Absa Group Limited

Financial results for the reporting period ended 31 December 2018

Report overview

This financial results booklet for the reporting period ended 31 December 2018 is one of the publications released at the time of the Absa Group Limited's (Absa Group or the Group) financial results announcement made on 11 March 2019. It is supplemented with additional disclosures, including the Group's JSE SENS announcement and the annual financial results presentation. The full set of documents is available on www.absa.africa

1. Reportable segment changes

- The South Africa Banking segment has been removed in the Group's segmental disclosures to align with how the banking operations are now managed.
- Rest of Africa (RoA) Banking was renamed to Absa Regional Operations (ARO) in order to align to the new Absa Group brand.

2. Business portfolio changes

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

- The Group refined its treasury allocation methodology, resulting in the restatement of net interest income, gains and losses from banking and trading activities, cash and cash equivalents and investment securities between and within segments.
- The Group continued refining its cost allocation methodology, resulting in the restatement of operating expenses between and within segments.
- Corporate and Investment Banking South Africa (CIB SA) aligned its customer portfolio to be more industry specific which resulted in reallocation of loans and advances to customers from Corporate, to Investment Banking.

3. Accounting policy changes

The Group changed its accounting policies relating to the valuation of policyholder liabilities under the Group's life insurance contracts within WIMI, as well as the presentation of interest income and interest expense. Refer to page 179 to 181 for additional information.

4. Correction of prior period error

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

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

New IFRSs have been adopted of which IFRS 9 Financial Instruments (IFRS9) and IFRS 15 Revenue from Contracts with Customers (IFRS 15) have the most significant impact on the Group's results. Refer to page 6 to 36 for more information.

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

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

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

Together with the GACC, the Board has reviewed and approved the reporting changes contained in the announcements released on 11 March 2019. The GACC and the Board are satisfied that the changes disclosed in the Financial result in fair presentation of the consolidated financial position and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides.

Absa Group Limited (1986/003934/06)

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

Financial results for the reporting period ended 31 December 2018

Date of publication: 11 March 2019

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

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

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Dividend per share

Final	620 cents
Interim	490 cents

Key dates

Financial year-end	31 December 2018
Dividend payment:	15 April 2019
Annual general meeting	04 June 2019

Shareholder communications

Shareholder information	page 207
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Icons used with this report

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

About Absa Group

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

Normalised **headline earnings increased by 3%** (CCY **+4%**) to R16 128m and headline earnings per share increased by 4% as pre-provision profits increased by 1% (CCY +2%) and impairments were 10% lower.

Normalised return on equity of **16.8% increased** from the prior year (16.5%) and has been supported by improved returns from ARO as well as lower capital and reserves from the impact of IFRS 9 adoption.

Good **growth** of R103bn **in gross customer advances 13%** (CCY +12%) was supported by strong growth in CIB SA (+25%) and ARO (CCY +12%); RBB SA advances growth of 6% is showing improving trends following growth in production across most of the product houses and improving market share.

Credit loss ratio **reduced from 0.87% to 0.73%** reflecting the impact of the reclassification of suspended interest on cured accounts from income to impairments, as well as lower charges across all business units except for CIB SA due to single name impairments.

Income **growth of 4%** has improved slightly despite the adverse impact of IFRS 9 and lower prevailing interest rates across our ARO markets on the net interest margin.

Low **earnings growth of 3%** in SA businesses while earnings outside of South Africa (SA) showed stronger growth (CCY +10%) and provided portfolio diversification. ARO has shown the highest growth (CCY +13%) mainly from lower impairments with Retail and Business Banking (RBB) SA earnings up 2%, WIMI earnings 3% higher and with CIB SA earnings down 1% mainly reflecting the impact of single name credit impairments.

Negative **Jaws of (1.7%)** reflects operating cost growth of 5% which is faster than income growth. Normalised cost-to-income ratio has increased to 57.7% from 56.7%.

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

A strategy for **growth**

Three strategic **commitments**

- Growing our portfolio while contributing to the growth of the markets we serve.
- Reducing costs by creating a more efficient and effective organisation.
- Delivering top, sustainable returns that maximise long-term value.

Three strategic **targets**

- To grow revenue faster, on average, than the SA bank sector from 2019 to 2021, with an improving trend over time and within appropriate risk appetite parameters.
- To consistently reduce our normalised cost-to-income ratio to reach the low 50s by 2021.
- To achieve a normalised group return on equity of 18% to 20% by 2021, while maintaining an unchanged dividend policy.

Normalised Group performance

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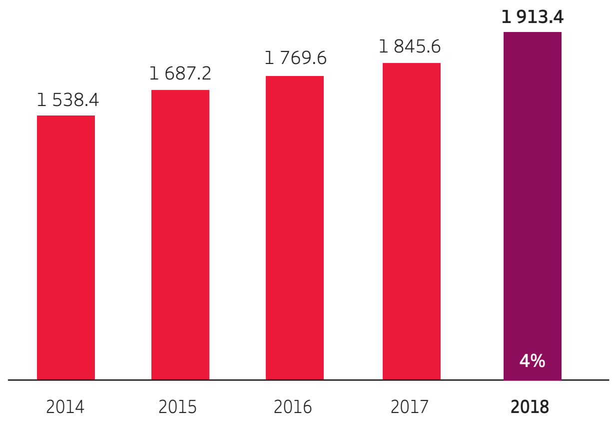
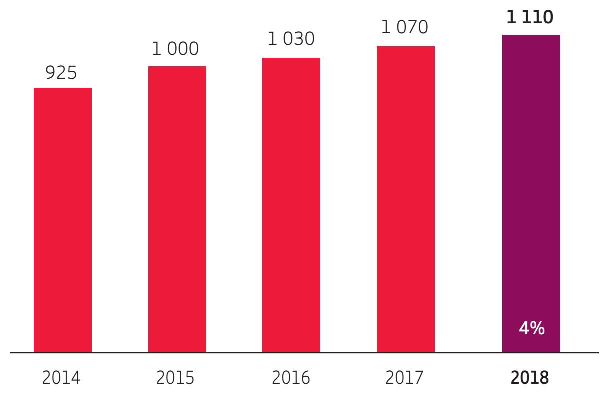
Normalised Group performance overview

for the reporting period ended 31 December

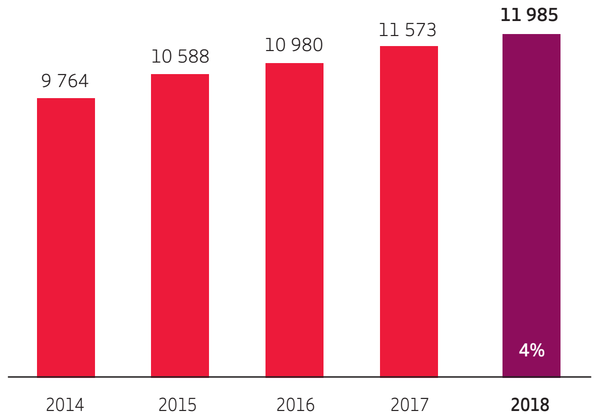
Headline earnings per ordinary share (HEPS) (cents and change %)[1]



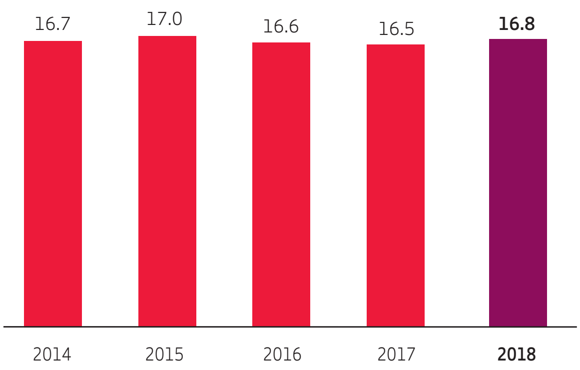
Dividend per ordinary share (DPS) (cents and change %)



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



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



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

Reconciliation of IFRS to normalised results

for the reporting period ended 31 December

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

[1] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loans from Barclays separation segment' in the Condensed consolidated normalised statement of financial position (refer to page 20).

