Absa Bank Limited

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

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

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

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

Together with the GACC, the Board has reviewed and approved the reporting changes contained in the announcement released on the Stock Exchange News Services (SENS) on 6 August 2018. The GACC and the Board are satisfied that the changes disclosed in the SENS result in fair presentation of the consolidated financial position and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides.

Absa Bank Limited

Unaudited condensed consolidated interim financial results

for the reporting period ended 30 June 2018.

Authorised financial services and registered credit provider (NCRCP7)

Registration number: 1986/004794/06

Incorporated in the Republic of South Africa

JSE share code: ABSP

ISIN: ZAE000079810

(Absa, Absa Bank, the Bank or the Company)

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

Audited

Profit and dividend announcement

for the reporting period ended

Overview of results

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

Commentary relating to the Bank's condensed consolidated financial results is included in the Absa Group Limited results, as presented to shareholders on 6 August 2018.

Normalised reporting

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

Normalisation adjusts for the following items: interest income on Barclays PLC's seperation contribution, hedging revenue linked to seperation activities, operating expenses and other expenses, as well as the tax impact of the aforementioned items. Normalisation does not affect divisional disclosures.

Non-IFRS measures such as normalised results are considered pro forma financial information as per the Johannesburg Stock Exchange (JSE) listing requirements. The pro forma financial information, is the responsibility of the Bank's Board of directors and is presented for illustrative purposes only and because of its nature may not fairly present the Bank's financial position, changes in equity, and results in operations or cash flows.

Basis of presentation

The Bank's unaudited condensed consolidated interim financial results have been prepared in accordance with the recognition and measurement requirements of IFRS, interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. The accounting policies that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the policies are applied, and which involve a high degree of judgement including the use of assumptions and estimation, are impairment of loans and advances, goodwill impairment, fair value measurements, impairment of fair value through other comprehensive income financial assets (2018)/available-for-sale financial assets (2017), consolidation of structured or sponsored entities, post-retirement benefits, provisions, income taxes, share-based payments and offsetting of financial assets and liabilities.

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

Accounting policies

The accounting policies applied in preparing the unaudited condensed consolidated interim financial results comply with IAS 34 *Interim Financial Reporting* (IAS 34). The principal accounting policies applied are set out in the Bank's most recent audited annual consolidated financial statements, except for:

- The adoption of IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) as explained in note 16; and
- Changes to the Bank's operating segments and business portfolio changes.

Note 16 includes the impact of the adoption of IFRS 9 and specifically the transitional disclosures as required by IFRS 7 *Financial Instruments Disclosures* (IFRS 7). All information marked as audited in note 16 has been audited by Ernst and Young who expressed an unmodified opinion thereon in terms of ISA 805 *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statements*. A copy of the auditor's report on the audited sections of note 16 are available for inspection at the Bank's registered office.

Events after the reporting period

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

On behalf of the Board

W E Lucas-Bull
Chairman

M Ramos
Chief Executive Officer

Johannesburg

6 August 2018

Declaration of preference share dividend number 25

Absa Bank non-cumulative, non-redeemable preference shares (Absa Bank preference shares)

The Absa Bank preference shares have an effective coupon rate of 70% of Absa Bank's prevailing prime overdraft lending rate (prime rate). Absa Bank's current prime rate is 10%.

Notice is hereby given that preference dividend number 25, equal to 70% of the average prime rate for 1 March 2018 to 31 August 2018, per Absa Bank preference share has been declared for the period 1 March 2018 to 31 August 2018. The dividend is payable on Monday, 17 September 2018, to shareholders of the Absa Bank preference shares recorded in the Register of Members of the Company at the close of business on Friday, 14 September 2018.

The directors of Absa Bank Limited have applied the solvency and liquidity test and reasonably concluded that the Bank will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

Based on the current prime rate, the preference dividend payable for the period 1 March 2018 to 31 August 2018 would indicatively be 3 542.67 cents per Absa Bank preference share.

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

- The dividend has been declared out of income reserves.
- The local dividend tax rate is twenty per cent (20%).
- The gross local dividend amount is 3 542.67 cents per preference share for shareholders exempt from the dividend tax.
- The net local dividend for shareholders subject to withholding tax at a rate of 20% amounts to 2 834.136 cents per preference share.
- Absa Bank currently has 4 944 839 preference shares in issue.
- Absa Bank's income tax reference number is 9575117719.

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

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

On behalf of the Board

N R Drutman
Company Secretary

Johannesburg
6 August 2018

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

Condensed consolidated IFRS salient features

for the reporting period ended

	30 June		31 December
	2018	2017	2017
Statement of comprehensive income (Rm)			
Income	**25 747**	24 806	50 094
Operating expenses	**16 394**	14 696	31 608
Profit attributable to ordinary equity holders	**3 959**	4 546	8 067
Headline earnings[1]	**4 151**	4 805	8 548
Statement of financial position			
Loans and advances to customers (Rm)	**683 152**	638 552	660 492
Total assets (Rm)	**1 029 261**	948 523	988 358
Deposits due to customers (Rm)	**590 827**	577 925	583 825
Loans to deposits and debt securities ratio (%)	**93.4**	89.0	91.5
Financial performance (%)			
Return on average equity	**10.9**	14.3	11.8
Return on average assets	**0.85**	1.04	0.91
Return on average risk-weighted assets	**1.62**	1.96	1.64
Stage 3 loans ratio on gross loans and advances	**5.1**	n/a	n/a
Non-performing loans (NPL) ratio on gross loans and advances	**n/a**	3.3	3.6
Operating performance (%)			
Net interest margin on average interest-bearing assets	**3.77**	3.83	3.91
Credit loss ratio on gross loans and advances to customers and banks	**0.78**	0.81	0.73
Non-interest income as a percentage of total income	**42.1**	41.6	41.3
Cost-to-income ratio	**63.7**	59.2	63.1
Jaws	**(7.8)**	(10.7)	(12.2)
Effective tax rate, excluding indirect taxation	**27.4**	27.4	27.9
Share statistics (million)			
Number of ordinary shares in issue	**448.3**	448.3	448.3
Weighted average number of ordinary shares in issue	**448.3**	433.1	440.7
Diluted weighted average number of ordinary shares in issue	**448.3**	433.1	440.7
Share statistics (cents)			
Headline earnings per ordinary share	**925.7**	1 109.4	1 939.4
Diluted headline earnings per ordinary share	**925.7**	1 109.4	1 939.4
Basic earnings per ordinary share	**883.3**	1 049.6	1 830.3
Diluted basic earnings per ordinary share	**883.3**	1 049.6	1 830.3
Dividend per ordinary share relating to income for the reporting period	**602.3**	892.3	2 372.7
Dividend cover (times)	**1.5**	1.2	0.8
Net asset value (NAV) per ordinary share	**17 446**	17 659	17 998
Tangible net asset value per ordinary share	**16 351**	17 176	17 136
Capital adequacy (%)			
Absa Bank Limited	**17.9**	17.4	16.9
Common Equity Tier (CET) 1 (%)			
Absa Bank Limited	**13.5**	14.1	13.4

[1] After allowing for **R176m** (30 June 2017: R180m; 31 December 2017: R362m) profit attributable to preference equity holders and **R96m** (30 June 2017: RNil; 31 December 2017: R48m) profit attributable to Additional Tier 1 capital.

Condensed consolidated normalised salient features

for the reporting period ended

	30 June		31 December
	2018	2017	2017
Statement of comprehensive income (Rm)			
Income	**25 160**	24 522	49 689
Operating expenses	**15 039**	14 236	29 708
Profit attributable to ordinary equity holders	**4 675**	4 936	9 550
Headline earnings	**4 866**	4 957	9 793
Statement of financial position			
Total assets (Rm)	**1 027 657**	936 703	987 446
Financial performance (%)			
Return on average equity	**14.8**	15.1	14.8
Return on average assets	**1.00**	1.08	1.05
Return on risk-weighted assets	**1.90**	2.02	1.88
Operating performance (%)			
Non-interest income as a percentage of total income	**41.4**	41.2	41.5
Cost-to-income ratio	**59.8**	58.1	59.8
Jaws	**(3.04)**	(8.32)	(6.11)
Effective tax rate, excluding indirect taxation	**25.8**	27.0	27.0
Share statistics (million)			
Number of ordinary shares in issue	**448.3**	448.3	448.3
Weighted average number of ordinary shares in issue	**448.3**	433.1	440.8
Diluted weighted average number of ordinary shares in issue	**448.3**	433.1	440.8
Share statistics (cents)			
Headline earnings per ordinary share	**1 085.7**	1 144.5	2 221.9
Diluted headline earnings per ordinary share	**1 085.7**	1 144.5	2 221.9
Basic earnings per ordinary share	**1 042.8**	1 139.7	2 166.5
Diluted basic earnings per ordinary share	**1 042.8**	1 139.7	2 166.5
NAV per ordinary share	**15 193**	15 046	15 599
Tangible NAV per ordinary share	**14 411**	14 563	14 913
Capital adequacy (%)			
Absa Bank Limited	**16.3**	15.2	15.0
Common Equity Tier 1 (%)			
Absa Bank Limited	**11.9**	11.9	11.6

Condensed consolidated normalised reconciliation

for the reporting period ended

Reconciliation of normalised to IFRS results

	30 June 2018		
	IFRS Bank performance	Adjustments for Barclays separation effects	Normalised Bank performance
Statement of comprehensive income (Rm)			
Net interest income	14 915	175	14 740
Non-interest income	10 832	413	10 419
Total income	25 747	588	25 159
Expected credit losses	(2 831)	—	(2 831)
Operating expenses	(16 394)	(1 355)	(15 039)
Other expenses	(754)	(76)	(678)
Share of post-tax results of associates and joint ventures	56	—	56
Operating profit before income tax	5 824	(843)	6 667
Tax expenses	(1 593)	128	(1 721)
Profit for the reporting period	4 231	(715)	4 946
Profit attributable to:			
Ordinary equity holders	3 959	(715)	4 674
Preference equity holders	176	—	176
Additional Tier 1 capital	96	—	96
	4 231	(715)	4 946
Headline earnings	4 151	(715)	4 866
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.77	n/a	3.76
Credit loss ratio on gross loans and advances to customers and banks	0.79	n/a	0.79
Non-interest income as a percentage of total income	42.1	n/a	41.4
Income growth	3.8	n/a	2.6
Operating expenses growth	11.6	n/a	5.6
Cost-to-income ratio	63.7	n/a	59.8
Effective tax rate	27.4	n/a	25.8
Statement of financial position (Rm)			
Loans and advances to customers	683 152	—	683 152
Loans and advances to banks	49 173	—	49 173
Investment securities	86 794	—	86 794
Other assets	210 142	1 603	208 539
Total assets	1 029 261	1 603	1 027 658
Deposits due to customers	590 827	—	590 827
Debt securities in issue	140 363	—	140 363
Other liabilities[1]	215 213	(8 502)	223 715
Total liabilities	946 403	(8 502)	954 905
Equity	82 858	10 105	72 753
Total equity and liabilities	1 029 261	1 603	1 027 658
Key performance ratios (%)			
Return on average risk-weighted assets	1.62	n/a	1.90
Return on average assets	0.85	n/a	1.00
Return on average equity	10.9	n/a	14.8
Capital adequacy	17.9	n/a	16.3
Common Equity Tier 1	13.5	n/a	11.9
Share statistics (cents)			
Diluted headline earnings per ordinary share	925.7	n/a	1 085.7

