods. The amounts were estimated based on the number of awards expected to vest, the share price as at year-end and an estimate of the average applicable employee effective tax rate.

#### Deferred cash

##### Absa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash settled payment arrangement. The award will vest in equal tranches over a period of three and five years, subject to the rules which includes a 10% service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2018 is 10% (2017: 10%) of the initial value of the award that vests.

### 49. Acquisitions and disposals of businesses and other similar transactions

#### 49.1 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.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 49. Acquisitions and disposals of businesses and other similar transactions (continued)

#### 49.1 Acquisitions of businesses during the current reporting period (continued)

	Pacific Heights	Home Obligor Mortgage Enhanced Securities (RF) Limited	Bank
	Fair value recognised on acquisition Rm	2018 Carrying value recognised on acquisition Rm	Rm
<b>Consideration at date of acquisition:</b>			
Cash	30	—	30
Acquisition – date fair value of initial interest	168	—	168
<b>Total consideration</b>	<b>198</b>	<b>—</b>	<b>198</b>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>			
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)
<b>Total identifiable net assets</b>	<b>164</b>	<b>0</b>	<b>164</b>
<b>Goodwill</b>	<b>34</b>	<b>—</b>	<b>34</b>
<b>Total</b>	<b>198</b>	<b>—</b>	<b>198</b>

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

#### 49.1.1 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 Obligor Mortgage Enhanced Securities (RF) Limited is **R1.2m** and for Pacific Heights Investments 196 (Pty) Ltd is **R30.6m**.

#### 49.1.2 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 7) 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**.

#### 49.2.1 Acquisitions of businesses during the previous reporting period

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

#### 49.2.2 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 7) 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**.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 50. Segment report

### 50.1 Summary of segments

The Bank has identified its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity. The identified reportable segments are in a manner in which the Bank's businesses are managed and reported to the Chief Operating Decision Maker (CODM).

The following summary describes the operations in each of the Bank's key divisions:

- › Retail and Business Banking South Africa (RBB SA): offers retail and business banking products within South Africa.
- › Corporate and Investment Banking South Africa (CIB SA): offers corporate and investment banking solutions in South Africa.
- › Wealth: offers wealth management services.
- › Head Office, Treasury and other operations in South Africa: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- › Barclay's separation effects: Barclays PLC contributed R12.1 billion to the Group in June 2017, 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. The separation process will increase the capital base of the Group in the near-term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclay's separation effects' in its segment results.

The reportable segments identified are broken down into smaller components to provide additional information of each. Discrete financial information is available for the following:

#### Reportable segments:

##### › RBB SA:

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

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 50. Segment report (continued)

### 50.1 Summary of segments (continued)

#### Reportable segments: (continued)

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

#### Other reconciling stripes

- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities.
- Barclay's separation effects: as part of Barclays PLC divestment Barclays PLC contributed R12.1 billion primarily in recognition of the investments required for the Bank to separate from Barclays PLC. Investments will be made 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 Bank overtime.

#### Reportable segment changes

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

#### Business portfolio changes

The following business portfolio changes resulted in the restatement of financial results for the comparative period. None of the restatements have impacted the overall financial position or net earnings for the 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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# Notes to the consolidated financial statements

for the reporting period ended 31 December

	RBB South Africa		CIB South Africa		Wealth	
	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>
<b>50. Segment report</b> (continued)						
<b>Statement of comprehensive income (Rm)</b>						
Net interest income	24 047	23 883	6 935	6 402	253	277
Non-interest income	17 200	16 270	3 907	4 190	177	153
<b>Total income</b>	<b>41 247</b>	<b>40 153</b>	<b>10 842</b>	<b>10 592</b>	<b>430</b>	<b>430</b>
Impairment losses	(4 068)	(4 417)	(1 032)	(567)	33	(120)
Operating expenses	(24 746)	(23 517)	(6 246)	(5 575)	(992)	(883)
Depreciation and amortisation	(419)	(373)	—	(5)	(2)	(2)
Other operating expenses	(24 327)	(23 144)	(6 246)	(5 570)	(990)	(881)
Other	(289)	(227)	(43)	(180)	(4)	(3)
Other impairments	(59)	30	—	—	—	—
Indirect taxation	(230)	(257)	(43)	(180)	(4)	(3)
Share of post-tax results of associates and joint ventures	150	153	14	5	—	—
<b>Operating profit before income tax</b>	<b>12 294</b>	<b>12 145</b>	<b>3 535</b>	<b>4 275</b>	<b>(533)</b>	<b>(576)</b>
Tax expenses	(3 397)	(3 429)	(510)	(773)	149	162
<b>Profit for the reporting period</b>	<b>8 897</b>	<b>8 716</b>	<b>3 025</b>	<b>3 502</b>	<b>(384)</b>	<b>(414)</b>
<b>Profit attributable to:</b>						
Ordinary equity holders	8 566	8 456	2 819	3 355	(388)	(418)
Non-controlling interest – ordinary shares	—	1	—	—	—	—
Non-controlling interest – preference shares	214	229	134	129	3	4
Non-controlling interest – additional Tier 1	117	30	72	18	1	0
	<b>8 897</b>	<b>8 716</b>	<b>3 025</b>	<b>3 502</b>	<b>(384)</b>	<b>(414)</b>
<b>Headline earnings</b>	<b>8 646</b>	<b>8 507</b>	<b>2 819</b>	<b>3 355</b>	<b>(388)</b>	<b>(418)</b>
<b>Statement of financial position (Rm)</b>						
Loans and advances to customers	456 960	435 499	271 792	219 012	5 734	5 004
Loans and advances to banks	11 035	7 670	36 587	30 858	—	—
Investment securities	45 190	43 100	38 022	30 091	299	307
Other assets	278 524	254 587	175 067	206 207	1 337	786
<b>Total assets</b>	<b>791 709</b>	<b>740 856</b>	<b>521 468</b>	<b>486 168</b>	<b>7 370</b>	<b>6 097</b>
Deposits due to customers	333 061	300 729	173 834	177 256	5 097	5 150
Debt securities in issue	—	—	11 864	12 717	—	—
Other liabilities	451 734	430 005	331 717	291 673	2 694	1 358
<b>Total liabilities</b>	<b>784 795</b>	<b>730 734</b>	<b>517 415</b>	<b>481 646</b>	<b>7 791</b>	<b>6 508</b>

<sup>1</sup> These numbers have been restated, refer to note 50.1.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

Head Office, Treasury and other operations in South Africa		Total before Barclays separation effects		Barclays separation effects		Bank	
2018	2017 <sup>1</sup>	2018	2017	2018	2017	2018	2017
(1 614)	(1 474)	29 621	29 088	331	325	29 952	29 413
82	(12)	21 366	20 601	525	80	21 891	20 681
(1 532)	(1 486)	50 987	49 689	856	405	51 843	50 094
(11)	(9)	(5 078)	(5 113)	—	—	(5 078)	(5 113)
484	268	(31 500)	(29 707)	(2 841)	(1 901)	(34 341)	(31 608)
(2 108)	(1 622)	(2 530)	(2 002)	(65)	(3)	(2 595)	(2 005)
2 593	1 890	(28 970)	(27 705)	(2 776)	(1 898)	(31 746)	(29 603)
(1 070)	(984)	(1 406)	(1 394)	(173)	(394)	(1 579)	(1 788)
(374)	(217)	(433)	(187)	—	(325)	(433)	(512)
(696)	(767)	(973)	(1 207)	(173)	(69)	(1 146)	(1 276)
15	12	179	170	—	—	179	170
(2 114)	(2 199)	13 182	13 645	(2 158)	(1 890)	11 024	11 755
368	354	(3 390)	(3 686)	388	408	(3 002)	(3 278)
(1 746)	(1 845)	9 792	9 959	(1 770)	(1 482)	8 022	8 477
(1 746)	(1 844)	9 251	9 549	(1 770)	(1 482)	7 481	8 067
—	(1)	—	—	—	—	—	—
—	—	351	362	—	—	351	362
—	(0)	190	48	—	—	190	48
(1 746)	(1 845)	9 792	9 959	(1 770)	(1 482)	8 022	8 477
(1 454)	(1 651)	9 623	9 793	(1 770)	(1 245)	7 853	8 548
714	977	735 200	660 492	—	—	735 200	660 492
(7 089)	4 689	40 533	43 217	—	—	40 533	43 217
10 065	3 026	93 576	76 524	—	—	93 576	76 524
(247 717)	(254 367)	207 211	207 213	3 159	912	210 370	208 125
(244 027)	(245 675)	1 076 520	987 446	3 159	912	1 079 679	988 358
93 655	100 690	605 647	583 825	—	—	605 647	583 825
148 178	125 225	160 042	137 942	—	—	160 042	137 942
(549 996)	(531 934)	236 149	191 102	(5 845)	(9 840)	230 304	181 262
(308 163)	(306 019)	1 001 838	912 869	(5 845)	(9 840)	995 993	903 029

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	Retail Banking South Africa		Business Banking South Africa		Retail and Business Banking South Africa	
	2018 Rm	2017 <sup>1</sup> Rm	2018 Rm	2017 <sup>1</sup> Rm	2018 Rm	2017 <sup>1</sup> Rm
<b>50. Segment report</b> (continued)						
<b>Statement of comprehensive income (Rm)</b>						
Net interest income	17 772	17 810	6 275	6 073	24 047	23 883
Non-interest income	13 514	12 710	3 686	3 560	17 200	16 270
<b>Total income</b>	<b>31 286</b>	<b>30 520</b>	<b>9 961</b>	<b>9 633</b>	<b>41 247</b>	<b>40 153</b>
Impairment losses on loans and advances	(3 851)	(4 143)	(217)	(274)	(4 068)	(4 417)
Operating expenses	(18 733)	(17 773)	(6 013)	(5 744)	(24 746)	(23 517)
Depreciation and amortisation	(359)	(326)	(60)	(47)	(419)	(373)
Other operating expenses	(18 374)	(17 447)	(5 953)	(5 697)	(24 327)	(23 144)
Other	(228)	(230)	(61)	3	(289)	(227)
Other impairments	(25)	—	(34)	30	(59)	30
Indirect taxation	(203)	(230)	(27)	(27)	(230)	(257)
Share of post-tax results of associates and joint ventures	150	153	—	—	150	153
<b>Operating profit before income tax</b>	<b>8 624</b>	<b>8 527</b>	<b>3 670</b>	<b>3 618</b>	<b>12 294</b>	<b>12 145</b>
Tax expenses	(2 368)	(2 381)	(1 029)	(1 048)	(3 397)	(3 429)
<b>Profit for the reporting period</b>	<b>6 256</b>	<b>6 146</b>	<b>2 641</b>	<b>2 570</b>	<b>8 897</b>	<b>8 716</b>
<b>Profit attributable to:</b>						
Ordinary equity holders	6 008	5 952	2 558	2 504	8 566	8 456
Non-controlling interest – ordinary shares	—	—	—	1	—	1
Non-controlling interest – preference shares	160	171	54	58	214	229
Non-controlling interest – additional Tier 1	88	23	29	7	117	30
	6 256	6 146	2 641	2 570	8 897	8 716
<b>Headline earnings</b>	<b>6 088</b>	<b>5 950</b>	<b>2 558</b>	<b>2 557</b>	<b>8 646</b>	<b>8 507</b>
<b>Statement of financial position (Rm)</b>						
Loans and advances to customers	387 844	372 100	69 116	63 399	456 960	435 499
Loans and advances to banks	11 019	7 671	16	(1)	11 035	7 670
Investment securities	34 826	32 962	10 364	10 138	45 190	43 100
Other assets	229 041	209 610	49 483	44 977	278 524	254 587
<b>Total assets</b>	<b>662 730</b>	<b>622 343</b>	<b>128 979</b>	<b>118 513</b>	<b>791 709</b>	<b>740 856</b>
Deposits due to customers	207 696	186 859	125 365	113 870	333 061	300 729
Other liabilities	450 210	427 896	1 524	2 109	451 734	430 005
<b>Total liabilities</b>	<b>657 906</b>	<b>614 755</b>	<b>126 889</b>	<b>115 979</b>	<b>784 795</b>	<b>730 734</b>

<sup>1</sup> These numbers have been restated, refer to note 50.1.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 50. Segment report (continued)

#### 50.3 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 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 <sup>1</sup>	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
<b>Total non-interest income</b>	<b>17 200</b>	<b>3 907</b>	<b>177</b>	<b>82</b>	<b>525</b>	<b>21 891</b>

### 51. Derivatives

#### 51.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships or hedges of net investments in foreign operations. At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

The Bank trades the following derivative instruments:

##### Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

<sup>1</sup> Includes fees on mortgage loans and foreign currency transactions.



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.1 Derivative financial instruments (continued)

#### Interest rate derivatives

The Bank's principal interest rate-related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

#### Credit derivatives

The Bank's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

#### Equity derivatives

The Bank's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Bank also enters into fund-linked derivatives, being swaps and options which include mutual funds, hedge funds, indices and multi-asset portfolios as underlying.

#### Commodity derivatives

The Bank's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

### 51.2 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in any of the markets that the Bank trades in.

### 51.3 Derivative financial instruments

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	Bank					
	2018			2017		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Derivatives held for trading	43 723	(35 208)	6 566 740	56 473	(51 693)	5 114 107
Derivatives designated as hedging instruments	2 407	(1 343)	229 662	2 667	(1 117)	220 577
<b>Total derivatives</b>	<b>46 130</b>	<b>(36 551)</b>	<b>6 796 402</b>	<b>59 140</b>	<b>(52 810)</b>	<b>5 334 684</b>

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Bank related to the various markets and instrument types the Bank trades in are as follows:

	2018			2017		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
<b>Foreign exchange derivatives</b>	<b>8 006</b>	<b>(8 410)</b>	<b>645 784</b>	15 556	(14 504)	522 968
Forwards	703	(1 111)	54 054	1 799	(1 216)	46 150
Futures	0	—	9 673	0	—	137 353
Swaps	6 733	(6 722)	471 455	12 811	(12 231)	293 946
Options	570	(577)	110 602	946	(1 057)	45 519
<b>Interest rate derivatives</b>	<b>28 677</b>	<b>(22 044)</b>	<b>5 594 558</b>	37 126	(33 368)	4 429 644
Forwards	1 038	(862)	3 353 759	1 754	(1 750)	2 887 692
Futures	0	—	767 999	—	—	34 329
Swaps	27 548	(21 156)	1 461 503	35 324	(31 497)	1 465 064
Options	91	(26)	11 297	48	(121)	42 559
<b>Equity derivatives</b>	<b>5 380</b>	<b>(3 091)</b>	<b>269 529</b>	2 529	(2 388)	117 728
Forwards	734	(99)	10 488	532	(210)	9 052
Futures	0	—	94 904	0	—	26 158
Swaps	2 049	(1 903)	22 909	1 041	(813)	22 116
Options	2 597	(1 089)	39 387	784	(1 365)	29 009
Options – exchange traded	0	—	93 652	0	—	23 858
Other – OTC	0	—	8 189	172	—	7 535
<b>Commodity derivatives</b>	<b>1 487</b>	<b>(1 489)</b>	<b>29 200</b>	1 097	(1 285)	34 377
Forwards	152	(162)	8 132	142	(357)	8 777
Swaps	21	(25)	203	108	(58)	312
Options	1 314	(1302)	20 865	847	(870)	25 288
<b>Credit derivatives</b>						
Default swaps	173	(174)	27 669	165	(148)	9 390
<b>Derivatives held for trading</b>	<b>43 723</b>	<b>(35 208)</b>	<b>6 566 740</b>	56 473	(51 693)	5 114 107
Note	5	16		5	16	

Forwards, swaps and options in the table above have been traded on a bilateral OTC basis, unless specified otherwise. Futures in the table above have been traded on authorised exchanges.

### 51.5 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R44 362m** (2017: R47 413m). Additionally, the Bank held **R4 422m** (2017: R2 009m) of collateral against the net derivative asset exposure.

OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Bank. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.6 Hedge accounting (2018)

#### Risk management strategy

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Bank applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged. The assessment of the effectiveness of hedge relationships are performed on a cumulative life to date basis.

In order to hedge the risks to which the Bank is exposed, the hedging instruments employed are interest rate swaps, inflation swaps, cross-currency swaps and forward foreign exchange contracts. The economic relationship between the hedge instrument and the hedged items is aligned since all hedging instruments are exposed to the same risks as the hedged items, being interest rate risk, inflation risk and/or foreign currency risk.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate borrowed funds or debt securities held and highly probable forecast investment transactions.

Foreign exchange derivatives, designated as cash flow hedge, primarily hedge the exposure to highly probable forecast foreign denominated expenditure.

Foreign exchange derivatives, designated as net investment hedge, primarily hedge the foreign currency exposure to a net investment in a foreign operation.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

In certain circumstances, items that are designated for hedge accounting purposes are different from the economic hedge owing to the existence of restrictions on the ability to apply hedge accounting to the economic hedge. Specifically, the Bank employs a governed interest rate risk management strategy (hedging programme) through the interest rate cycle to reduce volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity).

The hedge ratio between the hedged item and the hedging instruments is typically determined with reference to the sensitivity of the hedged item, on designation, to the risk factor, compared to the hedging instrument. In many cases the hedge ratio is directly proportional to the hedged item.

In some hedging relationships, the Bank would designate risk components of hedged items as follows:

- (i) Benchmark interest rate risk;
- (ii) Inflation risk as a contractually specified component of a debt instrument;
- (iii) Spot exchange rate risk for foreign currency denominated financial assets or financial liabilities;
- (iv) Spot or forward exchange rate risk for highly probable forecast foreign denominated expenditure or a net investment in a foreign operation; and
- (v) Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

Sources of ineffectiveness which may affect the Bank's designated hedge relationships are as follows:

- (i) Mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences between the hedged risk and the risk exposure of the hedging instrument;
- (ii) Changes in credit risk of the hedging instruments; and
- (iii) If a hedge accounting relationship becomes overhedged. This might occur in hedges of net investments if the net asset value designated at the start of the period falls below the amount of the hedging instrument.

No other source of ineffectiveness has arisen during the period.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 51. Derivatives (continued)

#### 51.6 Hedge accounting (2018) (continued)

##### 51.6.1 Fair value hedge accounting

Fair value hedges are used by the Bank to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include investment securities, loans and advances to customers, debt securities and borrowed funds. The profile and timing of hedging instruments designated in fair value hedge relationships based on notional amounts are as follows:

	Bank						Total Rm
	2018						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	
<b>Interest rate risk-interest rate swaps</b>	303	4 158	421	2 721	6 658	28 198	42 459
Hedge of investment securities at FVOCI	—	—	—	—	143	22 872	23 015
Hedge of loans and advances to customers	173	167	230	637	282	710	2 199
Hedge of debt securities in issue	—	2 715	50	1 719	125	4 616	9 225
Hedge of borrowed funds	130	1 276	141	365	6 108	—	8 020
<b>Inflation risk-interest rate swaps</b>	—	200	60	736	600	634	2 230
Hedge of investment securities at FVOCI	—	200	60	736	600	634	2 230

The average rates or prices set out below relate to the hedging instruments designated in fair value hedging relationships:

	Bank
	2018 Average price or rate %
<b>Interest rate risk</b>	
Interest rate swaps	
Average fixed interest rate	8%
<b>Inflation risk</b>	
Interest rate swaps	
Average fixed interest rate	3%

In respect of many of the Bank's hedge accounting relationships, the hedged item and hedging instrument change frequently due to the dynamic nature of the risk management and hedge accounting strategy. Detail regarding these dynamic hedges has been excluded from the above tables.

The Bank applies hedge accounting to dynamic scenarios, predominantly in relation to interest rate risk, with a combination of hedged items (some hedged items are designated by proxy) in order for its financial statements to reflect as closely as possible the economic risk management undertaken.

Hedge relationships are analysed and rebalanced on a daily basis. In some cases, if the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.6 Hedge accounting (2018) (continued)

#### 51.6.1 Fair value hedge accounting (continued)

The following amounts relate to items designated as hedging instruments in fair value hedge relationships:

	Bank					
	Notional amount Rm	Assets Rm	Liabilities Rm	2018 Change in fair value used for calculating hedge ineffectiveness for 2018 Rm	Ineffectiveness recognised in profit and loss Rm	Presentation of ineffectiveness in profit or loss Rm
<b>Total</b>	<b>44 689</b>	<b>1 248</b>	<b>(963)</b>	<b>515</b>	<b>(14)</b>	<b>Gains and losses from banking and trading activities</b>
<b>Interest rate risk</b>	<b>42 459</b>	<b>1 231</b>	<b>(627)</b>	<b>517</b>	<b>(53)</b>	<b>Gains and losses from banking and trading activities</b>
Interest rate swaps – hedge of investment securities at FVOCI	23 015	988	(500)	522	(58)	Gains and losses from banking and trading activities
Interest rate swaps – hedge of loans and advances to customers	2 199	16	(60)	35	2	Gains and losses from banking and trading activities
Interest rate swaps – hedge of borrowed funds	8 020	87	(4)	30	(3)	Gains and losses from banking and trading activities
Interest rate swaps – hedge of debt securities in issue	9 225	140	(63)	(70)	6	Gains and losses from banking and trading activities
<b>Inflation risk</b>	<b>2 230</b>	<b>17</b>	<b>(336)</b>	<b>(2)</b>	<b>39</b>	<b>Gains and losses from banking and trading activities</b>
Inflation linked swaps – hedge of investment securities classified as FVOCI	2 230	17	(336)	(2)	39	Gains and losses from banking and trading activities

The hedging instruments of the Bank are presented within hedging portfolio assets/liabilities on the statement of financial position.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 51. Derivatives (continued)

#### 51.6 Hedge accounting (2018) (continued)

##### 51.6.1 Fair value hedge accounting (continued)

The following amounts relate to items that were designated as hedged items in fair value hedge relationships:

Hedged item statement of financial position classification and risk category	Bank			
	2018			
	Accumulated fair value adjustment included in the carrying amount of the hedged item			Change in value used for calculating hedge ineffectiveness Rm
	Carrying value Rm	Total Rm	Portion related to items no longer in a hedge relationship Rm	
<b>Financial assets</b>				
Investment securities classified as FVOCI	26 647	622	(3)	(541)
Interest rate risk	22 803	439	(3)	(575)
Inflation risk	3 844	183	—	34
Loans and advances to customers				
Interest rate risk	2 637	37	—	(33)
<b>Financial liabilities</b>				
Debt securities in issue				
Interest rate risk	(9 722)	(24)	—	76
Borrowed funds				
Interest rate risk	(8 681)	(63)	—	(33)

##### 51.6.2 Cash flow hedge accounting

Cash flow hedges are used by the Bank to protect against the potential cash flow variability arising from the Bank exposure to interest rate and foreign currency risk. The financial instruments designated as hedged items include loans and advances to customers, and highly probable forecast foreign denominated expenditure.

The profile and timing of hedging instruments designated in cash flow hedge relationships based on notional amounts are as follows:

	Bank						
	2018						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
<b>Interest rate risk-interest rate swaps</b>	92 605	20 830	23 020	17 551	22 912	6 826	183 744
Hedge of loans and advances to customers	92 605	20 830	23 020	17 551	22 912	6 826	183 744
<b>Foreign currency risk-forwards</b>	1 177	53	—	—	—	—	1 230
Hedge of highly probable forecast expenditure	1 177	53	—	—	—	—	1 230

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.6 Hedge accounting (2018) (continued)

#### 51.6.2 Cash flow hedge accounting (continued)

The average rates or prices set out below relate to the hedging instruments designated in cash flow hedging relationships:

	Bank 2018 Average price or rate
<b>Interest rate risk</b>	
Interest rate swaps	8%
<b>Foreign currency risk</b>	
Currency swaps	
Average ZAR – EUR exchange rates	15.8
Average ZAR – GBP exchange rates	18.9
Average ZAR – USD exchange rates	13.0
Average ZAR – CZK exchange rates	1.5

In respect of many of the Group's hedge accounting relationships, the hedged item and hedging instrument change frequently due to the dynamic nature of the risk management and hedge accounting strategy. Detail regarding these dynamic hedges has been excluded from the above table.

The Group applies hedge accounting to dynamic scenarios, predominantly in relation to interest rate risk, with a combination of hedged items (some hedged items are designated by proxy) in order for its financial statements to reflect as closely as possible the economic risk management undertaken.

Hedge relationships are analysed and rebalanced on a daily basis. In some cases, if the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

The following amounts relate to items designated as hedging instruments in cash flow hedge relationships:

	Bank 2018						
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2018 Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective- ness recognised in profit or loss Rm	Presentation of ineffective- ness in profit or loss Rm
<b>Interest rate risk</b>							
Interest rate swaps – hedge of loans and advances to customers	183 744	1 075	(354)	(828)	112	(234)	Gains and losses from banking and trading activities
<b>Foreign currency risk</b>							
Forwards – hedge of forecast expenditure	1 231	83	(26)	93	94	36	Gains and losses from banking and trading activities

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 51. Derivatives (continued)

#### 51.6 Hedge accounting (2018) (continued)

##### 51.6.2 Cash flow hedge accounting (continued)

The hedging instruments of the Bank are presented within hedging portfolio assets/liabilities, on the statement of financial position. Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred. Impact on the income statement and OCI of recycling amounts in respect of cash flow hedges during the period:

	Bank		
	Amount recycled from OCI to profit or loss due to continuing hedges Rm	2018 Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm
<b>Cash flow hedge of interest rate risk</b>	646	(12)	634
Recycled to interest income	555	(10)	545
Recycled to interest expense	91	(2)	89
<b>Cash flow hedge of currency risk</b>	(51)	(33)	(84)
Recycled to operating expenses	(51)	(33)	(84)
<b>Total</b>	595	(45)	550

The following amounts relate to items designated as hedged items in cash flow hedges:

	Bank		
	Change in value used for calculating hedge ineffectiveness Rm	2018 Cash flow hedge reserve in respect of continued hedges Rm	Cash flow hedge reserve in respect of discontinued hedges Rm
<b>Loans and advances to customers</b>			
Interest rate risk	433	514	10
<b>Highly probable forecast transactions</b>			
Foreign currency risk	(96)	54	(20)



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.6 Hedge accounting (2018) (continued)

#### 51.6.3 Reconciliation of equity

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (before tax) resulting from hedge accounting.