Reconciliation of IFRS to normalised results

for the reporting period ended 31 December

	IFRS Group performance 2017	Barclays separation effects 2017	Total Group normalised performance 2017
Statement of comprehensive income (Rm)			
Net interest income	42 644	325	42 319
Non-interest income[1]	30 750	80	30 670
Total income	73 395	405	72 990
Impairment losses	(7 022)	—	(7 022)
Operating expenses	(43 304)	(1 901)	(41 403)
Other expenses	(2 270)	(394)	(1 876)
Share of post-tax results of associates and joint ventures	170	—	170
Operating profit before income tax	20 969	(1 890)	22 859
Tax expenses[1]	(5 882)	408	(6 289)
Profit for the reporting period	15 087	(1 482)	16 569
Profit attributable to:			
Ordinary equity holders[1]	13 888	(1 482)	15 370
Non-controlling interest – ordinary shares	789	—	789
Non-controlling interest – preference shares	362	—	362
Non-controlling interest – additional Tier 1	48	—	48
	15 087	(1 482)	16 569
Headline earnings[1]	14 378	(1 245)	15 623
Operating performance (%)			
Net interest margin on average interest-bearing assets[2]	4.83	n/a	4.83
Credit loss ratio on gross loans and advances to customers and banks	0.87	n/a	0.87
Non-interest income as % of total income	41.9	n/a	42.0
Income growth	1	n/a	1
Operating expenses growth	8	n/a	3
Cost-to-income ratio	59.0	n/a	56.7
Effective tax rate	28.1	n/a	27.5
Statement of financial position (Rm)			
Loans and advances to customers	749 772	—	749 772
Loans and advances to banks	55 426	—	55 426
Investment securities	111 409	—	111 409
Other assets[1]	252 988	912	252 076
Total assets	1 169 595	912	1 168 683
Deposits due to customers	689 867	—	689 867
Debt securities in issue	137 948	—	137 948
Other liabilities[1]	222 522	(9 840)[3]	232 362
Total liabilities	1 050 337	(9 840)	1 060 177
Equity[3]	119 258	10 752	108 506
Total equity and liabilities	1 169 595	912	1 168 683
Key performance ratios (%)			
RoA	1.27	n/a	1.39
RoE	14.2	n/a	16.5
Capital adequacy	16.1	n/a	14.9
Common Equity Tier 1	13.5	n/a	12.1
Share statistics (cents)			
Diluted headline earnings per ordinary share[1]	1 724.5	n/a	1 845.6

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

[2] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.77%** (2017: 5.05%) on IFRS and **4.80%** (2017: 4.95%) on normalised basis.

[3] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loans from Barclays separation segment' in the Condensed consolidated normalised statement of financial position (refer to page 20).

Normalised salient features

for the reporting period ended 31 December

	2018	2017	Change %
Statement of comprehensive income (Rm)			
Income[1]	**75 660**	72 990	4
Operating expenses	**43 642**	41 403	5
Profit attributable to ordinary equity holders[1]	**15 903**	15 370	3
Headline earnings[1]	**16 128**	15 623	3
Statement of financial position			
Loans and advances to customers (Rm)[2]	**841 720**	749 772	12
Total assets (Rm)[1]	**1 285 552**	1 168 683	10
Deposits due to customers (Rm)	**736 305**	689 867	7
Loans to deposits and debt securities ratio (%)	**93.8**	90.6	
Financial performance (%)			
Return on equity (RoE)[1]	**16.8**	16.5	
Return on average assets (RoA)	**1.34**	1.39	
Return on risk-weighted assets (RoRWA)	**2.12**	2.17	
Stage 3 loans ratio on gross loans and advances	**5.10**	n/a	
Non-performing loans (NPL) ratio on gross loans and advances	**n/a**	3.75	
Operating performance (%)			
Net interest margin on average interest-bearing assets[3]	**4.64**	4.83	
Credit loss ratio on gross loans and advances to customers and banks[2]	**0.73**	0.87	
Non-interest income as percentage of total income	**42.6**	42.0	
Cost-to-income ratio	**57.7**	56.7	
Jaws	**(2)**	(3)	
Effective tax rate	**28.1**	27.5	
Share statistics (million)			
Number of ordinary shares in issue	**847.8**	847.8	
Number of ordinary shares in issue (excluding treasury shares)	**840.2**	845.6	
Weighted average number of ordinary shares in issue[1]	**842.9**	846.5	
Diluted weighted average number of ordinary shares in issue[1]	**844.4**	846.6	
Share statistics (cents)			
Headline earnings per ordinary share[1]	**1 913.4**	1 845.6	4
Diluted headline earnings per ordinary share[1]	**1 910.0**	1 845.4	4
Basic earnings per ordinary share[1]	**1 886.7**	1 815.7	4
Diluted basic earning per ordinary share[1]	**1 883.3**	1 815.5	4
Dividend per ordinary share relating to income for the reporting period	**1 110**	1 070	4
Dividend cover (times)	**1.7**	1.7	—
NAV per ordinary share[1]	**11 985**	11 573	4
Tangible NAV per ordinary share[1]	**11 273**	11 030	2
Capital adequacy (%)			
Absa Group Limited	**15.4**	14.9	
Absa Bank Limited	**15.4**	15.0	
Common Equity Tier 1 (%)			
Absa Group Limited	**12.0**	12.1	
Absa Bank Limited	**11.2**	11.6	

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

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

[3] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.80%** (2017: 4.95%).

Normalised salient features by segment

for the reporting period ended 31 December

	2018	2017[1]	Change %
Headline earnings (Rm)			
RBB South Africa	**8 880**	8 748	2
CIB South Africa	**3 367**	3 411	(1)
Absa Regional Operations	**3 218**	2 954	9
WIMI	**1 268**	1 231	3
Head Office, Treasury and other operations in South Africa	**(605)**	(721)	(16)
Return on average risk-weighted assets (%)			
RBB South Africa	**2.68**	2.72	
CIB South Africa	**1.72**	1.82	
Absa Regional Operations	**1.75**	1.77	
Return on regulatory capital (%)			
RBB South Africa	**24.0**	23.1	
CIB South Africa	**15.6**	16.3	
Absa Regional Operations[2]	**18.5**	16.6	
WIMI[3]	**21.7**	20.8	
Credit loss ratio (%)			
RBB South Africa	**0.94**	1.10	
CIB South Africa	**0.36**	0.24	
Absa Regional Operations	**0.77**	1.34	
WIMI	**(0.45)**	1.58	
Loans and advances to customers (Rm)			
RBB South Africa	**465 921**	446 894	4
CIB South Africa	**272 139**	219 065	24
Absa Regional Operations	**97 244**	77 863	25
WIMI	**5 734**	5 004	15
Head Office, Treasury and other operations in South Africa	**682**	946	(28)
Deposits due to customers (Rm)			
RBB South Africa	**333 061**	300 725	11
CIB South Africa	**173 832**	177 255	(2)
Absa Regional Operations	**133 656**	108 636	23
WIMI	**5 097**	5 150	(1)
Head Office, Treasury and other operations in South Africa	**90 659**	98 101	(8)

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

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

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

Profit and dividend announcement

for the reporting period ended 31 December

Salient features

- Absa Group discloses International Financial Reporting Standards (IFRS) financial results and a normalised view, which adjusts for the financial consequences of separating from Barclays PLC.
- Diluted normalised HEPS grew 4% to 1 910.0 cents from 1 845.4 cents.
- The Group declared a 4% higher full year dividend per share of 1 110 cents.
- RBB South Africa headline earnings grew 2% to R8.9bn, CIB South Africa declined 1% to R3.4bn, Absa Regional Operations (previously known as Rest of Africa Banking) rose 9% to R3.2bn and WIMI increased 3% to R1.3bn.
- Normalised RoE increased slightly to 16.8%.
- Normalised revenue grew 4% to R75.7bn and operating expenses rose 5% to R43.6bn, resulting in a 57.7% cost-to-income ratio.
- Pre-provision profit increased 1% to R32.0bn on a normalised basis.
- Credit impairments fell 10% to R6.3bn, resulting in a 0.73% credit loss ratio from 0.87%.
- Absa Group's normalised Common Equity Tier 1 (CET 1) ratio of 12.0% remains above regulatory requirements and our board target range.
- Normalised NAV per share rose 4% to 11 985 cents.

Normalised reporting

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

Normalisation adjusts for the following items: R330m of interest earned on Barclays PLC's separation contribution (2017: R325m); hedging revenue linked to separation activities of R525m (2017: R80m); operating expenses of R3 161m (2017: R1 901m) and R194m of other expenses (2017: R394m), plus a R484m (2017: R408m) tax impact of the aforementioned items. In total, these adjustments added R1 986m (2017: R1 245m) to the Group's normalised headline earnings during the period. Since normalisation occurs at a Group level, it does not affect divisional disclosures.