[1] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on seperation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Condensed consolidated normalised reconciliation

for the reporting period ended

Reconciliation of normalised to IFRS results

	30 June 2017		
	IFRS Bank performance	Adjustments for Barclays separation effects	Normalised Bank performance
Statement of comprehensive income (Rm)			
Net interest income	14 475	46	14 429
Non-interest income	10 331	238	10 093
Total income	24 806	284	24 522
Impairment losses on loans and advances	(2 779)	—	(2 779)
Operating expenses	(14 696)	(460)	(14 236)
Other expenses	(821)	(325)	(496)
Operating profit before income tax	6 510	(501)	7 011
Tax expenses	(1 783)	111	(1 894)
Profit for the reporting period	4 727	(390)	5 117
Profit attributable to:			
Ordinary equity holders	4 546	(390)	4 936
Non-controlling interest – ordinary shares	(1)	—	(1)
Preference equity holders	(180)	—	(180)
Additional Tier 1 capital	—	—	—
	4 365	(390)	4 755
Headline earnings	4 805	(152)	4 957
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.93	n/a	3.93
Credit loss ratio on gross loans and advances to customers and banks	0.82	n/a	0.82
Non-interest income as a percentage of total income	41.6	n/a	41.2
Income growth	1.4	n/a	0.2
Operating expenses growth	12.0	n/a	8.5
Cost-to-income ratio	59.2	n/a	58.1
Effective tax rate	27.4	n/a	27.0
Statement of financial position (Rm)			
Loans and advances to customers	638 552	—	638 552
Loans and advances to banks	50 824	—	50 824
Investment securities	81 876	—	81 876
Other assets	177 271	(105)	177 376
Total assets	948 523	(105)	948 628
Deposits due to customers	577 925	—	577 925
Debt securities in issue	139 906	—	139 906
Other liabilities[1]	146 879	(11 819)	158 698
Total liabilities	864 710	(11 819)	876 529
Equity	83 813	11 714	72 099
Total equity and liabilities	948 523	(105)	948 628
Key performance ratios (%)			
Return on average risk-weighted assets	1.96	n/a	2.02
Return on average assets	1.04	n/a	1.08
Return on average equity	14.3	n/a	15.1
Capital adequacy	17.4	n/a	15.2
Common Equity Tier 1	14.1	n/a	11.9
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 109.4	n/a	1 144.5

[1] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on seperation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Condensed consolidated normalised reconciliation

for the reporting period ended

Reconciliation of normalised to IFRS results	31 December 2017		
	IFRS Bank performance	Adjustments for Barclays separation effects	Normalised Bank performance
Statement of comprehensive income (Rm)			
Net interest income	29 413	325	29 088
Non-interest income	20 681	80	20 601
Total income	50 094	405	49 689
Impairment losses on loans and advances	(5 113)	—	(5 113)
Operating expenses	(31 608)	(1 901)	(29 707)
Other expenses	(1 788)	(394)	(1 394)
Share of post-tax results of associates and joint ventures	170	—	170
Operating profit before income tax	11 755	(1 890)	13 645
Tax expenses	(3 278)	408	(3 687)
Profit for the reporting period	8 477	(1 482)	9 959
Profit attributable to:			
Ordinary equity holders	8 067	(1 482)	9 549
Preference equity holders	362	—	362
Additional Tier 1 capital	48	—	48
	8 477	(1 482)	9 959
Headline earnings	8 548	(1 245)	9 793
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.91	n/a	3.90
Credit loss ratio on gross loans and advances to customers and banks	0.73	n/a	0.74
Non-interest income as a percentage of total income	41.3	n/a	41.5
Income growth	2.6	n/a	1.8
Operating expenses growth	14.8	n/a	7.9
Cost-to-income ratio	63.1	n/a	59.8
Effective tax rate	27.9	n/a	27.0
Statement of financial position (Rm)			
Loans and advances to customers	660 492	—	660 492
Loans and advances to banks	43 217	—	43 217
Investment securities	76 524	—	76 524
Other assets	208 125	912	207 213
Total assets	988 358	912	987 446
Deposits due to customers	583 825	—	583 825
Debt securities in issue	137 942	—	137 942
Other liabilities[1]	181 262	(9 840)	191 102
Total liabilities	903 029	(9 840)	912 869
Equity	85 329	10 752	74 577
Total equity and liabilities	988 358	912	987 446
Key performance ratios (%)			
Return on average assets	0.91	n/a	1.05
Return on average equity	14.3	n/a	14.8
Capital adequacy	16.9	n/a	15.0
Common Equity Tier 1	13.4	n/a	11.6
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 939.4	n/a	2 221.9

Barclays separation financial results

'Net interest income' includes the endowment benefit received on the Barclays PLC investment, while foreign exchange hedging gains linked to the separation activities have been disclosed as 'Non-interest income'. 'Operating expenses' includes **R1.3bn** (30 June 2017: R460m; 31 December 2017: R1.9bn) professional fees, information technology costs, marketing, transitional service costs and salary costs for internal resources dedicated to the separation that was incurred during the respective reporting periods. 'Other expenses' reflects the VAT less any inputs incurred during the current reporting period. In the prior reporting period, 'Other expenses' included the impairment of an intangible asset that was

[1] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on seperation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Condensed consolidated statement of financial position

as at

	Note	30 June 2018 Rm	30 June 2017 Rm	31 December 2017 Rm
Assets				
Cash, cash balances and balances with central banks		**24 698**	26 346	28 792
Investment securities		**86 794**	81 876	76 524
Loans and advances to banks	2	**49 173**	50 824	43 217
Trading portfolio assets		**96 333**	74 961	104 781
Hedging portfolio assets		**2 320**	2 270	2 667
Other assets		**26 593**	29 225	15 513
Current tax assets		**614**	386	57
Non-current assets held for sale	1	**37**	1 391	1 119
Loans and advances to customers	2	**683 152**	638 552	660 492
Loans to Group companies		**38 730**	26 117	36 530
Investments in associates and joint ventures		**1 217**	1 144	1 235
Investment properties		**165**	—	—
Property and equipment		**13 663**	13 222	13 519
Goodwill and intangible assets		**4 912**	2 168	3 861
Deferred tax assets		**860**	41	51
Total assets		**1 029 261**	948 523	988 358
Liabilities				
Deposits from banks		**95 723**	56 475	74 110
Trading portfolio liabilities		**57 011**	39 680	59 834
Hedging portfolio liabilities		**1 334**	1 470	1 117
Other liabilities		**38 249**	31 207	27 824
Provisions		**1 468**	1 233	2 073
Current tax liabilities		**—**	—	55
Deposits due to customers		**590 827**	577 925	583 825
Debt securities in issue		**140 363**	139 906	137 942
Borrowed funds	3	**21 416**	15 930	15 866
Deferred tax liabilities		**12**	884	383
Total liabilities		**946 403**	864 710	903 029
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Ordinary share capital		**304**	304	304
Ordinary share premium		**36 879**	36 880	36 879
Preference share capital		**1**	1	1
Preference share premium		**4 643**	4 643	4 643
Additional Tier 1 capital		**1 500**	—	1 500
Retained earnings		**35 629**	38 642	37 855
Other reserves		**3 901**	3 341	4 145
		82 857	83 811	85 327
Non-controlling interest – ordinary shares		**1**	2	2
Total equity		**82 858**	83 813	85 329
Total equity and liabilities		**1 029 261**	948 523	988 358

Condensed consolidated statement of comprehensive income

for the reporting period ended

	Note	30 June 2018 Rm	30 June 2017 Rm	31 December 2017 Rm
Net interest income		**14 915**	14 475	29 413
Interest and similar income[1]		**36 241**	35 820	71 438
Effective interest income		**35 898**	35 351	70 161
Other interest income		**343**	469	1 277
Interest expense and similar charges[1]		**(21 326)**	(21 345)	(42 025)
Effective interest expense		**(21 326)**	(21 272)	(42 025)
Other interest expense		**—**	(73)	—
Non-interest income	4	**10 832**	10 331	20 681
Net fee and commission income		**9 023**	8 429	17 279
Fee and commission income		**9 736**	9 076	18 608
Fee and commission expense		**(713)**	(647)	(1 329)
Gains from banking and trading activities		**1 770**	1 752	2 860
Gains from investment activities		**4**	—	3
Other operating income		**36**	150	539
Total income		**25 747**	24 806	50 094
Expected credit losses/impairment losses		**(2 831)**	(2 779)	(5 113)
Operating income before operating expenditure		**22 916**	22 027	44 981
Operating expenditure		**(16 394)**	(14 696)	(31 608)
Other expenses		**(754)**	(900)	(1 788)
Other impairments	5	**(183)**	(326)	(512)
Indirect taxation		**(571)**	(574)	(1 276)
Share of post-tax results of associates and joint ventures		**56**	79	170
Operating profit before income tax		**5 824**	6 510	11 755
Taxation expense		**(1 593)**	(1 783)	(3 278)
Profit for the reporting period		**4 231**	4 727	8 477
Profit attributable to:				
Ordinary equity holders		**3 959**	4 546	8 067
Non-controlling interest		**—**	1	—
Preference equity holders		**176**	180	362
Additional Tier 1 capital		**96**	—	48
		4 231	4 727	8 477
Earnings per share:				
Basic earnings per share (cents per share)		**883.3**	1 049.6	1 830.3
Diluted earnings per share (cents per share)		**883.3**	1 049.6	1 830.3

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

Condensed consolidated statement of comprehensive income

for the reporting period ended

	30 June 2018 Rm	30 June 2017 Rm	31 December 2017 Rm
Profit for the reporting period	**4 231**	4 727	8 477
Other comprehensive income			
Items that will not be reclassified to profit or loss	**3**	(19)	(154)
Fair value gain on equity instruments measured at Fair Value through Other Comprehensive Income (FVOCI)	**2**	—	—
Movement due to changes in own credit risk on financial liabilities designated at FVTPL	**5**	(13)	(147)
Fair value losses	**(45)**	(13)	(147)
Deferred tax	**50**	—	—
Movement in retirement benefit fund assets and liabilities	**(4)**	(6)	(7)
Decrease in retirement benefit surplus	**(6)**	(5)	(10)
Deferred tax	**2**	(1)	3
Items that are or may be subsequently reclassified to profit or loss	**(205)**	215	677
Movement in foreign currency translation reserve	**—**	54	55
Differences in translation of foreign operations	**—**	54	3
Release to profit or loss	**—**	—	52
Movement in cash flow hedging reserve	**(588)**	519	794
Fair value (losses)/gains	**(737)**	876	1 465
Amount removed from other comprehensive income and recognised in profit or loss	**(80)**	(157)	(365)
Deferred tax	**229**	(200)	(306)
Movement in fair value of debt instruments measured at FVOCI	**383**	—	—
Fair value gains	**529**	—	—
Release to profit or loss	**3**	—	—
Deferred tax	**(149)**	—	—
Movement in available-for-sale reserve	**—**	(358)	(172)
Fair value losses	**—**	(515)	(307)
Release to profit or loss	**—**	18	67
Deferred tax	**—**	139	68
Total comprehensive income for the reporting period	**4 029**	4 923	9 000
Total comprehensive income attributable to:			
Ordinary equity holders	**3 757**	4 742	8 590
Non-controlling interest	**—**	1	—
Preference equity holders	**176**	180	362
Additional Tier 1 capital	**96**	—	48
	4 029	4 923	9 000

Condensed consolidated statement of changes in equity

for the reporting period ended

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
Balance as reported at the end of the previous reporting period	448 301	304	36 879	1	4 643	1 500
Impact of adopting new accounting standards at 1 January 2018						
IFRS 9	—	—	—	—	—	—
IFRS 15	—	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	448 301	304	36 879	1	4 643	1 500
Total comprehensive income for the reporting period	—	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—	—
Intercompany recharge	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Deferred tax	—	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	1 500

All movements are reflected net of taxation.

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

30 June 2018

Retained earnings Rm	Total other reserves Rm	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total equity attributable to equity holders Rm	Non-controlling interest – ordinary shares Rm	Total equity Rm
37 855	4 145	87	649	1	1 422	749	1 237	85 327	2	85 329
(3 103)	(204)	(131)	—	—	—	—	(73)	(3 307)	—	(3 307)
(44)	—	—	—	—	—	—	—	(44)	—	(44)
34 708	3 941	(44)	649	1	1 422	749	1 164	81 976	2	81 978
4 231	(202)	386	(588)	—	—	—	—	4 029	—	4 029
4 231	—	—	—	—	—	—	—	4 231	—	4 231
—	(202)	386	(588)	—	—	—	—	(202)	—	(202)
(3 176)	—	—	—	—	—	—	—	(3 176)	(1)	(3 177)
(96)	—	—	—	—	—	—	—	(96)	—	(96)
18	—	—	—	—	—	—	—	18	—	18
—	106	—	—	—	—	106	—	106	—	106
—	(193)	—	—	—	—	(193)	—	(193)	—	(193)
—	327	—	—	—	—	327	—	327	—	327
—	(28)	—	—	—	—	(28)	—	(28)	—	(28)
(56)	56	—	—	—	—	—	56	—	—	—
35 629	3 901	342	61	1	1 422	855	1 220	82 857	1	82 858

Condensed consolidated statement of changes in equity

for the reporting period ended

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Retained earnings Rm
Balance at the beginning of the reporting period	431 318	304	24 964	1	4 643	36 099
Total comprehensive income for the reporting period	—	—	—	—	—	4 707
Profit for the reporting period	—	—	—	—	—	4 726
Other comprehensive income	—	—	—	—	—	(19)
Dividends paid during the reporting period	—	—	—	—	—	(5 780)
Shares issued	16 983	—	3 500	—	—	—
Purchase of Absa Group Limited shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	5
Elimination of the movement in treasury shares held by Group entities	—	—	—	—	—	—
Transfer of vesting options	—	—	—	—	—	—
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	—	—	—	—	—	(79)
Disposal of non-controlling interest and related transaction costs[2]	—	—	—	—	—	—
Barclays separation[3]	—	—	8 416	—	—	3 690
Balance at the end of the reporting period	448 301	304	36 880	1	4 643	38 642

All movements are reflected net of taxation.