	Bank 2018 Cash flow hedge reserve Rm
<b>Balance on 1 January</b>	902
Foreign currency translation movements	
Hedging gains/losses for the reporting period	206
Interest rate risk	112
Foreign currency risk	94
Amounts reclassified to profit or loss	(550)
In relation to cash flows affecting profit or loss	(550)
<b>Balance on 31 December</b>	558

### 51.7 Hedge accounting (2017)

#### 51.7.1 Derivatives designated as hedging instruments – detail by market and instrument type

	2017		Notional contract amount Rm
	Assets Rm	Liabilities Rm	
<b>Interest rate derivatives</b>	2 667	(992)	219 819
Swaps – cash flow hedges	1 768	(99)	170 655
Swaps – fair value hedges	899	(893)	49 164
<b>Foreign exchange derivatives</b>			
Forward rate agreements – cash flow hedges	—	(125)	758
<b>Derivatives designated as hedging instruments</b>	2 667	(1 117)	220 577
Note	5	16	

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.7 Hedge accounting (2017) (continued)

#### 51.7.2 Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations

Cash flow hedges for interest rate risk are used by the Bank to protect against the potential cash flow variability that results from the Bank's exposure to various floating rate instruments including certain loans and advances, available-for-sale financial assets and issued debt.

The Bank's cash flow hedging instruments for interest rate risk principally consist of interest rate swaps that are used to fix the floating future cash flows.

The Bank's cash flow hedging instruments for foreign currency risk consist of foreign exchange contracts to protect the Bank against the potential cash flow variability that results from exposure to mainly IT-related transactions in foreign currency.

Net gains/(losses) on cash flow hedges were recycled from other comprehensive income to profit or loss:

	Bank 2017 Rm
<b>Interest and similar income</b>	
Interest rate risk (refer to note 25)	264
<b>Interest expense and similar charges</b>	
Interest rate risk (refer to note 26)	70
<b>Other operating income</b>	
Hedges of net investments in foreign operations	—
<b>Gains and losses from banking and trading activities</b>	
Interest rate risk	66
<b>Operating expenditure</b>	
Foreign currency risk	(52)

The fair value movement recognised in profit or loss in relation to ineffectiveness (including fair value movements previously deferred to equity which subsequently exceeded the IAS 39 reserve limit) is:

	Bank 2017 Rm
<b>Gains and losses from banking and trading activities (refer to note 27)</b>	
Interest rate risk	18
Foreign currency risk	(1)
	17

The Bank has hedged forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the statement of comprehensive income in future financial periods as shown in the following table. The cash flows were projected using forward rates prevailing at year-end. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

	2017						Total Rm
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	
Forecast receivable cash flow							
Interest rate risk	576	453	213	53	13	(1)	1 307
Forecast payable cash flow	(474)	(303)	(137)	(74)	(70)	(26)	(1 083)
Interest rate risk	(57)	(7)	(35)	(56)	(51)	(8)	(214)
Foreign currency risk	(417)	(296)	(102)	(18)	(19)	(18)	(869)

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 51. Derivatives (continued)

### 51.7 Hedge accounting (2017) (continued)

#### 51.7.3 Derivatives designated as fair value hedging instruments to protect against interest rate and exchange rate risk

Fair value hedges are used by the Bank to protect against changes in the fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

Gains and (losses) on hedging instruments and hedged items:

	<b>Bank</b>
	2017
	Rm
<b>Financial assets – fair value hedges</b>	
Gains/(losses) on hedged items (assets) (refer to note 27)	434
Losses/gains on hedging instruments (assets) (refer to note 27)	(540)
Interest Income on hedging instruments	(107)
<b>Financial liabilities – fair value hedges</b>	
Gains/(Losses) on hedged items (liabilities) (refer to note 27)	(338)
Gains on hedging instruments (liabilities) (refer to note 27)	345
Interest Expense on hedging instruments	44
Movement in fair value that was recognised in profit or loss in relation to hedge ineffectiveness is:	
	<b>Bank</b>
	2017
	Rm
Losses from banking and trading activities (refer to note 28)	(65)

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# Notes to the consolidated financial statements

for the reporting period ended 31 December

	2018			Total Rm
	Mandatorily held at fair value Rm	Fair value through profit or loss Designated at fair value Rm	Hedging instruments Rm	
<b>52 Consolidated statement of financial position summary – IFRS 9 classification</b>				
<b>Assets</b>				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	1 361	10 450	—	11 811
Loans and advances to banks	18 580	1 220	—	19 800
Trading portfolio assets	99 968	—	—	99 968
Hedging portfolio assets <sup>2</sup>	—	—	2 407	2 407
Other assets	—	—	—	—
Loans and advances to customers	32 097	13 166	—	45 263
Loans to Group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	<b>152 006</b>	<b>24 836</b>	<b>2 407</b>	<b>179 249</b>
<b>Liabilities</b>				
Deposits from banks	—	54 890	—	54 890
Trading portfolio liabilities	46 280	—	—	46 280
Hedging portfolio liabilities <sup>3</sup>	—	—	1 343	1 343
Other liabilities	—	—	—	—
Deposits due to customers	—	37 849	—	37 849
Debt securities in issue	—	15 888	—	15 888
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9 <sup>5</sup>	—	—	—	—
	<b>46 280</b>	<b>108 627</b>	<b>1 343</b>	<b>156 250</b>

<sup>1</sup> Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.

<sup>2</sup> Includes derivative assets to the amount of **R1 159m** (2017: R1 767m) and **R1 248m** (2017: R899m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>3</sup> Includes derivative liabilities to the amount of **R380m** (2017: R224m) and **R963m** (2017: R893m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>4</sup> Includes items designated as hedged items in fair value hedging relationships.

<sup>5</sup> Liabilities outside the scope of IFRS 9 includes **R483m** that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

2018

Fair value through other comprehensive income			Amortised cost				Outside the scope of IFRS 9 <sup>1</sup> Rm	Total assets and liabilities Rm
Debt instruments Rm	Equity instruments Rm	Hedged items <sup>4</sup> Rm	Total Rm	Debt instruments Rm	Hedged items <sup>4</sup> Rm	Total Rm		
—	—	—	—	22 679	—	22 679	—	22 679
48 573	326	26 647	75 546	6 219	—	6 219	—	93 576
—	—	—	—	20 733	—	20 733	—	40 533
—	—	—	—	—	—	—	1 303	101 271
—	—	—	—	—	—	—	—	2 407
—	—	—	—	20 065	—	20 065	2 229	22 294
—	—	—	—	687 300	2 637	689 937	—	735 200
—	—	—	—	37 363	—	37 363	—	37 363
—	—	—	—	—	—	—	24 356	24 356
48 573	326	26 647	75 546	794 359	2 637	796 996	27 888	1 079 679
—	—	—	—	73 069	—	73 069	—	127 959
—	—	—	—	—	—	—	—	46 280
—	—	—	—	—	—	—	—	1 343
—	—	—	—	29 641	—	29 641	2 266	31 907
—	—	—	—	567 798	—	567 798	—	605 647
—	—	—	—	134 432	9 722	144 154	—	160 042
—	—	—	—	11 371	8 681	20 052	—	20 052
—	—	—	—	—	—	—	2 763	2 763
—	—	—	—	816 311	18 403	834 714	5 029	995 993

# Notes to the consolidated financial statements

for the reporting period ended 31 December

	2017			Total Rm
	Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	
<b>52. Consolidated statement of financial position summary – IAS 39 classification</b>				
<b>Assets</b>				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	20 866	—	—	20 866
Loans and advances to banks	17 197	—	—	17 197
Trading portfolio assets	—	102 730	—	102 730
Hedging portfolio assets <sup>2</sup>	—	—	2 667	2 667
Other assets	—	—	—	—
Loans and advances to customers	26 811	—	—	26 811
Non-current assets held for sale	—	—	—	—
Loans to Group companies	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	64 874	102 730	2 667	170 271
<b>Liabilities</b>				
Deposits from banks	22 031	—	—	22 031
Trading portfolio liabilities	—	59 834	—	59 834
Hedging portfolio liabilities <sup>3</sup>	—	—	1 117	1 117
Other liabilities	—	—	—	—
Deposits due to customers	20 451	—	—	20 451
Debt securities in issue	5 241	—	—	5 241
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	47 723	59 834	1 117	108 674

<sup>1</sup> Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.

<sup>2</sup> Includes derivative assets to the amount of **R1 163m** (2017: R1 767m) and **R1 248m** (2017: R906m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>3</sup> Includes derivative liabilities to the amount of **R380m** (2017: R223m) and **R963m** (2017: R890m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>4</sup> Includes items designated as hedged items in fair value hedging relationships.

<sup>5</sup> Liabilities outside the scope of IFRS 9 includes **R667m** that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

<sup>6</sup> Numbers have been restated, refer to note 1.21.12 for further details.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

Available-for-sale		2017				Assets/liabilities outside the scope of IAS 39 <sup>4</sup>		Total assets and liabilities Rm
Designated as available-for-sale Rm	Hedged items <sup>4</sup> Rm	Total Rm	Designated at amortised cost Rm	Hedged items <sup>3</sup> Rm	Total Rm	Rm		
—	—	—	28 792	—	28 792	—	28 792	
35 241	20 417	55 658	—	—	—	—	76 524	
—	—	—	26 020	—	26 020	—	43 217	
—	—	—	—	—	—	2 051	104 781	
—	—	—	—	—	—	—	2 667	
—	—	—	13 327	—	13 327	2 186	15 513	
—	—	—	633 635	46	633 681	—	660 492	
—	—	—	1 118	—	1 118	—	1 118	
—	—	—	36 530	—	36 530	—	36 530	
—	—	—	—	—	—	18 724	18 724	
35 241	20 417	55 658	739 422	46	739 468	22 961	988 358	
—	—	—	52 079	—	52 079	—	74 110	
—	—	—	—	—	—	—	59 834	
—	—	—	—	—	—	—	1 117	
—	—	—	25 709	—	25 709	2 115	27 824	
—	—	—	563 374	—	563 374	—	583 825	
—	—	—	121 934	10 767	132 701	—	137 942	
—	—	—	4 234	11 632	15 866	—	15 866	
—	—	—	—	—	—	2 511	2 511	
—	—	—	767 330	22 399	789 729	4 626	903 029	



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 53. Fair value disclosures

### 53.1 Assets and liabilities held at fair value

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.

	Bank							
	2018				2017			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
<b>Financial assets</b>								
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
<b>Total financial assets</b>	<b>87 459</b>	<b>143 689</b>	<b>23 647</b>	<b>254 795</b>	<b>69 116</b>	<b>143 818</b>	<b>12 995</b>	<b>225 929</b>
<b>Financial liabilities</b>								
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
<b>Total financial liabilities</b>	<b>11 313</b>	<b>140 642</b>	<b>4 295</b>	<b>156 250</b>	<b>8 743</b>	<b>96 927</b>	<b>3 004</b>	<b>108 674</b>
<b>Non-financial assets</b>								
Commodities	1 304	—	—	1 304	2 051	—	—	2 051
Investment properties	—	—	180	180	—	—	—	—
<b>Non-recurring fair value adjustments</b>								
Non-current assets held for sale <sup>1</sup>	—	—	50	50	—	—	—	—

<sup>1</sup> Includes certain items classified in terms of the requirements of IFRS 5 which are measured in terms of their respective standards.

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# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 53. Fair value disclosures (continued)

### 53.2 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:

	Bank			
	2018			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
<b>Opening balance at the beginning of the reporting period</b>	<b>1 824</b>	<b>4 741</b>	<b>484</b>	<b>5 946</b>
Net interest income	—	153	—	89
Other Income	—	—	—	—
Gains and losses from banking and trading activities	1 240	427	—	26
Gains and losses from investment activities	—	—	—	23
Purchases	1 174	6 617	—	3 181
Sales	(257)	(156)	(18)	(507)
Movement in other comprehensive income	—	—	—	(37)
Issues	—	—	—	—
Settlements	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—
Transfer to Level 3	357	—	—	2 928
Transfer (out) of Level 3	(889)	(1 121)	(466)	(1 914)
Step acquisition of subsidiary	—	—	—	(198)
<b>Closing balance at the end of the reporting period</b>	<b>3 449</b>	<b>10 661</b>	<b>—</b>	<b>9 537</b>

	2017			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
	<b>Opening balance at the beginning of the reporting period</b>	<b>1 505</b>	<b>4 890</b>	<b>571</b>
Net interest income	—	12	—	62
Other Income	—	—	—	—
Gains and losses from banking and trading activities	(635)	29	—	—
Gains and losses from investment activities	—	—	—	2
Purchases	1 101	1 020	88	4 789
Sales	(147)	(1 112)	(175)	—
Movement in other comprehensive income	—	—	—	31
Issues	—	—	—	—
Settlements	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—
Transfer (out) of Level 3	—	(98)	—	—
<b>Closing balance at the end of the reporting period</b>	<b>1 824</b>	<b>4 741</b>	<b>484</b>	<b>5 946</b>

#### 53.2.1 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.

These transfers have been reflected as if they had taken place at the beginning of the year.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### Bank

2018

Investment properties Rm	Total assets at fair value Rm	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
—	12 995	—	944	1 572	488	3 004
—	242	—	—	—	—	—
15	15	—	—	—	—	—
—	1 693	—	(52)	5	—	(47)
—	23	—	—	—	—	—
165	11 137	—	—	—	—	—
—	(938)	—	—	—	—	—
—	(37)	—	—	—	—	—
—	—	19	1 043	2 500	—	3 562
—	—	—	(344)	(766)	—	(1 110)
—	—	—	—	—	—	—
—	3 285	—	—	—	—	—
—	(4 390)	—	(137)	(489)	(488)	(1 114)
—	(198)	—	—	—	—	—
180	23 827	19	1 454	2 822	—	4 295

2017

Investment properties Rm	Total assets at fair value Rm	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
222	8 250	—	307	1 139	604	2 050
—	74	—	—	7	—	7
37	37	—	—	—	—	—
—	(606)	—	585	—	—	585
—	2	—	—	—	—	—
—	6 998	—	—	—	—	—
(259)	(1 693)	—	—	—	—	—
—	31	—	—	—	—	—
—	—	—	52	1 685	30	1 767
—	—	—	—	(1 144)	(68)	(1 212)
—	—	—	—	—	—	—
—	(98)	—	—	(115)	(78)	(193)
—	12 995	—	944	1 572	488	3 004

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 53. Fair value disclosures (continued)

#### 53.3 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:

	Bank			Total assets at fair value Rm
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	
	2018			
Gains and (losses) from banking and trading activities	2 589	1 027	233	3 849
	2017			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities <sup>1</sup> Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	142	761	76	979

  

	Bank			Total liabilities at fair value Rm
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm		
	2018			
Gains and (losses) from banking and trading activities	(174)	134		(40)
	2017			
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm		Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	(284)	—		(284)

<sup>1</sup> 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 it has therefore been corrected accordingly.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 53. Fair value disclosures (continued)

#### 53.4 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 tables reflects the reasonable possible variances applied to significant parameters utilised in our valuations:

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

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 of the 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:

	Significant unobservable parameters	2018	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Loans and advances to banks	Absa Group Limited/Absa funding spread	—/—	—/—
Deposits due to customers	Absa Group Limited/Absa funding spread	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	—/—

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 53. Fair value disclosures (continued)

#### 53.4 Sensitivity analysis of valuations using unobservable inputs (continued)

	Significant unobservable parameters	2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		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)	—/—

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

The amount that is 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 observable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	Bank	
	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)

#### 53.6 Third-party credit enhancements

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

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 53. Fair value disclosures (continued)

### 53.7 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.

	Carrying value Rm	Fair value Rm	Bank		
			2018		
			Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>					
Balances with the SARB	13 108	13 108	13 108	—	—
Coins and bank notes	9 571	9 571	9 571	—	—
<b>Cash, cash balances and balances with central banks</b>	<b>22 679</b>	<b>22 679</b>	<b>22 679</b>	<b>—</b>	<b>—</b>
<b>Investment securities</b>	<b>6 219</b>	<b>6 270</b>	<b>6 270</b>	<b>—</b>	<b>—</b>
<b>Loans and advances to banks</b>	<b>20 733</b>	<b>23 191</b>	<b>5 335</b>	<b>17 856</b>	<b>—</b>
<b>Other assets</b>	<b>20 065</b>	<b>20 073</b>	<b>16 585</b>	<b>960</b>	<b>2 528</b>
RBB South Africa	456 960	458 131	—	—	458 131
Retail Banking South Africa	386 815	387 912	—	—	387 912
Credit cards	26 950	27 484	—	—	27 484
Instalment credit agreements	82 282	82 616	—	—	82 616
Loans to associates and joint ventures	25 489	25 489	—	—	25 489
Mortgages	224 260	224 260	—	—	224 260
Other loans and advances	3 447	3 447	—	—	3 447
Overdrafts	6 037	6 104	—	—	6 104
Personal and term loans	18 350	18 512	—	—	18 512
Business Banking South Africa	70 145	70 219	—	—	70 219
Mortgages (including CPF)	29 917	29 917	—	—	29 917
Overdrafts	20 027	20 098	—	—	20 098
Term loans	20 201	20 204	—	—	20 204
CIB South Africa	226 530	226 530	—	—	226 530
Wealth	5 734	5 985	2 503	2 111	1 371
Head Office, Treasury and other operations in South Africa	713	713	0	703	10
<b>Loans and advances to customers – net of impairment losses</b>	<b>689 937</b>	<b>691 359</b>	<b>2 503</b>	<b>2 814</b>	<b>686 042</b>
<b>Loans to Group companies</b>	<b>37 363</b>	<b>37 363</b>	<b>—</b>	<b>37 363</b>	<b>—</b>
<b>Total assets (not held at fair value)</b>	<b>796 996</b>	<b>800 935</b>	<b>53 372</b>	<b>58 993</b>	<b>688 570</b>
<b>Financial liabilities</b>					
Deposits from banks	73 069	77 174	271	76 903	—
<b>Other liabilities</b>	<b>29 641</b>	<b>29 654</b>	<b>696</b>	<b>23 805</b>	<b>5 153</b>
Call deposits	57 981	57 981	13 796	44 185	—
Cheque account deposits	156 435	156 435	156 377	42	16
Credit card deposits	1 904	1 904	1 904	—	—
Fixed deposits	133 031	133 031	80 024	47 803	5 204
Foreign currency deposits	17 541	17 541	452	16 678	411
Notice deposits	58 367	58 367	18 747	39 597	23
Other deposits	1 473	1 473	1 307	133	33
Saving and transmission deposits	141 066	141 066	140 974	92	—
<b>Deposits due to customers</b>	<b>567 798</b>	<b>567 798</b>	<b>413 581</b>	<b>148 530</b>	<b>5 687</b>
<b>Debt securities in issue</b>	<b>144 154</b>	<b>146 438</b>	<b>108</b>	<b>146 109</b>	<b>221</b>
<b>Borrowed funds</b>	<b>20 052</b>	<b>20 052</b>	<b>—</b>	<b>20 052</b>	<b>—</b>
<b>Total liabilities (not held at fair value)</b>	<b>834 714</b>	<b>841 116</b>	<b>414 656</b>	<b>415 399</b>	<b>11 061</b>



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 53. Fair value disclosures (continued)

### 53.7 Assets and liabilities not held at fair value (continued)

	Carrying value Rm	Fair value Rm	Bank Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>					
Balances with the SARB	19 108	19 108	19 108	—	—
Coins and bank notes	9 684	9 684	9 684	—	—
<b>Cash, cash balances and balances with central banks</b>	<b>28 792</b>	<b>28 792</b>	<b>28 792</b>	<b>—</b>	<b>—</b>
<b>Loans and advances to banks</b>	<b>26 020</b>	<b>26 020</b>	<b>169</b>	<b>25 457</b>	<b>394</b>
<b>Other assets</b>	<b>13 327</b>	<b>13 420</b>	<b>9 155</b>	<b>3 963</b>	<b>302</b>
RBB South Africa	435 500	435 731	1 510	—	434 221
Retail Banking South Africa	371 248	371 479	—	—	371 479
Credit cards	27 267	27 267	—	—	27 267
Instalment credit agreements	77 044	77 275	—	—	77 275
Loans to associates and joint ventures	23 037	23 037	—	—	23 037
Mortgages	220 569	220 569	—	—	220 569
Other loans and advances	726	726	—	—	726
Overdrafts	5 443	5 443	—	—	5 443
Personal and term loans	17 162	17 162	—	—	17 162
Business Banking South Africa	64 252	64 252	1 510	—	62 742
Mortgages (including CPF)	27 828	27 828	—	—	27 828
Overdrafts	19 199	19 199	1 510	—	17 689
Term loans	17 225	17 225	—	—	17 225
CIB South Africa <sup>1</sup>	192 203	192 203	—	—	192 203
Wealth	5 004	5 004	—	—	5 004
Head Office, Treasury and other operations in South Africa	974	974	—	974	—
<b>Loans and advances to customers – net of impairment losses</b>	<b>633 681</b>	<b>633 912</b>	<b>1 510</b>	<b>974</b>	<b>631 428</b>
<b>Loans to Group companies</b>	<b>36 530</b>	<b>36 530</b>	<b>—</b>	<b>36 530</b>	<b>—</b>
<b>Non-current assets held for sale</b>	<b>1 118</b>	<b>1 118</b>	<b>—</b>	<b>—</b>	<b>1 118</b>
<b>Total assets (not held at fair value)</b>	<b>739 468</b>	<b>739 792</b>	<b>39 626</b>	<b>66 923</b>	<b>633 242</b>
<b>Financial liabilities</b>					
<b>Deposits from banks</b>	<b>52 079</b>	<b>52 079</b>	<b>1 593</b>	<b>50 486</b>	<b>—</b>
<b>Other liabilities</b>	<b>25 709</b>	<b>25 724</b>	<b>7 834</b>	<b>17 048</b>	<b>842</b>
Call deposits	62 725	62 725	18 061	44 664	—
Cheque account deposits	153 539	153 539	153 535	4	—
Credit card deposits	1 896	1 896	1 896	—	—
Fixed deposits	131 521	131 521	485	131 036	—
Foreign currency deposits	18 444	18 444	638	17 806	—
Notice deposits	58 460	58 460	1 797	56 663	—
Other deposits	1 414	1 414	1 190	213	11
Saving and transmission deposits	135 375	135 375	133 837	1 538	—
<b>Deposits due to customers</b>	<b>563 374</b>	<b>563 374</b>	<b>311 439</b>	<b>251 924</b>	<b>11</b>
<b>Debt securities in issue</b>	<b>132 701</b>	<b>132 701</b>	<b>—</b>	<b>130 880</b>	<b>1 821</b>
<b>Borrowed funds</b>	<b>15 866</b>	<b>15 866</b>	<b>—</b>	<b>15 866</b>	<b>—</b>
<b>Total liabilities (not held at fair value)</b>	<b>789 729</b>	<b>789 744</b>	<b>320 866</b>	<b>466 204</b>	<b>2 674</b>

<sup>1</sup> In the prior year, CIB South Africa loans and advances of R20 575m were disclosed as level 1, and R84 866m were disclosed as Level 2. The inputs into these valuations were erroneously considered to be observable, however it has been ascertained that they are unobservable, due to the level of market activity associated with them. The loans and advances have therefore been restated to be Level 3 assets.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 54. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial assets designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements:

	Bank		Credit risk mitigation	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
<b>Assets</b>				
Investment securities	10 450	20 866	—	844
Loans and advances to banks	1 220	17 198	1 156	12 913
Loans and advances to customers	13 166	26 811	313	16 224
	<b>24 836</b>	<b>64 785</b>	<b>1 469</b>	<b>29 981</b>

The Bank utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss.

### Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following table represents the carrying amount of financial liabilities designated at fair value through profit and loss and the amount that the Bank is contractually required to pay to the holder of the obligation at maturity:

	Bank		2017	
	2018 Carrying value Rm	Contractual obligation Rm	Carrying value Rm	Contractual obligation Rm
<b>Liabilities</b>				
Deposits from banks	54 890	56 663	22 031	22 135
Deposits due to customers	37 849	47 009	20 451	25 484
Debt securities in issue	15 888	17 038	5 241	6 270
	<b>108 627</b>	<b>120 710</b>	<b>47 723</b>	<b>53 889</b>

### (Increase)/decrease in fair value attributable to changes in own credit risk during the reporting period

	Bank	
	2018 Rm	2017 Rm
<b>Liabilities</b>		
Deposits from banks and customers	(71)	(147)
<b>Cumulative adjustments in fair value attributable to changes in own risk</b>		
<b>Liabilities</b>		
Deposits from banks and customers	297	226

The following approach is used in determining changes in fair value due to changes in credit risk for deposits from banks and customers designated at fair value through profit or loss:

- › The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as funding issued by the Bank. Most market parameters are either directly observable or are implied by instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management

### 55.1 Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to, and monitor risks in the execution of the Bank's strategy. It is essential that the business growth strategy is supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing the appropriate risk practices throughout the Bank. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It also ensures that appropriate responses are in place to protect the Bank and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Group that are foreseeable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into nine principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and own risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, whilst promoting collaboration and the flow of information between all areas.

The ERMF is reviewed and approved annually by the Board.

#### Credit risk

The risk of financial loss should the Bank's customers, clients or market counterparts fail to fulfil their contractual obligation.

#### Risk appetite

Risk appetite and stress testing are key components of the Bank's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Bank is prepared to take in executing its strategy. The Bank's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

#### Risk appetite key indicators and triggers

The Bank manages its risk profile in a forward-looking manner through a trigger and management action framework, which has been reviewed and strengthened. Key indicators and triggers have been developed to serve as an early warning system. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at the Bank, business unit, and product levels, and are regularly monitored by management and reported to the Bank Risk and Capital Management Committee (GRCMC) on a quarterly basis.

#### Stress testing

Stress testing is a key element of the Bank's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Bank is able to assess the performance of the Bank's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Bank's capital planning process and enhance the stress scenarios employed. The Bank takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements including the setting of capital and liquidity buffers.