Overview of results

On a normalised basis, Absa Group's headline earnings grew 3% to R16 128m from R15 623m and diluted HEPS rose 4% to 1 910.0 cents from 1 845.4 cents. The Group's normalised RoE was 16.8% from 16.5% and its return on assets was 1.34% from 1.39%. Revenue grew 4% to R75.7bn, with net interest income and non-interest income rising 3% and 5% respectively. The Group's net interest margin (on average interest-bearing assets) decreased to 4.64% from 4.83%, largely due to adopting IFRS 9. Gross loans and advances to customers grew 13% to R872bn, while deposits due to customers rose 7% to R736bn. With operating expenses growing 5%, the normalised cost-to-income ratio increased to 57.7% from 56.7%, and pre-provision profit rose 1% to R32.0bn. In constant currency (CCY), pre-provision profit grew 2% and headline earnings 4%. Credit impairments fell 10% to R6.3bn, resulting in a 0.73% credit loss ratio from 0.87%. The Group's normalised NAV per share increased 4% to 11 985 cents and it declared a 4% higher full year DPS of 1 110 cents.

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

South African earnings grew 3% to R13.0bn, while Africa Regions rose 6% or 10% in CCY to account for 20% of Group earnings.

Operating environment

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

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

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

Profit and dividend announcement

for the reporting period ended 31 December

Group performance

Statement of financial position

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

The Group has reconsidered the treatment of post write-off recoveries in the calculation of the portfolio's accounting for LGD, since the previously published results as at 30 June 2018. The Group will exclude post write-off recoveries from LGD for accounting purposes.

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

- The restated allowance for ECL is R29 703m (including interest in suspense and ECL provision on off balance sheet items), relative to the amount of R27 767m, as previously published.
- This has resulted in a reduction in the Group's retained income as at 1 January 2018 of R5 413m (after taxation adjustment of R2 063m and non-controlling interest of R328m), relative to the amount previously published of R4 106m (after taxation adjustment of R1 572m and non-controlling interest of R190m).

The IFRS 9 transition disclosures previously published as at 30 June 2018 have been restated.

Normalised total assets increased 10% to R1 286bn at 31 December 2018, largely due to 13% growth in gross loans and advances to customers.

Gross loans and advances to customers

Gross loans and advances to customers increased 13% to R872bn. RBB South Africa loans rose 6% to R488bn. Retail Banking South Africa's loans grew 5% to R416bn, reflecting 12% growth in Vehicle and Asset Finance (VAF) and Personal Loans, 2% growth in Home Loans, while Card increased 4% despite a reduced store card portfolio. Business Banking South Africa's gross loans rose 11% to R72bn, with term loans increasing 19%. CIB South Africa's gross loans grew 25% to R275bn, including 23% higher term loans and reverse repurchase agreements up 52%. ARO's gross loans increased 26% to R102bn or 12% in CCY.

Funding

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

Net asset value

The Group's normalised NAV rose 3% to R101m despite a R5.5bn reduction on adoption of IFRS 9 on 1 January 2018 and its NAV per share grew 4% to 11 985 cents. During the year it generated retained earnings of R15.9bn, from which it paid R9.0bn in ordinary dividends. Its foreign currency translation reserve increased by R2.6bn.

Capital to risk-weighted assets

Group risk-weighted assets (RWAs) grew 11% to R819bn at 31 December 2018, largely due to increased credit risk RWAs. The Group remains well capitalised, comfortably above minimum regulatory capital requirements. Its normalised CET 1 and total capital adequacy ratios were 12.0% and 15.4% (from 12.1% and 14.9%) respectively. The Group generated 2.0% of CET 1 capital internally over the past year. The day 1 impact from implementing IFRS 9 reduced the Group's CET 1 ratio by 7 bps, as we opted to phase it in over three years. Declaring of a 4% higher full year DPS of 1 110 cents on a dividend cover of 1.7 times took into account the operating environment, the Group's strong capital position, internal capital generation, strategy and growth plans.

Profit and dividend announcement

for the reporting period ended 31 December

Group performance *(continued)*

Statement of comprehensive income

The commentary below refers to normalised financial results.

Net interest income

Net interest income increased 3% to R43 425m from R42 319m, while average interest-bearing assets grew 7%. The Group's net interest margin (to average interest-bearing assets) declined to 4.64% from 4.83%, mostly due to transitioning to IFRS 9, which reduced the margin by 12 bps. Excluding the impact of IFRS 9, loan pricing decreased 3 bps, while composition added 3 bps to margin, given slower growth in Home Loans. Deposit pricing reduced the margin by 3 bps, primarily due to competitive pricing on fixed retail deposits in South Africa. Deposit composition decreased the margin by 3 bps, as average wholesale funding balances grew faster than customer deposits. With lower average interest rates in South Africa, the equity and deposit endowment reduced the Group margin by 5 bps. The structural hedge released R518m to the income statement, 3 bps more than the prior year, to largely offset the reduced endowment contribution. ARO reduced the margin by 2 bps due to lower interest rates. Treasury's improving asset/liability construct in SA added 6 bps, partially offset by the reduction between prime and Johannesburg Interbank Average Rate (JIBAR).

Non-interest income

Non-interest income grew 5% to R32 235m from R30 671m to account for 43% of total revenue from 42%. On a CCY basis, the growth was 6%.

Net fee and commission income grew 4% to R22 523m, which represented 70% of total non-interest income. Within this, cheque account fees increased 9% to R5 401m, electronic banking grew 3% to R5 335m, while credit cards and merchant income rose by 6% and 9% respectively. Net trading excluding hedge accounting grew 7% to R5 183m, reflecting CIB Markets South Africa income increasing 10%, while ARO Markets income decreased 2%.

RBB South Africa's non-interest income grew 5% to R18 083m, as Retail Banking South Africa increased 6% and Business Banking South Africa grew 2%. Within Retail Banking, Transactional and Deposits rose 8%, reflecting price increases, debit card turnover, cheque account growth and the reclassifying of fee write-offs to credit impairments. CIB South Africa increased 7% to R4 589m, with 9% higher Corporate transactional banking revenue.

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

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

Impairment losses on loans and advances

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

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

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

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

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

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

Profit and dividend announcement

for the reporting period ended 31 December

Group performance *(continued)*

Statement of comprehensive income *(continued)*

Operating expenses

Group operating expenses grew 5%, (CCY + 6%), to R43 642m from R41 403m, resulting in a 57.7% cost-to-income ratio from 56.7%.

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

Non-staff costs grew 7%. Professional fees grew 7% to R1 820m, while telephone and postage increased 1% and printing and stationery decreased 1%. Operating leases on properties were flat at R1 606m and property costs increased 2% to R1 759m. Marketing costs decreased 7% to R1 595m reflecting lower product campaign spend. Total IT-related spend grew 7% to R7 886m and constituted 18% of Group operating expenses. Amortisation of intangible assets rose 25% to R815m, while cash transportation increased 16% to R1 266m. The 17% growth in depreciation reflects investment in technology and optimisation of the corporate property portfolio and branch network.

RBB South Africa costs grew 5% to R25 770m. Retail Banking South Africa increased 5% and Business Banking South Africa 5%, due to salary increases, amortisation of IT infrastructure, digital fraud losses and one-off restructuring and rebranding initiatives.

CIB South Africa expenses grew 12% to R6 304m, after two years of low cost growth, due to investment in systems and technology and building out capabilities after separating from Barclays PLC.

ARO's expenses increased 6%, or 8% in CCY, to R9 535m due to incremental costs following separation from Barclays PLC and high inflation rates in some countries. CIB increased 13% and RBB grew 3%.

WIMI's costs declined 5% to R3 098m, due to disposals, as continuing business line costs grew 4%. Positive operating Jaws improved its cost-efficiency ratio to 33.3%.

Taxation

The Group's taxation expense increased 8% to R6 766m, slightly above the 5% higher pre-tax profit, resulting in a 28.1% effective tax rate from 27.5%.

Segment performance

RBB South Africa

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

Retail Banking South Africa

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

Business Banking South Africa

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

CIB South Africa

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

Profit and dividend announcement

for the reporting period ended 31 December

Segment performance *(continued)*

Absa Regional Operations

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

Wealth, Investment Management and Insurance

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

Prospects

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

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

Based on these assumptions, and excluding any major unforeseen political, macroeconomic or regulatory developments, we expect stronger deposit growth this year and it should exceed our loan growth. We again see better loan growth from Absa Regional Operations in CCY than from South Africa, where momentum should continue. Our net interest margin is likely to decline slightly. Costs will remain well controlled and we are targeting positive operating Jaws for the full year, although this could be challenging in the first half, given the slow start we expect from the economy and financial markets. Our credit loss ratio is likely to increase off a low base. Our Group CET 1 ratio should remain above board targets and we are comfortable with our dividend cover at current levels. Lastly, our RoE should increase slightly in 2019, on the path to achieving our target of 18% to 20% by 2020.

Normalised financial results as a consequence of Barclays PLC separation

On 1 March 2016, Barclays PLC announced its intention to sell down its 62.3% interest in the Group. A comprehensive separation programme was initiated by Barclays PLC and the Group to determine possible interactions between the companies to ensure that the Group can operate as an independent and sustainable group without the involvement of Barclays PLC.