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

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

[3] As part of the Barclays PLC disinvestment, the Bank issued 10 ordinary shares to Barclays Bank PLC for R8,4bn and received an additional R3,7bn as a cash contribution. The resultant cash received meets the definition of a transaction with a shareholder.

30 June 2017

Total other reserves Rm	Available-for-sale reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates' and joint ventures' reserve Rm	Total attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Total equity Rm
3 262	259	(145)	(54)	1 422	713	1 067	69 273	26	69 299
215	(358)	519	54	—	—	—	4 922	1	4 923
—	—	—	—	—	—	—	4 726	1	4 727
215	(358)	519	54	—	—	—	196	—	196
—	—	—	—	—	—	—	(5 780)	—	(5 780)
—	—	—	—	—	—	—	3 500	—	3 500
—	—	—	—	—	—	—	5	—	5
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
(215)	—	—	—	—	(215)	—	(215)	—	(215)
(425)	—	—	—	—	(425)	—	(425)	—	(425)
229	—	—	—	—	229	—	229	—	229
(19)	—	—	—	—	(19)	—	(19)	—	(19)
79	—	—	—	—	—	79	—	—	—
—	—	—	—	—	—	—	—	(25)	(25)
—	—	—	—	—	—	—	12 106	—	12 106
3 341	(99)	374	—	1 422	498	1 146	83 811	2	83 813

Condensed consolidated statement of changes in equity

for the reporting period ended

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital[5] Rm
Balance at the beginning of the reporting period	431 318	304	24 964	1	4 643	—
Total comprehensive income for the reporting period	—	—	—	—	—	—
Profit for the reporting period	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Shares issued	16 983	—	3 500	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—	1 500
Purchase of Absa 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 interest in subsidiary[2]	—	—	—	—	—	—
Barclays separation[3]	—	—	8 415	—	—	—
Shareholder contribution – fair value of investment[4]	—	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	1 500

All movements are reflected net of taxation.

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

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

[3] As part of the Barclays PLC disinvestment, the Bank issued 10 ordinary shares to Barclays Bank PLC for R8,4bn and received an additional R3,7bn as a cash contribution. The resultant cash received meets the definition of a transaction with a shareholder.

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

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

31 December 2017

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

Condensed consolidated statement of cash flows

for the reporting period ended

	Note	30 June 2018 Rm	30 June 2017[1] Rm	31 December 2017[1] Rm
Net cash utilised in operating activities		**(4 336)**	(3 913)	(4 478)
Income taxes paid		**(1 921)**	(1 765)	(3 513)
Net cash utilised in other operating activities		**(2 415)**	(2 148)	(965)
Net cash utilised in investing activities		**(1 459)**	(956)	(3 906)
Purchase of property and equipment		**(1 361)**	(1 230)	(2 622)
Proceeds from sale of non-current assets held for sale		**1 155**	398	672
Net cash utilised in other investing activities		**(1 253)**	(124)	(1 956)
Net cash generated from financing activities		**2 186**	10 831	7 008
Net cash generated from Barclays separation		**—**	12 106	12 106
Issue of ordinary shares		**—**	3 500	3 500
Issue of Additional Tier 1 capital		**—**	—	1 500
Proceeds from borrowed funds		**5 488**	1 000	2 841
Repayment of borrowed funds		**—**	—	(2 805)
Dividends paid		**(3 176)**	(5 780)	(9 962)
Net cash (utilised in)/generated from other financing activities		**(126)**	5	(172)
Net (decrease)/increase in cash and cash equivalents		**(3 609)**	5 962	(1 376)
Cash and cash equivalents at the beginning of the reporting period	1	**11 040**	12 416	12 416
Cash and cash equivalents at the end of the reporting period	2	**7 431**	18 378	11 040

Notes to the condensed consolidated statement of cash flows

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

	30 June 2018 Rm	30 June 2017[1] Rm	31 December 2017[1] Rm
Cash, cash balances and balances with central banks[2]	**9 684**	9 662	9 662
Loans and advances to banks[3]	**1 356**	2 754	2 754
	11 040	12 416	12 416

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

	30 June 2018 Rm	30 June 2017[1] Rm	31 December 2017[1] Rm
Cash, cash balances and balances with central banks[2]	**6 833**	7 673	9 684
Loans and advances to banks[3]	**598**	10 705	1 356
	7 431	18 378	11 040

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

[2] Includes coins and bank notes.

[3] Includes call advances, which are used as working capital for the Bank.

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

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

- Retail Banking South Africa disposed of a loan book with a carrying amount of **R1 118m** and property and equipment with a carrying amount of **R1m**.
- Head office transferred property and equipment with a carrying amount of **R37m** to non-current assets held for sale.

The following movements in non-current assets and non-current liabilities held for sale were effected during the reporting period ended 30 June 2017:

- Retail Banking South Africa transferred a subsidiary with total assets of R1 391m 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 R372m and liabilities of R26m out of non-current assets and non-current liabilities held for sale respectively.

The following movements in non-current assets and non-current liabilities held for sale were effected during the reporting period ended 31 December 2017:

- Retail Banking South Africa transferred loans and advances to customers of R1 118m and property and equipment of R1m to non-current assets held for sale. The CPF Equity division in Business Banking South Africa disposed of a subsidiary with assets of R373m and liabilities of R26m out of non-current assets and non-current liabilities held for sale respectively.
- Corporate and Investment Banking South Africa 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.

Condensed notes to the consolidated financial results

for the reporting period endedå

2. Loans and advances

	Gross carrying value[1] Rm	Stage 1 Expected Credit Loss (ECL) Allowance Rm	ECL coverage %
Loans and advances to customers	606 388	2 468	0.41
Retail and Business Banking (RBB) South Africa	392 311	2 185	0.56
Retail Banking South Africa	334 064	1 564	0.47
Credit cards	23 636	511	2.16
Instalment credit agreements	70 312	512	0.73
Loans to associates and joint ventures	24 682	1	—
Mortgages	193 278	174	0.09
Other loans and advances	2 341	14	0.58
Overdrafts	4 561	57	1.25
Personal and term loans	15 254	295	1.93
Business Banking South Africa	58 247	621	1.07
Corporate and Investment Banking (CIB) South Africa	208 890	434	0.21
Wealth	4 796	28	0.58
Head Office, Treasury and other operations in South Africa	391	(179)	—
Loans and advances	391	9	2.22
Reclassification to provisions[2]	—	(188)	—
Loans and advances to banks	47 615	9	0.02
Total credit risk exposure on loans and advances	654 003	2 477	0.38

[1] Included in Stage 1 gross carrying amount on loans and advances to customers and banks is **R65 242m** relating to financial instruments measured at fair value through profit or loss. The fair value measurements for these instruments include adjustments in respect of their credit quality.

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

30 June 2018

Stage 2			Stage 3			Total		
Gross carrying value Rm	ECL Allowance Rm	ECL coverage %	Gross carrying value Rm	ECL Allowance Rm	ECL coverage %	Gross carrying value Rm	ECL Allowance Rm	ECL coverage %
59 115	3 500	5.92	38 466	14 849	38.60	703 969	20 817	2.96
35 578	3 366	9.46	35 350	13 214	37.38	463 237	18 765	4.05
28 221	2 967	10.51	30 214	10 694	35.39	392 498	15 225	3.88
3 128	1 191	38.07	4 091	2 601	63.57	30 855	4 303	13.95
6 155	744	12.08	4 755	1 710	35.96	81 222	2 966	3.65
—	—	—	—	—	—	24 682	1	—
15 071	352	2.33	18 317	4 523	24.69	226 666	5 049	2.23
368	14	3.88	22	20	92.85	2 731	48	1.76
1 239	159	12.84	487	288	59.01	6 287	504	8.01
2 260	507	22.44	2 542	1 552	61.04	20 056	2 354	11.73
7 356	399	5.42	5 136	2 520	49.07	70 739	3 540	5.00
22 842	331	1.45	2 804	1 432	51.07	234 536	2 197	0.94
213	6	2.90	312	232	74.38	5 321	266	4.99
483	(203)	—	—	(29)	—	874	(411)	—
483	1	0.24	—	—	—	874	10	1.12
—	(204)	—	—	(29)	—	—	(421)	—
1 574	7	0.47	—	—	—	49 189	16	0.03
60 689	3 507	5.78	38 466	14 819	38.60	753 158	20 833	2.77

Condensed notes to the consolidated financial results

for the reporting period ended

2. Loans and advances (continued)

30 June 2017[1]	Performing loans Exposure Rm	Performing loans Impairment Rm	Performing loans Coverage ratio %	Non-performing loans Exposure Rm	Non-performing loans Impairment Rm	Non-performing loans Coverage ratio %	Net total exposure Rm
RBB South Africa	418 739	3 992	0.95	21 352	8 455	39.60	427 644
Retail Banking South Africa	356 819	3 148	0.88	18 288	7 339	40.13	364 620
Credit cards	26 900	622	2.31	3 943	2 875	72.91	27 346
Instalment credit agreements	71 473	759	1.06	2 221	1 052	47.37	71 883
Loans to associates and joint ventures	20 707	—	—	—	—	—	20 707
Mortgages	213 920	1 211	0.57	10 102	2 118	20.97	220 693
Other loans and advances	2 686	—	—	—	—	—	2 686
Overdrafts	4 575	40	0.87	286	171	59.79	4 650
Personal and term loans	16 558	516	3.12	1 736	1 123	64.69	16 655
Business Banking South Africa	61 920	844	1.36	3 064	1 116	36.42	63 024
Mortgages (including CPF)	26 477	168	0.63	1 501	533	35.51	27 277
Overdrafts	19 367	425	2.19	853	390	45.72	19 405
Term loans	16 076	251	1.56	710	193	27.18	16 342
CIB South Africa	204 297	604	0.30	1 604	617	38.47	204 680
Wealth	5 430	12	0.22	128	61	47.66	5 485
Head office, Treasury and other operations in South Africa	752	9	1.20	—	—	—	743
Loans and advances to customers	629 218	4 617	0.73	23 084	9 133	39.56	638 552
Loans and advances to banks	50 824	—	—	—	—	—	50 824
	680 042	4 617	0.68	23 084	9 133	39.56	689 376

31 December 2017[1]	Performing loans Exposure Rm	Performing loans Impairment Rm	Performing loans Coverage ratio %	Non-performing loans Exposure Rm	Non-performing loans Impairment Rm	Non-performing loans Coverage ratio %	Net total exposure Rm
RBB South Africa	425 859	3 356	0.79	21 675	8 678	40.04	435 500
Retail Banking South Africa	363 074	2 583	0.71	18 340	7 582	41.34	371 249
Credit cards	26 849	578	2.15	3 622	2 626	72.50	27 267
Instalment credit agreements	74 430	703	0.94	2 360	1 112	47.12	74 975
Loans to associates and joint ventures	23 037	—	—	—	—	—	23 037
Mortgages	213 508	1 124	0.53	10 241	2 056	20.08	220 569
Other loans and advances	2 794	—	—	—	—	—	2 794
Overdrafts	5 349	51	0.95	384	236	61.46	5 446
Personal and term loans	17 107	127	0.74	1 733	1 552	89.56	17 161
Business Banking South Africa	62 785	773	1.23	3 335	1 096	32.86	64 251
Mortgages (including CPF)	27 010	140	0.52	1 477	519	35.14	27 828
Overdrafts	19 865	393	1.98	1 082	375	34.66	20 179
Term loans	15 910	240	1.51	776	202	26.03	16 244
CIB South Africa	218 383	559	0.26	2 019	832	41.21	219 011
Wealth	4 930	14	0.28	262	174	66.41	5 004
Head Office, Treasury and other operations in South Africa	987	10	1.01	—	—	—	977
Loans and advances to customers	650 159	3 939	0.61	23 956	9 684	40.42	660 492
Loans and advances to banks	43 217	—	—	—	—	—	43 217
	693 376	3 939	0.57	23 956	9 684	40.42	703 709

[1] These numbers have been restated, refer to the reporting changes overview in note 16.

3. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: **R5 488m** (30 June 2017: R1 142m; 31 December 2017: R2 841m) of subordinated notes were issued and **RNil** (30 June 2017: R1 000m; 31 December 2017: R2 805m) were redeemed.

4. Disaggregation of non-interest income from contracts with customers

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:

	30 June 2018					
	RBB South Africa Rm	CIB South Africa Rm	Wealth Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays separation effects Rm	Total Rm
Fee and commission income from contracts with customers	8 585	1 073	102	(24)	—	9 736
Consulting and administration fees	115	10	4	—	—	129
Transactioinal fees and commissions	7 362	744	54	4	—	8 164
Cheque accounts	2 619	55	27	—	—	2 701
Credit cards	1 070	—	—	—	—	1 070
Electronic banking	2 006	520	9	—	—	2 535
Other[(1)]	634	168	18	3	—	823
Savings accounts	1 033	1	—	1	—	1 035
Merchant income	807	—	—	—	—	807
Asset management	11	1	18	—	—	30
Other fees and commissions	19	72	5	(28)	—	68
Insurance commissions received	271	—	1	—	—	272
Investment banking fees	—	246	20	—	—	266
Other income from contracts with customers	31	—	—	(14)	—	17
Other non-interest income, net of expenses	(287)	793	(13)	173	413	1 079
Total non-interest income	8 329	1 866	89	135	413	10 832

5. Other impairments

	30 June		31 December
	2018 Rm	2017 Rm	2017 Rm
Impairment/(reversal) raised on financial instruments	1	—	(30)
Other	182	326	542
Intangible assets[(2)]	—	326	326
Property and equipment[(3)]	182	—	216
	183	326	512

(1) Includes fees on mortgage loans and foreign currency transactions.

(2) The impairment incurred during the prior reporting period mainly related to computer software, Barclays.Net which was fully impaired.

(3) Management have decided to dispose of certain property and equipment resulting in an impairment of **R182m** (30 June 2017: RNil; 31 December 2017: R216m). As the property will be disposed of, the impairment was calculated based on fair value less costs to sell.

6. Headline earnings

	30 June				31 December	
	2018		2017		2017	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
Headline earnings are determined as follows:						
Profit attributable to ordinary equity holders of the Bank		3 959		4 546		8 067
Total headline earnings adjustment:		192		259		481
IFRS 5 – Loss/(profit) on disposal of non-current assets held for sale	40	40	(7)	(5)	33	34
IAS 16 – Loss/(profit) on disposal of property and equipment	15	10	(5)	(4)	(18)	(13)
IAS 21 – Recycled foreign currency translation reserve	—	—	52	52	52	52
IAS 36 – Impairment of property and equipment	182	142	—	—	216	155
IAS 36 – Impairment of intangible assets	—	—	326	238	326	238
IAS 39 – Release of available-for-sale reserves	—	—	18	12	67	49
IAS 40 – Change in fair value of investment properties	—	—	(37)	(29)	(37)	(29)
IAS 40 – Profit on disposal of investment property	—	—	(5)	(5)	(5)	(5)
Headline earnings/diluted headline earnings		4 151		4 805		8 548
Headline earnings per share/diluted headline earnings per share (cents)		925.7		1 109.4		1 939.4

7. Dividends per share

	30 June		31 December
	2018 Rm	2017 Rm	2017 Rm
Dividends declared per share to ordinary equity holders			
Interim dividend **(6 August 2018: 602.27349 cents)** (28 July 2017: 892.25702 cents)	2 700	4 000	4 000
Special dividend (30 June 2017: 811.4669592)	—	3 500	3 500
Final dividend (1 March 2018: 669.1928 cents)	—	—	3 000
	2 700	7 500	10 500
Dividends declared per share to preference equity holders			
Interim dividend **(6 August 2018: 3 542.67 cents)** (28 July 2017: 3 685.06849 cents)	175	182	182
Final dividend (1 March 2018: 3 558.01 cents)	—	—	176
	175	182	358
Distributions declared per note to Additional Tier 1 capital note holder			
Distributions **(12 March 2018: 31 500 Rands) (12 June 2018: 32 300 Rands)** (12 December 2017: 31 990.79 Rands)	96	—	48
	96	—	48
Dividends paid per share to ordinary equity holders			
Final dividend **(16 April 2018: 669.1928 cents)** (10 April 2017: 486.88017 cents)[2]	3 000	2 100	2 100
Interim dividend (11 September 2017: 892.25702 cents)	—	—	4 000
Special dividend (30 June 2017: 811.4669592 cents)	—	3 500	3 500
	3 000	5 600	9 600
Dividends paid per share to preference equity holders			—
Final dividend **(16 April 2018: 3 558.01 cents)** (10 April 2017: 3 644.79452 cents)	176	180	180
Interim dividend (11 September 2017: 3 685.06849 cents)	—	—	182
	176	180	362
Distributions paid per note to Additional Tier 1 capital note holder			
Distributions **(12 March 2018: 31 500 Rands) (12 June 2018: 32 300 Rands)** (12 December 2017: 31 990.79 Rands)	96	—	48
	96	—	48

[1] The net amount is reflected after taxation.

[2] The final dividend paid on 10 April 2017 has been corrected since disclosed in the prior interim reporting period. The final dividend per share paid to ordinary equity holders previously disclosed at interim was 1 249.15983 cents per share (gross R5.6bn).

8. Acquisitions and disposals of businesses and other similar transactions

8.1.1 Acquisitions of businesses during the current reporting period

During the period, the 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.

	Fair value recognised on acquisition 30 June 2018 Rm
Consideration at date of acquisition	
Cash	30
Acquisition – date fair value of initial interest	168
Total consideration	198
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and balances at central banks	15
Other assets	4
Investment properties	165
Current tax assets	1
Other liabilities	(14)
Deferred tax liabilities	(5)
Total identifiable net assets	166
Total non-controlling interest	—
Goodwill	32
Total	198

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

	30 June 2018 Rm	30 June 2017 Rm
Summary of net cash outflow due to acquisitions	30	—

8.1.2 Disposals of businesses during the current reporting period

There were no disposals of businesses during the current reporting period.

8.2.1 Acquisitions of businesses during the previous reporting period

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

8.2.2 Disposals of businesses during the previous reporting period

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

9. Related parties

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

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

Barclays PLC contributed £765 million to the Bank, primarily in recognition of the investments required for the Bank 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 Bank over time.

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

10. Financial guarantee contracts

	30 June		31 December
	2018 Rm	2017 Rm	2017 Rm
Financial guarantee contracts	10	3	10

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. The credit risk inherent in the balance has led to an ECL provision being raised for such amount.

11. Commitments

	30 June		31 December
	2018 Rm	2017 Rm	2017 Rm
Authorised capital expenditure			
Contracted but not provided for	664	767	257
The Bank has capital commitments in respect of computer equipment, software and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.			
Operating lease payments due			
No later than one year	1 065	971	1 026
Later than one year and no later than five years	2 617	2 524	2 654
Later than five years	781	1 068	902
	4 463	4 563	4 582
The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Bank. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.			

12. Contingencies

	30 June		31 December
	2018 Rm	2017 Rm	2017 Rm
Guarantees	**31 035**	29 182	28 960
Irrevocable debt facilities	**148 673**	126 605	145 087
Letters of credit	**3 269**	4 481	3 834
Other	**87**	91	151
	183 064	160 359	178 032

Guarantees include performance guarantee contracts and payment guarantee contracts.

Irrevocable facilities are commitments to extend credit where the Bank does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The credit risk inherent in the undrawn component of irrevocable lending facilities is 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. 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.

Legal proceedings

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

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

The 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.

12. Contingencies (continued)

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, 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 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 Group conducted a review of relevant activity, processes, systems and controls, and provided information to relevant authorities, in a process which has now largely concluded. No financial impact is anticipated.

In February 2017 the South African Competition Commission (SACC) referred Barclays PLC, Barclays Capital Inc. (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.

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.

Condensed notes to the consolidated financial results

for the reporting period ended

13. Segment reporting

	30 June		31 December
	2018 Rm	2017[1] Rm	2017[1] Rm
13.1 Headline earnings contribution by segment			
RBB South Africa	**4 083**	3 902	8 508
CIB South Africa	**1 385**	1 783	3 354
Wealth	**(198)**	(156)	(419)
Head Office, Treasury and other operations in South Africa	**(404)**	(572)	(1 649)
Barclays separation effects[2]	**(715)**	(152)	(1 245)
Total headline earnings	**4 151**	4 805	8 548
13.2 Total income by segment			
RBB South Africa	**20 432**	19 528	40 151
CIB South Africa	**5 214**	5 352	10 593
Wealth	**208**	214	430
Head Office, Treasury and other operations in South Africa	**(695)**	(571)	(1 485)
Barclays separation effects[2]	**588**	283	405
Total income	**25 747**	24 806	50 094
13.3 Total internal income by segment			
RBB South Africa	**(4 051)**	(4 520)	(8 471)
CIB South Africa	**(3 274)**	93	(2 885)
Wealth	**24**	15	6
Head Office, Treasury and other operations in South Africa	**7 290**	6 109	15 982
Barclays separation effects[2]	**175**	46	325
Total internal income	**(163)**	1 743	4 957
13.4 Total assets by segment			
RBB South Africa	**747 268**	718 518	740 856
CIB South Africa	**514 632**	445 114	486 168
Wealth	**6 590**	5 973	6 097
Head Office, Treasury and other operations in South Africa	**(239 832)**	(221 066)	(245 674)
Barclays separation effects[2]	**1 603**	(16)	912
Total assets	**1 029 261**	948 523	988 358
13.5 Total liabilities by segment			
RBB South Africa	**742 955**	712 954	730 734
CIB South Africa	**512 052**	442 163	481 646
Wealth	**6 820**	6 124	6 508
Head Office, Treasury and other operations in South Africa	**(306 922)**	(284 800)	(306 019)
Barclays separation effects[2],[3]	**(8 502)**	(11 731)	(9 840)
Total liabilities	**946 403**	864 710	903 029

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

[2] Barclays separation effects' is the reconciling stripe between IFRS and normalised results and does not represent a reportable segment.

[3] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is centrally held by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Condensed notes to the consolidated financial results

for the reporting period ended

14. 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.