The GRCMC exercises governance oversight and approval authority over stress testing results.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk

The following table sets out information about the credit quality of financial instruments to which the impairment requirements in IFRS 9 are applicable:

Maximum exposure to credit risk	Bank			
	Gross maximum exposure Rm	2018		
		Stage 1 <sup>1</sup>		
		DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Balances with the SARB	13 109	13 109	—	—
<b>Cash, cash balances and balances with central banks</b>	<b>13 109</b>	<b>13 109</b>	<b>—</b>	<b>—</b>
Government bonds	28 805	28 632	—	—
Other	26 064	24 461	—	—
Treasury bills	26 570	26 570	—	—
<b>Investment securities</b>	<b>81 439</b>	<b>79 663</b>	<b>—</b>	<b>—</b>
<b>Loans and advances to banks</b>	<b>20 753</b>	<b>6 447</b>	<b>11 860</b>	<b>—</b>
Accounts receivable	6 940	1 776	5 163	—
Settlement accounts	13 124	8 940	4 184	—
<b>Other assets</b>	<b>20 064</b>	<b>10 716</b>	<b>9 347</b>	<b>—</b>
RBB South Africa	476 884	31 277	353 588	21 381
Retail Banking South Africa	403 453	22 554	300 888	21 381
Credit cards	31 578	2 538	16 750	5 280
Instalment credit agreements	85 651	4 205	64 316	5 285
Loans to associates and joint ventures	25 489	3 161	22 328	—
Mortgages	229 555	10 029	180 584	6 728
Other loans and advances	3 512	2 012	1 033	—
Overdrafts	6 669	458	3 816	574
Personal and term loans	20 999	151	12 061	3 514
Business Banking South Africa	73 431	8 723	52 700	—
CIB South Africa	229 226	118 918	76 700	—
WIMI	5 984	609	4 733	—
Head Office, Treasury and other operations in South Africa	309	294	6	—
<b>Loans and advances to customers</b>	<b>712 403</b>	<b>151 098</b>	<b>435 027</b>	<b>21 381</b>
<b>Loans and advances to group companies</b>	<b>37 363</b>	<b>37 363</b>	<b>—</b>	<b>—</b>
<b>Off-statement of financial position exposure</b>				
Guarantees	34 479			
Letters of credit	6 828			
Irrecoverable debt facilities	166 198			

<sup>1</sup> Refer to note 1.2.1.3 for DG bucket definitions.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (continued)

Maximum exposure to credit risk	Bank			
	2018			Stage 3 <sup>1</sup> Default Rm
	Stage 2 <sup>1</sup> DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	
Balances with the SARB	—	—	—	—
<b>Cash, cash balances and balances with central banks</b>	—	—	—	—
Government bonds	173	—	—	—
Other	1 573	—	—	30
Treasury bills	—	—	—	—
<b>Investment securities</b>	<b>1 746</b>	—	—	<b>30</b>
<b>Loans and advances to banks</b>	<b>189</b>	<b>2 244</b>	<b>13</b>	—
Accounts receivable	—	1	—	—
Settlement accounts	—	—	—	—
<b>Other assets</b>	—	<b>1</b>	—	—
RBB South Africa	3 574	19 671	12 108	35 285
Retail Banking South Africa	3 371	12 422	12 108	30 729
Credit cards	30	1 167	1 709	4 104
Instalment credit agreements	679	2 859	3 160	5 147
Loans to associates and joint ventures	—	—	—	—
Mortgages	2 214	6 043	5 716	18 241
Other loans and advances	—	447	—	20
Overdrafts	239	754	261	567
Personal and term loans	209	1 152	1 262	2 650
Business Banking South Africa	203	7 249	—	4 556
CIB South Africa	14 786	13 359	2 603	2 860
WIMI	41	291	—	310
Head Office, Treasury and other operations in South Africa	1	8	—	—
<b>Loans and advances to customers</b>	<b>18 402</b>	<b>33 329</b>	<b>14 711</b>	<b>38 455</b>
<b>Loans and advances to group companies</b>	—	—	—	—

The following table sets out information about the credit quality of financial instruments to which are classified at fair value through profit or loss:

Maximum exposure to credit risk	Bank			
	Carrying value Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
<b>Investment securities</b>	<b>10 954</b>	<b>10 457</b>	<b>497</b>	—
Government bonds	8 420	8 420	—	—
Other	2 534	2 037	497	—
<b>Loans and advances to banks</b>	<b>19 800</b>	<b>15 846</b>	<b>3 954</b>	—
<b>Trading portfolio assets</b>	<b>99 436</b>	<b>88 958</b>	<b>10 373</b>	<b>105</b>
Debt instruments	44 239	34 612	9 565	62
Derivative assets	43 724	43 681	—	43
Money market assets	11 473	10 665	808	—
<b>Hedging portfolio assets</b>	<b>2 407</b>	—	<b>2 407</b>	—
Derivatives designated as cash flow hedging instruments	1 159	—	1 159	—
Derivatives designated as fair value hedging instruments	1 248	—	1 248	—
<b>Loans and advances to customers</b>	<b>45 263</b>	<b>27 402</b>	<b>17 721</b>	<b>140</b>
<b>Total</b>	<b>177 860</b>	<b>142 663</b>	<b>34 952</b>	<b>245</b>

<sup>1</sup> Refer to note 1.2.1.3 for DG bucket definitions.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (continued)

#### Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions:

Geographical concentration of risk	Bank				Total Rm
	Asia and Australia Rm	Europe Rm	2018 Africa Regions Rm	South Africa Rm	
<b>On-statement of financial position exposure</b>					
Cash, cash balances and balances with central banks	—	—	—	13 109	13 109
Investment securities	3 076	—	—	89 317	92 393
Loans and advances to banks	4 069	14 730	6 189	15 565	40 553
Trading portfolio assets	2 851	22 015	5 380	69 189	99 435
Hedging portfolio assets	—	—	—	2 407	2 407
Other assets	1 903	2 588	46	15 527	20 064
Loans and advances to customers	9 560	8 874	9 556	729 677	757 667
Loans and advances to group companies	—	—	11 997	25 366	37 363
<b>Subject to credit risk</b>	<b>21 459</b>	<b>48 207</b>	<b>33 168</b>	<b>960 157</b>	<b>1 062 991</b>
<b>Off-statement of financial position exposures</b>					
Guarantees	839	5 438	2 258	25 944	34 479
Letters of credit	273	81	4 608	1 866	6 828
Irrecoverable debt facilities	—	—	—	166 198	166 198
<b>Subject to credit risk</b>	<b>1 112</b>	<b>5 519</b>	<b>6 866</b>	<b>194 008</b>	<b>207 505</b>

#### IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for financial instruments that are credit impaired at the reporting date are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset and off-statement of financial position exposure as described in note 1.2.1.

The Bank offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Bank has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying amount and the undrawn facility of the related credit exposure where a loan is possibly over-collateralised.

The Bank may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

During the period there were no changes in the Bank's collateral policies.

#### Collateral includes:

- › Guarantees and/or letters of credit from third parties.
- › Credit default swaps and other credit derivatives.
- › Credit insurance.
- › Physical collateral including fixed charges over property.
- › Cash collateral.
- › Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (continued)

Analysis of credit risk mitigation and collateral	Bank				
	2018				
	Collateral – credit impaired financial assets				
	Gross maximum exposure <sup>1</sup> Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
<b>Loans and advances to banks</b>	<b>40 553</b>	—	—	—	—
Debt instruments	44 238	—	—	—	—
Derivative assets	43 724	—	—	—	—
Money market assets	11 473	—	—	—	—
<b>Trading portfolio assets</b>	<b>99 435</b>	—	—	—	—
RBB South Africa	589 448	18	23 099	38	42
Retail Banking South Africa	493 989	—	20 811	1	—
Credit cards	65 531	—	—	—	—
Instalment credit agreements	85 651	—	3 874	1	—
Loans to associates and joint ventures	25 490	—	—	—	—
Mortgages	278 215	—	16 937	—	—
Other loans and advances	4 919	—	—	—	—
Overdrafts	12 633	—	—	—	—
Personal and term loans	21 550	—	—	—	—
Business Banking South Africa	95 459	18	2 288	37	42
CIB South Africa	325 956	340	4	—	—
WIMI	8 154	—	39	—	66
Head Office, Treasury and other operations in South Africa	309	—	—	—	—
<b>Loans and advances to customers</b>	<b>923 867</b>	<b>358</b>	<b>23 142</b>	<b>38</b>	<b>108</b>
<b>Off-balance sheet</b>					
Guarantees	34 479	—	—	—	—
Letters of credit	6 828	—	—	—	—
<b>Total off-statement of financial position exposure</b>	<b>41 307</b>	—	—	—	—

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

<sup>1</sup> Included in the gross maximum exposure is the exposure for irrevocable debt facilities.

		2018						
Unsecured Rm	Total maximum exposure credit impaired financial assets <sup>1</sup> Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm	Total maximum exposure not credit impaired financial assets <sup>1</sup> Rm	
—	—	93	—	—	21 300	19 160	40 553	
—	—	—	—	—	—	44 238	44 238	
—	—	123	—	4 422	33 196	5 983	43 724	
—	—	—	—	—	—	11 473	11 473	
—	—	123	—	4 422	33 196	61 694	99 435	
13 059	36 256	388	354 165	2 756	105	195 782	553 196	
10 808	31 620	12	305 734	182	1	156 442	462 371	
4 883	4 883	12	107	79	1	60 449	60 648	
1 273	5 148	—	63 059	103	—	17 342	80 504	
—	—	—	—	—	—	25 490	25 490	
1 377	18 314	—	242 568	—	—	17 334	259 902	
20	20	—	—	—	—	4 899	4 899	
593	593	—	—	—	—	12 040	12 040	
2 662	2 662	—	—	—	—	18 888	18 888	
2 251	4 636	376	48 431	2 574	104	39 340	90 825	
2 517	2 861	18 240	10 318	—	31 617	262 921	323 096	
206	311	—	2 005	—	1 300	4 538	7 843	
—	—	—	—	—	—	309	309	
15 782	39 428	18 628	366 488	2 756	33 022	463 550	884 444	
16	16	7	742	972	2	32 741	34 463	
—	—	—	—	—	—	6 828	6 828	
16	16	7	742	972	2	39 569	41 291	



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (continued)

#### Enforcement of collateral

##### Residential properties

During the current year, the strategy regarding the stock of property in possession (PIPS) was revised so that properties are disposed of prior to the Bank acquiring them. This resulted in overall acquisitions during 2018 being less than R1m.

In the prior year the Bank optimised the sales strategies of PIPS to manage the inflow in order to minimise financial loss. The above strategies have resulted in the book remaining at Rnil.

The number of properties in possession reduced from 75 properties in the previous reporting period to 35 properties in the current reporting period. The gross PIPS portfolio decreased from R53m in the previous reporting period to **R26m** in the current reporting period. Currently **54%** (2017: 28%) of the current inventory is sold pending registration.

#### Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

	Bank
	2018 Rm
Assets written off during financial period still subject to enforcement activities	5 237

#### Reconciliation of impairment loss allowance

	Bank			
	2018			
	Stage 1 Rm	Lifetime expected credit losses ('LEL')		Total expected credit losses Rm
Investment securities at amortised cost and FVOCI	Stage 2 Rm	Stage 3 Rm		
Balance at the beginning of the reporting period	9	—	—	9
Asset moved/allowance transferred to stage 1	0	(0)	—	—
Asset moved/allowance transferred to stage 2	(1)	1	—	—
Asset moved/allowance transferred to stage 3	—	(0)	0	—
Current period provision	16	2	10	28
<b>Balance at the end of the reporting period</b>	<b>24</b>	<b>3</b>	<b>10</b>	<b>37</b>

	Bank			
	2018			
	Stage 1 Rm	Lifetime expected credit losses ('LEL')		Total expected credit losses Rm
Loans and advances to banks at amortised cost	Stage 2 Rm	Stage 3 Rm		
Balance at the beginning of the reporting period	4	22	—	26
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Current period provision	2	(8)	—	(6)
<b>Balance at the end of the reporting period</b>	<b>7</b>	<b>13</b>	<b>—</b>	<b>20</b>

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to R0m.

Loans and advances to customers at amortised cost and irrevocable debt facilities	Bank			
	2018			Total expected credit losses Rm
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	
<b>Balance at the beginning of the reporting period</b>	3 314	3 222	14 865	21 401
Asset moved/allowance transferred to stage 1	1 263	(837)	(426)	—
Asset moved/allowance transferred to stage 2	(179)	556	(377)	—
Asset moved/allowance transferred to stage 3	(121)	(869)	990	—
Current period provision	(1 174)	1 487	6 139	6 452
Amounts written off	—	—	(5 237)	(5 237)
Net change in interest	—	—	261	261
<b>Balance at the end of the reporting period</b>	<b>3 103</b>	<b>3 559</b>	<b>16 215</b>	<b>22 877</b>

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- › The reconciliation above includes the ECL allowance recognised in respect of irrevocable debt facilities, classified as a provision on the face of the statement of financial position. The provision recognised as at 31 December 2018 was R404m, and that as at 1 January 2018 was R426m. The credit risk inherent in the undrawn component of irrevocable lending facilities is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the ECL on loans and advances. As a result, the total credit loss 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.
- › The current period provision of R6 452m excludes the impact that post write-off recoveries and the recovery of previously unrecognised interest on stage 3 assets has on the total impairment loss recognised in profit or loss.
- › The Bank neither acquired nor sold any significant asset portfolios or material individual loans during the current reporting period.
- › The Bank did not originate any credit impaired assets during the current reporting period.
- › The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios, and did not include the write-off any significant Wholesale exposures.
- › The net change in interest relates only to stage 3 assets where contractual interest is suspended, and interest income is recognised based on the net carrying value of the exposures. The amount of R261m disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

Financial guarantees contracts and letters of credit	Bank			
	2018			Total expected credit losses Rm
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	
<b>Balance at the beginning of the reporting period</b>	16	10	—	26
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Asset moved/allowance transferred to stage 2	(1)	1	—	—
Asset moved/allowance transferred to stage 3	—	(1)	1	—
Current period provision	8	39	1	48
<b>Balance at the end of the reporting period</b>	<b>24</b>	<b>48</b>	<b>2</b>	<b>74</b>

### Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL.

	Bank
	2018 Rm
<b>Financial assets modified during the period</b>	
Loans and advances to customers	
Amortised cost before modification	2 566
Net modification loss	(7)

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (2017) (continued)

The following table analyses financial assets between those that are neither past due nor impaired and those that are past due and/or impaired. Past due/impaired assets are further analysed in the tables that follow:

Maximum exposure to credit risk	Gross maximum exposure Rm	Bank 2017			Total past due and/or impaired loans Rm
		Neither past due nor impaired <sup>1</sup> DG1 – 11 Rm	DG12 – 19 Rm	DG20 – 21 Rm	
Balances with SARB	19 109	19 109	—	—	—
<b>Cash, cash balances and balances with central banks (refer to note 2)</b>	19 109	19 109	—	—	—
Government bonds	34 321	34 321	—	—	—
Other	15 881	15 231	650	—	—
Treasury bills	25 191	25 191	—	—	—
<b>Investment securities (refer to note 3)</b>	75 393	74 743	650	—	—
<b>Loans and advances to banks (refer to note 4)</b>	43 217	37 569	5 491	157	—
Debt instruments	31 772	31 772	—	—	—
Derivative assets	59 139	56 245	2 891	3	—
Money market assets	13 918	13 918	—	—	—
<b>Trading and hedging portfolio assets (refer to note 5)</b>	104 829	101 935	2 891	3	—
Accounts receivable	8 002	7 460	542	—	—
Settlement accounts	5 324	5 324	—	—	—
<b>Other assets (refer to note 6)</b>	13 326	12 784	542	—	—
RBB South Africa	447 533	67 562	304 013	27 689	48 269
Retail Banking South Africa	381 415	58 176	255 903	25 514	41 822
Credit cards	30 471	4 021	14 243	6 325	5 882
Instalment credit agreements	78 860	6 805	56 959	8 773	6 323
Loans to associates and joint ventures	23 037	23 037	—	—	—
Mortgages	223 749	22 182	170 173	5 630	25 764
Other loans and advances	726	149	565	12	—
Overdrafts	5 731	1 202	3 649	220	660
Personal and term loans	18 841	780	10 314	4 554	3 193
Business Banking South Africa	66 118	9 386	48 110	2 175	6 447
Mortgages (including CPF)	28 485	5 297	20 559	797	1 832
Overdrafts	19 966	1 343	15 534	797	2 292
Term loans	17 667	2 746	12 017	581	2 323
CIB South Africa	220 403	152 262	64 461	1 035	2 645
WIMI	5 191	1 289	3 510	102	290
Head Office, Treasury and other operations in South Africa	987	987	—	—	—
<b>Loans and advances to customers (refer to note 8)</b>	674 114	222 100	371 984	28 826	51 204
<b>Loans and advances to Group companies (refer to note 9)</b>	26 549	26 549	—	—	—
<b>Non-current assets held for sale</b>	1 159	117	995	6	41
<b>Total gross maximum exposure to credit risk</b>	957 696				
<b>Impairments raised</b>	(13 623)				
<b>Total net exposure to credit risk as disclosed on the statement of financial position</b>	944 073				
<b>Assets not subject to credit risk</b>	44 285				
<b>Total financial assets per the statement of financial position</b>	988 358				

<sup>1</sup> Refer to note 1.2.1.3 for DG bucket definitions.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 55. Risk management (continued)

#### 55.2 Credit risk (2017) (continued)

##### Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

Geographical concentration of risk	Bank 2017				Total exposure Rm
	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	
<b>On-statement of financial position exposure</b>					
Cash, cash balances and balances with central banks	—	—	—	19 109	19 109
Investment securities	8 142	—	—	67 251	75 393
Loans and advances to banks	2 882	17 777	5 073	17 485	43 217
Trading portfolio assets	963	16 358	2 677	82 165	102 163
Hedging portfolio assets	—	—	—	2 667	2 667
Other assets	—	1 488	3	11 836	13 327
Loans and advances to customers	9 187	6 432	5 784	639 088	660 491
Loans and advances to Group companies	—	—	9 701	16 848	26 549
Non-current assets held for sale	—	—	—	1 118	1 118
<b>Subject to credit risk</b>	<b>21 174</b>	<b>42 055</b>	<b>23 238</b>	<b>857 567</b>	<b>944 034</b>
<b>Off-statement of financial position exposures</b>					
Guarantees	201	4 251	647	23 871	28 970
Irrevocable debt facilities	—	—	—	145 087	145 087
Letters of credit	4	66	1 546	2 218	3 834
Other	—	—	—	151	151
<b>Subject to credit risk</b>	<b>205</b>	<b>4 317</b>	<b>2 193</b>	<b>171 327</b>	<b>178 042</b>

Amounts presented in the above table are presented net of impairments, where relevant.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (2017) (continued)

Analysis of credit risk mitigation and collateral	Gross maximum exposure Rm	Guarantees, credit insurance and credit derivatives Rm	Bank 2017			
			Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm
<b>Loans and advances to banks (refer to note 4)</b>	43 217	—	—	—	15 452	27 765
Debt instruments	31 772	—	—	—	—	31 772
Derivative assets	59 140	5 275	—	—	714	53 150
Money market assets	13 918	—	—	—	—	13 918
<b>Trading portfolio assets (refer to note 5)</b>	104 830	5 275	—	—	714	98 840
Accounts receivable	8 002	3	—	—	—	7 999
Settlement accounts	5 324	—	—	—	—	5 324
<b>Other assets (refer to note 6)</b>	13 326	3	—	—	—	13 323
RBB South Africa	447 536	935	333 135	504	3	112 958
Retail Banking South Africa	381 415	1	288 411	40	—	92 962
Credit cards	30 471	1	43	25	—	30 401
Instalment credit agreements	78 860	—	78 845	15	—	—
Loans to associates and joint ventures	23 037	—	—	—	—	23 037
Mortgages	223 749	—	209 523	—	—	14 226
Other loans and advances	726	—	—	—	—	726
Overdrafts	5 731	—	—	—	—	5 731
Personal and term loans	18 841	—	—	—	—	18 841
Business Banking South Africa	66 121	934	44 724	464	3	19 996
Mortgages (including CPF)	28 488	859	27 019	22	—	588
Overdrafts	19 968	61	7 831	291	2	11 783
Term loans	17 665	14	9 874	151	1	7 625
CIB South Africa	220 402	18 376	18 115	—	21 517	162 394
Wealth	5 191	—	1 075	—	—	4 117
Head Office, Treasury and other operations in South Africa	987	—	—	—	—	987
<b>Loans and advances to customers (refer to note 8)</b>	674 116	19 311	352 325	504	21 520	280 456
<b>Non-current assets held for sale</b>	1 159	—	—	—	—	1 159

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

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# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (2017) (continued)

#### Analysis of past due accounts

The following table demonstrates the maximum exposure to credit risk of financial assets considered past due and/or considered to be impaired:

	Total past and/or impaired loans Rm	Bank 2017 Past due not impaired Performing loans			
		Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm
RBB South Africa	48 271	1 896	197	161	44
Retail Banking South Africa	41 825	15	7	5	26
Credit cards	5 883	—	—	—	—
Instalment credit agreements	6 323	15	7	5	26
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	25 764	—	—	—	—
Other loans and advances	—	—	—	—	—
Overdrafts	662	—	—	—	—
Personal and term loans	3 193	—	—	—	—
Business Banking South Africa	6 446	1 881	190	156	18
Mortgages (including CPF)	1 832	153	39	27	—
Overdrafts	2 292	619	63	52	8
Term loans	2 322	1 109	88	77	10
CIB South Africa	2 646	614	—	—	—
Wealth	291	11	—	—	—
Head office, Treasury and other operations in South Africa	—	—	—	—	—
<b>Loans and advances to customers</b>	<b>52 031</b>	<b>2 521</b>	<b>197</b>	<b>265</b>	<b>74</b>
<b>Non-current assets held for sale</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Financial assets not disclosed in the table above did not have any past due accounts.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

Bank 2017									
Past due older than 4 months Rm	Past due not impaired Non-performing loans					Past due older than 4 months Rm	Past due and/or impaired		Total non- performing loans Rm
	Past due up to one month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm		Performing loans Rm	Non- performing loans Rm	
79	180	76	43	25	426	24 209	22 953	21 675	
2	—	—	1	2	—	23 419	18 348	18 340	
—	—	—	—	—	—	2 283	3 600	3 622	
2	—	—	1	2	—	3 904	2 361	2 360	
—	—	—	—	—	—	—	—	—	
—	—	—	—	—	—	15 513	10 252	10 241	
—	—	—	—	—	—	—	—	—	
—	—	—	—	—	—	277	384	384	
—	—	—	—	—	—	1 442	1 751	1 733	
77	180	76	42	23	426	790	2 586	3 335	
32	82	29	22	—	223	105	1 121	1 477	
29	11	—	—	2	153	439	915	1 082	
16	87	47	20	21	50	246	550	776	
—	—	—	—	—	—	—	2 019	2 019	
18	1	—	—	9	41	—	211	262	
—	—	—	—	—	—	—	—	—	
97	181	76	43	34	467	24 209	23 164	23 956	
—	—	—	—	—	—	—	41	41	



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.2 Credit risk (2017) (continued)

#### Allowances for impairments on loans and advances to customers

Based on the credit quality of financial assets disclosed in the previous two tables, the Bank raised the following allowances for impairments on loans and advances to customers during the reporting period.

	Bank		
	2017		
	Unidentified impairment Rm	Identified individual impairment Rm	Identified collective impairment Rm
RBB South Africa	(1 326)	(1 787)	(8 921)
Retail Banking South Africa	(754)	(665)	(8 746)
Credit cards	(121)	(14)	(3 069)
Instalment credit agreements	(275)	(202)	(1 338)
Loans to associates and joint ventures	—	—	—
Mortgages	(255)	(14)	(2 911)
Other loans and advances	—	—	—
Overdrafts	(21)	—	(266)
Personal and term loans	(82)	(435)	(1 162)
Business Banking South Africa	(572)	(1 122)	(175)
Mortgages (including CPF)	(135)	(492)	(32)
Overdrafts	(255)	(420)	(93)
Term loans	(182)	(210)	(50)
CIB	(559)	(832)	—
Wealth	(13)	(175)	—
Head Office, Treasury and other operations in South Africa	(10)	—	—
<b>Loans and advances to customers</b>	<b>(1 908)</b>	<b>(2 794)</b>	<b>(8 921)</b>
<b>Non-current assets</b>	<b>—</b>	<b>(35)</b>	<b>(6)</b>

### 55.3 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Bank's equity investment risk objective is to balance the portfolio composition in line with the Bank's risk appetite, with selective exits as appropriate.

#### Approach

The Bank's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Bank's equity investments are held in CIB and RBB.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.3 Equity investment risk (continued)

#### Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Bank has adopted the market-based simple risk-weighted approach to calculate Risk Weighted Assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Bank applies a 300% risk weighting to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1.06. Investments in financial entities are treated in line with the principles embodied in Basel III and the Regulations relating to Banks, whereby the risk weightings are subject to the aggregate value of the Bank's shareholding in those investments and also in relation to the Bank's capital.

#### Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis. Equity hedge structures were in place for the shareholders' equity investment portfolio in previous reporting periods. This assisted to hedge downside risk on equities if market values decrease by more than 6% and resulted in counterparties sharing in positive returns if market values increased by between 2% and 4%. No equity hedge structures were in place at the reporting date.

	Bank									
	2018					2017				
	Impact of a 5% reduction in fair value		Fair value Rm	Impact of a 5% increase in fair value		Impact of a 5% reduction in fair value		Fair value Rm	Impact of a 5% increase in fair value	
Profit or loss Rm	Equity Rm	Profit or loss Rm		Equity Rm	Profit or loss Rm	Equity Rm	Profit or loss Rm		Equity Rm	
Listed equity investments	(27)	(6)	651	6	27	(19)	(6)	496	6	19
Unlisted equity investments	(16)	(11)	533	11	16	(23)	(9)	635	9	23
<b>Total on Bank equity investments</b>	<b>(43)</b>	<b>(17)</b>	<b>1 184</b>	<b>17</b>	<b>43</b>	<b>(42)</b>	<b>(15)</b>	<b>1 131</b>	<b>15</b>	<b>42</b>

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.4 Market risk

#### Traded market risk

Traded market risk is the risk of loss to the Bank arising from potential adverse changes in the value of the firm's assets and liabilities held in the trading book from fluctuations in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities or asset correlations.

Traded market risk arises in the trading book as a result of the need to hold inventory to support the demands of the Group's clients and to facilitate market liquidity as a market maker with the aim of generating revenues from assuming and managing risk. Non-traded market risk arises from the banking book activities such as the provision of retail and wholesale banking and structured products and services as well as treasury functions net of hedges and is incorporated within Treasury Risk.

The Group Market Risk Committee (GMRC) meets monthly to review, challenge and make recommendations concerning the traded market risk profile, including risk appetite, policies, limits, risk utilisation, valuation risk and the effectiveness of the control environment.

The Trading Risk Committee (TRC) and Market Risk Control and Infrastructure Committee (MRCIC) are subcommittees of the GMRC that provide oversight of specific traded market risks and the traded market risk control environment.

#### Strategy

Market risk management objectives are to:

- › Develop frameworks and policies for traded market risk and assess conformance against these;
- › Use appropriate models to measure risk and understand risk sensitivity and volatility;
- › Leverage stress testing and empirical analytics to reduce model risk arising from the impact of known limitations in the VaR model;
- › Set traded market risk appetite and supporting limits within the Group's market risk appetite and monitor risk against this appetite and limit framework; and
- › Manage regulatory relationships for traded market risk, and overseeing delivery of regulatory commitments.

#### Traded market risk

##### Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, providing risk management solutions, generating revenues from assuming and managing risk, and execution of syndications.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as "Interest rate risk in the banking book" as part of the Treasury Risk framework.

##### Risk appetite

The risk appetite for market risk is based on:

- › proposed business strategy;
- › budgeted revenue growth;
- › statistical modelling measures; and
- › risk equated to capital projection under normal and stressed market conditions.

##### Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- › value at risk (VaR) based measures including both VaR and stressed value at risk (sVaR);
- › tail metrics;
- › position and sensitivity reporting;
- › stress testing;
- › backtesting; and
- › standardised general and specific risk, as relevant.

##### Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Bank uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.4 Market risk (continued)

The historical simulation methodology can be split into three parts:

- › Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- › Sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- › DVaR is the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory back testing and Regulatory Capital (RC) calculation purposes, respectively. The VaR internal model has been approved by the SARB to calculate RC for all trading book portfolios in South Africa. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. As part of this approval, the SARB has assigned a DVaR and sVaR model multiplier to be used in RC calculations. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the rest of Africa is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Bank. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

VaR estimates have a number of limitations:

- › Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- › The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- › VaR does not indicate the potential loss beyond the selected percentiles.
- › VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- › Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

#### Backtesting

The Bank conducts backtesting of the VaR risk measurement model against:

- › the theoretical profit or loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- › the actual profit or loss representing the actual daily trading outcome.

#### Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- › the average of the worst three hypothetical losses from the historical simulation; and
- › expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

#### Position and sensitivity reporting

Position and sensitivity reporting covers non-statistical measures of calculating and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have position and sensitivity reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

#### Stressed value at risk

Stressed value at risk (sVaR) is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Bank's sVaR model and period selection methodology was approved by the SARB. sVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVaR RC requirement is calculated daily for South Africa and is disclosed for the reporting period.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.4 Market risk (continued)

#### Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Bank performs two main types of stress/scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers for trading books in South Africa. A full revaluation approach is applied to undertake stress testing for these trading books. The approach taken for trading books in the African Regional Operations is sensitivity based.

#### Standardised approach

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules. In addition, the standardised rules are used to quantify general risk RC for any instruments traded in South Africa for which internal model approach approval has not yet been obtained.

General risk for the African Regional Operations is quantified using standardised rules, specifically for the interest rate and foreign exchange asset classes. Exposure to other asset classes is limited. The maturity method is used to quantify general interest rate risk for the rest of Africa.

#### Risk control

Risk limits are set and reviewed at least annually to control the trading activities, in line with the defined risk appetite of the Group. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- › VaR limits (DVaR);
- › SVaR as relevant;
- › position and sensitivity limits;
- › stress testing limits, as relevant; and
- › management action triggers: reporting of actual losses based on predetermined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by Product Control and the results are reviewed monthly by the CIB Traded Risk Committee.

The Independent Model Validation function (IVU) is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

#### Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the GMRC and other governance committees, as required.

#### Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R28.31m** (2017: R25.86m) for the reporting period, which is a 9% increase on the prior year balance. This was principally due to a combination of increased volatility feeding into the recent time series, risk positioning being adverse to historic market movements and higher levels of inventory held to facilitate client trades primarily in the offshore interest rate and equity franchise. The model showed resilience in tough trading conditions. Trading revenues increased compared to the previous reporting period and favourable risk-adjusted returns were.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.4 Market risk (continued)

Analysis of traded market risk exposure (continued)

	Bank							
	2018				2017			
	Average Rm	High <sup>1</sup> Rm	Low <sup>1</sup> Rm	As at the reporting date Rm	Average Rm	High <sup>1</sup> Rm	Low <sup>1</sup> Rm	As at the reporting date Rm
Interest rate risk	24.15	38.80	11.52	21.72	25.96	36.84	18.80	31.85
Foreign exchange risk	12.62	35.21	4.10	6.72	8.58	32.98	2.16	12.23
Equity risk	11.25	26.58	2.30	17.36	6.78	29.70	1.33	3.32
Commodity risk	0.60	1.91	0.21	0.51	0.58	1.59	0.05	0.82
Inflation risk	10.99	27.78	5.07	7.46	10.29	20.84	3.21	14.04
Credit spread risk	2.62	3.53	1.21	2.09	4.38	6.08	3.21	3.54
Diversification effect	(33.92)	(81.16)	(7.90)	(24.27)	(30.70)	n/a	n/a	(45.09)
Total DVaR <sup>2</sup>	28.31	52.66	16.52	31.59	25.86	43.24	16.97	20.71
Expected shortfall <sup>2</sup>	40.62	76.29	22.85	41.09	43.00	79.50	26.83	34.16
Regulatory VaR <sup>3</sup>	47.65	89.07	26.33	43.15	50.15	95.27	29.81	41.02
Regulatory sVaR <sup>3</sup>	86.60	191.68	48.49	64.14	62.19	116.15	38.37	66.36

#### Other market risks

The Bank maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Bank may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses are affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Bank policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises in the Wealth segment.

### 55.5 Treasury risk

Treasury risk comprises liquidity risk, capital risk and interest rate risk in the banking book.

- › **Liquidity risk:** The risk that the Bank is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- › **Capital risk:** The risk that the Bank has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- › **Interest rate risk in the banking book (IRRBB):** The risk that the Bank is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

<sup>1</sup> The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

<sup>2</sup> The analysis is for trading books for which internal models approval has been obtained and is at a 95% confidence level as used for risk management purposes.

<sup>3</sup> Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.1 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events.

Liquidity risk is monitored at a Bank level under a single Bank framework. The Liquidity Risk Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite (LRA) set by the local Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Each geographic entity is required to be self-sustaining from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

#### Strategy

The Bank's liquidity risk management objectives are:

- › manage the funding position and High Quality Liquid Asset (HQLA) position in line with board-approved liquidity risk appetite framework and regulatory requirements;
- › build and maintain adequate liquidity buffers to ensure the Bank remains continuously compliant with the liquidity coverage ratio and net stable funding ratio;
- › grow and diversify the funding base to support asset growth and other strategic initiatives while optimising the funding cost;
- › grow core Retail, Business Bank, Corporate and Public Sector deposits faster than wholesale funding;
- › work with regulatory authorities and other stakeholders on resolution planning, and Deposit Insurance Scheme
- › manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- › balance the above objectives against the long-term impacts on the Bank cost of funding.

#### Approach

The efficient management of liquidity is essential for safeguarding the Bank's depositors, preserving market confidence and maintaining the Bank's brand. The Bank considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the Liquidity Risk Framework, which is designed to meet the following objectives:

- › to maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the LRA as expressed by the Board;
- › to maintain market confidence;
- › to set limits to control liquidity risk within and across lines of business and legal entities;
- › to set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- › to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- › to maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

The Bank applies a three-step risk management process:

- › **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- › **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- › **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

#### Stress and scenario testing

Under the Liquidity Framework, the Bank has established the Liquidity Risk Appetite (LRA), which is the level of liquidity risk the Bank chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Bank undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the Contingency Funding Plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Bank's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

#### Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- › the roles and responsibilities of senior management in a crisis situation;
- › authorities for invoking the plan;
- › communications and organisation;
- › an analysis of a realistic range of market-wide and Bank-specific liquidity stress tests; and
- › scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.1 Liquidity risk (continued)

##### Contingency funding planning (continued)

The Bank maintains a range of early warning indicators ('EWIs'). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Bank CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Bank's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. The Bank continues to work with the Regulator on recovery and resolution planning.

##### Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the 'on demand' time bucket at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Discounted maturity	Bank					Total Rm
	2018	2018	2018	2018	2018	
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Impairment losses Rm	
<b>Assets</b>						
Cash, cash balances and balances with central banks	22 679	—	—	—	—	22 679
Investment securities	5 289	27 161	26 991	34 142	(7)	93 576
Loans and advances to banks	8 104	32 090	256	103	(20)	40 533
Trading portfolio assets	99 968	—	—	—	—	99 968
Derivative assets	43 724	—	—	—	—	43 724
Non-derivative assets	56 244	—	—	—	—	56 244
Hedging portfolio assets	—	513	727	1 167	—	2 407
Other financial assets	13 382	6 682	—	—	—	20 064
Loans and advances to customers	100 528	123 181	305 185	228 773	(22 467)	735 200
Non current asset held for sale	—	50	—	—	—	50
Loans to Group Companies	10 150	12 707	12 870	1 636	—	37 363
Financial assets	260 100	202 384	346 029	265 821	(22 494)	1 051 840
Non-financial assets	—	—	—	—	—	27 839
<b>Total assets</b>						1 079 679
<b>Liabilities</b>						
Deposits from banks	48 987	65 335	13 495	142	—	127 959
Trading portfolio liabilities	46 280	—	—	—	—	46 280
Derivative liabilities	35 208	—	—	—	—	35 208
Non-derivative liabilities	11 072	—	—	—	—	11 072
Hedging portfolio liabilities	—	144	569	630	—	1 343
Other financial liabilities	24 354	5 259	—	—	—	29 613
Deposits due to customers	375 589	181 793	44 163	4 102	—	605 647
Debt securities in issue	1 557	86 786	60 173	11 526	—	160 042
Borrowed funds	—	3	17 009	3 040	—	20 052
Financial liabilities	496 767	339 320	135 409	19 440	—	990 936
Non-financial liabilities	—	—	—	—	—	5 057
<b>Total liabilities</b>						995 993
<b>Equity</b>						83 686
<b>Total equity and liabilities</b>						1 079 679
<b>Net liquidity position of financial instruments</b>	(236 667)	(136 936)	210 620	246 381	(22 494)	60 904



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.1 Liquidity risk (continued)

Discounted maturity	On demand Rm	Within 1 year Rm	Bank 2017		Impairment losses Rm	Total Rm
			From 1 year to 5 years Rm	More than 5 years Rm		
<b>Assets</b>						
Cash, cash balances and balances with central banks	28 792	—	—	—	—	28 792
Investment securities	1 646	24 831	16 489	33 558	—	76 524
Loans and advances to banks	7 242	34 131	1 350	494	—	43 217
Trading portfolio assets	102 730	—	—	—	—	102 730
Derivative assets	56 473	—	—	—	—	56 473
Non-derivative assets	46 257	—	—	—	—	46 257
Hedging portfolio assets	—	254	1 439	974	—	2 667
Other financial assets	5 778	7 549	—	—	—	13 327
Loans and advances to customers <sup>1</sup>	56 819	123 386	275 092	218 819	(13 623)	660 492
Non current asset held for sale – Loans and advances to customers	—	1 118	—	—	—	1 118
Loans to Group companies	25 401	9 132	1 354	643	—	36 530
<b>Financial assets</b>	228 406	200 401	295 724	254 488	(13 623)	965 396
<b>Non-financial assets</b>						22 962
<b>Total assets</b>						988 358
<b>Liabilities</b>						
Deposits from banks	3 582	60 373	10 002	153	—	74 110
Trading portfolio liabilities	59 834	—	—	—	—	59 834
Derivative liabilities	51 693	—	—	—	—	51 693
Non-derivative liabilities	8 141	—	—	—	—	8 141
Hedging portfolio liabilities	—	55	365	697	—	1 117
Other financial liabilities	19 372	6 337	—	—	—	25 709
Deposits due to customers	368 671	183 966	26 777	4 411	—	583 825
Debt securities in issue	3 152	68 114	54 144	12 532	—	137 942
Borrowed funds	—	3 258	8 705	3 903	—	15 866
Financial liabilities	454 611	322 103	99 993	21 696	—	898 403
Non-financial liabilities						4 626
<b>Total liabilities</b>						903 029
<b>Equity</b>						85 329
<b>Total equity and liabilities</b>						988 358
<b>Net liquidity position of financial instruments</b>	(226 205)	(121 703)	195 731	232 792	(13 623)	66 993

<sup>1</sup> Due to the adoption of IFRS 9, the bucketing methodology in relation to the loans and advances to customers line item has been restated in order to reflect the carrying amount, excluding the effect of impairment losses, per maturity bucket, rather than the carrying amount after impairment losses.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.1 Liquidity risk (continued)

Undiscounted maturity (statement of financial position value with impact of future interest)	Bank					Discount effect Rm	Total Rm
	2018	2017	2016	2015	2014		
	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm			
<b>Liabilities</b>							
<b>On-statement of financial position</b>							
Deposits from banks	48 987	66 158	16 435	262	(3 883)		127 959
Trading portfolio liabilities	46 280	—	—	—	—		46 280
Derivative liabilities	35 208	—	—	—	—		35 208
Non-derivative liabilities	11 072	—	—	—	—		11 072
Hedging portfolio liabilities	—	146	774	1 289	(866)		1 343
Other financial liabilities	24 354	5 273	—	—	(14)		29 613
Deposits due to customers	375 589	186 330	57 399	9 559	(23 230)		605 647
Debt securities in issue	1 557	90 374	76 937	23 458	(32 284)		160 042
Borrowed funds	—	3	21 161	5 334	(6 446)		20 052
<b>Financial liabilities</b>	<b>496 767</b>	<b>348 284</b>	<b>172 706</b>	<b>39 902</b>	<b>(66 723)</b>		<b>990 936</b>
<b>Non-financial liabilities</b>							<b>5 057</b>
<b>Total liabilities</b>							<b>995 993</b>
<b>Off-statement of financial position</b>							
Financial guarantee contracts	34 479	—	—	—	—		34 479
Loan commitments	99 968	66 230	—	—	—		166 198
<b>Liabilities</b>							
<b>On-statement of financial position</b>							
Deposits from banks	3 582	60 804	12 664	270	(3 210)		74 110
Trading portfolio liabilities	59 834	—	—	—	—		59 834
Derivative liabilities	51 693	—	—	—	—		51 693
Non-derivative liabilities	8 141	—	—	—	—		8 141
Hedging portfolio liabilities	—	57	479	1 269	(688)		1 117
Other financial liabilities	19 372	6 354	—	—	(17)		25 709
Deposits due to customers	368 671	187 730	32 538	8 498	(13 612)		583 825
Debt securities in issue	3 152	70 300	65 909	22 344	(23 762)		137 942
Borrowed funds	—	3 451	10 811	6 149	(4 545)		15 866
<b>Financial liabilities</b>	<b>454 611</b>	<b>328 696</b>	<b>122 401</b>	<b>38 530</b>	<b>(45 835)</b>		<b>898 403</b>
<b>Non-financial liabilities</b>							<b>4 626</b>
<b>Total liabilities</b>							<b>903 029</b>
<b>Off-statement of financial position</b>							
Financial guarantee contracts	10	—	—	—	—		10
Loan commitments	142 164	39 256	—	—	—		181 420

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.2 Capital management

Capital risk is the risk that the Bank has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

The Bank's capital management strategy, which is in line with and in support of the Bank's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Bank's risk appetite.

The Bank's capital management priorities are to:

- › Maintain an optimal mix of high quality capital while continuing to generate sufficient capital to support profitable growth and a sustainable dividend.
- › Continue to manage the capital position of the Bank and its subsidiaries, throughout the period of the separation from Barclays PLC.
- › Continuously monitor and assess regulatory developments that may affect the capital position, such as: The standard entitled Basel III: Finalising post-crisis reforms published by the Basel Committee on Banking Supervision in December 2017 and the proposed amendments to the Regulations relating to Banks.
- › Contribute at an industry level to the development of a financial conglomerate supervisory framework in South Africa by providing comment on the publication of an amendment to the Financial Sector Regulation Act (FSRA) by the National Treasury in September 2018, for public comment, which outlined the requirements for the establishment of a resolution framework in South Africa.

Various processes play a role in ensuring that the Bank's capital management priorities are met, including:

- › The Internal Capital Adequacy Assessment Process (ICAAP);
- › Stress testing; and
- › Recovery and Resolution Planning.

The capital management process in the Bank encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Bank ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Bank's capital target ranges for the current reporting period were set after considering the following:

- › Capital risk appetite;
- › The preference of rating agencies for loss absorbing capital;
- › Stress scenarios and its impact on the integrated plan, including the capital position of the Bank;
- › Current and future Basel III requirements and accounting developments; and
- › Peer analysis.

#### Capital adequacy ratios (unaudited)

Bank	2018	2017	2018		2017	
			Board target ranges %	Minimum regulatory capital requirements <sup>1</sup> %	Board target ranges %	Minimum regulatory capital requirements %
<b>Statutory capital ratios (includes unappropriated profits) (%)</b>						
Common Equity Tier 1	12.3	13.4	10.0 – 11.5	7.4	10.0 – 11.5	7.3
Tier 1	13.1	14.1	11.75 – 13.25	8.9	11.0 – 12.5	8.5
Total	16.5	16.9	14.25 – 15.75	11.1	13.5 – 15.0	10.8
<b>Capital supply and demand for the reporting period (Rm)</b>						
Qualifying capital	93 842	91 478				
Total RWA	569 503	542 199				

Regulatory capital comprises the following:

Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.

Tier 1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.

Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

During the past year, the Bank complied in full with all externally imposed capital requirements (2017: the same).

<sup>1</sup> Includes the contribution amounts received from Barclays PLC as part of the separation.

<sup>2</sup> The 2018 minimum regulatory capital requirements of **11.13%** (2017: 10.75%) include the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.3 Interest rate risk in banking book (IRRBB)

##### Approach

IRRBB is the risk that the Bank's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Bank.

The Bank's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to local treasury or Bank Treasury, which is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

##### Risk mitigation

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits.
  - Where possible, hedge accounting is applied to derivatives that are used to hedge IRRBB. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Bank's accounting policies, are followed.
  - Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Bank's equity, and is managed by Bank Treasury. Interest rate risk also arises in each of the Africa regions treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.

##### Key assumptions

Embedded optionality risk may also give rise to IRRBB:

- Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Bank is unable to collect full market-related compensation. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- Recruitment risk arises when the Bank commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Processes are in place to enable robust management of these additional forms of IRRBB.

##### Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

##### Re-pricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.3 Interest rate risk in banking book (IRRBB) (continued)

##### Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/NII sensitivity measures the sensitivity of NII over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

##### Daily value at risk (DVaR)

The Bank uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring IRRBB. The DVaR is monitored against approved internal limits, and is used as a complementary metric to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

##### Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time (PIT) to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

##### Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the the Absa Regional Operations is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Absa Regional Operations and is monitored against formal internal limits.

##### Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics (position and sensitivity limits), as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

##### Risk reporting

DVaR and supporting metrics are reported daily for Bank Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Bank Treasury.

##### Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Bank's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

##### Re-pricing profile

The re-pricing profile of the Bank's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.3 Interest rate risk in banking book (IRRBB) (continued)

Expected re-pricing profile	Bank			
	2018			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Banking book<sup>1</sup></b>				
Interest rate sensitivity gap	142 895	(10 598)	(23 052)	(25 602)
Derivatives <sup>2</sup>	(107 518)	15 373	26 632	65 513
Net interest rate sensitivity gap	35 377	4 775	3 580	39 911
Cumulative interest rate gap	35 377	40 152	43 732	83 643
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	3.3	3.7	4.0	7.7
	2017			
	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
<b>Banking book<sup>1</sup></b>				
Interest rate sensitivity gap	145 153	(23 367)	(34 815)	(29 314)
Derivatives <sup>2</sup>	(129 591)	18 919	34 799	75 872
Net interest rate sensitivity gap	15 562	(4 448)	(16)	46 558
Cumulative interest rate gap	15 562	11 114	11 098	57 656
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	1.7	1.2	1.2	6.3

#### Impact on earnings

The following table shows the impact on AEaR/NII sensitivity for 100 and 200 bps up and down movements in market interest rates for the Bank's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R2.15bn** (2017: R1.4bn). A similar increase would result in an increase in projected 12-month net interest income of **R1.88bn** (2017: R1.17bn). AEaR increased from 2.1% to 6.9% of the Bank's net interest income.

<sup>1</sup> Includes exposures held in the CIB banking book.

<sup>2</sup> Derivatives for interest rate risk management purposes (net nominal value).

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.5 Treasury risk (continued)

#### 55.5.3 Interest rate risk in banking book (IRRBB) (continued)

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Bank			
	2018			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(2 148)	(912.0)	947.0	1 884
Percentage of the Bank's net interest income (%)	(6.9)	(2.9)	3.1	6.1
Percentage of the Bank's equity (%)	(2.5)	(1.1)	1.1	2.2

  

	Bank			
	2017			
	Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(1 405)	(459.0)	609.0	1 172
Percentage of the Bank's net interest income (%)	(4.8)	(1.6)	2.1	4.0
Percentage of the Bank's equity (%)	(1.6)	(0.5)	0.7	1.4

#### Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- › higher or lower profit after tax resulting from higher or lower net interest income;
- › higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- › higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the available-for-sale reserves is mainly due to the increase in the net directional risk.

#### Sensitivity of reserves to market interest rate movements

	Bank					
	2018			2017		
	Impact on equity at the reporting date Rm	Maximum impact <sup>1,2</sup> Rm	Minimum impact <sup>1,2</sup> Rm	Impact on equity at the reporting date Rm	Maximum impact <sup>1,2</sup> Rm	Minimum impact <sup>1,2</sup> Rm
<b>+100 bps parallel move in all yield curves</b>						
Available-for-sale reserve	(365)	(604)	(282)	(435)	(462)	(419)
Cash flow hedging reserve	(2 030)	(2 130)	(1 928)	(2 114)	(2 359)	(2 039)
	(2 396)	(2 688)	(2 291)	(2 548)	(2 811)	(2 461)
<b>As a percentage of Bank equity (%)</b>	(2.8)	(3.2)	(2.7)	(3.0)	(3.3)	(2.9)

The sensitivity of reserves to market interest rates movements exhibit very little convexity resulting in a materially equivalent change in value for -100 bps parallel move. Basis risk has been maintained constant.

<sup>1</sup> The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

<sup>2</sup> The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month as indicated in footnote 1 above).

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 55. Risk management (continued)

### 55.6 Foreign exchange risk

The Bank is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

#### Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Bank's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Bank's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

#### Foreign currency translation sensitivity analysis

The bank has a Rnil carrying value (2017: Rnil) of foreign currency net investments.

## 56. Going concern

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, these consolidated financial statements are prepared on a going-concern basis.

## 57. Events after the reporting period

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

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

## 58. Directors' and prescribed officers' remuneration

As a subsidiary of the Group, the Bank is governed by the Absa Group Remuneration Committee (Remco).

The RemCo's mandate includes ensuring that the reward policy and related practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of pay are benchmarked against the relevant markets, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures rigorous focus on business imperatives including, importantly, financial performance. Risk management is carefully considered. The outcomes of this are a primary input to variable pay decisions.



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Directors' and prescribed officers' remuneration (continued)

#### Combined tables for 2018 total remuneration

Executive directors	Bank			
	Maria Ramos		David Hodnett <sup>2</sup>	
	2018 R	2017 R	2018 R	2017 R
Salary	8 607 951	8 130 855	2 481 271	6 656 796
Role based pay	4 875 000	6 500 000	1 868 280	5 000 000
Medical aid	115 788	106 476	55 658	136 980
Pension	166 486	175 000	66 993	175 000
Other employee benefits	49 210	46 981	1 904 475	40 536
<b>Total fixed remuneration</b>	<b>13 814 435</b>	<b>14 959 312</b>	<b>6 376 677</b>	<b>12 009 312</b>
Non-deferred cash award	7 950 000	3 000 000	—	2 900 000
Non-deferred share award	—	3 000 000	—	2 900 000
Deferred cash award <sup>1</sup>	3 975 000	4 500 000	—	4 350 000
Deferred share award <sup>1</sup>	3 975 000	4 500 000	—	4 350 000
<b>Total variable remuneration</b>	<b>15 900 000</b>	<b>15 000 000</b>	<b>—</b>	<b>14 500 000</b>
<b>Total remuneration</b>	<b>29 714 435</b>	<b>29 959 312</b>	<b>6 376 677</b>	<b>26 509 312</b>

  

Prescribed officers	Nomkhita Nqweni		Arrie Rautenbach <sup>3</sup>	
	2018 R	2017 R	2018 R	2017 R
	Salary	4 847 120	4 667 804	3 709 282
Role based pay	1 875 000	2 500 000	1 194 444	—
Medical aid	59 064	54 444	96 337	—
Pension	225 143	175 000	120 632	—
Other employee benefits	46 765	112 064	335 929	—
<b>Total fixed remuneration</b>	<b>7 053 092</b>	<b>7 509 312</b>	<b>5 456 624</b>	<b>—</b>
Non-deferred cash award	3 000 000	1 200 000	5 652 500	—
Non-deferred share award	—	1 200 000	—	—
Deferred cash award	1 500 000	1 800 000	2 826 250	—
Deferred share award	1 500 000	1 800 000	2 826 250	—
<b>Total variable remuneration</b>	<b>6 000 000</b>	<b>6 000 000</b>	<b>11 305 000</b>	<b>—</b>
<b>Total remuneration</b>	<b>13 053 092</b>	<b>13 509 312</b>	<b>16 761 624</b>	<b>—</b>

#### Board appointment dates and contract terms

Maria Ramos was appointed to the Board on 1 March 2009. Jason Quinn was appointed to the Board on 1 September 2016. David Hodnett was appointed on 1 March 2010 and he resigned from the Board on 15 May 2018. Nomkhita Nqweni became a prescribed officer on 1 October 2015. Arrie Rautenbach became a prescribed officer on 9 April 2018. Charles Russon became a prescribed officer on 5 November 2018. Temi Ofong and Mike Harvey were appointed as co-Chief Executive Officers of Corporate and Investment Bank from 9 April to 31 October 2018 and were invited to attend the executive meetings during this period. They were prescribed officers for that period. Craig Bond was appointed 1 January 2013 and ceased to be a prescribed officer from May 2017. All executive directors and prescribed officers have a notice period of six months.

<sup>1</sup> The election between deferred cash award and deferred share award will be made once the Group is no longer in a closed period.

<sup>2</sup> David Hodnett resigned as a member of the Board and the Executive Committee effective 15 May 2018. He remained an employee of the Group for the remainder of 2018, and his total pension contribution for 2018 was R169 017.

<sup>3</sup> The amounts reflected for Arrie Rautenbach, Charles Russon, Temi Ofong and Mike Harvey are pro-rated.

<sup>4</sup> Craig Bond stepped down from the Executive Committee effective 15 May 2017 and was therefore no longer a prescribed officer. The amounts are pro-rated. His total pension contribution for 2018 was R142 621 (2017: R175 000).