Barclays PLC currently holds 14.9% in the Group.

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

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

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

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

Basis of preparation

for the reporting period ended 31 December

Basis of presentation

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

The information disclosed in the condensed consolidated financial results is derived from information contained in the audited annual consolidated financial statements does not contain full or complete disclosure details. Any investment decisions by shareholders should be based on consideration of the consolidation of the audited annual consolidated financial statements, which is available on request.

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

Accounting policies

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

1. Changes of the Group's operating segments and business portfolios, which have been presented in the reporting overview on the inside front cover.
2. Correction of certain due for settlement accounts in respect of long and short proprietary positions with the JSE have been incorrectly netted in the prior period.
3. Accounting policy changes with respect to the measurement of policyholder liabilities and specifically, with regards to the calculation of discretionary margins held within policyholder reserves (refer to page 36 for more details).
4. Adoption of new International Financial Reporting Standards (IFRS), specifically IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue from Contracts with Customers (IFRS 15) (refer to pages 36 to 39 for more details) as indicated in the reporting changes section on pages 152 to 157. This section includes the impact of the adoption of IFRS 9 and specifically the transitional disclosures as required by IFRS 7 Financial Instrument Disclosures (IFRS 7).

Auditor's report

Ernst & Young Inc., Absa Group Limited's independent auditors, have audited the consolidated annual financial statements of Absa Group Limited from which management prepared the condensed consolidated financial results. The condensed consolidated financial results comprise the condensed consolidated statement of financial position as at 31 December 2018, condensed consolidated statement of comprehensive income, condensed statement of changes in equity and condensed consolidated statement of cash flows for the period then ended and selected explanatory notes, excluding items not indicated as audited. The audit report of the consolidated annual financial statements is available for inspection at Absa Group Limited's registered office.

Events after the reporting period

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

Apart from the above mentioned, the directors are not aware of any other events (as defined per IAS10 Events after the Reporting Period) after the reporting date of 31 December 2018 and the date of authorisation of these annual consolidated and separate financial statements.

On behalf of the Board

W E Lucas-Bull
Group Chairman

J P Quinn
Financial Director

Johannesburg

11 March 2019

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Dividend announcement

for the reporting period ended 31 December

Declaration of ordinary dividend number 65

Shareholders are advised that an ordinary dividend of 620 cents per ordinary share was declared on 11 March 2019, for the period ended 31 December 2018. The ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 12 April 2019. The directors of Absa Group Limited confirm that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

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

- The dividend has been declared out of income reserves.
- The local dividend tax rate is twenty per cent (20%).
- The gross local dividend amount is 620 cents per ordinary share for shareholders exempt from the dividend tax.
- The net local dividend amount is 496 cents per ordinary share for shareholders liable to pay the dividend tax.
- Absa Group Limited currently has 847 750 679 ordinary shares in issue (includes 20 273 811[1] treasury shares).
- Absa Group Limited’s income tax reference number is 9150116714.

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

Last day to trade cum dividend	Tuesday, 9 April 2019
Shares commence trading ex dividend	Wednesday, 10 April 2019
Record date	Friday, 12 April 2019
Payment date	Monday, 15 April 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 10 April 2019 and Friday, 12 April 2019, both dates inclusive. On Monday, 15 April 2019, the dividend will be electronically transferred to the bank accounts of certificated shareholders. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will also be credited on Monday, 15 April 2019

On behalf of the Board

N R Drutman

Group Company Secretary

Johannesburg

11 March 2019

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

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

Condensed consolidated normalised statement of comprehensive income

for the reporting period ended 31 December

	Note	2018 Rm	2017 Rm	Change %
Net interest income	2	**43 425**	42 319	3
Interest and similar income		**89 177**	85 918	4
Effective interest income[1]		**87 575**	84 645	3
Other interest income[1]		**1 602**	1 273	26
Interest expense and similar charges		**(45 752)**	(43 599)	5
Effective interest expense[1]		**(45 752)**	(43 599)	5
Non-interest income	3	**32 235**	30 671	5
Net fee and commission income		**22 523**	21 711	4
Fee and commission income	3.1	**25 675**	24 724	4
Fee and commission expense	3.1	**(3 152)**	(3 013)	5
Net insurance premium income	3.2	**7 190**	6 598	9
Net claims and benefits incurred on insurance contracts	3.3	**(3 565)**	(3 334)	7
Changes in investment and insurance contract liabilities[2]	3.4	**808**	(2 023)	<(100)
Gains and losses from banking and trading activities	3.5	**5 270**	5 172	2
Gains and losses from investment activities	3.6	**(636)**	1 905	<(100)
Other operating income	3.7	**645**	642	0
Total income		**75 660**	72 990	4
Impairment losses	4	**(6 324)**	(7 022)	(10)
Operating income before operating expenditure		**69 336**	65 968	5
Operating expenditure	5	**(43 642)**	(41 403)	5
Other expenses		**(1 832)**	(1 876)	(2)
Other impairments		**(434)**	(322)	35
Indirect taxation	6	**(1 398)**	(1 554)	(10)
Share of post-tax results of associates and joint ventures		**179**	170	5
Operating profit before income tax		**24 041**	22 859	5
Taxation expense[1]	7	**(6 766)**	(6 290)	8
Profit for the reporting period		**17 275**	16 569	4
Profit attributable to:				
Ordinary equity holders[2]		**15 903**	15 370	3
Non-controlling interest – ordinary shares		**831**	789	5
Non-controlling interest – preference shares		**351**	362	(3)
Non-controlling interest – Tier 1 capital		**190**	48	>100
		17 275	16 569	4
Earnings per share:				
Basic earnings per share (cents)[2]	1	**1 886.7**	1 815.7	4
Diluted basic earnings per share (cents)[2]	1	**1 883.3**	1 815.5	4

[1] An amendment was made to IAS 1 Presentation of Financial Statements, which was 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.

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

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Condensed consolidated normalised statement of comprehensive income

for the reporting period ended 31 December

	2018 Rm	2017 Rm	Change %
Profit for the reporting period[1]	**17 275**	16 569	4
Other comprehensive income			
Items that will not be reclassified to profit or loss	**53**	(179)	<(100)
Movement on equity instruments measured at FVOCI	**27**	—	100
Fair value gains	**38**	—	100
Deferred tax	**(11)**	—	100
Movement of liabilities designated at FVTPL due to changes in own credit risk	**(13)**	(147)	(91)
Fair value losses	**(71)**	(147)	(52)
Deferred tax	**58**	—	100
Movement in retirement benefit fund assets and liabilities	**39**	(32)	<(100)
Decrease in retirement benefit surplus	**(26)**	(91)	(71)
Decrease in retirement benefit deficit	**55**	44	25
Deferred tax	**10**	15	(33)
Items that are or may be subsequently reclassified to profit or loss	**2 221**	(1 327)	<(100)
Movement in foreign currency translation reserve	**3 058**	(2 219)	<(100)
Differences in translation of foreign operations	**3 058**	(2 271)	<(100)
Releases to profit or loss	**—**	52	(100)
Movement in cash flow hedging reserve	**(247)**	794	<(100)
Fair value gains	**265**	1 465	(82)
Amounts transferred within other comprehensive income	**(58)**	—	(100)
Amount removed from other comprehensive income and recognised in profit or loss	**(550)**	(365)	51
Deferred tax	**96**	(306)	<(100)
Movement in fair value of debt instruments measured at FVOCI	**(590)**	—	(100)
Fair value losses	**(750)**	—	(100)
Release to profit or loss	**(9)**	—	(100)
Deferred tax	**169**	—	100
Movement in available-for-sale reserve	**—**	98	(100)
Fair value gains	**—**	154	(100)
Release to profit or loss	**—**	67	(100)
Deferred tax	**—**	(123)	100
Total comprehensive income for the reporting period	**19 549**	15 063	30
Total comprehensive income attributable to:			
Ordinary equity holders[1]	**17 808**	14 137	26
Non-controlling interest – ordinary shares	**1 200**	516	>100
Non-controlling interest – preference shares	**351**	362	(3)
Non-controlling interest – Tier 1 capital	**190**	48	>100
	19 549	15 063	30