	30 June			
	2018		2017	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with the South African Reserve Bank	17 862	17 862	18 673	18 673
Coins and bank notes	6 833	6 833	7 673	7 673
Cash, cash balances and balances with central banks	24 695	24 695	26 346	26 346
Investment securities	5 498	5 498	—	—
Loans and advances to banks	21 658	21 357	33 562	33 562
Other assets	24 589	24 589	27 241	27 241
RBB South Africa	444 473	444 440	426 863	426 971
Retail Banking South Africa	377 274	377 241	364 619	364 727
Credit cards	26 552	26 552	27 346	27 346
Instalment credit agreements	78 258	78 234	73 882	73 785
Loans to associates and joint ventures	24 681	24 681	20 707	20 707
Mortgages	221 617	221 617	220 713	220 722
Other loans and advances	2 680	2 680	687	687
Overdrafts	5 783	5 783	4 631	4 631
Personal and term loans	17 703	17 694	16 653	16 849
Business Banking South Africa	67 199	67 199	62 244	62 244
Mortgages (including CPF)	28 509	28 509	26 498	26 498
Overdrafts	21 647	21 647	19 403	19 403
Term loans	17 043	17 043	16 343	16 343
Rest of Africa Banking	—	—	684	684
CIB South Africa	194 612	194 612	177 495	177 495
Wealth	5 055	5 055	5 485	5 485
Head Office, Treasury and other operations in South Africa	1 285	1 285	740	740
Loans and advances to customers – net of impairment losses	645 425	645 392	611 267	611 375
Loans to Group companies	38 730	38 730	26 117	26 117
Total assets (not held at fair value)	760 595	760 261	724 533	724 641
Financial liabilities				
Deposits from banks	64 582	64 582	38 212	38 212
Other liabilities	35 708	35 708	28 872	28 872
Call deposits	58 786	58 786	56 008	56 008
Cheque account deposits	154 676	154 676	157 138	157 138
Credit card deposits	1 788	1 788	1 811	1 811
Fixed deposits	130 708	130 397	121 292	122 084
Foreign currency deposits	16 897	16 897	22 857	22 857
Notice deposits	58 946	58 946	63 125	63 138
Other deposits	1 300	1 300	2 113	2 113
Savings and transmission deposits	136 663	136 663	130 709	130 709
Deposits due to customers	559 764	559 453	555 053	555 858
Debt securities in issue	136 004	136 004	134 957	134 957
Borrowed funds	21 416	21 416	15 930	15 930
Total liabilities (not held at fair value)	817 474	817 163	773 024	773 829

14. Assets and liabilities not held at fair value (continued)

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

	31 December 2017	
	Carrying value Rm	Fair value Rm
Financial assets		
Balances with the South African Reserve Bank	19 108	19 108
Coins and bank notes	9 684	9 684
Cash, cash balances and balances with central banks	28 792	28 792
Loans and advances to banks	26 020	26 020
Other assets	13 327	13 420
RBB South Africa	435 500	435 731
Retail Banking South Africa	371 248	371 479
Credit cards	27 267	27 267
Instalment credit agreements	77 044	77 275
Loans to associates and joint ventures	23 037	23 037
Mortgages	220 569	220 569
Other loans and advances	726	726
Overdrafts	5 443	5 443
Personal and term loans	17 162	17 162
Business Banking South Africa	64 252	64 252
Mortgages (including CPF)	27 828	27 828
Overdrafts	19 199	19 199
Term loans	17 225	17 225
CIB South Africa	192 203	192 203
Wealth	5 004	5 004
Head Office, Treasury and other operations in South Africa	974	974
Loans and advances to customers – net of impairment losses	633 681	633 912
Loans to Group companies	36 530	36 530
Non-current assets held for sale	1 118	1 118
Total assets (not held at fair value)	739 468	739 792
Financial liabilities		
Deposits from banks	52 079	52 079
Other liabilities	25 709	25 724
Call deposits	62 725	62 725
Cheque account deposits	153 539	153 539
Credit card deposits	1 896	1 896
Fixed deposits	131 521	131 521
Foreign currency deposits	18 444	18 444
Notice deposits	58 460	58 460
Other deposits	1 414	1 414
Savings and transmission deposits	135 375	135 375
Deposits due to customers	563 374	563 374
Debt securities in issue	132 701	132 701
Borrowed funds	15 866	15 866
Total liabilities (not held at fair value)	789 729	789 744

15. Assets and liabilities held at fair value

15.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

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

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

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

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

Investment properties

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

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

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

15.2 Fair value measurements

Valuation inputs

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

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

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

Valuation technique using significant unobservable inputs – Level 3

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

Judgemental inputs on valuation of principal instruments

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

Debt securities and treasury and other eligible bills

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

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

15.2 Fair value measurements (continued)

Judgemental inputs on valuation of principal instruments (continued)

Equity instruments

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

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

Derivatives

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

Loans and advances

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

Deposits, debt securities in issue and borrowed funds

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

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

15.3 Fair value adjustments

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

Bid-offer valuation adjustments

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

Uncollateralised derivative adjustments

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

Model valuation adjustments

Valuation models are reviewed under the Bank's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of 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 on at least an annual basis.

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

15.4 Fair value hierarchy

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

	30 June							
	2018				2017			
Recurring fair value measurements	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash, cash balances and balances with central banks	—	3	—	3	—	—	—	—
Investment securities	38 321	34 898	8 078	81 297	45 985	31 263	4 628	81 876
Loans and advances to banks	—	26 961	554	27 515	—	16 812	450	17 262
Trading and hedging portfolio assets	30 964	64 605	2 508	98 077	23 978	49 787	1 787	75 552
Debt instruments	28 845	738	74	29 657	21 316	3 220	1 390	25 926
Derivative assets	—	57 997	848	58 845	—	40 511	177	40 688
Commodity derivatives	—	2 026	—	2 026	—	554	—	554
Credit derivatives	—	—	165	165	—	17	164	181
Equity derivatives	—	3 019	601	3 620	—	1 302	13	1 315
Foreign exchange derivatives	—	12 438	4	12 442	—	6 950	—	6 950
Interest rate derivatives	—	40 514	78	40 592	—	31 688	—	31 688
Equity instruments	733	—	—	733	667	—	—	667
Money market assets	1 386	5 870	1 586	8 842	1 995	6 056	220	8 271
Loans and advances to customers	—	28 717	9 010	37 727	—	22 623	4 662	27 285
Total financial assets	69 285	155 184	20 150	244 619	69 963	120 485	11 527	201 975
Financial liabilities								
Deposits from banks	—	31 141	—	31 141	—	18 263	—	18 263
Trading and hedging portfolio liabilities	4 684	53 039	622	58 345	5 898	34 798	454	41 150
Derivative liabilities	—	53 039	622	53 661	—	34 798	454	35 252
Commodity derivatives	—	1 977	—	1 977	—	601	—	601
Credit derivatives	—	—	158	158	—	3	188	191
Equity derivatives	—	3 264	249	3 513	—	1 280	51	1 331
Foreign exchange derivatives	—	15 625	4	15 629	—	7 372	—	7 372
Interest rate derivatives	—	32 173	211	32 384	—	25 542	215	25 757
Short positions	4 684	—	—	4 684	5 898	—	—	5 898
Deposits due to customers	184	28 063	2 815	31 062	149	21 813	910	22 872
Debt securities in issue	—	4 324	35	4 359	398	4 067	484	4 949
Total financial liabilities	4 868	116 567	3 472	124 907	6 445	78 941	1 848	87 234
Non-financial assets								
Commodities	576	—	—	576	1 679	—	—	1 679
Investment properties	—	—	165	165	—	—	—	—
Non-recurring fair value measurements								
Non-current assets held for sale[1]	—	—	37	37	—	—	1 391	1 391

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

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

15.4 Fair value hierarchy (continued)

Recurring fair value measurements	31 December 2017 Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets				
Investment securities	37 737	32 841	5 946	76 524
Loans and advances to banks	—	16 713	484	17 197
Trading and hedging portfolio assets	31 379	72 194	1 824	105 397
Debt instruments	29 185	2 410	177	31 772
Derivative assets	—	58 594	546	59 140
Commodity derivatives	—	973	124	1 097
Credit derivatives	—	—	165	165
Equity derivatives	—	2 356	173	2 529
Foreign exchange derivatives	—	15 548	8	15 556
Interest rate derivatives	—	39 717	76	39 793
Equity instruments	567	—	—	567
Money market assets	1 627	11 190	1 101	13 918
Loans and advances to customers	—	22 070	4 741	26 811
Total financial assets	69 116	143 818	12 995	225 929
Financial liabilities				
Deposits from banks	—	22 031	—	22 031
Trading and hedging portfolio liabilities	8 141	51 866	944	60 951
Derivative liabilities	—	51 866	944	52 810
Commodity derivatives	—	1 164	121	1 285
Credit derivatives	—	—	148	148
Equity derivatives	—	1 965	423	2 388
Foreign exchange derivatives	—	14 500	4	14 504
Interest rate derivatives	—	34 237	248	34 485
Short positions	8 141	—	—	8 141
Deposits due to customers	203	18 676	1 572	20 451
Debt securities in issue	399	4 354	488	5 241
Total financial liabilities	8 743	96 927	3 004	108 674
Non-financial assets				
Commodities	2 051	—	—	2 051

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

15.5 Measurement of assets and liabilities categorised at Level 2

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

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Loans and advances to banks	Discounted cash flow models	Interest rate and/or money market curves
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Derivatives		
Commodity derivatives	Discounted cash flow model and/or option pricing, futures pricing and/or exchange traded fund (ETF) models	Spot price of physical or futures, interest rates and/or volatility
Credit derivatives	Discounted cash flow and/or credit default swap models	Interest rate, recovery rate, credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Spot price, interest rate, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	Spot price, interest rate and/or volatility
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rate curves and/or money market curves
Investment securities	Listed equity: market bid price Other items: discounted cash flow models	Underlying price of the market traded instruments and/or interest rate curves
Deposits from banks	Discounted cash flow models	Interest rate curves and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rate curves and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of the market traded instrument and/or interest rate curves

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

15.6 Reconciliation of Level 3 assets and liabilities

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

	30 June 2018					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	**1 824**	**4 741**	**484**	**5 946**	**—**	**12 995**
Net interest income	—	32	—	40	—	72
Gains and losses from banking and trading activities	418	(59)	8	(8)	—	359
Gains and losses from investment activities	—	—	—	10	—	10
Purchases	485	5 470	62	2 297	165	8 479
Sales	(95)	(61)	—	—	—	(156)
Movement in other comprehensive income	—	—	—	(9)	—	(9)
Transfer in/(out of) Level 3	(124)	(1 113)	—	—	—	(1 237)
Step acquisition	—	—	—	(198)	—	(198)
Closing balance at the end of the reporting period	**2 508**	**9 010**	**554**	**8 078**	**165**	**20 315**

	30 June 2017					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 505	4 890	571	1 062	222	8 250
Net interest income	—	51	—	10	—	61
Other income	—	—	—	—	9	9
Gains and losses from banking and trading activities	(2)	—	—	—	—	(2)
Gains and losses from investment activities	—	—	(51)	2	—	(49)
Purchases	534	618	—	2 806	—	3 958
Sales	(250)	(897)	(70)	—	(231)	(1 448)
Transfer in/(out of) Level 3	—	—	—	748	—	748
Closing balance at the end of the reporting period	1 787	4 662	450	4 628	—	11 527

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

15.6 Reconciliation of Level 3 assets and liabilities (continued)

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

	31 December 2017					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 505	4 890	571	1 062	222	8 250
Net interest income	—	12	—	62	—	74
Other income	—	—	—	—	37	37
Gains and losses from banking and trading activities	(635)	29	—	—	—	(606)
Gains and losses from investment activities	—	—	—	2	—	2
Purchases	1 101	1 020	88	4 789	—	6 998
Sales	(147)	(1 112)	(175)	—	(259)	(1 693)
Movement in other comprehensive income	—	—	—	31	—	31
Transfer out of Level 3	—	(98)	—	—	—	(98)
Closing balance at the end of the reporting period	1 824	4 741	484	5 946	—	12 995

	30 June 2018			
	Trading and hedging portfolio liabilities Rm	**Deposits due to customers Rm**	**Debt securities in issue Rm**	**Total liabilities at fair value Rm**
Opening balance at the beginning of the reporting period	**944**	**1 572**	**488**	**3 004**
Gains and losses from banking and trading activities	**(202)**	**—**	**—**	**(202)**
Purchases	**1**	**—**	**—**	**1**
Issues	**—**	**4 352**	**—**	**4 352**
Settlements	**—**	**(1 618)**	**—**	**(1 618)**
Transfer in/(out of) Level 3	**(121)**	**(1 491)**	**(453)**	**(2 065)**
Closing balance at the end of the reporting period	**622**	**2 815**	**35**	**3 472**

	30 June 2017			
	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	307	1 139	604	2 050
Gains and losses from banking and trading activities	147	—	—	147
Issues	—	295	—	295
Settlements	—	(540)	(120)	(660)
Transfer in/(out of) Level 3	—	16	—	16
Closing balance at the end of the reporting period	454	910	484	1 848

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

15.6 Reconciliation of Level 3 assets and liabilities (continued)

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

15.6.1 Significant transfers between levels

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

15.7 Unrealised gains and losses on Level 3 assets and liabilities

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

	30 June 2018					
	Trading and hedging portfolio assets Rm	**Loans and advances to customers Rm**	**Investment securities Rm**	**Total assets at fair value Rm**	**Trading and hedging portfolio liabilities Rm**	**Total liabilities at fair value Rm**
Gains and losses from banking and trading activities	**848**	**581**	**304**	**1 738**	**622**	**622**

	30 June 2017					
	Trading and hedging portfolio assets Rm	Loans and advances to customers[(1)] Rm	Investment securities[(2)] Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	65	771	281	1 117	136	136

	31 December 2017					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities[(2)] Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	142	761	76	979	(284)	(284)

(1) The unrealised gains and losses for loans and advances to customers for June 2017 have been restated by R728m. The gains and losses from banking and trading activities on loans and advances to customers has been restated to include the movement in the unrealised gains relating to the base rates applicable to the assets. Previously only unrealised gains relating to the unobservable credit spreads for these assets were taken into account in the disclosure.