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### Bank

Jason Quinn		Total	
2018 R	2017 R	2018 R	2017 R
5 269 074	4 793 007	16 358 296	19 580 658
—	—	6 743 280	11 500 000
98 436	90 732	269 882	334 188
418 519	392 593	651 998	742 593
40 321	32 981	1 994 006	120 498
5 826 350	5 309 313	26 017 462	32 277 937
5 898 000	1 600 000	13 848 000	7 500 000
—	1 600 000	—	7 500 000
2 949 000	2 400 000	6 924 000	11 250 000
2 949 000	2 400 000	6 924 000	11 250 000
11 796 000	8 000 000	27 696 000	37 500 000
17 622 350	13 309 313	53 713 462	69 777 937

Charles Russon <sup>3</sup>		Temi Ofong <sup>3</sup>		Mike Harvey <sup>3</sup>		Craig Bond <sup>4</sup>		Total	
2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R
874 952	—	2 295 879	—	2 493 695	—	—	2 376 276	14 220 928	7 044 080
—	—	1 433 333	—	1 433 333	—	—	2 083 333	5 936 110	4 583 333
25 751	—	38 649	—	83 581	—	—	57 075	303 382	111 519
25 007	—	95 207	—	95 168	—	—	72 917	561 157	247 917
5 615	—	183 152	—	17 257	—	—	15 112	588 718	127 176
931 325	—	4 046 220	—	4 123 034	—	—	4 604 713	21 610 295	12 114 025
4 178 000	—	5 160 750	—	5 160 750	—	—	833 333	23 152 000	2 033 333
—	—	—	—	—	—	—	833 333	—	2 033 333
2 089 000	—	2 580 375	—	2 580 375	—	—	833 333	11 576 000	2 633 333
2 089 000	—	2 580 375	—	2 580 375	—	—	833 333	11 576 000	2 633 333
8 356 000	—	10 321 500	—	10 321 500	—	—	3 333 332	46 304 000	9 333 332
9 287 325	—	14 367 720	—	14 444 534	—	—	7 938 045	67 914 295	21 447 357

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 58. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period) and role based pay delivered as phantom shares in the year.

	Bank 2018			Number of shares released during 2018
	Number of shares under award at 1 January 2018	Number of shares awarded during 2018	Share price on award R	
<b>Executive directors</b>				
<b>Maria Ramos</b>				
Share value plan 2015 – 2017	15 226	—	—	15 226
Share value plan 2016 – 2018 <sup>1</sup>	37 542	—	—	18 770
Share value plan 2017 – 2019 <sup>1</sup>	28 497	—	—	9 499
Share value plan 2018 – 2020	—	22 822	197.17	—
Role based pay March 2014 <sup>1</sup>	5 028	—	—	5 028
Role based pay June 2014 <sup>1</sup>	4 184	—	—	4 184
Role based pay October 2014 <sup>1</sup>	3 866	—	—	3 866
Role based pay December 2014 <sup>1</sup>	3 716	—	—	3 716
Role based pay March 2015 <sup>1</sup>	5 155	—	—	5 155
Role based pay June 2015 <sup>1</sup>	5 337	—	—	5 337
Role based pay September 2015 <sup>1</sup>	5 463	—	—	5 463
Role based pay December 2015 <sup>1</sup>	6 096	—	—	6 096
Role based pay March 2016 <sup>1</sup>	4 453	—	—	2 598
Role based pay June 2016 <sup>1</sup>	4 475	—	—	2 612
Role based pay September 2016 <sup>1</sup>	4 463	—	—	2 605
Role based pay December 2016 <sup>1</sup>	4 094	—	—	2 389
Role based pay March 2017 <sup>1</sup>	5 145	—	—	1 715
Role based pay June 2017 <sup>1</sup>	5 589	—	—	1 863
Non-deferred share award 2018	—	15 215	197.17	15 215
Restricted award – Share value plan 2016 <sup>1</sup>	55 290	—	—	36 860
Restricted award – Share value plan 2017	56 893	—	—	—
Long-term incentive award 2017	165 870	—	—	—
<b>Total</b>	<b>426 382</b>	<b>38 037</b>		<b>148 197</b>
<b>David Hodnett<sup>2</sup></b>				
Share value plan 2015 – 2017	14 274	—	—	—
Share value plan 2016 – 2018	35 624	—	—	—
Share value plan 2017 – 2019	27 547	—	—	—
Share value plan 2018 – 2020	—	22 062	197.17	—
Non-deferred share award 2018	—	14 708	197.17	—
Restricted award – Share value plan 2016	48 379	—	—	—
Restricted award – Share value plan 2017	49 781	—	—	—
Long-term incentive award 2017	145 137	—	—	—
<b>Total</b>	<b>320 742</b>	<b>36 770</b>		<b>—</b>

<sup>1</sup> Change in vesting date from five-year deferral to three-year deferral and shares are no longer subject to holding periods.

<sup>2</sup> David Hodnett's share-based long-term incentive includes awards until his resignation as an executive director on 15 May 2018.

<sup>3</sup> Due to different vesting dates different share prices are used to calculate the value of the release.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## Bank 2018

Market price on release date <sup>3</sup> R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed in 2018	Number of shares under award at 31 December 2018	Last scheduled vesting date
162.55	2 474 986	539 341	—	—	2018/09/01
162.55	3 051 064	569 575	—	18 772	2019/03/01
162.55/154.00	1 511 572	182 136	—	18 998	2020/03/01
—	—	—	—	22 822	2021/03/01
192.54/156.90	878 492	279 354	—	—	2018/12/01
170.33/156.90	684 565	207 527	—	—	2018/12/01
162.94/156.90	618 251	168 797	—	—	2018/12/01
156.90	583 040	171 021	—	—	2018/12/01
192.54/156.90	870 049	228 432	—	—	2018/12/01
170.33/156.90	861 267	209 638	—	—	2018/12/01
162.94/156.90	868 144	212 016	—	—	2018/12/01
156.90	956 462	215 738	—	—	2018/12/01
192.54/156.90	447 294	84 174	—	1 855	2019/03/01
170.33/156.90	424 838	68 150	—	1 863	2019/06/01
162.94/156.90	415 459	66 834	—	1 858	2019/09/01
156.90	374 834	53 503	—	1 705	2019/12/01
192.54/156.90	305 757	29 239	—	3 430	2020/03/01
170.33/156.90	307 306	25 026	—	3 726	2020/06/01
154.00	2 343 110	158 004	—	—	2018/12/01
154.00	5 676 440	582 582	—	18 430	2019/09/30
—	—	—	—	56 893	2020/09/30
—	—	—	—	165 870	2020/07/31
	23 652 930	4 051 087	—	316 222	
—	—	—	—	14 274	2018/09/01
—	—	—	—	35 624	2019/09/01
—	—	—	—	27 547	2022/09/01
—	—	—	—	22 062	2023/09/01
—	—	—	—	14 708	2019/03/01
—	—	—	—	48 379	2022/03/30
—	—	—	—	49 781	2020/09/30
—	—	—	—	145 137	2020/07/31
	—	—	—	357 512	

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 58. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives (continued)

		Bank 2018		
	Number of shares under award at 1 January 2018	Number of shares awarded during 2018	Share price on award R	Number of shares released during 2018
<b>Executive directors</b>				
<b>Jason Quinn<sup>1</sup></b>				
Share value plan 2015 – 2017	1 586	—	—	1 586
Share value plan 2016 – 2018 <sup>2</sup>	3 654	—	—	1 826
Share value plan 2017 – 2019 <sup>2</sup>	9 499	—	—	3 165
Share value plan 2018 – 2020	—	12 172	197.17	—
Non-deferred share award 2018	—	8 114	197.17	8 114
Restricted award – Share value plan 2016 <sup>2</sup>	20 733	—	—	13 822
Restricted award – Share value plan 2017	21 334	—	—	—
Long-term incentive award 2017	96 758	—	—	—
<b>Total</b>	<b>153 564</b>	<b>20 286</b>		<b>28 513</b>
<b>Prescribed officers</b>				
<b>Nomkhita Nqweni<sup>3</sup></b>				
Share value plan 2015 – 2017	2 538	—	—	2 538
Share value plan 2016 – 2018 <sup>2</sup>	14 524	—	—	7 260
Share value plan 2017 – 2019 <sup>2</sup>	12 348	—	—	4 116
Share value plan 2018 – 2020	—	9 129	197.17	—
Non-deferred share award 2018	—	6 086	197.17	6 086
Restricted award – Share value plan 2016 <sup>2</sup>	20 733	—	—	13 822
Restricted award – Share value plan 2017	21 334	—	—	—
Long-term incentive award 2017	96 758	—	—	—
<b>Total</b>	<b>168 235</b>	<b>15 215</b>		<b>33 822</b>
<b>Arrie Rautenbach<sup>4</sup></b>				
Share value plan 2015 – 2017	2 379	—	—	2 379
Share value plan 2016 – 2018	14 524	—	—	7 260
Share value plan 2017 – 2019	17 098	—	—	5 699
Share value plan 2018 – 2020	27 388	—	—	—
Non-deferred share award 2018	9 129	—	—	9 129
Restricted award – Share value plan 2016	34 556	—	—	23 037
Restricted award – Share value plan 2017	35 558	—	—	—
Long-term incentive award 2017	103 669	—	—	—
<b>Total</b>	<b>244 301</b>	<b>—</b>	<b>—</b>	<b>47 504</b>
<b>Charles Russon<sup>5</sup></b>				
Share value plan 2016 – 2018	6 852	—	—	—
Share value plan 2017 – 2019	12 159	—	—	2 027
Share value plan 2018 – 2020	24 344	—	—	—
Non-deferred share award 2018	8 114	—	—	8 114
Restricted award – Share value plan 2016	34 556	—	—	23 037
Restricted award – Share value plan 2017	35 558	—	—	—
Long-term incentive award 2017	93 302	—	—	—
<b>Total</b>	<b>214 885</b>	<b>—</b>	<b>—</b>	<b>33 178</b>

<sup>1</sup> Includes awards received prior to Jason Quinn being appointed as an executive director in 2016.

<sup>2</sup> Change in vesting date from five-year deferral to three-year deferral and shares are no longer subject to holding periods.

<sup>3</sup> Includes awards received prior to Nomkhita Nqweni becoming a prescribed officer on 1 October 2015.

<sup>4</sup> Arrie Rautenbach's outstanding share-based long-term incentives include the period he was a prescribed officer from 9 April to 31 December 2018.

<sup>5</sup> Charles Russon's outstanding share-based long-term incentives include the period he was a prescribed officer from 5 November to 31 December 2018.

<sup>6</sup> Due to different vesting dates different share prices are used to calculate the value of the release.

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Market price on release date <sup>5</sup> R	Value of release (pre-tax) R	Value of dividend released R	Bank 2018		Last scheduled vesting date
			Number of shares/options lapsed in 2018	Number of shares under award at 31 December 2018	
162.55	257 804	56 242	—	—	2018/09/01
162.55	296 816	55 430	—	1 828	2019/03/01
162.55/154.00	503 646	60 760	—	6 334	2020/03/01
—	—	—	—	12 172	2021/03/01
154.00	1 249 556	84 238	—	—	2018/12/01
154.00	2 128 588	218 526	—	6 911	2019/09/30
—	—	—	—	21 334	2020/09/30
—	—	—	—	96 758	2020/07/31
	4 436 410	475 196	—	145 337	
162.55	412 552	89 890	—	—	2018/09/01
162.55	1 180 113	219 768	—	7 264	2019/03/01
162.55/154.00	654 974	78 941	—	8 232	2020/03/01
—	—	—	—	9 129	2021/03/01
154.00	937 244	63 294	—	—	2018/12/01
154.00	2 128 588	218 526	—	6 911	2019/09/30
—	—	—	—	21 334	2020/09/30
—	—	—	—	96 758	2020/07/31
	5 313 471	670 419	—	149 628	
162.55	386 706	84 201	—	—	2018/09/01
162.55	1 180 113	219 768	—	7 264	2019/03/01
162.55/154.00	906 878	109 167	—	11 399	2020/03/01
—	—	—	—	27 388	2021/03/01
154.00	1 405 866	94 710	—	—	2018/12/01
154.00	3 547 698	364 210	—	11 519	2019/09/30
—	—	—	—	35 558	2020/09/30
—	—	—	—	103 669	2020/07/31
	7 427 261	872 056	—	196 797	
—	—	—	—	6 852	2019/03/01
154.00	312 158	44 506	—	10 132	2020/03/01
—	—	—	—	24 344	2021/03/01
154.00	1 249 556	84 238	—	—	2018/12/01
154.00	3 547 698	364 210	—	11 519	2019/09/30
—	—	—	—	35 558	2020/09/30
—	—	—	—	93 302	2020/07/31
	5 109 412	492 954	—	181 707	

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Directors' and prescribed officers' remuneration (continued)

#### Outstanding share-based long-term incentives (continued)

	Bank 2018			
	Number of shares under award at 1 January 2018	Number of shares awarded during 2018	Share price on award R	Number of shares released during 2018
<b>Prescribed officers</b>				
<b>Mike Harvey<sup>1</sup></b>				
Share value plan 2015 – 2017	6 744	—	—	6 744
Share value plan 2016 – 2018	7 764	—	—	3 882
Share value plan 2017 – 2019	15 578	—	—	3 115
Share value plan 2018 – 2020	30 430	—	—	—
Non-deferred share award 2018	10 143	—	—	—
Restricted award – Share value plan 2016	15 550	—	—	—
Restricted award – Share value plan 2017	16 001	—	—	—
Long-term incentive award 2017	82 935	—	—	—
<b>Total</b>	<b>185 145</b>	<b>—</b>		<b>13 741</b>
<b>Temi Ofong<sup>1</sup></b>				
Share value plan 2015 – 2017	4 097	—	—	4 097
Share value plan 2016 – 2018	18 840	—	—	9 418
Share value plan 2017 – 2019	16 718	—	—	3 343
Share value plan 2018 – 2020	15 215	—	—	—
Non-deferred share award 2018	10 143	—	—	—
Restricted award – Share value plan 2016	15 550	—	—	—
Restricted award – Share value plan 2017	16 001	—	—	—
Long-term incentive award 2017	82 935	—	—	—
<b>Total</b>	<b>179 499</b>	<b>—</b>		<b>16 858</b>

<sup>1</sup> Mike Harvey and Temi Ofong's outstanding share-based long-term incentives include incentives for the period they were prescribed officers (9 April to 31 October 2018).

<sup>2</sup> Due to different vesting dates different share prices are used to calculate the value of the release.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

Market price on release date <sup>2</sup> R	Value of release (pre-tax) R	Value of dividend released R	Bank 2018		Last scheduled vesting date
			Number of shares/options lapsed in 2018	Number of shares under award at 31 December 2018	
162.55	1 096 237	238 949	—	—	2018/09/01
162.55	631 019	117 686	—	3 882	2019/03/01
162.55	506 343	53 967	—	12 463	2020/03/01
—	—	—	—	30 430	2021/03/01
—	—	—	—	10 143	2018/12/01
—	—	—	—	15 550	2019/09/30
—	—	—	—	16 001	2020/09/30
—	—	—	—	82 935	2020/07/31
	2 233 599	410 602	—	171 404	
162.55	665 967	144 995	—	—	2018/09/01
162.55	1 530 896	286 088	—	9 422	2019/03/01
162.55	543 405	57 705	—	13 375	2020/03/01
—	—	—	—	15 215	2021/03/01
—	—	—	—	10 143	2018/12/01
—	—	—	—	15 550	2019/09/30
—	—	—	—	16 001	2020/09/30
—	—	—	—	82 935	2020/07/31
	2 740 268	488 788	—	162 641	



# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 58. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives (continued)

	Number of shares under award at 1 January 2017	Number of shares awarded during 2017	Share price on award R	Number of shares released during 2017
<b>Bank 2017</b>				
<b>Executive directors</b>				
<b>Maria Ramos</b>				
Barclays Africa Long-term incentive Plan 2013 – 2015 <sup>1</sup>	59 408	—	139	59 408
Share value plan 2014 – 2016	17 054	—	129	17 054
Share value plan 2015 – 2017	30 452	—	189	15 226
Share value plan 2016 – 2018	56 312	—	146	18 770
Share value plan 2017 – 2019	—	28 497	158	—
Role based pay March 2014	7 542	—	129	2 514
Role based pay June 2014	6 276	—	155	2 092
Role based pay October 2014	5 798	—	168	1 932
Role based pay December 2014	5 574	—	175	1 858
Role based pay March 2015	6 873	—	189	1 718
Role based pay June 2015	7 115	—	183	1 778
Role based pay September 2015	7 284	—	178	1 821
Role based pay December 2015	8 128	—	160	2 032
Role based pay March 2016	5 566	—	146	1 113
Role based pay June 2016	5 593	—	145	1 118
Role based pay September 2016	5 578	—	146	1 115
Role based pay December 2016	5 117	—	159	1 023
Role based pay March 2017	—	5 145	158	—
Role based pay June 2017	—	5 589	145	—
Non-deferred share award 2017	—	18 998	158	18 998
Restricted award – Share value plan 2016	—	55 290	145	—
Restricted award – Share value plan 2017	—	56 893	141	—
Long-term incentive award 2017	—	165 870	145	—
<b>Total</b>	<b>239 670</b>	<b>336 282</b>		<b>149 570</b>
<b>David Hodnett</b>				
Barclays Africa Long-term incentive Plan 2013 – 2015 <sup>1</sup>	29 704	—	139	29 704
Share value plan 2013 – 2015	13 257	—	129	13 257
Share value plan 2014 – 2016	28 548	—	189	14 274
Share value plan 2015 – 2017	53 434	—	146	17 810
Share value plan 2016 – 2018	—	27 547	158	—
Share value plan 2017 – 2019	—	18 364	158	18 364
Restricted award – Share value plan 2016	—	48 379	145	—
Restricted award – Share value plan 2017	—	49 781	141	—
Long-term incentive award 2017	—	145 137	145	—
<b>Total</b>	<b>124 943</b>	<b>289 208</b>		<b>93 409</b>
<b>Peter Matlare</b>				
Share value plan 2017 – 2019	—	7 599	158	—
Non-deferred share award 2017	—	5 066	158	5 066
Long-term incentive award 2017	—	134 770	145	—
<b>Total</b>	<b>—</b>	<b>147 435</b>		<b>5 066</b>

<sup>1</sup> The Barclays Africa Long-term incentive plan 2013 – 2015 vested at 55% of the maximum based on performance achieved against the metrics.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

<b>Bank</b>					
2017					
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2017	Number of shares under award at 31 December 2017	Last scheduled vesting date
139	8 257 712	582 549	—	—	2016/10/01
148	2 530 473	603 758	—	—	2017/09/01
148	2 259 234	317 533	—	15 226	2018/09/01
148	2 785 093	310 114	—	37 542	2019/09/01
—	—	—	—	28 497	2022/09/01
152	382 002	74 456	—	5 028	2019/03/01
145	304 123	61 348	—	4 184	2019/06/01
150	289 093	49 978	—	3 866	2019/09/01
147	272 745	57 691	—	3 716	2019/12/01
152	261 050	34 493	—	5 155	2020/03/01
145	258 475	36 198	—	5 337	2020/06/01
150	272 484	38 306	—	5 463	2020/09/01
147	298 288	44 185	—	6 096	2020/12/01
152	169 120	12 308	—	4 453	2021/03/01
145	162 528	11 048	—	4 475	2021/06/01
150	166 842	11 223	—	4 463	2021/09/01
147	150 171	10 569	—	4 094	2021/12/01
—	—	—	—	5 145	2022/03/01
—	—	—	—	5 589	2022/06/01
148	2 818 923	102 382	—	—	2017/09/01
—	—	—	—	55 290	2022/03/30
—	—	—	—	56 893	2020/09/30
—	—	—	—	165 870	2020/07/31
	21 638 356	2 358 139	—	426 382	
139	4 128 856	291 205	—	—	2016/10/01
148	1 967 074	469 326	—	—	2017/09/01
148	2 117 976	297 947	—	14 274	2018/09/01
148	2 642 648	294 089	—	35 624	2019/09/01
—	—	—	—	27 547	2022/09/01
148	2 724 850	98 969	—	—	2017/09/01
—	—	—	—	48 379	2022/03/30
—	—	—	—	49 781	2020/09/30
—	—	—	—	145 137	2020/07/31
	13 581 404	1 451 536	—	320 742	
—	—	—	—	7 599	2022/09/01
148	751 693	27 302	—	—	2017/09/01
—	—	—	—	134 770	2020/07/31
	751 693	27 302	—	142 369	

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 58. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives (continued)

	Number of shares under award at 1 January 2017	Number of shares awarded during 2017	Bank 2017 Share price on award R	Number of shares released during 2017
<b>Executive directors</b>				
<b>Jason Quinn<sup>2</sup></b>				
Share value plan 2014 – 2016	1 910	—	129	1 910
Share value plan 2015 – 2017	3 172	—	189	1 586
Share value plan 2016 – 2018	5 480	—	146	1 826
Share value plan 2017 – 2019	—	9 499	158	—
Retention award 2014	19 494	—	129	19 494
Non-deferred share award 2017	—	6 332	158	6 332
Restricted award – Share value plan 2016	—	20 733	145	—
Restricted award – Share value plan 2017	—	21 334	141	—
Non-deferred share award 2016	—	96 758	145	—
<b>Total</b>	<b>30 056</b>	<b>154 656</b>		<b>31 148</b>
<b>Prescribed officers</b>				
<b>Craig Bond</b>				
Barclays Africa Long-term Incentive Plan 2013 – 2015 <sup>2</sup>	35 645	—	139	35 645
Share value plan 2014 – 2016	16 375	—	129	16 375
Share value plan 2015 – 2017	16 918	—	189	8 459
Share value plan 2016 – 2018	27 950	—	146	9 316
Share value plan 2017 – 2019	—	17 478	158	—
Joiners share value plan	2 704	—	156	2 704
Non-deferred share award 2017	—	11 652	158	11 652
Restricted award – Share value plan 2016	—	20 733	145	—
Restricted award – Share value plan 2017	—	21 334	141	—
Long-term incentive award 2017	—	96 758	145	—
<b>Total</b>	<b>99 592</b>	<b>167 955</b>		<b>84 151</b>
<b>Nomkhita Nqweni<sup>3</sup></b>				
Barclays Africa Long-term Incentive Plan 2013 – 2015 <sup>2</sup>	11 881	—	139	11 881
Share value plan 2014 – 2016	4 641	—	129	4 641
Share value plan 2015 – 2017	5 076	—	189	2 538
Share value plan 2016 – 2018	21 784	—	146	7 260
Share value plan 2017 – 2019	—	12 348	158	—
Non-deferred share award 2017	—	8 232	158	8 232
Restricted award – Share value plan 2016	—	20 733	145	—
Restricted award – Share value plan 2017	—	21 334	141	—
Long-term incentive award 2017	—	96 758	145	—
<b>Total</b>	<b>43 382</b>	<b>159 405</b>		<b>34 552</b>

<sup>1</sup> The Barclays Africa Long-term incentive plan 2013 – 2015 vested at 55% of the maximum based on performance achieved against the metrics.

<sup>2</sup> Jason Quinn's outstanding share-based long-term incentives include awards received prior to being appointed as an executive director in 2016.

<sup>3</sup> Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to becoming a prescribed officer on 1 October 2015.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

<b>Bank</b>					
2017					
Market price on release date R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2017	Number of shares under award at 31 December 2017	Last scheduled vesting date
152	290 225	56 525	—	—	2017/09/01
148	235 331	33 089	—	1 586	2018/09/01
148	270 942	30 121	—	3 654	2019/09/01
—	—	—	—	9 499	2022/09/01
152	2 962 113	578 170	—	—	2017/03/01
148	939 542	34 127	—	—	2017/09/01
—	—	—	—	20 733	2022/03/30
—	—	—	—	21 334	2020/09/30
—	—	—	—	96 758	2020/07/31
	4 698 153	732 032	—	153 564	
139	4 954 655	349 446	—	—	2016/10/01
148	2 429 723	579 572	—	—	2017/09/01
148	1 255 146	176 572	—	8 459	2018/09/01
148	1 382 308	153 870	—	18 634	2019/09/01
—	—	—	—	17 478	2022/09/01
152	410 873	132 045	—	—	2017/03/31
148	1 728 924	62 765	—	—	2017/09/01
—	—	—	—	20 733	2022/03/30
—	—	—	—	21 334	2020/09/30
—	—	—	—	96 758	2020/07/31
	12 161 629	1 454 270	—	183 396	
139	1 651 459	116 482	—	—	2016/10/01
152	705 200	137 667	—	—	2017/09/01
148	376 588	52 823	—	2 538	2018/09/01
148	1 077 239	119 594	—	14 524	2019/09/01
—	—	—	—	12 348	2022/09/01
148	1 221 464	44 366	—	—	2017/09/01
—	—	—	—	20 733	2022/03/30
—	—	—	—	21 334	2020/09/30
—	—	—	—	96 758	2020/07/31
	5 031 950	470 932	—	168 235	

# Notes to the consolidated financial statements

for the reporting period ended 31 December

## 58. Directors' and prescribed officers' remuneration (continued)

### Outstanding cash-based long-term awards (continued)

	Value under award at 1 January 2018 R	Maximum potential value at 1 January 2018 R	Bank 2018	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
<b>Executive directors</b>						
<b>Maria Ramos</b>						
Cash value plan 2017 – 2019 <sup>1</sup>	4 500 000	4 950 000		—	1 500 000	—
Cash value plan 2018 – 2020	—	—		4 500 000	—	—
<b>Total</b>	<b>4 500 000</b>	<b>4 950 000</b>		<b>4 500 000</b>	<b>1 500 000</b>	<b>—</b>
<b>David Hodnett<sup>2</sup></b>						
Cash value plan 2017 – 2019	4 350 000	4 785 000		—	870 000	—
Cash value plan 2018 – 2020	—	—		4 350 000	—	—
<b>Total</b>	<b>4 350 000</b>	<b>4 785 000</b>		<b>4 350 000</b>	<b>870 000</b>	<b>—</b>
<b>Jason Quinn<sup>3</sup></b>						
Cash value plan 2015 – 2017	300 000	390 000		—	300 000	—
Cash value plan 2016 – 2018	533 334	613 334		—	266 667	—
Cash value plan 2017 – 2019 <sup>1</sup>	1 500 000	1 650 000		—	500 000	—
Cash value plan 2018 – 2020	—	—		2 400 000	—	—
<b>Total</b>	<b>2 333 334</b>	<b>2 653 334</b>		<b>2 400 000</b>	<b>1 066 667</b>	<b>—</b>
<b>Prescribed officers</b>						
<b>Nomkhita Nqweni<sup>4</sup></b>						
Cash value plan 2015 – 2017	480 000	624 000		—	480 000	—
Cash value plan 2017 – 2019 <sup>1</sup>	1 950 000	2 145 000		—	650 000	—
Cash value plan 2018 – 2020	—	—		1 800 000	—	—
<b>Total</b>	<b>2 430 000</b>	<b>2 769 000</b>		<b>1 800 000</b>	<b>1 130 000</b>	<b>—</b>
<b>Arrie Rautenbach<sup>4</sup></b>						
Cash value plan 2017 – 2019 <sup>1</sup>	2 160 000	2 430 000		—	360 000	—
<b>Total</b>	<b>2 160 000</b>	<b>2 430 000</b>		<b>—</b>	<b>360 000</b>	<b>—</b>
<b>Charles Russon</b>						
Cash value plan 2017 – 2019	1 920 000	2 160 000		—	320 000	—
<b>Total</b>	<b>1 920 000</b>	<b>2 160 000</b>		<b>—</b>	<b>320 000</b>	<b>—</b>
<b>Mike Harvey<sup>5</sup></b>						
Cash value plan 2016 – 2018	566 667	736 667		—	—	—
Cash value plan 2017 – 2019	1 968 000	2 214 000		—	—	—
<b>Total</b>	<b>2 534 667</b>	<b>2 950 667</b>		<b>—</b>	<b>—</b>	<b>—</b>
<b>Temí Ofong<sup>5</sup></b>						
Cash value plan 2017 – 2019	2 112 000	2 376 000		—	—	—
Cash value plan 2018 – 2020	3 000 000	3 000 000		—	—	—
<b>Total</b>	<b>5 112 000</b>	<b>5 376 000</b>		<b>—</b>	<b>—</b>	<b>—</b>

<sup>1</sup> Change in vesting date from five-year deferral to three-year deferral.