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

Condensed consolidated normalised statement of financial position

as at 31 December

	Note	2018 Rm	2017 Rm	Change %
Assets				
Cash, cash balances and balances with central banks		**46 929**	48 669	(4)
Investment securities		**135 420**	111 409	22
Loans and advances to banks		**53 140**	55 426	(4)
Trading portfolio assets		**128 569**	132 183	(3)
Hedging portfolio assets		**2 411**	2 673	(10)
Other assets[1]		**30 455**	24 576	24
Current tax assets		**802**	314	>100
Non-current assets held for sale		**239**	1 308	(82)
Loans and advances to customers	8	**841 720**	749 772	12
Reinsurance assets		**618**	892	(31)
Investments linked to investment contracts		**18 481**	18 936	(2)
Investments in associates and joint ventures		**1 310**	1 235	6
Investment property		**508**	231	>100
Property and equipment		**15 536**	15 177	2
Goodwill and intangible assets		**5 983**	4 591	30
Deferred tax assets		**3 431**	1 291	>100
Total assets		**1 285 552**	1 168 683	10
Liabilities				
Deposits from banks		**121 421**	67 390	80
Trading portfolio liabilities		**51 632**	64 047	(19)
Hedging portfolio liabilities		**1 343**	1 123	20
Other liabilities[1]		**36 058**	34 933	3
Provisions		**3 893**	2 945	32
Current tax liabilities		**693**	352	97
Non-current liabilities held for sale		**124**	48	>100
Deposits due to customers	9	**736 305**	689 867	7
Debt securities in issue	10	**160 971**	137 948	17
Loans from Barclays separation segment		**5 711**	9 950	(43)
Liabilities under investment contracts		**29 674**	30 585	(3)
Policyholder liabilities under insurance contracts[1]		**4 168**	4 342	(4)
Borrowed funds	11	**20 225**	15 895	27
Deferred tax liabilities[1]		**481**	752	(36)
Total liabilities		**1 172 699**	1 060 177	11
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital	11	**1 680**	1 691	(1)
Share premium	11	**3 657**	3 949	(7)
Retained earnings[1]		**89 124**	87 982	1
Other reserves		**6 239**	4 240	47
		100 700	97 862	3
Non-controlling interest – ordinary shares		**4 768**	4 500	6
Non-controlling interest – preference shares		**4 644**	4 644	—
Non-controlling interest – Tier 1 capital		**2 741**	1 500	83
Total equity		**112 853**	108 506	4
Total liabilities and equity		**1 285 552**	1 168 683	10

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

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Condensed consolidated normalised statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Restated balance at the end of the previous reporting period	**845 554**	**1 691**	**3 949**	**87 982[1]**	**4 240**	**779**
Impact of adopting new accounting standards at 1 January 2018						
IFRS 9	—	—	—	(5 413)	(126)	—
IFRS 15	—	—	—	(44)	—	—
Adjusted balance at the beginning of the reporting period	**845 554**	**1 691**	**3 949**	**82 525**	**4 114**	**779**
Total comprehensive income	—	—	—	15 924	1 884	—
Profit for the period	—	—	—	15 903	—	—
Other comprehensive income	—	—	—	21	1 884	—
Dividends paid during the reporting period	—	—	—	(9 033)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of Additional Tier 1 Capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(491)	(68)	—	—
Elimination of the movement in treasury	(5 361)	(11)	(292)	—	—	—
Movement in share-based payment reserve	—	—	491	—	17	—
Transfer from share-based payment reserve	—	—	491	—	(491)	—
Value of employee services	—	—	—	—	531	—
Deferred tax	—	—	—	—	(23)	—
Movement in general credit-risk reserve	—	—	—	(44)	44	44
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(1)	1	—
Share of post-tax results of associates and joint ventures	—	—	—	(179)	179	—
Balance at the end of the reporting period	**840 193**	**1 680**	**3 657**	**89 124**	**6 239**	**823**

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

[1] These numbers have been restated, refer to the report overview on the inside cover page.
[2] The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.
[3] CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the prior reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound Sterling (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – additional Tier 1 capital Rm	Total equity Rm
	445	650	431	6	707	1 222	97 862[1]	4 500	4 644	1 500	108 506[1]
	(22)	—	—	—	—	(104)	(5 539)	(230)	—	—	(5 769)
	—	—	—	—	—	—	(44)	—	—	—	(44)
	423	650	431	6	707	1 118	92 279	4 270	4 644	1 500	102 693
	(503)	(247)	2 634	—	—	—	17 808	1 200	351	190	19 549
	—	—	—	—	—	—	15 903	831	351	190	17 275
	(503)	(247)	2 634	—	—	—	1 905	369	—	—	2 274
	—	—	—	—	—	—	(9 033)	(702)	(351)	—	(10 086)
	—	—	—	—	—	—	—	—	—	(190)	(190)
	—	—	—	—	—	—	—	—	—	1 241	1 241
	—	—	—	—	—	—	(559)	—	—	—	(559)
	—	—	—	—	—	—	(303)	—	—	—	(303)
	—	—	—	—	17	—	508	—	—	—	508
	—	—	—	—	(491)	—	—	—	—	—	—
	—	—	—	—	531	—	531	—	—	—	531
	—	—	—	—	(23)	—	(23)	—	—	—	(23)
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	1	—	—	—	—	—	—	—
	—	—	—	—	—	179	—	—	—	—	—
	(80)	403	3 065	7	724	1 297	100 700	4 768	4 644	2 741	112 853

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

Condensed consolidated normalised statement of cash flows

for the reporting period ended 31 December

	Note	2018 Rm	2017 Rm	Change %
Net cash (utilised in)/generated from operating activities		**11 900**	10 655	12
Net cash utilised in investing activities		**(4 593)**	(1 718)	>100
Net cash (utilised in)/generated from financing activities		**(6 521)**	(9 512)	(54)
Net (decrease)/increase in cash and cash equivalents		**786**	(575)	<(100)
Cash and cash equivalents at the beginning of the reporting period	1	**17 320**	17 734	(2)
Effect of foreign exchange rate movements on cash and cash equivalents		**388**	161	>100
Cash and cash equivalents at the end of the reporting period	2	**18 494**	17 320	7

Notes to the condensed consolidated normalised statement of cash flows

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

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

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

	2018 Rm	2017 Rm	Change %
Cash, cash balances and balances with central banks[1]	**14 252**	13 518	5
Loans and advances to banks[2]	**4 242**	3 802	12
	18 494	17 320	7

[1] Includes coins and bank notes.

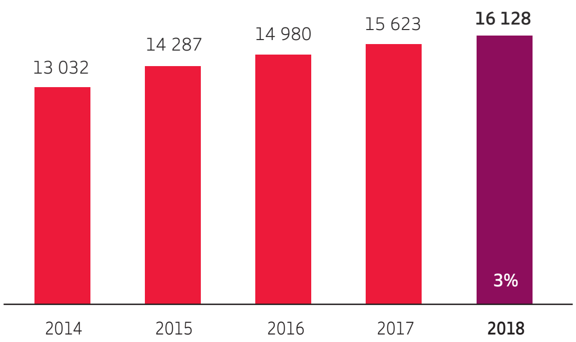
[2] Includes call advances, which are used as working capital by the Group.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

1. Headline earnings and earnings per ordinary share

Headline earnings (Rm and change %)



Headline earnings	2018 Gross Rm	2018 Net Rm	2017 Gross Rm	2017 Net[1] Rm	Net change %
Headline earnings are determined as follows:					
Profit attributable to ordinary equity holders[1]		15 903		15 370	3
Total headline earnings adjustment		225		253	(11)
IFRS 3 – Goodwill impairment	34	34	38	38	(11)
IFRS 5 – (Gain)/loss on disposal of non-current assets held for sale	(142)	(80)	36	39	<(100)
IAS 16 – Loss/(profit) on disposal of property and equipment	5	2	(43)	(34)	<(100)
IAS 21 – Recycled foreign currency translation reserve	—	—	52	52	(100)
IAS 36 – Impairment of property and equipment	398	297	221	159	87
IAS 36 – Impairment of intangible assets	2	1	59	42	(98)
IAS 39 – Release of available-for-sale reserves	—	—	67	49	(100)
IAS 40 – Change in fair value of investment properties	(38)	(29)	(105)	(87)	(67)
IAS 40 – Profit on disposal of investment property	—	—	(5)	(5)	(100)
		16 128		15 623	3

Notable adjustments to headline earnings

- '(Profit)/loss on disposal of non-current asset held for sale' relates to the disposal of subsidiaries. WIMI has sold Absa Consultants and Actuaries 'a subsidiary of Absa Financial Services', as well as a portion of Absa Insurance and Financial Advisers. Vehicle and Asset Finance in Retail Banking South Africa has sold Absa Technology Financial Solutions.
- 'Loss/(profit) on disposal of property and equipment' is attributable to the sale of freehold property and equipment.
- 'Impairment of property and equipment' relates mainly to a property that management have decided to dispose, as well as a property that was decommissioned resulting in an impairment of the furniture, fittings and equipment.