(2) The unrealised gains and losses for Investment Securities for June and December 2017 have been restated by R243m and R27.61m respectively. The gains and losses from banking and trading activities on investment securities have been restated to include unrealised gains on unlisted Private Equity investments. Previously only unrealised gains relating to unobservable corporate bonds were taken into account in the disclosure.

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

15.8 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The assets and liabilities that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial assets and liabilities:

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

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

		30 June 2018	
		Potential effect recorded in profit or loss	**Potential effect recorded directly in equity**
	Significant unobservable parameters	**Favourable/(unfavourable) Rm**	**Favourable/(unfavourable) Rm**
Loans and advances to banks	**Absa Group Limited (AGL)/Absa funding spread**	**—/—**	**—/—**
Deposits due to customers	**AGL/Absa funding spread**	**32/(29)**	**—/—**
Investment securities	**Risk adjustment yield curves, future earnings and marketability discount**	**81/(127)**	**263/(254)**
Loans and advances to customers	**Credit spreads**	**133/(131)**	**—/—**
Other assets	**Credit spreads**	**—/—**	**—/—**
Trading and hedging portfolio assets	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**338/(338)**	**—/—**
Trading and hedging portfolio liabilities	**Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads**	**84/(84)**	**—/—**
Other liabilities	**Volatility, credit spreads**	**—/—**	**—/—**
		668/(709)	**263/(254)**

		30 June 2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(unfavourable) Rm	Favourable/(unfavourable) Rm
Deposits due to customers	AGL/Absa funding spread	—/—	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability	40/(62)	129/(125)
Loans and advances to customers	Credit spreads	90/(88)	—/—
Other assets	Credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	153/(153)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	39/(39)	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—
		322/(342)	129/(125)

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

15.8 Sensitivity analysis of valuations using unobservable inputs (continued)

		31 December 2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(unfavourable) Rm	Favourable/(unfavourable) Rm
Loans and advances to banks	AGL/Absa funding spread	17/(17)	—/—
Deposits due to customers	AGL/Absa funding spread	13/(12)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability	59/(59)	253/(240)
Loans and advances to customers	Credit spreads	60/(69)	—/—
Other assets	Volatility, credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	33/(33)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	17/(17)	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—
		199/(207)	253/(240)

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

15.9 Measurement of assets and liabilities at Level 3

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

Category of asset/ liability	Valuation techniques applied	Significant unobservable inputs	30 June 2018	30 June 2017	31 December 2017
			Range of estimates utilised for the unobservable inputs		
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0.04% to 1.97%**	(0.1%) to 2.10%	0.3% to 2.3%
Investment securities	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Marketability discounts and/or comparator multiples	**Discount rate of 7.75% to 8%**	Discount rate of 13%, comparator multiples between 5 and 10.5	Discount rate of 7% and 9%, comparator multiples between 5 and 10.5
Trading and hedging portfolio assets and liabilities					
Debt instruments	Discounted cash flow models	Credit spreads	**0.15% to 8.2%**	0.007% to 27.5%	3% to 15%
Derivative assets					
Credit derivatives[1]	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	**0.03%-14%, 15%-76%, 60%-90%**	(0.3%) to 9%, 15% to 76%, 54% 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)	**14.3% to 41.9%**	16.6% to 21%	15.09% to 64.67%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**3% to 45%**	(12.2%) to 3.27%	(28%) to 29.5%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (less than 1 year), repurchase agreement curves (less than 1 year), funding spreads	**0.21% to 7.2%**	0.1% to 8.33%	0.25% to 10.69%
Deposits due to customers	Discounted cash flow models	The Bank's funding spreads (greater than 5 years)	**1.3% to 1.9%**	(0.1%) to 2.10%	0.2% to 1.9%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**1.3% to 1.9%**	(0.1%) to 1.55%	0.2% to 1.9%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of	**1 to 6 years**	1 to 10 years	1 to 6 years
		Annual selling price escalations	**0% to 6%**	1% to 6%	6%
		Annual rental escalations	**n/a**	1% to 7%	6%
		Expense ratios	**n/a**	25% to 50%	n/a
		Vacancy rates	**n/a**	1% to 7%	n/a
		Income capitalisation rates	**7.5% to 8%**	10% to 11%	7.75% to 8%
		Risk adjusted discount rates	**11% to 15%**	14%	11% to 15%

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

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

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

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

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

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

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

	30 June 2018 Rm	30 June 2017 Rm	31 December 2017 Rm
Opening balance at the beginning of the reporting period	**(134)**	(139)	(139)
New transactions	—	17	(27)
Amounts recognised in profit or loss during the reporting period	—	(18)	32
Closing balance at the end of the reporting period	**(134)**	(140)	(134)

15.11 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements during the current and previous reporting periods.

16. Reporting changes overview

Overview of reporting changes

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

- The implementation of new IFRS:

  - IFRS 9 – The Bank has applied IFRS 9 on a retrospective basis, with an adjustment to retained earnings and other reserves as at 1 January 2018. As permitted under IFRS 9, the Bank has elected not to restate comparative periods.[1]
  - IFRS 15 – The Bank has elected to adopt IFRS 15 using the cumulative effect method, under which the comparative information has not been restated.

  All other amendments to IFRS effective for the current reporting period have had no impact on the Bank's reported results[2];

- Changes in internal accounting policies:
  - The presentation of interest income and interest expense

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

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

	Share capital and share premium Rm	Preference share capital and share premium Rm	Additional Tier 1 capital Rm	Retained earnings Rm	Other reserves Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest-ordinary shares Rm	Total equity Rm
Balance reported as at 31 December 2017	37 183	4 644	1 500	37 855	4 145	85 327	2	85 329
Impact of adopting IFRS 9	—	—	—	(3 103)	(204)	(3 307)	—	(3 307)
Impact of adopting IFRS 15	—	—	—	(44)	—	(44)	—	(44)
Adjusted balance as at 1 January 2018	37 183	4 644	1 500	34 708	3 941	81 976	2	81 978

[1] Note that only the first bullet relating to the implementation of IFRS 9, as indicated, has been audited.
[2] The amendments which are effective in the current reporting period relate to IAS 40 *Investment Property*, IAS 28 *Investment in Associates and Joint Ventures*, as well as IFRS 2 Share-based Payment Transactions (IFRS 2). The changes to IFRS 2 were however early adopted by the Bank in 2016. A new IFRIC Interpretation, IFRIC 22 Foreign Currency Transactions and Advance Consideration is effective in the current reporting period.
Audited

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments

Basis of presentation

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

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

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

All information marked as audited in this section has been audited by EY who expressed an unmodified opinion thereon in terms of ISA 805 Special Considerations – Audits of single financial statements and specific elements, accounts or items of financial statement. A copy of the auditor's report on the audited sections of note 16 is available for inspection at the Bank's registered office.

16.1.1 Overview and highlights

16.1.1.1 The impact of IFRS 9 on the Bank

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

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

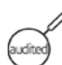
Whilst the adoption of a revised classification and measurement framework has had a less material impact on the Bank, application of the IFRS 9 ECL methodology has affected both the financial and regulatory capital position, and can be reasonably expected to impact the net profit or loss of the Bank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

In accordance with the transition options allowable under IFRS 9, the Bank will continue to apply the hedge accounting requirements set out in IAS 39 *Financial Instruments: Recognition and Measurement* (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 International Accounting Standards Board's (IASB) Dynamic Risk Management project in respect of macro hedging. The Bank has accordingly elected not to adopt the revised IFRS 9 hedge requirements, but will adopt the revised disclosures set out in the amendments to IFRS 7, which include those relating to hedge accounting.

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

A portfolio of South African consumer price index (CPI) linked investment securities have been reclassified from available-for-sale under IAS 39, to amortised cost. 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 (OCI), to the extent that they relate to changes in own credit risk. The Bank early adopted this requirement in 2017, and recognised a debit of **R147m** in OCI.

16.1.1.3 The impact of adopting a revised ECL methodology[(1)]



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

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

(1) Note that only the first paragraph of 16.1.1.3 has been audited.

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments (continued)

16.1.1 Overview and highlights (continued)

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

audited

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

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

- An increase of **R4 314m (27%)** in the Bank's ECL provisions (including interest in suspense), from **R15 902m** as at 31 December 2017 to **R20 216m** as at 1 January 2018. Refer to section 16.1.3.1.[1]
- A net decrease in retained earnings of **R3 103m** (after a taxation adjustment of **R1 211m**) together with a net decrease in other reserves of **R204m** which includes the effects of reclassifying investment securities from available-for-sale to amortised cost. Refer to 16.1.3.[1]
- The Bank remains strongly capitalised notwithstanding a **R1 558m** decrease in CET 1 and a **16 bps** decrease in the CET 1 ratio. The decrease in the CET 1 ratio is before the application of the transitional arrangement which defers the impact over three years. This deferral reduces the impact on the CET 1 ratio on the date of initial adoption to **4 bps**. Refer to 16.1.5.1.

16.1.1.5 Condensed consolidated statement of financial position for Absa Bank Limited

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

		Impact of IFRS 9		
	31 December 2017 Rm	Classification and measurement[2] Rm	IFRS 9 ECL[3] Rm	1 January 2018 Rm
Assets				
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)	(3 827)	656 645
Investments in associates and joint ventures[4]	1 235	—	(73)	1 162
Other assets[5]	206 890	55	792	207 737
Total assets	988 358	(160)	(3 134)	985 064
Liabilities				
Trading portfolio liabilities	59 834	(20)	—	59 814
Provisions[6]	2 073	—	452	2 525
Other liabilities[5]	841 122	—	(419)	840 703
Total liabilities	903 029	(20)	33	903 042
Equity				
Capital and reserves				
Attributable to equity holders:				
Ordinary share capital	304	—	—	304
Ordinary share premium	36 879	—	—	36 879
Preference share capital	1	—	—	1
Preference share premium	4 643	—	—	4 643
Additional Tier 1 capital	1 500	—	—	1 500
Retained earnings	37 855	—	(3 103)	34 752
Other reserves	4 145	(140)	(64)	3 941
	85 327	(140)	(3 167)	82 020
Non-controlling interest – ordinary shares	2	—	—	2
Total equity	85 329	(140)	(3 167)	82 022
Total liabilities and equity	988 358	(160)	(3 134)	985 064

[1] Note that only the first two bullet points, as indicated, have been audited.
[2] 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.
[3] A further analysis of the ECL impact per segment has been disclosed in 16.1.3.1.
[4] Reflects the change in the Bank's share of net assets from associates and joint ventures due to them adopting IFRS 9.
[5] Relates to the adjustments to deferred tax and current tax assets.
[6] The increase in the carrying value of provisions relates to the expected credit losses recognised on financial guarantee contracts, letters of credit and undrawn facilities (to the extent that it exceeds the gross carrying amount of loans and advances to customers).

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments (continued)

16.1.2 Key elements of the revised impairment model under IFRS 9

audited

16.1.2.1 Introduction

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

The stage allocation is required to be performed as follows:

- **Stage 1:** Stage 1 assets comprise exposures that are performing in line with expectations at origination. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1.
- **Stage 2:** Exposures are required to be classified within stage 2 when a significant increase in credit risk has been observed. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Bank's credit risk management practices. These are discussed further in 16.1.2.2. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk. The definition of high risk is from a credit management perspective central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary.
- **Stage 3:** Credit exposures are classified within stage 3, when they are regarded as being credit impaired, which aligns to the bank's regulatory definition of default. This definition is discussed further in 16.1.2.3. Defaulted assets are considered cured once the original default trigger event no longer applies and both internal and regulatory probation periods have been met. In the Retail portfolio, assets will move from stage 3 to stage 2, but not directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1. Purchased or originated credit impaired lending facilities are classified on origination within stage 3.

audited

16.1.2.2 Definition of a significant increase in credit risk

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

Key drivers of a significant increase in credit risk include:

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

audited

16.1.2.3 Definition of credit impaired assets

Assets classified within stage 3 are considered to be credit impaired, which, as discussed in 16.1.2.1 applies when an exposure is in default.