<sup>2</sup> David Hodnett's incentive includes awards until his resignation as executive director on 15 May 2018.

<sup>3</sup> Jason Quinn's incentive includes awards received prior to him being appointed as executive director in 2016.

<sup>4</sup> Nomkhita Nqweni and Arrie Rautenbach's outstanding cash-based long-term incentives include awards received prior to becoming a prescribed officer on 1 October 2015 and 9 April 2018 respectively.

<sup>5</sup> Mike Harvey's and Temí Ofong's outstanding cash-based long-term incentive include awards for the period they were prescribed officers from 9 April to 31 October 2018.

## Notes to the consolidated financial statements

for the reporting period ended 31 December

Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Bank 2018 Service credit forfeited in the year R	Value under award at	Maximum potential value at	Last scheduled vesting date
				31 December 2018 R	31 December 2018 R	
—	—	—	—	3 000 000	3 450 000	2020/03/01
—	—	—	—	4 500 000	4 500 000	2021/03/01
—	—	—	—	7 500 000	7 950 000	
—	—	—	—	3 480 000	3 915 000	2022/03/01
—	—	—	—	4 350 000	4 350 000	2023/03/01
—	—	—	—	7 830 000	8 265 000	
—	—	90 000	—	—	—	2018/03/01
—	—	—	—	266 667	346 667	2019/03/01
—	—	—	—	1 000 000	1 150 000	2020/03/01
—	—	—	—	2 400 000	2 400 000	2021/03/01
—	—	90 000	—	3 666 667	3 896 667	
—	—	144 000	—	—	—	2018/03/01
—	—	—	—	1 300 000	1 495 000	2020/03/01
—	—	—	—	1 800 000	1 800 000	2021/03/01
—	—	144 000	—	3 100 000	3 295 000	
—	—	—	—	1 800 000	2 070 000	2020/03/01
—	—	—	—	1 800 000	2 070 000	
—	—	—	—	1 600 000	1 840 000	2020/03/01
—	—	—	—	1 600 000	1 840 000	
—	—	—	—	566 667	736 667	2019/03/01
—	—	—	—	1 968 000	2 214 000	2020/03/01
—	—	—	—	2 534 667	2 950 667	
—	—	—	—	2 112 000	2 376 000	2020/03/01
—	—	—	—	3 000 000	3 000 000	2021/03/01
—	—	—	—	5 112 000	5 376 000	

## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Directors' and prescribed officers' remuneration (continued)

#### Outstanding cash-based long-term awards (continued)

	Value under award at 1 January 2017 R	Maximum potential value at 1 January 2017 R	Bank 2017 Value awarded in the year R	Value released in the year R	Value forfeited in the year R
<b>Executive directors</b>					
<b>Maria Ramos</b>					
Cash value plan 2014 – 2016	2 200 000	2 860 000	—	2 200 000	—
Cash value plan 2017 – 2019 <sup>3</sup>	—	—	4 500 000	—	—
Restricted award 2016 <sup>1</sup>	8 000 000	8 000 000	—	—	—
<b>Total</b>	<b>10 200 000</b>	<b>10 860 000</b>	<b>4 500 000</b>	<b>2 200 000</b>	<b>—</b>
<b>David Hodnett</b>					
Cash value plan 2014 – 2016	1 700 000	2 210 000	—	1 700 000	—
Cash value plan 2017 – 2019 <sup>3</sup>	—	—	4 350 000	—	—
Restricted award 2016 <sup>1</sup>	7 000 000	7 000 000	—	—	—
<b>Total</b>	<b>8 700 000</b>	<b>9 210 000</b>	<b>4 350 000</b>	<b>1 700 000</b>	<b>—</b>
<b>Jason Quinn<sup>2</sup></b>					
Cash value plan 2014 – 2016	246 400	320 320	—	246 400	—
Cash value plan 2015 – 2017	600 000	690 000	—	300 000	—
Cash value plan 2016 – 2018	800 000	880 000	—	266 666	—
Cash value plan 2017 – 2019	—	—	1 500 000	—	—
Restricted award 2016 <sup>1</sup>	3 000 000	3 000 000	—	—	—
<b>Total</b>	<b>4 646 400</b>	<b>4 890 320</b>	<b>1 500 000</b>	<b>813 066</b>	<b>—</b>
<b>Prescribed officers</b>					
<b>Craig Bond</b>					
Cash value plan 2014 – 2016	2 100 000	2 730 000	—	2 100 000	—
Cash value plan 2015 – 2017	3 200 000	3 680 000	—	1 600 000	—
Cash value plan 2016 – 2018	4 080 000	4 488 000	—	1 360 000	—
Cash value plan 2017 – 2019	—	—	2 760 000	—	—
Restricted award 2016 <sup>1</sup>	3 000 000	3 000 000	—	—	—
<b>Total</b>	<b>12 380 000</b>	<b>13 898 000</b>	<b>2 760 000</b>	<b>5 060 000</b>	<b>—</b>
<b>Nomkhita Nqweni<sup>4</sup></b>					
Cash value plan 2014 – 2016	600 000	780 000	—	600 000	—
Cash value plan 2015 – 2017	960 000	1 104 000	—	480 000	—
Cash value plan 2017 – 2019	—	—	1 950 000	—	—
Restricted award 2016 <sup>1</sup>	3 000 000	3 000 000	—	—	—
<b>Total</b>	<b>4 560 000</b>	<b>4 884 000</b>	<b>1 950 000</b>	<b>1 080 000</b>	<b>—</b>

<sup>1</sup> Due to JSE listing restrictions, the 2016 restricted award was made in cash but converted to equity in 2017.

<sup>2</sup> Jason Quinn's outstanding cash-based long-term awards include awards received prior to being appointed as an executive director in 2016.

<sup>3</sup> The remaining value of the One Africa Long-term incentive plan 2012 – 2014 was released in June 2016 as shares.

<sup>4</sup> Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to becoming a prescribed officer on 1 October 2015.

## Notes to the consolidated financial statements

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				Bank 2017			
Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit forfeited in the year R	Value under award at 31 December 2018 R	Maximum potential value at 31 December 2018 R	Last scheduled vesting date	
—	—	660 000	—	—	—	2017/03/01	
—	450 000	—	—	4 500 000	4 950 000	2022/03/01	
8 000 000	—	—	—	—	—	2018/09/30	
8 000 000	450 000	660 000		4 500 000	4 950 000		
—	—	510 000	—	—	—	2017/03/01	
—	435 000	—	—	4 350 000	4 785 000	2022/03/01	
7 000 000	—	—	—	—	—	2018/09/30	
7 000 000	435 000	510 000		4 350 000	4 785 000		
—	—	73 920	—	—	—	2017/03/01	
—	—	—	—	300 000	390 000	2018/03/01	
—	—	—	—	533 334	613 334	2019/03/01	
—	150 000	—	—	1 500 000	1 650 000	2022/03/01	
3 000 000	—	—	—	—	—	2018/09/30	
3 000 000	150 000	73 920		2 333 334	2 653 334		
—	—	630 000	—	—	—	2017/03/01	
—	—	—	—	1 600 000	2 080 000	2018/03/01	
—	—	—	—	2 720 000	3 128 000	2019/03/01	
—	276 000	—	—	2 760 000	3 036 000	2022/03/01	
3 000 000	—	—	—	—	—	2018/09/30	
3 000 000	276 000	630 000		7 080 000	8 244 000		
—	—	180 000	—	—	—	2017/03/01	
—	—	—	—	480 000	624 000	2018/03/01	
—	195 000	—	—	1 950 000	2 145 000	2022/03/01	
3 000 000	—	—	—	—	—	2018/09/30	
3 000 000	195 000	180 000		2 430 000	2 769 000		



## Notes to the consolidated financial statements

for the reporting period ended 31 December

### 58. Directors' and prescribed officers' remuneration (continued)

#### Group Chairman and non-executive directors' fees

	Group		Subsidiary boards and committees			Total <sup>7</sup> R
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	
Colin Beggs <sup>1</sup>	671 199	1 667 087	181 655	53 250	226 074	2 799 265
Mohamed Husain	612 075	1 171 753	181 655	—	—	1 965 483
Paul O'Flaherty <sup>2</sup>	462 668	1 214 701	150 844	—	—	1 828 213
René van Wyk	651 491	1 742 826	181 655	—	—	2 575 972
Tasneem Abdool-Samad <sup>3</sup>	573 318	246 970	29 205	639 525	—	1 489 018
Trevor Munday <sup>4</sup>	227 757	276 492	73 013	—	—	577 262
Wendy Lucas-Bull (Chairman) <sup>5</sup>	6 084 715	66 939	—	—	—	6 151 654
<b>Total</b>	<b>9 283 223</b>	<b>6 386 768</b>	<b>798 027</b>	<b>692 775</b>	<b>226 074</b>	<b>17 386 867</b>

	Group		Subsidiary boards and committees			Total <sup>7</sup> R
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	
Colin Beggs <sup>1</sup>	560 419	1 608 138	171 664	208 667	161 511	2 710 399
Mohamed Husain	560 419	1 144 452	171 664	—	—	1 876 535
Paul O'Flaherty	518 119	1 402 521	171 664	—	—	2 092 304
René van Wyk	519 036	1 409 642	157 953	—	—	2 086 631
Tasneem Abdool-Samad	—	—	406 782	548 567	—	955 349
Thembisa Skweyiya (formerly T Dingaan) <sup>6</sup>	—	—	137 115	135 742	181 008	453 865
Trevor Munday	539 269	872 658	171 664	—	—	1 583 591
Wendy Lucas-Bull (Chairman) <sup>5</sup>	5 707 950	146 760	—	—	—	5 854 710
<b>Total</b>	<b>8 405 212</b>	<b>6 584 171</b>	<b>1 388 506</b>	<b>892 976</b>	<b>342 519</b>	<b>17 613 384</b>

<sup>1</sup> Trustee of the Absa Group Pension Fund (reported under Other). Within Absa Financial Services, Colin was a member of the Actuarial and Audit Risk and Compliance Committees until 31 March 2018.

<sup>2</sup> Paul O'Flaherty resigned from the Absa Bank Board effective 5 November 2018.

<sup>3</sup> Tasneem Abdool-Samad resigned from the Absa Bank Board on 31 January 2018 and joined the Group Board on 1 February 2018 and Group Compliance and Audit Committee on 1 April 2018. Within Absa Financial Services, she is Chairman of the Audit Risk and Compliance Committee and is a member of the Board and Actuarial Committee.

<sup>4</sup> Trevor Munday retired from the Absa Bank Board effective 15 May 2018.

<sup>5</sup> The fee applicable to the Group Chairman covers chairmanship and membership of all Board committees and sub-committees except for attendance at the Separation Oversight Committee (a special committee established in relation to the Barclays PLC sell-down which will remain in place until completion of the separation which is anticipated to be in June 2020).

<sup>6</sup> Thembisa Skweyiya resigned in May 2017.

<sup>7</sup> The fees indicated above are exclusive of VAT. Where applicable VAT has been levied by the non-executive directors and such fees plus VAT were paid to the non-executive directors concerned (subject to the issue of a valid tax invoice).

# Company financial statements

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# Company statement of financial position

as at 31 December

	Note	Company	
		2018 Rm	2017 Rm
<b>Assets</b>			
Cash, cash balances and balances with central banks	2	22 679	28 792
Investment securities	3	90 904	75 629
Loans and advances to banks	4	40 527	43 210
Trading portfolio assets	5	101 278	104 784
Hedging portfolio assets	5	2 407	2 667
Other assets	6	22 232	15 276
Current tax assets		351	—
Non-current assets held for sale	7	50	—
Loans and advances to customers	8	725 220	651 194
Loans to Group Companies	10	48 008	44 345
Investments in associates and joint ventures	10	100	100
Subsidiaries		344	178
Property and equipment	12	13 600	13 511
Goodwill and intangible assets	13	7 134	3 750
Deferred tax assets	14	1 511	3
<b>Total assets</b>		<b>1 076 345</b>	<b>983 439</b>
<b>Liabilities</b>			
Deposits from banks	15	127 959	74 110
Trading portfolio liabilities	16	46 276	59 834
Hedging portfolio liabilities	16	1 343	1 117
Other liabilities	17	31 543	27 527
Provisions	18	2 590	1 985
Current tax liabilities		—	49
Deposits due to customers	19	607 742	584 887
Debt securities in issue	20	158 063	135 507
Borrowed funds		20 052	15 866
Deferred tax liabilities	14	—	373
<b>Total liabilities</b>		<b>995 568</b>	<b>901 255</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Attributable to ordinary equity holders:			
Ordinary share capital	21	304	304
Ordinary share premium	21	36 880	36 880
Preference share capital	21	1	1
Preference share premium	21	4 643	4 643
Additional Tier 1 Capital	21	2 741	1 500
Retained earnings	22	33 605	35 950
Other reserves	22	2 603	2 906
<b>Total equity</b>		<b>80 777</b>	<b>82 184</b>
<b>Total liabilities and equity</b>		<b>1 076 345</b>	<b>983 439</b>

# Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company	
		2018 Rm	Restated 2017 Rm
Net interest income		29 556	28 895
Interest and similar income	23	73 161	70 529
Effective interest income		71 830	69 252
Other interest income		1 331	1 277
Interest expense and similar charges	24	(43 605)	(41 634)
Effective interest expense		(43 605)	(41 634)
Non-interest income		21 729	20 494
Net fee and commission income		18 409	17 206
Fee and commission income	25	19 698	18 533
Fee and commission expense	25	(1 289)	(1 327)
Gains and losses from banking and trading activities	26	3 177	2 879
Gains and losses from investment activities	27	1	2
Other operating income	29	142	407
<b>Total income</b>		<b>51 285</b>	<b>49 389</b>
Impairment losses	28	(5 079)	(5 083)
<b>Operating income before operating expenditure</b>		<b>46 206</b>	<b>44 306</b>
Operating expenditure	30	(34 237)	(31 411)
Other expenses		(1 574)	(1 787)
Other impairments	31	(429)	(512)
Indirect taxation	32	(1 145)	(1 275)
<b>Operating profit before income tax</b>		<b>10 395</b>	<b>11 108</b>
Taxation expense	34	(2 399)	(3 170)
<b>Profit for the reporting period</b>		<b>7 996</b>	<b>7 938</b>
<b>Profit attributable to:</b>			
Ordinary equity holders		7 455	7 528
Preference equity holders		351	362
Additional Tier 1 Capital		190	48
		<b>7 996</b>	<b>7 938</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents per share)	34	1 663.0	1 708.0
Diluted earnings per share (cents per share)	34	1 663.0	1 708.0

# Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company	
		2018 Rm	2017 Rm
<b>Profit for the reporting period</b>		<b>7 996</b>	7 938
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>		<b>(10)</b>	(154)
Fair value gain on equity instruments measured at FVOCI		20	—
Fair value gains		28	—
Deferred tax		(8)	—
Movement on liabilities designated at FVTPL due to changes in own credit risk		(13)	(147)
Fair value losses		(71)	(147)
Deferred tax		58	—
Movement in retirement benefit fund assets and liabilities		(17)	(7)
Decrease in retirement benefit surplus		(24)	(10)
Deferred tax	14	7	3
<b>Items that are or may be subsequently reclassified to profit or loss</b>		<b>(235)</b>	625
Movement in cash flow hedging reserve		(247)	795
Fair value gains		207	1 465
Amount removed from other comprehensive income and recognised in profit or loss		(550)	(365)
Deferred tax		96	(305)
Movement in fair value of debt instruments measured at FVOCI		12	—
Fair value gains		27	—
Release to profit or loss		(9)	—
Deferred tax	14	(6)	—
Movement in available-for-sale reserve		—	(170)
Fair value losses		—	(306)
Release to profit or loss		—	67
Deferred tax		—	69
<b>Total comprehensive income for the reporting period</b>		<b>7 751</b>	8 409
<b>Total comprehensive income attributable to:</b>			
Ordinary equity holders		7 210	7 999
Preference equity holders		351	362
Additional Tier 1 Capital		190	48
		<b>7 751</b>	8 409

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## Company statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
<b>Balance at the end of the previous reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 880</b>	<b>1</b>	<b>4 643</b>
IFRS 9	—	—	—	—	—
IFRS 15	—	—	—	—	—
<b>Adjusted balance at the beginning of the reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 880</b>	<b>1</b>	<b>4 643</b>
Total comprehensive income	—	—	—	—	351
Profit for the period	—	—	—	—	351
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(351)
Distributions paid during the reporting period	—	—	—	—	—
Issuance of Additional Tier 1 Capital	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Deferred tax	—	—	—	—	—
<b>Balance at the end of the reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 880</b>	<b>1</b>	<b>4 643</b>
Note	21	21	21	21	21

## Company statement of changes in equity

for the reporting period ended 31 December

Company

2018

Additional Tier 1 Capital Rm	Retained earnings Rm	Total other reserves Rm	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
1 500	35 950	2 908	85	650	1 422	751	82 186
—	(3 852)	(132)	(132)	—	—	—	(3 984)
—	(44)	—	—	—	—	—	(44)
1 500	32 053	2 776	(47)	650	1 422	751	78 157
190	7 425	(215)	32	(247)	—	—	7 751
190	7 455	—	—	—	—	—	7 996
—	(30)	(215)	32	(247)	—	—	(245)
—	(5 700)	—	—	—	—	—	(6 051)
(190)	—	—	—	—	—	—	(190)
1 241	—	—	—	—	—	—	1 241
—	(173)	—	—	—	—	—	(173)
—	—	42	—	—	—	45	42
—	—	(429)	—	—	—	(429)	(429)
—	—	497	—	—	—	497	497
—	—	(26)	—	—	—	(26)	(26)
2 741	33 605	2 603	(15)	403	1 422	793	80 777
21			22	22	22	22	



## Company statement of changes in equity

for the reporting period ended 31 December

	Company 2017				
	Number of ordinary shares <sup>1</sup> '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
<b>Balance at the beginning of the reporting period</b>	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	—	—	—	—	—
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	—	—	—	—	—
Deferred tax	—	—	—	—	—
Barclays separation <sup>2</sup>	—	—	8 416	—	—
Shareholder contribution – fair value of investment <sup>3</sup>	—	—	—	—	—
<b>Balance at the end of the reporting period</b>	<b>448 301</b>	<b>304</b>	<b>36 880</b>	<b>1</b>	<b>4 643</b>
Note	21	21	21	21	21

All movements are reflected net of taxation.

<sup>1</sup> This includes ordinary shares and 'A' ordinary shares.

<sup>2</sup> As part of the Barclays PLC disinvestment, the Company 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.

<sup>3</sup> 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 Company 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.

## Company statement of changes in equity

for the reporting period ended 31 December

### Company 2017

Additional Tier 1 Capital Rm	Retained earnings Rm	Total other reserves Rm	Available- for-sale reserve Rm	Cash flow hedging reserve Rm	Capital reserve Rm	Share- based payment reserve Rm	Total equity Rm
—	34 563	2 245	253	(145)	1 422	715	66 720
—	7 784	625	(170)	795	—	—	8 409
—	7 938	—	—	—	—	—	7 938
—	(154)	625	(170)	795	—	—	471
—	(9 962)	—	—	—	—	—	(9 962)
—	(48)	—	—	—	—	—	(48)
—	—	—	—	—	—	—	3 500
1 500	—	—	—	—	—	—	1 500
—	(124)	—	—	—	—	—	(124)
—	—	36	—	—	—	36	36
—	—	(586)	—	—	—	(586)	(586)
—	—	590	—	—	—	590	590
—	—	32	—	—	—	32	32
—	3 689	—	—	—	—	—	12 105
—	48	—	—	—	—	—	48
1 500	35 950	2 906	83	650	1 422	751	82 184

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## Company statement of cash flows

for the reporting period ended 31 December

	Note	Company	
		2018 Rm	2017 Rm
<b>Cash flow from operating activities</b>			
Interest received		72 038	68 595
Interest paid		(39 538)	(39 987)
Fees and commission received		19 698	18 533
Fees and commission paid		(1 289)	(1 327)
Net trading and other income/(expenses)		1 272	(88)
Cash payments to employees and suppliers		(32 645)	(29 331)
Dividends received from banking and trading activities		69	69
Income taxes paid		(3 122)	(3 380)
Cash flow from operating activities before changes in operating assets and liabilities		16 483	13 084
Net decrease/(increase) in trading and hedging portfolio assets		1 318	(28 503)
Net increase in loans and advances to customers		(78 972)	(29 201)
Net (increase)/decrease in investment securities		(15 515)	8 259
Net (increase) in other assets		(1 669)	(17 890)
Net (decrease)/increase in trading and hedging portfolio liabilities		(13 245)	16 457
Net increase in amounts due to customers and banks		72 264	31 107
Net Increase in other liabilities		26 518	2 938
<b>Net cash generated from operating activities</b>		<b>7 182</b>	<b>(3 749)</b>
<b>Cash flow from investing activities</b>			
Purchase of property and equipment	12	(2 637)	(2 618)
Proceeds from disposal of properties and equipment		139	55
Purchase of intangible assets		(4 031)	(2279)
Dividends received from investing activities		2	2
Disposal of subsidiaries, net of cash		198	205
<b>Net cash utilised in investing activities</b>		<b>(6 329)</b>	<b>(4 635)</b>
<b>Cash flow from financing activities</b>			
Issue of 'A' ordinary shares		—	3 500
Purchase of Group shares in respect of equity-settled share-based payment schemes		(172)	(124)
Issue of Additional Tier 1 Capital		1 241	1 500
Barclays PLC contribution		—	12 106
Distributions paid to Tier 1 Capital holders		(190)	(48)
Proceeds from borrowed funds		6 432	2 841
Repayment of borrowed funds		(3 195)	(2 805)
Dividends paid		(6 051)	(9 962)
<b>Net cash generated from/(utilised in) financing activities</b>		<b>(1 935)</b>	<b>7 008</b>
Net (decrease) in cash and cash equivalents		(1 082)	(1 376)
Cash and cash equivalents at the beginning of the reporting period		11 040	12 416
<b>Cash and cash equivalents at the end of the reporting period</b>	42	<b>9 958</b>	<b>11 040</b>

# Notes to the Company financial statements

for the reporting period ended 31 December

## 1. Accounting policies

The financial statements of Absa Bank Limited (the Company) are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Bank. For detailed accounting policies refer to the Bank's financial statements.

	Company	
	2018 Rm	2017 Rm
<b>2. Cash, cash balances and balances with central banks</b>		
Balances with the SARB	13 108	19 108
Coins and bank notes	9 571	9 684
	<b>22 679</b>	<b>28 792</b>

The minimum reserve balance to be held in cash with the SARB is calculated under the provision of Regulation 27. The balance is 2.5% of the adjusted liabilities as set out in regulation 27. The required average daily minimum reserve balance must be held with the Reserve Bank as from the fifteenth business day of the month following the month to which the BA310 return relates and cannot be utilised in the normal course of business.

	Company	
	2018 Rm	2017 Rm
<b>3. Investment securities</b>		
Government bonds	43 445	34 321
Listed equity instruments	111	118
Other debt securities	20 250	15 367
Treasury bills	26 570	25 191
Unlisted equity and hybrid instruments	530	632
Gross investment securities	<b>90 906</b>	<b>75 629</b>
Impairment losses	(2)	—
	<b>90 904</b>	<b>75 629</b>

Government bonds valued at **R10 152m** (2017: R12 922m) have been pledged with the SARB.

Impairment losses relates to expected credit losses raised on investment securities held at amortised cost.

**R34.4m** has been recognised as expected credit losses on investment securities measured at fair value through other comprehensive income.

	Company	
	2018 Rm	2017 Rm
<b>4. Loans and advances to banks</b>		
Gross loans and advances to banks	40 547	43 210
Impairment losses	(20)	—
	<b>40 527</b>	<b>43 210</b>

Included above are reverse repurchase agreements of **R16 342m** (2017: R15 279m) and other collateralised loans of **R1 505m** (2017: R529m) relating to securities borrowed.

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>5. Trading and hedging portfolio assets</b>		
Commodities	1 304	2 051
Debt instruments	44 238	31 772
Derivative assets	43 720	56 469
Commodity derivatives	1 487	1 097
Credit derivatives	173	165
Equity derivatives	5 380	2 525
Foreign exchange derivatives	8 006	15 556
Interest rate derivatives	28 674	37 126
Equity instruments	543	574
Money market assets	11 473	13 918
Total trading portfolio assets	101 278	104 784
Hedging portfolio assets	2 407	2 667
	<b>103 685</b>	<b>107 451</b>

Trading portfolio assets with a carrying values of **R42 705m** (2017: R7 361m) and **R3 434m** (2017: R6 278m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

Included within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposit, treasury bills, promissory notes, commercial paper and bankers' acceptance notes.

	Company	
	2018 Rm	2017 Rm
<b>6. Other assets</b>		
Accounts receivable and prepayments	8 474	9 321
Deferred costs	165	162
Inventories	2	2
Cost	3	8
Write-down	(1)	(6)
Retirement benefit fund surplus (refer to note 36 of the Bank's financial statements)	466	466
Settlement accounts	13 125	5 325
Gross other assets	22 232	15 276
Impairment losses	0	—
	<b>22 232</b>	<b>15 276</b>

	Company	
	2018 Rm	2017 Rm
<b>7. Non-current assets and non-current liabilities held for sale</b>		
Non-current assets held for sale		
Balance at the beginning of the reporting period	—	—
Transfer from property and equipment (refer to note 12)	50	—
<b>Balance at the end of the reporting period</b>	<b>50</b>	<b>—</b>

The following movements in non-current assets were effected during the current financial reporting period:

➤ Head office transferred property and equipment with a carrying amount of **R50m** to non-current assets held for sale.

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>8. Loans and advances to customers</b>		
Corporate overdrafts and specialised finance loans	12 770	10 107
Credit cards	31 577	30 471
Foreign currency loans	36 462	25 678
Instalment credit agreements (refer to note 8.1) <sup>1</sup>	82 054	74 217
Loans to associates and joint ventures (refer to note 40.5 of the Bank's financial)	28 259	26 054
Micro loans	3 970	3 896
Mortgages	287 854	273 367
Other advances <sup>1</sup>	11 276	8 845
Overdrafts <sup>1</sup>	50 648	46 552
Overnight finance	19 486	20 494
Personal and term loans	38 959	33 582
Preference shares	20 007	14 507
Reverse repurchase agreements (Carries)	29 414	19 316
Wholesale overdrafts <sup>1</sup>	94 633	77 626
Gross loans and advances to customers	747 369	664 712
Impairment losses	(22 149)	(13 518)
	725 220	651 194

Included above are collateralised loans of **R888m** (2017: R253m) relating to securities borrowed.