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

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

	2018 Rm	2017[1] Rm	Change value %
Basic earnings per ordinary share			
Basic earnings attributable to ordinary equity holders (Rm)[1]	**15 903**	15 370	3
Weighted average number of ordinary shares in issue (million)	**842.9**	846.5	(3.6)
Issued shares at the beginning of the reporting period (million)	**847.8**	847.8	—
Treasury shares held by Group entities (million)	**(4.9)**	(1.3)	(3.6)
Basic earnings per ordinary share (cents)	**1 886.7**	1 815.7	4
Diluted basic earnings per ordinary share			
Basic earnings attributable to ordinary equity holders (Rm)[1]	**15 903**	15 370	3
Diluted weighted average number of ordinary shares in issue (million)	**844.4**	846.6	(2.2)
Weighted average number of ordinary shares in issue (million)	**842.9**	846.5	(3.6)
Adjustments for share options issued at no value (million)	**1.6**	0.1	1.5
Diluted basic earnings per ordinary share (cents)[1]	**1 883.3**	1 815.5	4
Headline earnings per ordinary share			
Headline earnings attributable to ordinary equity holders (Rm)[1]	**16 128**	15 623	3
Weighted average number of ordinary shares in issue (million)	**842.9**	846.5	(3.6)
Headline earnings per ordinary share (cents)[1]	**1 913.4**	1 845.6	4
Diluted headline earnings per ordinary share			
Headline earnings attributable to ordinary equity holders (Rm)[1]	**16 128**	15 623	3
Diluted weighted average number of ordinary shares in issue (million)	**844.4**	846.6	(2.2)
Diluted headline earnings per ordinary share (cents)[1]	**1 910.0**	1 845.4	4

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

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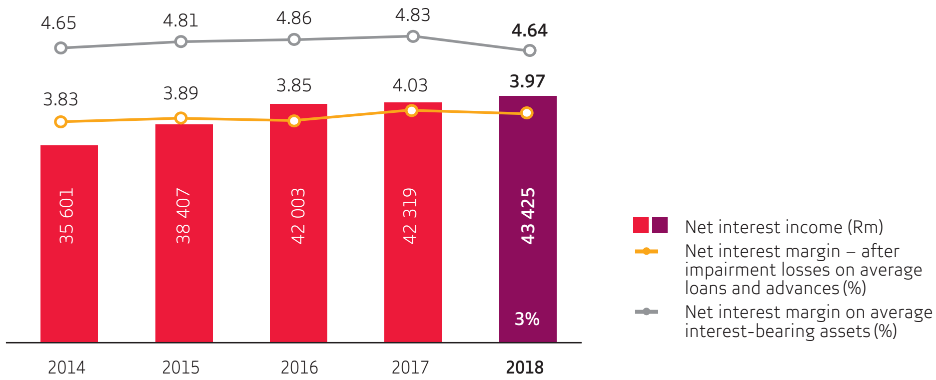
Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

2. Net interest income

Net interest income and net interest margin (Rm, % and change %)



Group average statement of financial position	2018 Average balance[1] Rm	2018 Average rate %	2018 Interest income/ (expense) Rm	2017 Average balance[1,2] Rm	2017 Average rate %	2017 Interest income/ (expense) Rm
Assets						
Cash, cash balances and balances with central banks	**3 194**	**0.59**	**19**	3 217	0.53	17
Investment securities	**113 642**	**8.97**	**10 193**	108 630	8.93	9 699
Loans and advances to banks and customers	**818 866**	**9.64**	**78 965**	764 186	9.97	76 202
Interest-bearing assets	**935 702**	**9.53**	**89 177**	876 033	9.81	85 918
Non-interest-bearing assets	**269 420**	**—**	**—**	248 522	—	—
Total assets	**1 205 122**	**7.40**	**89 177**	1 124 555	7.64	85 918
Liabilities						
Deposits due to banks and customers	**671 809**	**(4.82)**	**(32 405)**	636 279	(4.92)	(31 320)
Debt securities in issue	**136 257**	**(8.34)**	**(11 365)**	120 692	(8.71)	(10 517)
Borrowed funds	**18 632**	**(10.64)**	**(1 982)**	15 680	(11.24)	(1 762)
Interest-bearing liabilities	**826 698**	**(5.53)**	**(45 752)**	772 651	(5.64)	(43 599)
Non-interest-bearing liabilities	**271 940**	**—**	**—**	247 455	—	—
Total liabilities	**1 098 638**	**(4.16)**	**(45 752)**	1 020 106	(4.27)	(43 599)
Total equity	**106 482**	**—**	**—**	104 449	—	—
Total equity and liabilities	**1 205 120**	**(3.80)**	**(45 752)**	1 124 555	(3.88)	(43 599)
Net interest margin on average interest-bearing assets		**4.64**			4.83	

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

2 Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.80%** (2017: 4.95%).

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

2. Net interest income (continued)

Change in net interest margin	2018 bps	2017[1] bps
Loans and advances to customers (i)	**(12)**	(5)
Change in customer rates (pricing)	**(15)**	(2)
Change in composition	**3**	(3)
Deposits due to customers (ii)	**(8)**	1
Change in customer rates (pricing)	**(3)**	1
Change in composition	**(3)**	1
Endowment (iii)	**(2)**	(1)
Equity endowment (iii)	**(3)**	4
Interest rate risk management (hedging strategy) (iii)	**3**	—
Absa Regional Operations (iv)	**(2)**	(2)
Other (v)	**3**	(1)
	(19)	(3)

Performance

The Group's net interest margin is 19 bps lower compared to the previous year (2017: 3 bps lower compared to 2016) and reflects the following:

(i) Loans and advances to customers

- Margins declined due to a reclassification of recoveries on cured accounts from net interest income to impairments and higher suspended interest in RBB SA post implementation of IFRS 9.
- Slower growth in the Home Loans portfolio relative to the Group's overall loans and advances growth created a positive composition impact. This was partially offset by growth in CIB SA.

(ii) Deposits due to customers

- Deposit margins declined in RBB SA reflecting competitive pricing on fixed deposits.
- Average wholesale funding balances grew faster than customer deposits creating a negative composition impact.

[1] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.80%** (2017: 4.95%).

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Performance indicators and condensed normalised notes to the consolidated financial statements

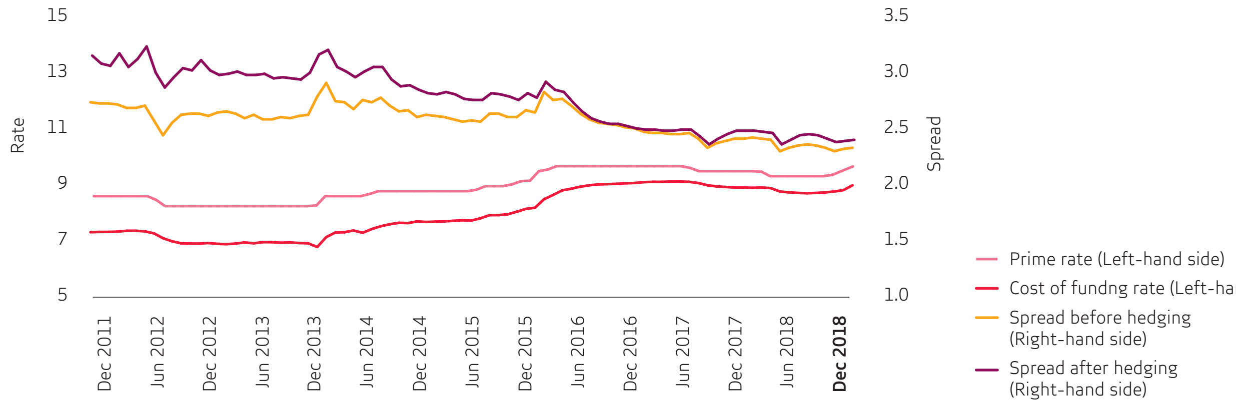
for the reporting period ended 31 December

2. Net interest income (continued)

Performance (continued)

(iii) Hedging strategy and equity endowment

Hedging impact on net interest margin (%)



- Absa Bank Limited employs a governed interest rate strategy (hedging programme) through the interest rate cycle to reduce margin volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity). In a decreasing rate scenario, the hedging programme enhances the net interest margin while the opposite is true for an increasing rate scenario. Basis risk remains between prime assets and the three-month JIBAR repricing liabilities after hedging.
- Qualification criterion for balances to be treated as structural is well defined and tested. At the reporting date an aggregate of **13%** (2017: 14%) of Absa Bank Limited's total capital and liabilities constituted structural balances.
- Cash flow hedge accounting is applied to account for the interest rate swaps executed as part of the hedging programme. The after-tax cash flow hedging reserve relating to the hedging programme reflected a credit balance of **R376m** (2017: R731m) at the reporting date. The benefit realised in the current reporting period of 6 bps was 3 bps higher than the previous reporting period, releasing **R518m** (2017: R258m) to the statement of comprehensive income.
- Endowment on equity and liabilities after hedging had a 2 bps negative impact reflecting the mix impact of slower growth in endowment balances relative to the Group's overall interest-bearing assets.