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

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

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 12 consecutive months of performance, in order to be considered to have been cured from default.

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments (continued)

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

audited

16.1.2.4 Impact of IFRS 9 on interest recognition

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

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

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

In principle, the approach applied by the Bank to recognise interest on stage 3 assets under IFRS 9, is not dissimilar from the manner in which the Bank calculated the interest on specifically impaired financial assets under IAS 39. The key departure from IAS 39 is however that IFRS 9 requires the balance of interest in suspense to be presented as part of both the gross carrying value of the exposure and the related ECL allowance. Under IAS 39, such amount was excluded from both balances. Therefore, this constitutes a change to the presentation of the gross carrying value and ECL allowance, although it has no impact on the net carrying value of the exposure. Had this revised presentation requirement been applied as at 31 December 2017, the Bank would have recognised a larger gross carrying value, and larger impairment allowance of **R2 279m** (refer to section 16.1.3.1. for more detail).

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

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments (continued)

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

16.1.3.1 Summary of ECL by segment and class of credit exposure

audited

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

	IAS 39 – 31 December 2017				
	Performing provision Rm	Non-performing portfolio Rm	Total IAS 39 (excluding IIS) Rm	Interest in suspense Rm	Total IAS 39 (including IIS) Rm
Retail and Business Banking South Africa	3 356	8 678	12 034	2 131	14 165
Retail Banking	2 583	7 582	10 165	1 082	11 247
Credit cards	578	2 626	3 204	—	3 204
Instalment credit agreements	703	1 112	1 815	93	1 908
Loans to associates and joint ventures	—	—	—	—	—
Mortgages	1 124	2 056	3 180	822	4 002
Other loans and advances	—	—	—	—	—
Overdrafts	51	236	287	69	356
Personal and term loans	127	1 552	1 679	98	1 777
Business Banking South Africa	773	1 096	1 869	1 049	2 918
CIB South Africa	559	832	1 391	123	1 514
Wealth	14	174	188	25	213
Head Office, Treasury and other operations in South Africa	10	—	10	—	10
Loans and advances	10	—	10	—	10
Reclassification to provisions	—	—	—	—	—
Loans and advances to customers	3 939	9 684	13 623	2 279	15 902
Loans and advances to banks	—	—	—	—	—
Investment securities	—	—	—	—	—
Total ECL allowance: On-statement of financial position	3 939	9 684	13 623	2 279	15 902
Off-statement of financial position exposures					
Undrawn committed facilities[1]	—	—	—	—	—
Financial guarantees	—	—	—	—	—
Letters of credit	—	—	—	—	—
Total ECL allowance: Off-statement of financial position	—	—	—	—	—
Total ECL allowance	3 939	9 684	13 623	2 279	15 902

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

IFRS 9 – 1 January 2018

Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total IFRS 9 provision (including IIS) Rm	IFRS 9 transition adjustment Rm
2 193	2 929	12 927	18 049	3 884
1 553	2 621	10 305	14 479	3 232
456	1 021	2 759	4 236	1 032
539	610	1 431	2 580	672
2	—	—	2	2
210	364	4 392	4 966	964
8	18	8	34	34
44	127	240	411	55
294	481	1 475	2 250	473
640	308	2 622	3 570	652
482	384	955	1 821	307
27	6	233	266	53
(188)	(172)	(47)	(407)	(417)
8	11	—	19	9
(196)	(183)	(47)	(426)	(426)
2 514	3 147	14 068	19 729	3 827
4	22	—	26	26
9	—	—	9	9
2 527	3 169	14 068	19 764	3 862
196	183	47	426	426
15	8	—	23	23
1	2	—	3	3
212	193	47	452	452
2 739	3 362	14 115	20 216	4 314

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments (continued)

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

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

The 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 has been included in the opening impairment allowance, with an equivalent increase in the gross carrying value of the financial assets.
- **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.
- **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 key differences, include the application of a 90 day backstop, as well as a widening of the watch list categories included within stage 3, relative to those that were specifically impaired under IAS 39. Further, all debt counselling and performing forbearance accounts are included in stage 3, but were not previously classified as NPL.
- **Off-balance sheet exposures** – The credit risk inherent in the undrawn component of lending facilities are managed and monitored by the Bank together with the drawn component as a single exposure. The exposure at default (EAD) on the entire facility is therefore used to calculate the ECL on loans and advances. 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. The Bank presents the ECL on financial guarantees and letters of credit as a provision on the statement of financial position.
- **The calculation of ECL on other assets** – Cash reserves with the South African Reserve Bank and investment securities are included within the scope of IFRS 9 ECL and have contributed to the Bank's total ECL allowance.

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16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 Financial Instruments (continued)

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

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

audited

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

	1 January 2018					
	Stage 1			Stage 2		
	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %
RBB South Africa	381 576	2 193	0.57	33 192	2 929	8.82
Retail Banking South Africa	326 985	1 553	0.47	26 284	2 621	9.97
Credit cards	23 116	456	1.97	3 122	1 021	32.70
Instalment credit agreements	67 498	539	0.80	5 217	610	11.69
Loans to associates and joint ventures	23 037	2	0.01	—	—	—
Mortgages	192 272	210	0.11	14 290	364	2.55
Other loans and advances	2 439	8	0.33	345	18	5.22
Overdrafts	4 362	44	1.01	1 024	127	12.40
Personal and term loans	14 261	294	2.06	2 286	481	21.04
Business Banking South Africa	54 591	640	1.17	6 908	308	4.46
CIB South Africa[1]	183 130	482	0.26	35 232	384	1.09
Wealth	4 658	27	0.58	229	6	2.62
Head Office, Treasury and other operations in South Africa	218	(188)	—	769	(172)	—
Loans and advances	218	8	3.67	769	11	1.43
Reclassification to provision	—	(196)	—	—	(183)	—
Loans and advances to customers	569 582	2 514	0.44	69 422	3 147	4.53
Loans and advances to banks[2]	41 289	4	0.01	1 928	22	1.14
Total Loans and advances	610 871	2 518	0.41	71 350	3 169	4.44

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

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

Stage 3			Total		
Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %
34 897	12 927	36.85	449 665	18 049	4.01
29 227	10 305	35.04	382 496	14 479	3.79
4 233	2 759	65.18	30 471	4 236	13.90
4 167	1 431	34.34	76 882	2 580	3.36
—	—	—	23 037	2	0.01
18 009	4 392	24.39	224 571	4 966	2.21
11	8	72.73	2 795	34	1.22
416	240	57.69	5 802	411	7.08
2 391	1 475	61.69	18 938	2 250	11.88
5 670	2 622	46.24	67 169	3 570	5.31
2 143	955	44.56	220 505	1 821	0.83
330	233	70.61	5 217	266	5.10
—	(47)	—	987	(407)	—
—	—	—	987	19	1.93
—	(47)	—	—	(426)	—
37 370	14 068	37.65	676 374	19 729	2.92
—	—	—	43 217	26	0.06
37 370	14 068	37.65	719 591	19 755	2.75

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 (continued)

16.1.5 The impact of IFRS 9 on regulatory capital

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

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

	31 December 2017							1 January 2018	
Key capital metrics	(IAS 39)	Initial recognition of ECL	Release of EL shortfall	Deferred tax (RWA)	Impact on other reserves	Release of RWA on non-performing loans	Eligible general provisions (Tier 2)	**Fully loaded capital position**	**Transitional capital position**
Note		16.1.5.1.1	16.1.5.1.2	16.1.5.1.3	16.1.5.1.4	16.1.5.1.5	16.1.5.1.6		
Capital supply (Rm)									
Common Equity Tier 1	72 643	(3 103)	1 749		(204)			**71 085**	**72 253**
Tier 1 capital	76 454	(3 103)	1 749		(204)			**74 896**	**76 065**
Total capital	91 478	(3 103)	1 749		(204)		53	**89 973**	**91 102**
Risk weighted assets	542 199			2 331		(7 421)		**537 109**	**540 927**
Capital ratios (%)[1]									
Common Equity Tier 1	13.4	(0.6)	0.3	(0.1)	(0.0)	0.2		**13.2**	**13.4**
Tier 1	14.1	(0.6)	0.3	(0.1)	(0.0)	0.2		**13.9**	**14.1**
Total capital	16.9	(0.6)	0.3	(0.1)	(0.0)	0.2	—	**16.7**	**16.8**
Leverage ratio									
Leverage exposure	1 153 338	(4 314)	1 749	1 266	(259)	—	—	**1 151 780**	**1 152 949**
Leverage ratio (%)	6.6	(0.2)	0.1	(0.0)	(0.0)	—	—	**6.5**	**6.6**

16.1.5.1.1 Increase in ECL provision under IFRS 9

The adoption of the revised IFRS 9 ECL model has reduced shareholders equity by **R4 314m** which is partially offset by the recognition of a net tax credit within retained income of **R1 211m**. The tax credit includes current and deferred tax.

16.1.5.1.2 Release of Expected Loss (EL) shortfall to credit provisions

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

16.1.5.1.3 Recognition of a higher deferred tax asset balance

As discussed in 16.1.5.1.1, the carrying value of the Bank's deferred tax asset balance has increased, driven by an increase in the ECL provision. The reclassification of investment securities, as discussed below in 16.1.5.1.4, resulted in a reversal of a deferred tax liability. The net effect has been an increase in risk weighted assets (RWA) of **R2 331m**, and accordingly, a decrease in the CET 1 ratio.

16.1.5.1.4 Impact on other reserves under IFRS 9

Other reserves decreased by **R204m** (net of deferred tax) primarily as a result of a reclassification from available-for-sale to amortised cost of a small portfolio of South African CPI linked investments so as to reflect the Bank's business model of holding the instruments to collect contractual cash flows.

[1] The Bank's capital ratios decreased as follows as a result of the adoption of IFRS 9:
- CET 1 ratio decreased by 16 bps on a fully loaded basis and 4 bps after phase-in.
- Tier 1 ratio decreased by 16 bps on a fully loaded basis and 4 bps after phase-in.
- Total Capital ratio decreased by 12 bps on a fully loaded basis and 3 bps after phase-in.

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 (continued)

16.1.5 The impact of IFRS 9 on regulatory capital

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

16.1.5.1.5 Release of RWA on non-performing loans

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

16.1.5.1.6 Tier 2 eligible provisions

In respect of the Bank's standardised portfolio, the IFRS 9 general provision (stage 1 and stage 2) is added back to Tier 2 capital, subject to a limit of 1.25% of the standardised credit RWA. This has resulted in an increase in total capital of **R53m**.

16.1.5.1.7 Impact of IFRS 9 ECL on leverage ratio

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

audited

16.1.6 Drivers of the impairment charge under IFRS 9

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

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

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

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

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

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

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16.1.7. Impact of IFRS 9 on the Bank's tax position

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

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

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 (continued)

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16.1.8. Incorporation of forward-looking information in their 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. IFRS 9 requires the inclusion of point-in-time forward-looking assumptions, and in respect of which the application of hindsight is prohibited. The scenarios presented below are therefore reflective of the Bank's view of forecast economic conditions as at the date of initial adoption.

16.1.8.1 Base scenario

Global

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

South Africa

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

Rest of Africa

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

16.1.8.2 Mild upside scenario: Stronger near-term growth

Global

The global economy grows faster than expected, and is supported by fiscal stimulus in the United States (US), and a quick negotiation of Britain's exit (Brexit) from the European Union (EU), which boosts global business confidence. Commodity prices rise sharply relative to the base scenario and the global financial markets improve. Globally, investor and consumer sentiment rises, due to the 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 positive toward emerging markets. Inflation moves lower on the back of the stronger rand and continued moderation in food price inflation. Falling inflation and diminished risk at a domestic level gives the South African Reserve Bank room to provide stimulus to the economy by cutting interest rates to support the economy. The cumulative interest rate cuts, higher commodity prices and stronger global growth boost South Africa's GDP growth.