The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Other advances include working capital solutions and collateralised loans.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R3 884m**. This represents a change in presentation of interest in suspense as a result of the adoption of IFRS 9. Refer to note 1.19. Bank's Financial Statements.

	Company					
	2018			2017		
	Gross advances Rm	Unearned finance charges Rm	Net advances Rm	Gross advances Rm	Unearned finance charges Rm	Net advances Rm
<b>8.1 Instalment credit agreements</b>						
<b>Maturity analysis</b>						
Less than one year <sup>1</sup>	31 200	(8 010)	23 190	26 311	(7 276)	19 035
Between one and five years	68 184	(12 807)	55 377	62 625	(11 005)	51 620
More than five years	3 754	(267)	3 487	3 744	(182)	3 562
Gross carrying value	103 138	(21 084)	82 054	92 680	(18 463)	74 217

The Company enters into instalment credit agreements in respect of motor vehicles, equipment and medical equipment.

The majority of these agreements are denominated in South African Rand and the average term of the entered into is five years.

Included in the above table are both financing transactions, as well as finance lease receivables.

Under the terms of the agreements, no contingent rentals are payable.

Unguaranteed residual values of finance lease receivables at the reporting date are **R7 846m** (2017: R6 632m).

Included in the allowance for impairments at the reporting is **R3 346m** (2017: R1 770m) which relates to finance lease receivables.

<sup>1</sup> Product level allocations were incorrectly disclosed in the prior year and have been restated to better reflect the commercial nature of products. The restatement resulted in R2 069m being moved from instalment credit agreements to other advances and R11 257m moved from wholesale overdrafts to overdrafts in 2017. As a result, the accumulated impairment allowance relating to instalment credit agreements for the prior year has decreased by R16m.

# Notes to the Company financial statements

for the reporting period ended 31 December

		Company	
		2018 Rm	2017 Rm
<b>9. Loans to Group companies</b>			
Fellow Subsidiaries		48 008	44 345

		Company	
		2018 Rm	2017 Rm
<b>10. Investments in associates and joint ventures</b>			
Unlisted investments		100	100

<b>10.1 Movement in carrying value of associates and joint ventures</b>			
Balance at the beginning of the reporting period		100	100
<b>Balance at the end of the reporting period</b>		<b>100</b>	<b>100</b>

		Company	
		2018 Rm	2017 Rm
<b>11. Subsidiaries</b>			
Shares at cost		344	178
		<b>344</b>	<b>178</b>

The increase in Shares at cost is due to additional acquisition of shares in a subsidiary.

Refer to note 40.3 and 40.5 in the Bank's financial statements for the list of significant subsidiaries, joint ventures and associates per IAS 27:17(b) requirements.

	Company			Company		
	2018 Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	2017 Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
<b>12. Property and equipment</b>						
Computer equipment	8 052	(4 648)	3 404	7 547	(4 014)	3 533
Freehold property	5 593	(367)	5 226	6 097	(350)	5 747
Furniture and other equipment	8 253	(3 283)	4 970	6 810	(2 579)	4 231
Motor vehicles	2	(2)	—	2	(2)	—
	<b>21 900</b>	<b>(8 300)</b>	<b>13 600</b>	<b>20 456</b>	<b>(6 945)</b>	<b>13 511</b>

Reconciliation of property and equipment	Company								
	Opening balance Rm	Additions Rm	Disposals Rm	Transfers <sup>1</sup> Rm	2018 Transfer to non-current assets held for sale Rm	Transfers to intangibles Rm	Depre- ciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	3 533	1 150	(129)	27	—	2	(1 092)	(87)	3 404
Freehold property	5 747	1 205	(2)	(1 499)	(24)	—	(19)	(182)	5 226
Furniture and other equipment	4 231	282	(25)	1 472	(26)	—	(835)	(129)	4 970
	<b>13 511</b>	<b>2 637</b>	<b>(156)</b>	<b>—</b>	<b>(50)</b>	<b>2</b>	<b>(1 946)</b>	<b>(398)</b>	<b>13 600</b>

Note

30 31

<sup>1</sup> An amount of R1 499m (2017: 2 001m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' R27m (2017: R244m) and 'Furniture and other equipment' R1 472m (2017: R1 757m) in accordance with the nature of these assets.

## Notes to the Company financial statements

for the reporting period ended 31 December

### 12. Property and equipment (continued)

Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers Rm	2017 Transfer to non-current assets held for sale Rm	Transfer to intangibles Rm	Depreciation Rm	Impairment Rm	Closing balance Rm
Computer equipment	3 430	733	(10)	244	—	—	(864)	—	3 533
Freehold property	6 053	1 734	(22)	(2 001)	—	—	(17)	—	5 747
Furniture and other	3 235	151	(5)	1 757	—	—	(691)	(216)	4 231
	12 718	2 618	(37)	—	—	—	(1 572)	(216)	13 511
Note							30	31	

Included in the above additions is **R1 155m** (2017: R1 130m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

**R1 499m** (2017: R2 001m) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R340m** (2017: R402m) of assets under construction relating to freehold property was brought in to use during the reporting period.

During the current and previous reporting period, a decision was made to dispose of certain property and equipment. As a result these property and equipment were impaired to zero.

	Company			2017		
	2018 Accumulated amortisation and/or impairments Cost Rm	Carrying value Rm		Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying value Rm
<b>13. Goodwill and intangible assets</b>						
Computer software development costs	10 608	(3 510)	7 098	6 569	(2 873)	3 696
Customer lists and relationships	410	(410)	—	410	(410)	—
Other	123	(87)	36	132	(78)	54
	11 141	(4 007)	7 134	7 111	(3 361)	3 750

<sup>1</sup> An amount of **R1 499m** (2017: 2 001m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R27m** (2017: R244m) and 'Furniture and other equipment' **R1 472m** (2017: R1 757m) in accordance with the nature of these assets.





# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>14. Deferred tax</b>		
<b>14.1 Reconciliation of net deferred tax (asset)/liability</b>		
Balance at the beginning of the reporting period	373	1 017
Effects of adopting IFRS 9	(1 436)	—
Deferred tax on amounts charged directly to other comprehensive income and equity	(121)	201
Charge to profit and loss (refer to note 33)	(322)	(862)
Tax effect of translation and other differences	(5)	17
<b>Balance at the end of the reporting period</b>	<b>(1 511)</b>	<b>373</b>
<b>14.2 Deferred tax liability/(asset)</b>		
Tax effects of temporary differences between tax and book value for:		
<b>Deferred tax liability</b>	—	373
Prepayments, accruals and other provisions	—	109
Capital Allowances	—	1 182
Cash flow hedge and available-for-sale reserve	—	262
Fair value adjustments on financial instruments	—	(144)
Impairment of loans and advances	—	(837)
Lease and rental debtor allowances	—	(231)
Property allowances	—	168
Retirement benefit fund asset and liabilities	—	174
Share-based payments	—	(310)
<b>Deferred tax asset</b>	<b>(1 511)</b>	—
Prepayments, accruals and other provisions	(419)	—
Capital Allowances	1 132	—
Property allowances	188	—
Cash flow hedge and financial assets at fair value through other comprehensive income	180	—
Financial liabilities designated at fair value through profit and loss	(58)	—
Share-based payments	(312)	—
Fair value adjustments on financial instruments	(251)	—
Impairment of loans and advances	(1 865)	—
Lease and rental debtor allowances	(244)	—
Retirement benefit asset and liabilities	138	—
<b>Net deferred tax (asset)/liability</b>	<b>(1 511)</b>	<b>373</b>

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>15. Deposits from banks</b>		
Call deposits	7 457	10 183
Fixed deposits	25 907	25 577
Foreign currency deposits	24 180	9 725
Notice deposits	2 452	1 031
Other	3 817	2 603
Repurchase agreements	64 146	24 991
	<b>127 959</b>	<b>74 110</b>

	Company	
	2018 Rm	2017 Rm
<b>16. Trading and hedging portfolio liabilities</b>		
Derivative liabilities	35 204	51 693
Commodity derivatives	1 489	1 285
Credit derivatives	174	148
Equity derivatives	3 091	2 388
Foreign exchange derivatives	8 410	14 504
Interest rate derivatives	22 040	33 368
Short positions	11 072	8 141
Total trading portfolio liabilities	46 276	59 834
Hedging portfolio liabilities	1 343	1 117
	<b>47 619</b>	<b>60 951</b>

	Company	
	2018 Rm	2017 Rm
<b>17. Other liabilities</b>		
Accruals	1 728	1 608
Audit fee accrual	10	11
Creditors	11 996	10 962
Deferred income	224	213
Liabilities under finance leases	28	—
Settlement balances	17 264	14 463
Share-based payment liability (refer to note 51)	293	270
	<b>31 543</b>	<b>27 527</b>

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company		
	2018		Total Rm
	Staff bonuses and incentive provisions Rm	Sundry provisions Rm	
<b>18. Provisions</b>			
Balance at the beginning of the reporting period	1 541	444	1 985
Additions	1 616	212	1 828
Amounts used	(1 527)	(172)	(1 699)
Reversals	(4)	(3)	(7)
Total provisions before impairment provision	1 626	481	2 107
Impairment losses on financial guarantees and letters of credit	—	—	483
<b>Balance at the end of the reporting period</b>	<b>1 626</b>	<b>481</b>	<b>2 590</b>

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R1 438m** (2017: R1 622m).

Sundry provisions include amounts with respect to conduct and fraud cases, litigation and onerous contracts..

	Company	
	2018 Rm	2017 Rm
<b>19. Deposits due to customers</b>		
Call deposits	58 003	62 746
Cheque account deposits	158 002	154 295
Credit card deposits	1 904	1 896
Fixed deposits	157 613	146 655
Foreign currency deposits	17 541	18 444
Notice deposits	58 367	58 460
Other deposits	2 453	2 016
Repurchase agreements	12 793	5 000
Savings and transmission deposits	141 066	135 375
	<b>607 742</b>	<b>584 887</b>

Other deposits due to customers include deposits due on structured deals, preference investments on behalf of customers and unclaimed deposits.

	Company	
	2018 Rm	2017 Rm
<b>20. Debt securities in issue</b>		
Credit linked notes	9 049	8 375
Floating rate notes	64 181	61 305
Negotiable certificates of deposit	52 613	37 362
Other	420	901
Promissory notes	1 257	783
Senior notes	30 442	26 779
Structured notes and bonds	101	2
	<b>158 063</b>	<b>135 507</b>

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>21. Share capital and premium</b>		
<b>21.1 Ordinary share capital</b>		
<b>Authorised</b>		
<b>320 000 000</b> (2017: 320 000 000) ordinary shares of R1.00 each	320	320
<b>250 000 000</b> (2017: 250 000 000) 'A' ordinary shares of R0.01 each	3	3
	<b>323</b>	<b>323</b>
<b>Issued</b>		
<b>302 609 369</b> (2017: 302 609 369) ordinary shares of R1.00 each	303	303
<b>145 691 959</b> (2017: 145 691 959) 'A' ordinary shares of R0.01 each	1	1
	<b>304</b>	<b>304</b>
<b>Total issued capital</b>		
Share capital	304	304
Share premium	36 880	36 880
	<b>37 184</b>	<b>37 184</b>

## Authorised shares

There were no changes to the authorised share capital during the current reporting period.

## Unissued shares

The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming AGM of the Company.

## Shares issued during the year under review

There were no shares issued during the current reporting period.

## Shares issued during the prior year

An additional 10 ordinary shares were issued during the prior reporting period.

An additional 16 983 695 'A' ordinary shares were issued during the prior reporting period.

All shares issued by the Company were paid in full.

	Company	
	2018 Rm	2017 Rm
<b>21.2 Preference share capital and premium</b>		
<b>Authorised</b>		
<b>30 000 000</b> (2017: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	1	1
<b>Issued</b>		
<b>4 944 839</b> (2017: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each	1	1
<b>Total issued capital</b>		
Share capital	1	1
Share premium	4 643	4 643
	<b>4 644</b>	<b>4 644</b>

The preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or a resolution is proposed by the Company which directly affects the rights attracted to the preference shares or the interest of the holders thereof.

# Notes to the Company financial statements

for the reporting period ended 31 December

		Company	
		2018 Rm	2017 Rm
<b>21. Share capital and premium</b> (continued)			
<b>21.3 Additional tier 1 capital</b>			
<b>Subordinated Callable notes issued by Absa Bank Limited</b>			
<b>Interest rate</b>	<b>Date of issue</b>		
Three month JIBAR + 5.65%	11 September 2017	1 500	1 500
Three month JIBAR + 4.75%	09 October 2018	1 241	—
		<b>2 741</b>	<b>1 500</b>

The Additional Tier 1 Capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) on 10 October 2023 (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.

## 22. Other reserves

### 22.1 Fair value reserve (2018)/available-for-sale reserve (2017)

The fair value reserve (2018) comprises only the cumulative net change in the fair value of debt instruments designated at FVOCI, until such time as they are derecognised. Upon derecognition of debt instruments at FVOCI, the cumulative amount recognised in other comprehensive income is released to profit or loss. Since the cumulative net change in the fair value of equity instruments designated as at FVOCI is not recycled to profit or loss upon derecognition, the Bank recognises the cumulative net change in fair value in retained earnings.

The available-for-sale reserve (2017) comprises the cumulative net change in the fair value of available-for-sale financial assets until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit or loss component of the statement of comprehensive income.

### 22.2 Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### 22.3 Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

### 22.4 Capital reserve

The capital reserve arose on the amalgamation of the founding banks of Absa Bank Limited.

### 22.5 Share-based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

### 22.6 Retained earnings

Retained earnings comprises of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to a separate reserve), reduced by dividends paid to date and any total comprehensive income relating to disposed subsidiaries and including changes in OCI with respect to the following:

- › movement in the fair value of equity instruments measured at available-for-sale;
- › movement in own credit risk on liabilities designated at FVTPL; and
- › direct shareholder contributions.

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Total Rm	2017 Total Rm
<b>23. Interest and similar income</b>		
<b>Interest and similar income is earned from:</b>		
Cash, cash balances and balances with central banks	4	5
Interest on hedging instruments	406	427
Investment securities	7 250	5 875
Loans and advances to banks	1 265	1 288
Loans and advances to customers	62 627	61 138
Corporate overdrafts and specialised finance loans	949	752
Credit cards	4 406	4 567
Foreign currency loans	1 262	892
Instalment credit agreements <sup>1</sup>	7 789	7 612
Interest on impaired financial assets (2017)	—	706
Loans to associates and joint ventures	1 954	1 800
Microloans	627	903
Mortgages	24 482	25 274
Other advances <sup>1</sup>	1 026	790
Overdrafts	3 566	3 454
Overnight finance	2 134	2 222
Personal and term loans	5 197	4 175
Preference shares	1 257	1 067
Wholesale overdrafts	7 978	6 924
Other interest	1 609	1 796
	<b>73 161</b>	<b>70 529</b>
<b>Classification of interest and similar income</b>		
Interest on hedging instruments	406	427
Cash flow hedges	545	264
Economic hedges	—	270
Fair value hedging	( 139)	( 107)
Interest on financial assets held at amortised cost	68 581	66 709
Interest on FVOCI	2 843	—
Interest on financial assets held as available-for-sale <sup>2</sup>	—	2 173
Interest on financial assets designated at fair value through profit or loss	1 331	1 220
Investment securities	353	644
Loans and advances to customers	978	576
	<b>73 161</b>	<b>70 529</b>

Interest income on 'other advances' includes items such as interest on factored debtors' books.

Other interest includes items such as overnight interest on contracts for difference.

<sup>1</sup> Product level interest allocations have been restated to better reflect the commercial nature of products. The restatement increased interest income allocated to Other Advances (R170m) and decreased interest income allocated to Instalment credit agreements (R170m).

<sup>2</sup> In the current reporting period interest income on financial assets in a fair value hedging relationship has been included in interest on financial assets measured at amortised cost and interest on financial assets at fair value through OCI to align with the appropriate IFRS 9 classification. This has resulted in R213m being reallocated to financial assets held as available-for-sale in the previous reporting period.

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Total Rm	2017 Total Rm
<b>24. Interest expense and similar charges</b>		
<b>Interest expense and similar charges are paid on:</b>		
Borrowed funds	2 216	1 635
Debt securities in issue	11 016	10 245
Deposits due to customers	28 690	27 403
Call deposits	4 840	5 092
Cheque account deposits	2 996	2 934
Credit card deposits	7	7
Fixed deposits	9 519	8 857
Foreign currency deposits	167	169
Notice deposits	4 147	4 190
Other deposits due to customers	693	582
Savings and transmission deposits	6 321	5 572
Deposits from banks	1 862	1 813
Call deposits	471	638
Fixed deposits	1 391	1 175
Interest on hedging instruments	(179)	(136)
Other	—	674
	<b>43 605</b>	<b>41 634</b>
<b>Classification of interest expense and similar charges</b>		
Interest on hedging instruments	(178)	(136)
Cash flow hedges	(89)	(70)
Fair value hedges	(89)	(66)
Interest on financial liabilities held at amortised cost <sup>1</sup>	43 783	41 770
	<b>43 605</b>	<b>41 634</b>

Other interest and similar charges includes items such as overnight interest on contracts for difference.

<sup>1</sup> In the current reporting period interest expense on financial liabilities in a fair value hedging relationship has been included in interest on financial liabilities measured at amortised cost to align with the appropriate IFRS 9 classification. This has resulted in R956m being reallocated to financial assets held as amortised cost in the previous reporting period.



## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>25. Net fee and commission income</b>		
Asset management and other related fees	25	21
Consulting and administration fees	204	187
Credit-related fees and commissions	16 588	15 531
Cheque accounts	5 385	4 818
Credit cards	2 204	2 132
Electronic banking	5 244	5 019
Other	1 690	1 513
Savings accounts	2 065	2 049
Insurance commission received	556	525
Asset management, markets execution and investment banking fees	476	568
Merchant income	1 721	1 571
Other	81	90
Trust and other fiduciary services	47	40
Portfolio and other management fees	37	28
Trust and estate income	10	12
<b>Fee and commission income</b>	<b>19 698</b>	<b>18 533</b>
<b>Fee and commission expense</b>	<b>(1 289)</b>	<b>(1 327)</b>
Brokerage fees	(1)	(1)
Cheque processing fees	(122)	(121)
Clearing and settlement charges	(687)	(639)
Notification fees	(180)	(198)
Insurance commission paid	(17)	—
Other	(207)	(293)
Valuation fees	(75)	(75)
	<b>(18 409)</b>	<b>17 206</b>
<b>25.1 Included above are net fees and commissions linked to financial instruments not at fair value</b>		
Cheque accounts	5 385	4 818
Credit cards	2 204	2 132
Electronic banking	5 244	5 019
Other	1 690	1 513
Savings accounts	2 065	2 049
<b>Fee and commission income</b>	<b>16 588</b>	<b>15 531</b>
<b>Fee and commission expense</b>	<b>(1 145)</b>	<b>(1 151)</b>
	<b>15 443</b>	<b>14 380</b>

The Company provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Company making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Some of these services involve the Company accepting targets for benchmark levels of returns for the assets under the Company's care.

Credit cards include acquiring and issuing fees.

Other credit related fees and commission income include service and credit-related fees and commissions on mortgage loans and foreign exchange transactions.

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>26. Gains and losses from banking and trading activities</b>		
Net gains on investments	174	59
Debt instruments designated at fair value through profit or loss	113	36
Equity instruments designated at fair value through profit or loss	52	90
Available-for-sale unwind from reserves	—	(67)
Unwind from reserves for debt instruments at FVOCI	9	—
Net trading result	2 498	2 585
Net trading income excluding the impact of hedge accounting	2 710	2 633
Ineffective portion of hedges	(212)	(48)
Cash flow hedges	(198)	17
Fair value hedges	(14)	(65)
Gains and losses arising from derecognition of financial assets measured at amortised cost	—	—
Other gains	505	212
	<b>3 177</b>	<b>2 879</b>
<b>Net trading result and other gains on financial instruments</b>		
Net trading income excluding the impact of hedge accounting	2 710	2 632
Losses on financial instruments designated at FVTPL	(1 740)	(2 758)
Net gains/(losses) on financial assets designated at FVTPL	1 384	(33)
Net losses on financial liabilities designated at FVTPL	(3 124)	(2 725)
Gains on financial instruments mandatorily held at FVTPL	4 450	5 390
Other gains	505	212
(Losses)/gains on financial instruments designated at FVTPL	(90)	10
Gains on financial instruments mandatorily held at FVTPL	595	202

	Company	
	2018 Rm	2017 Rm
<b>27. Gains and losses from investment activities</b>		
Other gains	1	2

	Company	
	2018 Rm	2017 Rm
<b>28. Impairment losses</b>		
Impairment losses raised during the reporting period	5 900	—
Stage 1 expected losses	(4 098)	—
Stage 2 expected losses	7 487	—
Stage 3 expected losses	2 511	—
Impairments raised during the previous reporting period on loans and advances to customers	—	5 882
Identified impairments	—	6 189
Unidentified impairments	—	(307)
Losses/(gains) on modification	22	—
Recoveries of loans and advances previously written off	(843)	(799)
	<b>5 079</b>	<b>5 083</b>

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>29. Other operating income</b>		
Foreign exchange differences, including amounts recycled from other comprehensive income	21	16
Income arising from contracts with customers	13	34
Profit/(loss) on disposal of property and equipment	(17)	18
Profit/(loss) on sale of repossessed properties	30	16
Gross sales	56	97
Cost of sales	(26)	(81)
Rental income	35	22
Sundry income	73	335
	<b>142</b>	<b>407</b>

	Company	
	2018 Rm	2017 Rm
<b>30. Operating expenses</b>		
Administration fees <sup>1</sup>	511	612
Amortisation of intangible assets (refer to note 13)	646	431
Auditors' remuneration	257	189
Audit fees – current reporting period	180	162
Audit fees – underprovision	6	5
Audit-related fees	18	19
Other services	53	3
Cash transportation	1 166	987
Depreciation (refer to note 12)	1 946	1 572
Equipment costs	180	217
Rentals	72	81
Maintenance	108	136
Information technology	2 909	2 836
Marketing costs	1 603	1 506
Operating lease expenses on properties	1 221	1 191
Other	540	445
Printing and stationery	227	227
Professional fees	2 216	1 939
Property costs	1 394	1 324
Staff costs	17 929	16 647
Bonuses	1 629	1 550
Other	401	438
Salaries and current service costs on post-retirement benefit funds	14 868	13 505
Share-base payments (refer to note 51 of the Bank's financial statements)	687	741
Training costs	344	413
TSA direct costs <sup>1</sup>	820	650
Telephone and postage	672	638
	<b>34 237</b>	<b>31 411</b>

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totaling **R255m** (2017: R439m). Other operating expenses include fraud losses as well as travel and entertainment costs. Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

<sup>1</sup> Given the material nature of separation activities, the Transitional Service Agreement (TSA) costs have been disclosed separately, resulting in a restatement of R650m from administration fees to TSA costs in the previous reporting period.

# Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>31. Other impairments</b>		
Reversal of impairment raised on financial instruments <sup>1</sup>	—	(30)
Other	429	542
Intangible assets (refer to note 13)	1	326
Property and equipment (refer to note 12)	398	216
Equity investments in subsidiaries	30	—
	429	512

	Company	
	2018 Rm	2017 Rm
<b>32. Indirect taxation</b>		
Training levy	159	136
VAT net of input credits	986	1 139
	1 145	1 275

	Company	
	2018 Rm	2017 Rm
<b>33. Taxation expense</b>		
<b>Current</b>		
Foreign and other taxation	98	118
South African current tax	2 500	3 786
South African current tax – previous reporting period	123	128
	2 721	4 032
<b>Deferred</b>		
Deferred tax (refer to note 15)	(322)	(862)
Capital allowances	(31)	256
Allowances for loan losses	511	(358)
Provisions <sup>2</sup>	(194)	(35)
Movements in prepayments, accruals and other provisions <sup>3</sup>	(554)	(90)
Fair value and similar adjustments through profit and loss	(54)	(380)
Fair value and similar adjustments in relation to prior year	—	(255)
	2 399	3 170
<b>Reconciliation between operating profit before income tax and the taxation expense</b>		
Operating profit before income tax	10 395	11 108
	10 395	11 108
Tax calculated at a tax rate of 28%	2 911	3 110
Effect of different tax rates in other countries	62	37
Expenses not deductible for tax purposes <sup>2</sup>	417	434
Dividend Income <sup>3</sup>	(394)	(348)
Non-taxable interest <sup>3,4</sup>	(53)	(14)
Other income not subject to tax <sup>4</sup>	(107)	—
Items of capital nature	45	(75)
Other	(482)	26
	2 399	3 170

<sup>1</sup> With the adoption of IFRS 9 the impairment on other financial instruments has been included as part of impairment losses, refer to note 28.

<sup>2</sup> This includes donations, non-deductible expenses.

<sup>3</sup> In the prior reporting period 'Income not subject to tax' of R362m has been disaggregated to 'Dividend Income' R348m, 'Non-taxable interest' R14m.

<sup>4</sup> This relates to interest earned from certain governments in Africa as well as interest earned on certain capital instruments, which is exempt from tax.

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>34. Earnings per share</b>		
<b>Basic and diluted earnings per share</b>		
Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period.		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are no instruments that would have a dilutive impact.		
Basic and diluted earnings attributable to ordinary equity holders of Company	7 455	7 528
Weighted average number and diluted number of ordinary shares in issue (millions)	448.3	440.7
Issued shares at the beginning of the reporting period	448.3	431.3
Shares issued during the reporting period (weighted)	—	9.4
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	1 663.0	1 708.0

	Company			
	2018		2017	
	Gross Rm	Net Rm	Gross Rm	Net Rm
<b>35. Headline earnings</b>				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Company		7 455		7 528
Total headline earnings adjustment:		339		407
IAS 16 – Loss/(profit) on disposal of property and equipment (refer to note 29)	17	12	(18)	(13)
IAS 27 - Profit on disposal of subsidiaries	—	—	(23)	(22)
IAS 36 - Impairment of property and equipment (refer to note 31)	398	297	216	155
IAS 36 - Impairment of investments in subsidiaries (refer to note 31)	30	30	—	—
IAS 36 - Impairment of intangible assets (refer to note 31)	1	—	326	238
IAS 39 – Release of available-for-sale reserves (2017) (refer to note 26)	—	—	67	49
Headline earnings/diluted headline earnings		7 794		7 935
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		1 738.5		1 800.3

The net amount is reflected after taxation and non-controlling interest.