Rest of Africa

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

16.1.8.3 Mild downside scenario: Moderate recession

Global

The US economy slows relative to baseline due to delays in implementing the stimulus package promised before the elections. Business and consumer confidence falls in the US, followed by stock market indices. It is assumed Brexit negotiations take longer than expected, increasing uncertainty on financial markets, weighing on business and consumer confidence. As a result, 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 result in its GDP growth slowing. Commodity prices fall on the back of weaker global growth.

16. Reporting changes overview (continued)
16.1 Initial adoption of IFRS 9 (continued)
16.1.8 Incorporation of forward-looking information in their IFRS 9 modelling (continued)
16.1.8.3 Mild downside scenario: Moderate recession (S3) (continued)

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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. Ratings agencies downgrade South Africa's sovereign rating further, resulting in capital outflow and rand weakness. The weakening of the rand drives inflation above the SARB's 3%-6% target range in 2018-2019, resulting in the SARB hiking the repurchase rate. The yield curve moves higher in line with the selling of South African bonds and higher short-term rates. Economic performance recovers slowly from 2020 as the weaker exchange rate builds some export competitiveness aiding in arresting some of the rand's decline, and spending power returns slowly to consumers as inflation abates in the middle of 2020.

Rest of Africa

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

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16.1.9 Critical judgements applied in implementing the new IFRS 9 ECL framework
16.1.9.1 Determination of the lifetime of a credit exposure

The choice of initial recognition and asset duration (lifetime) is another critical judgement 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 (which would typically be overnight). For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

16.1.9.2 IFRS 9 ECL model parameters

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

The IFRS 9 models make use of three parameters, namely PD, LGD and EAD in the calculation of the ECL allowance.

The PD is the likelihood of default assessed on the prevailing economic conditions at the reporting date (that is, at a point in time), adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default; it will not equate to a long run average. For IFRS 9 purposes, two distinct PD estimates are required:

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

The general approach for the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates.

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

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

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 (continued)

16.1.9 Critical judgements applied in implementing the new IFRS 9 ECL framework (continued)

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16.1.9.2 IFRS 9 ECL model parameters (continued)

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

Models are validated with the same rigour applied to regulatory models. Testing procedures assess the quality of data, conceptual soundness and performance of models, model implementation and compliance with accounting requirements.

16.1.9.3 Interaction of the IFRS 9 ECL models with the Basel Framework

The Bank applies both the standardised (TSA) and advanced internal ratings-based (AIRB) approaches to calculate its regulatory capital requirements relating to credit risk. While the Bank's operations across the rest of Africa as well as the Edcon portfolio are subject to the TSA approach, the remaining portfolios are subject to the AIRB approach, which applies the Bank's own measures of PD, EAD and LGD. In designing IFRS 9 compliant ECL models, the Bank recognised that it could leverage the data used by the regulatory models to model IFRS 9 ECL and encourage easier reconciliation of inputs for capital requirement and impairment calculations.

Existing Basel models were used as a starting point to develop IFRS 9 ECL parameters. The following are key differences to the regulatory capital parameters:

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

16.1.9.4 Retail ECL model parameters

The Retail PD model consists of three elements, namely:

- a term structure, capturing typical default behaviour by the months since observation;
- a behavioural model which incorporates client level risk characteristics; and
- a macroeconomic model that incorporates forward looking macroeconomic scenarios.

A further adjustment is made to incorporate an account's propensity to attrite. The PD model is used to identify accounts that have increased significantly in credit risk since origination. The final PD is a probability weighted average of Bank's three forecasted macroeconomic scenarios.

The LGD model estimates the loss that can be expected if an account defaults. The regulatory LGD model is adjusted for:

- forward-looking macroeconomic adjustments; and
- future expected changes in collateral and EAD.

The LGD model further incorporates the losses associated with re-defaults for lifetime losses.

16. Reporting changes overview (continued)
16.1 Initial adoption of IFRS 9 (continued)
16.1.9 Critical judgements applied in implementing the new IFRS 9 ECL framework (continued)

audited

16.1.9.5 Wholesale ECL model parameters

Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

The main adjustments to PD comprise:

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven-year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.

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16.1.10 The key elements of classification and measurement requirements under IFRS 9

IFRS 9 will require financial assets to be classified on the basis of two criteria:

– The business model within which financial assets are managed; and

– Their contractual cash flow characteristics, and specifically whether the cash flows represent Solely Payment of Principal and Interest (SPPI).

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets to collect contractual cash flows, and their contractual cash flows meet the SPPI requirements.

Financial assets will be measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows as well as selling financial assets and their contractual cash flows meet the SPPI requirements.

Other financial assets are required to be measured at FVPL if they are held for the purposes of trading, if their contractual cash flows do not meet the SPPI criterion, or if they are managed on a fair value basis and the Bank maximises cash flows through sale. IFRS 9 allows an entity to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (i.e. an accounting mismatch).

An entity is permitted to make an irrevocable election for non-traded equity investments to be measured at FVOCI, in which case dividends are recognised in profit or loss, but other gains or losses remain in equity and are not reclassified to profit or loss upon derecognition.

The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at FVPTL. Gains and losses on such financial liabilities are required to be presented in OCI, to the extent that they relate to changes in own credit risk. The Bank early adopted this requirement in 2017.

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 (continued)

16.1.10 The key elements of classification and measurement requirements under IFRS 9 (continued)

16.1.10.1 Classification and measurement impact

The following table presents the changes in the classification of financial assets as at 1 January 2018, by showing the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 and the changes in the net carrying amounts, which includes the effects of ECL:

	IAS 39				IFRS 9	
Assets	Measurement category	Carrying amount Rm	Reclassification Rm	Remeasurement Rm	Measurement category	Carrying amount Rm
Cash, cash balances and balances with central banks	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
			19 358	—	Mandatory at FVTPL	19 358
	Amortised cost – designated	633 635	—	(3 827)	Amortised cost – designated	629 808
	Amortised cost – hedged items	46	—	—	Amortised cost – hedged items	46
		660 492	(20)	(3 827)		656 645
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	719	Assets outside the scope of IFRS 9	23 735
Total assets		988 358	(160)	(3 134)		985 064

16. Reporting changes overview (continued)

16.1 Initial adoption of IFRS 9 (continued)

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16.1.10 The key elements of classification and measurement requirements under IFRS 9 (continued)

16.1.10.1 Classification and measurement impact (continued)

Adoption of the new classification and measurement rules will require a limited number of reclassifications to be effected as at 1 January 2018, but will not require a significant adjustment to the gross carrying values of the Bank's financial assets and financial liabilities. Initial application of the new requirements resulted in a decrease in reserves of **R140m** (after tax) as at 1 January 2018. Explanations of the reclassifications that will be required are provided below:

- A portfolio of consumer price index (CPI) linked investment securities within Treasury, have been reclassified from available-for-sale under IAS 39, to amortised cost in terms of the 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 619m**, and a fair value loss of **R74m** would have been recognised in OCI during the reporting period.
- Certain financial assets, including loans and advances in CIB South Africa and investments in Wealth were designated at FVTPL under IAS 39 as they were managed on a fair value basis. In terms of IFRS 9, these assets are now required to be measured at FVTPL, and noted as mandatory designations.
- Debt securities are held by Treasury in a separate portfolio to meet everyday liquidity needs. These were classified as available-for-sale under IAS 39. Treasury seeks to minimise the cost of managing liquidity needs and therefore actively manages the return on the portfolio. The return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The business model may result in sales activity and these instruments have therefore been classified at FVOCI under IFRS 9.
- Commodity-linked debt instruments within CIB South Africa that were previously bifurcated and separately recognised as a loan at amortised cost and a derivative. These are now classified as FVTPL as their cash flows do not consist of SPPI.
- In October 2017, the IASB issued an amendment to IFRS 9 *Prepayment Features with Negative Compensation*. Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment clarifies how a company would classify and measure a debt instrument if the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Under the amendments, the sign of the prepayment amount is not relevant. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. This amendment is effective on 1 January 2019 and is not expected to have a significant impact on the Bank.

16.1.11 Governance

16.1.11.1 Implementation of IFRS 9

The implementation of IFRS 9 has been completed through a jointly accountable risk and finance governance programme, with representation from all impacted departments. A parallel run of IFRS 9 and IAS 39 was initiated in February 2017, providing oversight for both IAS 39 and IFRS 9 impairment results. This included model, process and output validation, testing, calibration and analysis. During the course of the programme there have been regular updates provided to the Bank Audit Compliance Committee (GACC), who have approved key judgements and decisions.

16.1.11.2 Ongoing governance of IFRS 9

The Bank's basic risk management framework has not been altered due to the introduction of IFRS 9. The Bank Credit Impairment Committee (GCIC) remains the key management committee responsible for the governance of impairments as well as the oversight of the Bank's impairment position. The overall credit risk appetite also remains unchanged with all the controls in place in the business for the extension and subsequent monitoring of credit exposure. It has, however, been necessary to develop new processes and related controls to support the calculation of the Bank's ECL. In particular, new governance processes have been established to review and approve the forward-looking macroeconomic assumptions.

16. Reporting changes overview (continued)

16.2 Adoption of IFRS 15 *Revenue from Contracts with Customers* (IFRS 15)

IFRS 15 is effective from 1 January 2018, and replaces the previous revenue recognition standards and interpretations, including IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 establishes a single approach for the recognition and measurement of revenue, and requires an entity to recognise revenue as performance obligations are satisfied. It applies to all contracts with customers except for transactions specifically scoped out, which includes interest, dividends, leases, and insurance contracts. The adoption of IFRS 15 has resulted in a change in the accounting treatment of a loyalty programme which resulted in a reduction in retained earnings of **R44m**, net of tax.

16.3 Accounting policy amendments

16.3.1 The presentation of net interest income

As a consequence of IFRS 9, an amendment was made to IAS 1 *Presentation of Financial Statements*, which is effective from 1 January 2018. The amendment requires interest revenue, which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. This only includes interest earned on financial assets measured at amortised cost or at FVOCI, subject to the effects of applying hedge accounting to derivatives in designated hedge relationships. In compliance with this amendment the Bank has separately presented its effective interest income within profit or loss, but elect to present all interest which fall outside the aforementioned 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.

16.4 Changes to reportable segments and business portfolios

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

- The Bank refined its Treasury allocation methodology, resulting in the restatement of net interest income, cash and cash equivalents and investment securities between and within segments.
- The Bank continued refining its cost allocation methodology, resulting in the restatement of operating expenses between and within segments.
- CIB South Africa review of customer portfolio to be industry specific resulted in a R16bn move of loans and advances to customers from Corporate to Investment Banking.
- The South Africa Banking segment (which consisted of RBB South Africa and CIB South Africa in aggregate) has been removed in the Bank's segmental disclosures to align with how the banking operations are now managed.

Administration and contact details

for the reporting period ended

Absa Bank Limited

Incorporated in the Republic of South Africa

Registration number: 1986/004794/06

Authorised financial services and registered credit provider (NCRCP7)

JSE share code: ABSP

ISIN: ZAE000079810

Registered office

7th Floor, Absa Towers West
15 Troye Street, Johannesburg, 2001
PO Box 7735, Johannesburg, 2000

Switchboard: +27 11 350 4000

www.absa.africa

Head Investor Relations

Alan Hartdegen

Telephone: +27 11 350 2598

Company Secretary

Nadine Drutman

Telephone: +27 11 350 5347

Head of Financial Control

John Annandale

Telephone: +27 11 350 3946

Queries

Please direct investor relations queries to
IR@absa.co.za

Please direct media queries to
groupmedia@absa.africa

Please direct queries relating to your Barclays Africa Group shares to
questions@computershare.co.za

Please direct other queries regarding the Bank to
groupsec@absa.co.za

Transfer secretary

Computershare Investor Services (Pty) Ltd

Telephone: +27 11 370 5000

computershare.com/za/

Sponsors

Absa Bank Limited (Corporate and Investment Bank)

Telephone: +27 11 895 6843

equitysponsor@absa.africa

Auditors

Ernst & Young Inc.

Telephone: +27 11 772 3000

ey.com/ZA/en/Home

www.absa.africa