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>36. Dividends per share</b>		
<b>Dividends declared to ordinary equity holders</b>		
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
	<b>3 200</b>	<b>10 500</b>
<b>Dividends declared to preference equity holders</b>		
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
	<b>349</b>	<b>358</b>
<b>Distributions declared to Additional Tier 1 capital note holders</b>		
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
	<b>190</b>	<b>48</b>
<b>Dividends paid to ordinary equity holders</b>		
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
	<b>5 700</b>	<b>9 600</b>
<b>Dividends paid to preference equity holders</b>		
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
	<b>351</b>	<b>362</b>
<b>Distributions paid to Additional Tier 1 capital note holders</b>		
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
	<b>190</b>	<b>48</b>

## Notes to the Company financial statements

for the reporting period ended 31 December

### 37. Transfer of financial assets that results in partial derecognition

#### 37.1 Transfer of financial assets involving structured entities

In the ordinary course of its normal banking activities the Company transfers financial assets to SE's, either legally (where legal rights to the cash flows from the asset are transferred to the counterparty) or beneficially (where the Company retains the rights to the cash flows but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition of the assets or no derecognition of the assets.

#### 37.2 Transfer of financial assets that did not result in derecognition

	Company				
	2018				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	60 436	(1 135)	60 436	(1 135)	59 301
	2017				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Loans and advances to customers	57 932	(1 895)	57 932	(1 895)	56 037

Balances included within loans and advances to customers represent instances where substantially all the risks and rewards (credit risk and prepayment risk) of the financial asset have been retained by the Company.

The relationship between the transferred assets and the associated liabilities is that holders of the associated liabilities may only look to cash flows from the transferred assets for payments due to them, although the contractual terms may differ from those of the transferred assets.

### 38. Related parties

Refer to note 40 of the Bank's financial statements for the full disclosure of related party transactions. The following related party transactions and balances exist for Absa Bank Limited.

	Company	
	2018 Rm	2017 Rm
<b>38.1 Balances and transactions with the parent company</b>		
<b>Balances</b>		
<b>Transactions</b>		
Net fee and commission income	(1)	(3)
Interest expense and similar charges	(193)	41
Gains and losses from banking and trading activities	(22)	80
Dividends paid	5 700	9 600
<b>38.2 Balances and transactions with subsidiaries</b>		
The following are balances with and transactions entered into with, subsidiaries:		
<b>Balances</b>		
Loans to Group companies	10 645	7 816
Subsidiary shares	344	178
<b>Transactions</b>		
Interest and similar income	(127)	(168)
Interest expense and similar charges	(166)	(3)
Net fee and commission income	(2)	1
Gains and losses from banking and trading activities	0	1
Operating expenditure/(recovered expenses)	35	39

Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.

## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>38. Related parties</b> (continued)		
<b>38.3 Balances and transactions with fellow subsidiaries</b>		
<b>Balances</b>		
Loans and advances to banks	176	98
Trading portfolio assets	(2)	(20)
Loans to Absa Group Companies	37 326	36 530
Deposits from banks	(10 335)	(10 592)
Borrowed funds	(17 685)	(10 402)
<b>Transactions</b>		
Interest and similar income	(1 091)	(1 152)
Interest expense and similar charges	2 357	1 681
Net fee and commission income	( 578)	(500)
Gains and losses from banking and trading activities	1 052	(5 082)
Gains and losses from investment activities	1	—
Other operating income	(2)	(22)
Operating expenditure/(recovered expenses)	( 952)	(545)
	2018 (Unaudited)	2017 (Unaudited)
<b>39. Assets under management and administration</b>		
Other managed funds	2 038	2 168
Portfolio management	3 135	2 947
Unit trusts	2 130	2 436
	7 303	7 551
	Company	
	2018 Rm	2017 Rm
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
Contracted but not provided for	589	257
The Company 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.		
<b>Operating lease payments due</b>		
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



## Notes to the Company financial statements

for the reporting period ended 31 December

	Company	
	2018 Rm	2017 Rm
<b>41. Contingencies</b>		
Guarantees	39 843	31 136
Irrevocable debt facilities/other lending facilities	165 738	145 087
Letters of credit	6 828	3 834
Other	63	151
	<b>212 472</b>	<b>180 208</b>

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 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. Refer to note 18.

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

	Company	
	2018 Rm	2017 Rm
<b>42. Cash and cash equivalents</b>		
Cash, cash balances and balances with central banks <sup>1</sup>	9 570	9 684
Loans and advances to banks <sup>2</sup>	388	1 356
	<b>9 958</b>	<b>11 040</b>

<sup>1</sup> Includes coins and bank notes.

<sup>2</sup> Includes call advances, which are used as working capital for the Bank

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# Notes to the Company financial statements

for the reporting period ended 31 December

	2018			Total Rm
	Mandatorily held at fair value Rm	Fair value through profit or loss Designated at fair value Rm	Hedging instruments Rm	
<b>43. Consolidated statement of financial position summary – IFRS 9 classification</b>				
<b>Assets</b>				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	820	10 450	—	11 270
Loans and advances to banks	18 580	1 220	—	19 800
Trading portfolio assets	99 974	—	—	99 974
Hedging portfolio assets <sup>2</sup>	—	—	2 407	2 407
Other assets	—	—	—	—
Loans and advances to customers	32 097	13 166	—	45 263
Loans to Group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	<b>151 471</b>	<b>24 836</b>	<b>2 407</b>	<b>178 714</b>
<b>Liabilities</b>				
Deposits from banks	—	54 890	—	54 890
Trading portfolio liabilities	46 276	—	—	46 276
Hedging portfolio liabilities <sup>3</sup>	—	—	1 343	1 343
Other liabilities	—	—	—	—
Deposits due to customers	—	37 849	—	37 849
Debt securities in issue	—	15 345	—	15 345
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9 <sup>5</sup>	—	—	—	—
	<b>46 276</b>	<b>108 084</b>	<b>1 343</b>	<b>155 703</b>

<sup>1</sup> Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.

<sup>2</sup> Includes derivative assets to the amount of **R1 159m** (2017: R1 767m) and **R1 248m** (2017: R889m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>3</sup> Includes derivative liabilities to the amount of **R380m** (2017: R224m) and **R963m** (2017: R893m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>4</sup> Includes items designated as hedged items in fair value hedging relationships.

<sup>5</sup> Liabilities outside the scope of IFRS 9 includes **R483m** that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

# Notes to the Company financial statements

for the reporting period ended 31 December

2018

Fair value through other comprehensive income			Amortised cost			Outside the scope of IFRS 9 <sup>1</sup> Rm	Total assets and liabilities Rm	
Debt instruments Rm	Equity instruments Rm	Hedged item <sup>4</sup> Rm	Total Rm	Debt instruments Rm	Hedged items <sup>4</sup> Rm			Total Rm
—	—	—	—	22 679	—	22 679	—	22 679
46 445	323	26 647	73 415	6 219	—	6 219	—	90 904
—	—	—	—	20 727	—	20 727	—	40 527
—	—	—	—	—	—	—	1 304	101 278
—	—	—	—	—	—	—	—	2 407
—	—	—	—	20 035	—	20 035	2 197	22 232
—	—	—	—	677 320	2 637	679 957	—	725 220
—	—	—	—	48 008	—	48 008	—	48 008
—	—	—	—	—	—	—	23 090	23 090
46 445	323	26 647	73 415	794 988	2 637	797 625	26 591	1 076 345
—	—	—	—	73 069	—	73 069	—	127 959
—	—	—	—	—	—	—	—	46 276
—	—	—	—	—	—	—	—	1 343
—	—	—	—	29 288	—	29 288	2 255	31 543
—	—	—	—	569 893	—	569 893	—	607 742
—	—	—	—	132 997	9 721	142 718	—	158 063
—	—	—	—	11 371	8 681	20 052	—	20 052
—	—	—	—	—	—	—	2 590	2 590
—	—	—	—	816 618	18 402	835 020	4 845	995 568

## Notes to the company financial statements

for the reporting period ended 31 December

	2017			Total Rm
	Fair value through profit or loss			
	Designated at fair value Rm	Held for trading Rm	Hedging instruments Rm	
<b>43. Consolidated statement of financial position summary – IAS 39 classification</b>				
<b>Assets</b>				
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	20 489	—	—	20 489
Loans and advances to banks	17 197	—	—	17 197
Trading portfolio assets	—	102 733	—	102 733
Hedging portfolio assets <sup>2</sup>	—	—	2 667	2 667
Other assets	—	—	—	—
Loans and advances to customers	26 811	—	—	26 811
Loans to Group companies	—	—	—	—
Assets outside the scope of IAS 39	—	—	—	—
	64 497	102 733	2 667	169 897
<b>Liabilities</b>				
Deposits from banks	22 031	—	—	22 031
Trading portfolio liabilities	—	59 834	—	59 834
Hedging portfolio liabilities <sup>3</sup>	—	—	1 117	1 117
Other liabilities	—	—	—	—
Deposits due to customers	20 452	—	—	20 452
Debt securities in issue	4 855	—	—	4 855
Borrowed funds	—	—	—	—
Liabilities outside the scope of IAS 39	—	—	—	—
	47 338	59 834	1 117	108 289

<sup>1</sup> Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.

<sup>2</sup> Includes derivative assets to the amount of **R1 159m** (2017: R1 767m) and **R1 248m** (2017: R889m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>3</sup> Includes derivative liabilities to the amount of **R380m** (2017: R224m) and **R963m** (2017: R893m) that have been designated as cash flow and fair value hedging instruments respectively.

<sup>4</sup> Includes items designated as hedged items in fair value hedging relationships.

<sup>5</sup> Liabilities outside the scope of IFRS 9 includes **R483m** that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

## Notes to the Company financial statements

for the reporting period ended 31 December

Available-for-sale		2017				Assets/liabilities outside the scope of IAS 39 <sup>4</sup>		Total assets and liabilities Rm
Designated as available-for-sale Rm	Hedged items <sup>4</sup> Rm	Total Rm	Designated at amortised cost Rm	Hedged items <sup>4</sup> Rm	Total Rm	Rm		
—	—	—	28 792	—	28 792	—	28 792	
34 723	20 417	55 140	—	—	—	—	75 629	
—	—	—	26 013	—	26 013	—	43 210	
—	—	—	—	—	—	2 051	104 784	
—	—	—	—	—	—	—	2 667	
—	—	—	13 102	—	13 102	2 174	15 276	
—	—	—	624 337	46	624 383	—	651 194	
—	—	—	44 345	—	44 345	—	44 345	
—	—	—	—	—	—	17 542	17 542	
34 723	20 417	55 140	736 589	46	736 635	21 767	983 439	
—	—	—	52 079	—	52 079	—	74 110	
—	—	—	—	—	—	—	59 834	
—	—	—	—	—	—	—	1 117	
—	—	—	25 426	—	25 426	2 101	27 527	
—	—	—	564 435	—	564 435	—	584 887	
—	—	—	119 885	10 767	130 652	—	135 507	
—	—	—	4 234	11 632	15 866	—	15 866	
—	—	—	—	—	—	2 407	2 407	
—	—	—	766 059	22 399	788 458	4 508	901 255	

# Notes to the Company financial statements

for the reporting period ended 31 December

## 44. Fair value disclosures

### 44.1 Assets and liabilities held at fair value

The following table shows the Company'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.

	Company							
	2018				2017			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
<b>Financial assets</b>								
Investment securities	41 812	35 467	7 406	84 685	37 355	32 328	5 946	75 629
Loans and advances to banks	—	19 800	—	19 800	—	16 713	484	17 197
Trading and hedging portfolio assets	45 117	53 815	3 449	102 381	31 386	72 190	1 824	105 400
Debt instruments	43 005	788	445	44 238	29 185	2 410	177	31 772
Derivative assets	—	43 677	2 450	46 127	—	58 590	546	59 136
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	—	2 352	173	2 525
Foreign exchange derivatives	—	7 980	26	8 006	—	15 548	8	15 556
Interest rate derivatives	—	31 001	80	31 081	—	39 717	76	39 793
Equity instruments	543	—	—	543	574	—	—	574
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	—	22 071	4 741	26 812
<b>Total financial assets</b>	<b>86 929</b>	<b>143 684</b>	<b>21 516</b>	<b>252 129</b>	<b>68 741</b>	<b>143 302</b>	<b>12 995</b>	<b>225 038</b>
<b>Financial liabilities</b>								
Deposits from banks	—	54 871	19	54 890	—	22 031	—	22 031
Trading and hedging portfolio liabilities	11 072	35 093	1 454	47 619	8 141	51 865	944	60 950
Derivative liabilities	—	35 093	1 454	36 547	—	51 865	944	52 809
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	—	14 499	4	14 503
Interest rate derivatives	—	23 122	261	23 383	—	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	15 342	—	15 345	12	4 354	488	4 854
<b>Total financial liabilities</b>	<b>11 313</b>	<b>140 095</b>	<b>4 295</b>	<b>155 703</b>	<b>8 356</b>	<b>96 926</b>	<b>3 004</b>	<b>108 286</b>
<b>Non-financial assets</b>								
Commodity	1 304	—	—	1 304	2 051	—	—	2 051
Non-current assets held for sale	—	—	50	50	—	—	—	—

## Notes to the Company financial statements

for the reporting period ended 31 December

### 44. Fair value disclosures (continued)

#### 44.2 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:

	Company				Total assets at fair value Rm
	2018				
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	
<b>Opening balance at the beginning of the reporting period</b>	<b>1 824</b>	<b>4 742</b>	<b>484</b>	<b>5 946</b>	<b>12 996</b>
Net interest income	—	153	—	65	218
Gains and losses from banking and trading activities	1 240	427	—	26	1 693
Gains and losses from investment activities	—	—	—	20	20
Purchases	1 174	6 616	—	2 177	9 967
Sales	(257)	(156)	(18)	(507)	(938)
Movement in other comprehensive income	—	—	—	(37)	(37)
Transferred to/(from) assets/liabilities	—	—	—	(198)	(198)
Transfer to Level 3	357	—	—	1 828	2 185
Transfer (out) of Level 3	(889)	(1 121)	(466)	(1 914)	(4 390)
<b>Closing balance at the end of the reporting period</b>	<b>3 449</b>	<b>10 661</b>	<b>—</b>	<b>7 406</b>	<b>21 516</b>

	2017				Total assets at fair value Rm
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	
<b>Opening balance at the beginning of the reporting period</b>	<b>1 505</b>	<b>4 890</b>	<b>571</b>	<b>1 064</b>	<b>8 030</b>
Net interest income	—	12	—	62	74
Gains and losses from banking and trading activities	(635)	29	—	—	(606)
Gains and losses from investment activities	—	—	—	2	2
Purchases	1 101	1 021	88	4 787	6 997
Sales	(147)	(1 112)	(175)	—	(1 434)
Movement in other comprehensive income	—	—	—	31	31
Transfer (out) of Level 3	—	(98)	—	—	(98)
<b>Closing balance at the end of the reporting period</b>	<b>1 824</b>	<b>4 742</b>	<b>484</b>	<b>5 946</b>	<b>12 996</b>

#### 44.2.1 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.



## Notes to the Company financial statements

for the reporting period ended 31 December

### 44. Fair value disclosures (continued)

#### 44.2 Reconciliation of Level 3 assets and liabilities (continued)

	Company				
	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
<b>Opening balance at the beginning of the reporting period</b>	—	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)
<b>Closing balance at the end of the reporting period</b>	<b>19</b>	<b>1 454</b>	<b>2 822</b>	<b>—</b>	<b>4 295</b>

  

	2017				
	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
<b>Opening balance at the beginning of the reporting period</b>	—	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)
<b>Closing balance at the end of the reporting period</b>	<b>—</b>	<b>944</b>	<b>1 572</b>	<b>488</b>	<b>3 004</b>

## Notes to the Company financial statements

for the reporting period ended 31 December

### 44. Fair value disclosures (continued)

#### 44.3 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:

	Company				Total assets at fair value Rm
	2018				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	
Gains and (losses) from banking and trading activities	2 589	—	1 027	233	3 849

  

	Company				Total assets at fair value Rm
	2017				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities <sup>1</sup> Rm	
Gains and (losses) from banking and trading activities	142	—	761	76	979

  

	Company			Total liabilities at fair value Rm
	2018			
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm		
Gains and (losses) from banking and trading activities	(174)	134		(40)

  

	Company			Total liabilities at fair value Rm
	2017			
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm		
Gains and (losses) from banking and trading activities	(284)	—		(284)

<sup>1</sup> 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 it has therefore been corrected accordingly.

# Notes to the Company financial statements

for the reporting period ended 31 December

## 44. Fair value disclosures (continued)

### 44.4 Sensitivity analysis of valuations using unobservable inputs

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

The following tables reflect 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 of the 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:

	Significant unobservable parameters	2018	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Loans and advances to banks	Absa Group Limited/Absa funding spread	—/—	—/—
Deposits due to customers	Absa Group Limited/Absa funding spread	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	—/—

## Notes to the Company financial statements

for the reporting period ended 31 December

### 44. Fair value disclosures (continued)

#### 44.4 Sensitivity analysis of valuations using unobservable inputs (continued)

	Significant unobservable parameters	2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		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)	—/—

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

The amount that is 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 observable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

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

#### 44.6 Third-party credit enhancements

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

# Notes to the Company financial statements

for the reporting period ended 31 December

## 44. Fair value disclosures (continued)

### 44.7 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.

	Company				
	Carrying value Rm	Fair value Rm	2018		
Level 1 Rm			Level 2 Rm	Level 3 Rm	
<b>Financial assets</b>					
Balances with the SARB	13 108	13 108	13 108	—	—
Coins and bank notes	9 571	9 571	9 571	—	—
<b>Cash, cash balances and balances with central banks</b>	<b>22 679</b>	<b>22 679</b>	<b>22 679</b>	<b>—</b>	<b>—</b>
<b>Investment securities</b>	<b>6 219</b>	<b>6 270</b>	<b>6 270</b>	<b>—</b>	<b>—</b>
<b>Loans and advances to banks</b>	<b>20 727</b>	<b>23 190</b>	<b>4 662</b>	<b>18 528</b>	<b>—</b>
<b>Other assets</b>	<b>20 035</b>	<b>20 045</b>	<b>16 585</b>	<b>932</b>	<b>2 528</b>
RBB South Africa	450 777	451 951	—	—	451 951
Retail Banking South Africa	381 661	382 762	—	—	382 762
Credit cards	26 950	27 484	—	—	27 484
Instalment credit agreements	78 680	79 015	—	—	79 015
Loans to associates and joint ventures	25 489	25 489	—	—	25 489
Mortgages	222 708	222 711	—	—	222 711
Other loans and advances	3 447	3 447	—	—	3 447
Overdrafts	6 037	6 104	—	—	6 104
Personal and term loans	18 350	18 512	—	—	18 512
Business Banking South Africa	69 116	69 189	—	—	69 189
Mortgages (including CPF)	29 245	29 245	—	—	29 245
Overdrafts	20 018	20 088	—	—	20 088
Term loans	19 853	19 856	—	—	19 856
CIB South Africa	221 703	221 703	—	—	221 703
Absa Regional Operations	1 030	1 030	1 030	—	—
Wealth	5 734	5 984	2 503	2 111	1 370
Head Office, Treasury and other operations	713	713	—	703	10
<b>Loans and advances to customers – net of impairment losses</b>	<b>679 957</b>	<b>681 381</b>	<b>3 533</b>	<b>2 814</b>	<b>675 034</b>
<b>Loans to Group companies</b>	<b>48 008</b>	<b>48 008</b>	<b>—</b>	<b>48 008</b>	<b>—</b>
<b>Total assets (not held at fair value)</b>	<b>797 625</b>	<b>801 573</b>	<b>53 729</b>	<b>70 282</b>	<b>677 562</b>
<b>Financial liabilities</b>					
<b>Deposits from banks</b>	<b>73 069</b>	<b>77 174</b>	<b>271</b>	<b>76 903</b>	<b>—</b>
<b>Other liabilities</b>	<b>29 288</b>	<b>29 302</b>	<b>529</b>	<b>23 803</b>	<b>4 970</b>
Call deposits	58 003	58 003	13 818	44 185	—
Cheque account deposits	157 528	157 528	157 470	42	16
Credit card deposits	1 904	1 904	1 904	—	—
Fixed deposits	133 031	133 031	80 024	47 803	5 204
Foreign currency deposits	17 541	17 541	452	16 678	411
Notice deposits	58 367	58 367	18 747	39 597	23
Other deposits	2 453	2 453	2 288	133	32
Saving and transmission deposits	141 066	141 066	140 974	92	—
<b>Deposits due to customers</b>	<b>569 893</b>	<b>569 893</b>	<b>415 677</b>	<b>148 530</b>	<b>5 686</b>
<b>Debt securities in issue</b>	<b>142 718</b>	<b>145 003</b>	<b>108</b>	<b>144 674</b>	<b>221</b>
<b>Borrowed funds</b>	<b>20 052</b>	<b>20 052</b>	<b>—</b>	<b>20 052</b>	<b>—</b>
<b>Total liabilities (not held at fair value)</b>	<b>835 020</b>	<b>841 424</b>	<b>416 585</b>	<b>413 962</b>	<b>10 877</b>

# Notes to the Company financial statements

for the reporting period ended 31 December

## 44. Fair value disclosures (continued)

### 44.7 Assets and liabilities not held at fair value (continued)

	Carrying value Rm	Fair value Rm	Company 2017		
			Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>					
Balances with the SARB	19 109	19 109	19 109	—	—
Coins and bank notes	9 684	9 684	9 684	—	—
<b>Cash, cash balances and balances with central banks</b>	<b>28 793</b>	<b>28 793</b>	<b>28 793</b>	<b>—</b>	<b>—</b>
<b>Loans and advances to banks</b>	<b>26 011</b>	<b>26 011</b>	<b>158</b>	<b>25 490</b>	<b>363</b>
<b>Other assets</b>	<b>13 102</b>	<b>13 102</b>	<b>9 155</b>	<b>3 812</b>	<b>135</b>
RBB South Africa	432 056	456 094	1 510	—	454 584
Retail Banking South Africa	368 656	392 694	—	—	392 694
Credit cards	27 267	27 267	—	—	27 267
Instalment credit agreements	74 452	74 683	—	—	74 683
Loans to associates and joint ventures	23 037	23 037	—	—	23 037
Mortgages	220 569	220 571	—	—	220 571
Other loans and advances	726	726	—	—	726
Overdrafts	5 443	5 441	—	—	5 441
Personal and term loans	17 162	40 969	—	—	40 969
Business Banking South Africa	63 400	63 400	1 510	—	61 890
Mortgages (including CPF)	26 976	26 976	—	—	26 976
Overdrafts	19 199	19 199	1 510	—	17 689
Term loans	17 225	17 225	—	—	17 225
CIB South Africa <sup>1</sup>	185 500	184 989	—	—	184 989
Absa Regional Operations	852	852	—	—	852
Wealth	5 004	5 004	—	—	5 004
Head Office, Treasury and other operations in South Africa	974	974	—	974	—
<b>Loans and advances to customers – net of impairment losses</b>	<b>624 386</b>	<b>647 913</b>	<b>1 510</b>	<b>974</b>	<b>645 429</b>
<b>Loans to Group companies</b>	<b>44 345</b>	<b>44 345</b>	<b>—</b>	<b>44 345</b>	<b>—</b>
<b>Total assets (not held at fair value)</b>	<b>736 637</b>	<b>760 164</b>	<b>39 616</b>	<b>74 621</b>	<b>645 927</b>
<b>Financial liabilities</b>					
<b>Deposits from banks</b>	<b>52 079</b>	<b>52 079</b>	<b>1 593</b>	<b>50 486</b>	<b>—</b>
<b>Other liabilities</b>	<b>25 426</b>	<b>25 441</b>	<b>7 571</b>	<b>17 053</b>	<b>817</b>
Call deposits	62 746	62 746	18 061	44 685	—
Cheque account deposits	153 976	153 976	153 972	4	—
Credit card deposits	1 896	1 896	1 896	—	—
Fixed deposits	131 521	131 521	485	131 036	—
Foreign currency deposits	18 444	18 444	638	17 806	—
Notice deposits	58 460	58 460	1 797	56 663	—
Other deposits	2 016	2 016	1 185	820	11
Saving and transmission deposits	135 375	135 375	133 837	1 538	—
<b>Deposits due to customers</b>	<b>564 434</b>	<b>564 434</b>	<b>311 871</b>	<b>252 552</b>	<b>11</b>
<b>Debt securities in issue</b>	<b>130 653</b>	<b>130 653</b>	<b>—</b>	<b>130 653</b>	<b>—</b>
<b>Borrowed funds</b>	<b>15 866</b>	<b>15 866</b>	<b>—</b>	<b>15 866</b>	<b>—</b>
<b>Total liabilities (not held at fair value)</b>	<b>788 458</b>	<b>788 473</b>	<b>321 035</b>	<b>466 610</b>	<b>828</b>

<sup>1</sup> In the prior year, CIB South Africa loans and advances of R20.064m were disclosed as Level 1, and R79.584m were disclosed as level 2. The inputs into these valuations were erroneously considered to be observable, however it has been ascertained that they are unobservable, due to the level of market activity associated with them. The loans and advances have therefore been restated to be Level 3 assets.

## Notes to the Company financial statements

for the reporting period ended 31 December

### 45. Borrowed Funds

Refer to note 21 in the Bank's financial statements.

### 46. Derivatives

Refer to note 51 in the Bank's financial statements

### 47. Acquisitions and disposals of businesses and other similar transactions

#### 47.1 Acquisitions and disposals of businesses during the current reporting period

There were no acquisitions or disposals of businesses during the current reporting period.

#### 47.2 Acquisitions and disposals of businesses during the previous reporting period

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

### 48. Retirement benefit fund obligations

Refer to note 36 in the Bank's financial statements.

### 49. Securities borrowed/lent and repurchase/reverse repurchase agreements

Refer to note 38 in the Bank's financial statements.

### 50. Offsetting financial assets and financial liabilities

Refer to note 41 in the Bank's financial statements.

### 51. Share-based payments

Refer to note 48 in the Bank's financial statements.

### 52. Segment report

Refer to note 50 in the Bank's financial statements.

### 53. Credit risk of financial instruments designated at fair value

Refer to note 54 in the Bank's financial statements.

### 54. Risk management

The financial risks inherent within the Bank are considered to be substantially the same for the Company and consolidated level. Refer to note 55 in the Bank's financial statements for detailed risk management disclosures.

### 55. Going concern

The directors assess the Company's future performance and financial position on an ongoing basis and have no reason to believe the Company will not be a going concern in the year ahead. For this reason, these stand-alone financial statements are prepared on a going concern basis.

### 56. Events after the reporting period

Absa Bank Company 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.



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