(iv) Absa Regional Operations

- Absa Regional Operations had a 2 bps adverse effect on the Group's margin as a result of the negative pricing impact of lower benchmark interest rates across markets.

(v) Other

- Other items have had a cumulative 3 bps positive impact mainly representing:
  - Improving asset/liability construct in Treasury SA (+6 bps);
  - The negative impact on margin of a reduction in the basis differential between prime and JIBAR (-3 bps);
  - The impact of high quality liquid assets (HQLA) on the margin remained largely unchanged year-on-year. The negative impact of increased HQLA balances as a result of the change in Basel 3 requirements was offset as the Group invested in higher yielding HQLA securities.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

3. Non-interest income

3.1 Net fee and commission income

	2018 Rm	2017[1] Rm	Change %
Asset management and other related fees	**218**	140	56
Consulting and administration fees	**480**	708	(32)
Transactional fees and commissions	**19 755**	18 462	7
Cheque accounts	**5 401**	4 943	9
Credit cards (includes card issuing fees)	**2 770**	2 624	6
Electronic banking	**5 335**	5 185	3
Other (includes fees on mortgage loans and foreign currency transactions)	**4 170**	3 648	14
Savings accounts	**2 079**	2 062	1
Insurance commission received	**830**	966	(14)
Investment, markets execution and investment banking fees	**477**	568	(16)
Merchant income	**2 066**	1 890	9
Other fee and commission income	**423**	557	(24)
Trust and other fiduciary services fees	**1 426**	1 433	(0)
Portfolio and other management fees	**1 103**	1 121	(2)
Trust and estate income	**323**	312	4
Fee and commission income	**25 675**	24 724	4
Fee and commission expense	**(3 152)**	(3 013)	5
Brokerage fees	**(108)**	(99)	9
Cheque processing fees	**(120)**	(125)	(4)
Clearing and settlement charges	**(730)**	(645)	13
Insurance commission paid	**(1 113)**	(1 065)	5
Notification fees	**(180)**	(198)	(9)
Other	**(826)**	(806)	2
Valuation fees	**(75)**	(75)	—
	22 523	21 711	4
Segment split[1]			
RBB South Africa	**17 078**	16 134	6
Retail Banking South Africa	**13 430**	12 589	7
Business Banking South Africa	**3 648**	3 545	3
CIB South Africa	**2 013**	1 935	4
Absa Regional Operations	**2 963**	2 779	7
WIMI	**835**	1 261	(34)
Head Office, Treasury and other operations in South Africa	**(366)**	(398)	(8)
	22 523	21 711	4

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

3. Non-interest income (continued)

3.2 Net insurance premium income

	2018 Rm	2017 Rm	Change %
Gross insurance premiums	**8 266**	7 560	9
Premiums ceded to reinsurers	**(1 076)**	(962)	12
	7 190	6 598	9
Segment split			
Retail Banking South Africa, including Woolworths Financial Services (WFS)	**309**	300	3
WIMI	**6 930**	6 348	9
Head Office, Treasury and other operations in South Africa	**(49)**	(50)	(2)
	7 190	6 598	9

3.3 Net claims and benefits incurred on insurance contracts

	2018 Rm	2017 Rm	Change %
Gross claims and benefits incurred on insurance contracts	**(4 045)**	(3 994)	1
Reinsurance recoveries	**480**	660	(27)
	(3 565)	(3 334)	7
Segment split			
Retail Banking South Africa, including WFS	**(59)**	(52)	13
WIMI	**(3 413)**	(3 235)	6
Head Office, Treasury and other operations in South Africa	**(93)**	(47)	98
	(3 565)	(3 334)	7

3.4 Changes in investment and insurance contract liabilities

	2018 Rm	2017[1] Rm	Change %
Change in insurance contract liabilities	**176**	(47)	<(100)
Change in investment contract liabilities[2]	**632**	(1 976)	<(100)
	808	(2 023)	<(100)
Segment split			
Retail Banking South Africa, including WFS	**(1)**	(6)	(83)
WIMI	**801**	(2 023)	<(100)
Head Office, Treasury and other operations in South Africa	**8**	6	33
	808	(2 023)	<(100)

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

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

3. Non-interest income (continued)

3.5 Gains and losses from banking and trading activities

	2018 Rm	2017 Rm	Change %
Net gains on investments	**341**	227	50
Debt instruments designated at fair value through profit or loss	**220**	190	16
Equity instruments designated at fair value through profit or loss	**112**	104	8
Unwind from reserves for debt instruments at FVOCI	**9**	—	100
Available-for-sale unwind from reserves	**—**	(67)	(100)
Net trading result	**4 971**	4 807	3
Net trading income excluding the impact of hedge accounting	**5 183**	4 855	7
Ineffective portion of hedges	**(212)**	(48)	>100
Cash flow hedges	**(198)**	17	<(100)
Fair value hedges	**(14)**	(65)	(78)
Other gains	**(42)**	138	<(100)
	5 270	5 172	2
Segment split[1]			
RBB South Africa	**503**	322	56
Retail Banking South Africa	**483**	302	60
Business Banking South Africa	**20**	20	—
CIB South Africa	**2 551**	2 299	11
Absa Regional Operations	**2 153**	2 055	5
Head Office, Treasury and other operations in South Africa[2]	**63**	496	(87)
	5 270	5 172	2

3.6 Gains and losses from investment activities

	2018 Rm	2017 Rm	Change %
Net gains on investments from insurance activities	**(580)**	1 863	<(100)
Policyholder insurance contracts	**47**	293	(84)
Policyholder investment contracts[3]	**(1 027)**	1 144	<(100)
Shareholders' funds	**400**	426	(6)
Other gains	**(56)**	42	<(100)
	(636)	1 905	<(100)
Segment split			
WIMI	**59**	2 899	(98)
Head Office, Treasury and other operations in South Africa[2]	**(695)**	(994)	(30)
	(636)	1 905	<(100)

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

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

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

3. Non-interest income (continued)

3.7 Other operating income

	2018 Rm	2017 Rm	Change %
Property-related income	**146**	293	(50)
Income from investment properties	**47**	182	(74)
Change in fair value	**38**	105	(64)
Rentals	**9**	77	(88)
Property-related income arising from contracts with customers	**99**	111	(11)
(Loss)/profit on disposal of property and equipment	**(14)**	23	<(100)
Profit on sale of developed properties	**34**	38	(11)
Profit on sale of repossessed properties	**31**	16	94
Rental income	**48**	34	41
Other operating income	**499**	349	43
Foreign exchange differences, including recycle from other comprehensive income	**58**	(93)	<(100)
Income from maintenance contracts	**39**	45	(13)
Sundry income	**402**	397	1
	645	642	0
Segment split			
Property-related income	**146**	293	(50)
RBB South Africa	**91**	164	(45)
Retail Banking South Africa	**32**	20	60
Business Banking South Africa	**59**	144	(59)
Absa Regional Operations	**15**	13	15
WIMI	**10**	25	(60)
Head Office, Treasury and other operations in South Africa	**30**	91	(67)
Other operating income	**499**	349	43
RBB South Africa	**162**	324	(50)
Retail Banking South Africa	**158**	358	(56)
Business Banking South Africa	**4**	(34)	<(100)
CIB South Africa	**25**	38	(34)
Absa Regional Operations	**26**	6	>100
WIMI	**292**	(57)	<(100)
Head Office, Treasury and other operations in South Africa	**(6)**	38	<(100)
	645	642	0

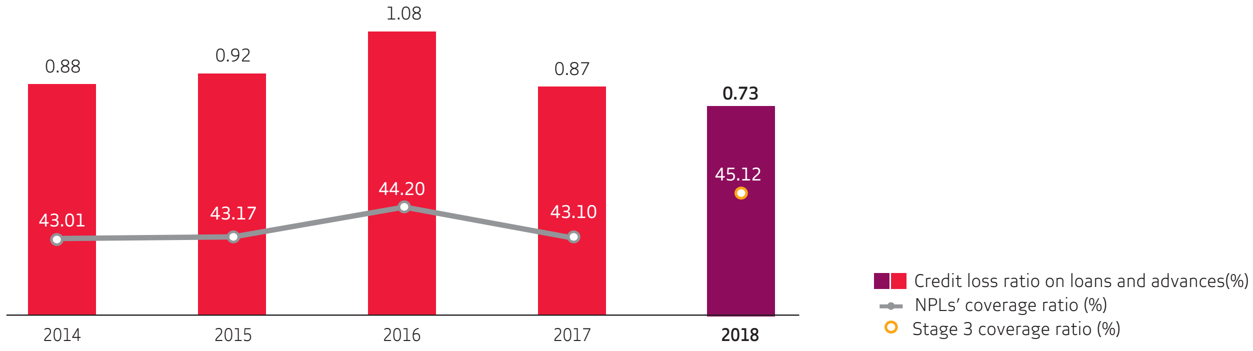
Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses

4.1 Total charge to the statement of comprehensive income by market segment

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



Charge to the statement of comprehensive income by market segment	2018 Rm	2017[1] Rm	Change %
RBB South Africa			
Total charge	**4 555**	5 038	(10)
Credit loss ratio (%)	**0.94**	1.10	
Retail Banking South Africa			
Home Loans	**113**	689	(84)
Vehicle and Asset Finance	**1 096**	847	29
Card and payments	**1 478**	1 924	(23)
Personal Loans	**1 105**	1 112	(1)
Transactional and Deposits	**524**	193	>100
Other	**(3)**	(1)	>100
Total charge	**4 313**	4 764	(9)
Credit loss ratio (%)	**1.04**	1.20	
Business Banking South Africa			
Total charge	**242**	274	(12)
Credit loss ratio (%)	**0.35**	0.43	
CIB South Africa			
Total charge	**998**	567	76
Credit loss ratio (%)	**0.36**	0.24	
Absa Regional Operations			
Total charge	**794**	1 289	(38)
Credit loss ratio (%)	**0.77**	1.34	
WIMI			
Total charge	**(35)**	120	<(100)
Credit loss ratio (%)	**(0.45)**	1.58	
Head Office, Treasury and other operations in South Africa			
Total charge	**12**	8	50
Total charge to the statement of comprehensive income[2]	**6 324**	7 022	(10)
Interest on cured accounts[3]	**608**	—	—
Total charge to the statement of comprehensive income before cured interest adjustment	**6 932**	7 022	(1)

[1] Prior period ratios have not been restated for IFRS 9.
[2] Includes recoveries of **R947m** (2017: R963m) of financial instruments held at amortised cost, which were previously written off.
[3] Interest recoveries on cured stage 3 financial assets previously treated as interest income.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.2 Reconciliation of credit categorisations under IAS 39 and IFRS 9

4.2.1 Key changes to the presentation and measurement under IFRS 9 in 2018

In addition to reclassifications of individual accounts from NPL to stage 3, there are two key amendments which impact the measurement and presentation of amortised cost instruments as presented in terms of IFRS 9. These are as follows:

- **Interest recoveries on cured stage 3 financial assets:** IFRS 9 requires that interest income be calculated on stage 3 assets by applying the effective interest rate (EIR) to the amortised cost of the financial asset (that is, the gross carrying value less the ECL allowance). This results in a difference between (a) the interest that would be calculated by applying the EIR to the gross carrying amount of the financial asset, and (b) the interest income actually recognised for that asset under IFRS 9. The presentation of this difference, in the event of curing or recovery of the asset, prompted extensive industry debate during the current reporting period. In November 2018 the IFRS Interpretations Committee (IFRS-IC) concluded that an entity should present this difference as the reversal of expected credit losses, rather than as interest income. Following this agenda decision, the Group has amended its accounting treatment. This change does not impact profit or loss, but it does reduce the Group's ECL and interest income by R608m for the year ended 31 December 2018.
- **Exclusion of post write-off recoveries from LGD:** The Group has historically modelled its IAS 39 LGD parameters by forecasting full lifetime economic losses over the duration of the portfolio in line with the regulatory LGD models. Whilst this approach promotes a fairer representation of the economic performance on the portfolio, it does create a misalignment between the points of write-off applied to an individual financial asset, from an accounting perspective, and those incorporated into the LGD models for the purposes of collective data modelling. By forecasting full lifetime recoveries, the LGD models capture cash flows that are only projected to be received post the point at which the underlying financial asset is written off. IFRS 9 states that write-off constitutes a derecognition event, which has prompted the Group to reconsider the treatment of post write-off recoveries in the calculation of the portfolio's accounting LGD. It is therefore the Group's view that under IFRS 9, the write-off assumptions should be consistently applied at both an individual account level and on a collective modelling basis.

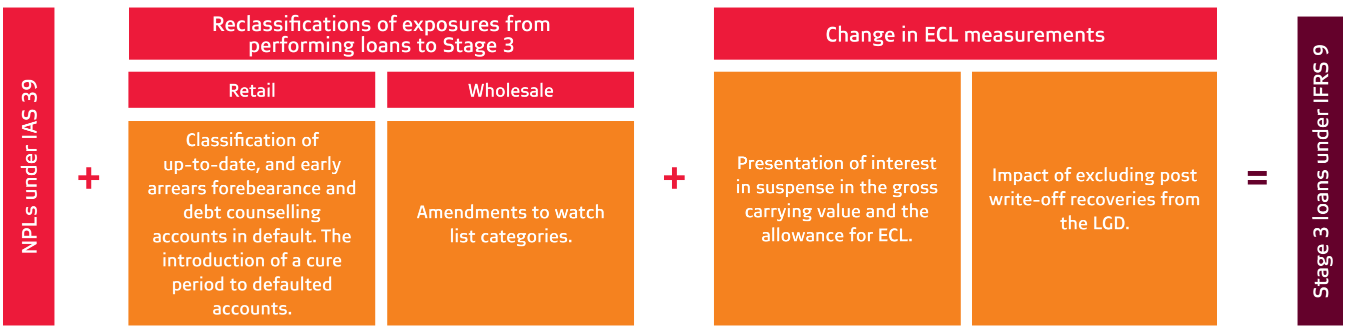
  The exclusion of post write-off recoveries from LGD has significantly increased the allowance for ECL as at 1 January 2018:

  - The restated allowance for ECL is R29 703m (including interest in suspense and ECL provision on off balance sheet items), relative to the amount of R27 767m, as previously published.
  - This has resulted in a reduction in the Group's retained income as at 1 January 2018 of R1 307m (after taxation adjustment of R491m and non-controlling interest of R138m).

  The IFRS 9 transition disclosures previously published as at 30 June 2018 have been restated.

4.2.2 Summary of key changes to NPL under IAS 39 to stage 3 under IFRS 9

The chart below summarises the key reconciling items between the ECL allowance in respect of NPLs under IAS 39, and stage 3 loans under IFRS 9 (refer to Reporting changes section on page 147, notes 4.2 and 5.1):



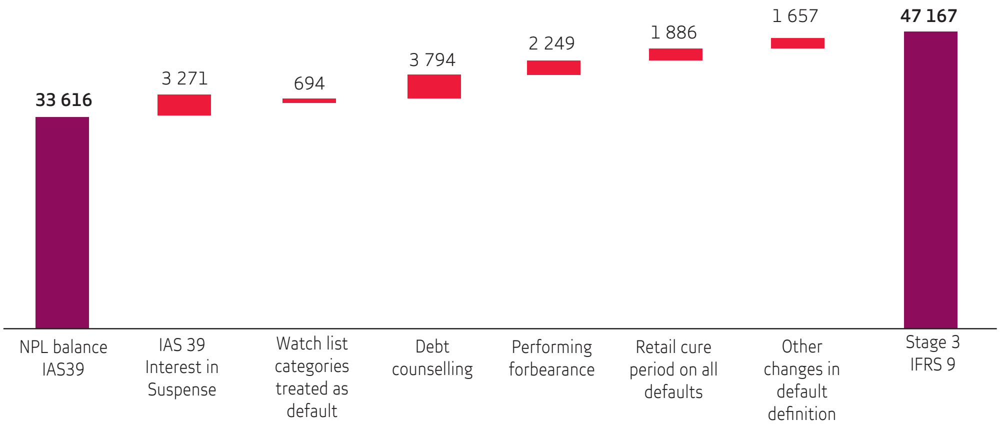
Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.2 Reconciliation of credit categorisations under IAS 39 and IFRS 9 (continued)

4.2.3 Reconciliation between the gross carrying value of loans previously classified as NPL under IAS 39 and of loans classified as Stage 3 under IFRS 9 as at 31 December 2018:



- **IAS 39 interest in suspense:** Contractual interest earned on specifically impaired financial assets was, under IAS 39, suspended and not reflected in either the allowance for ECL or the gross carrying value of the asset. Under IFRS 9, suspended interest is included as a component of gross carrying value of the asset and ECL.
- **Watch list categories treated as default:** Alignment between the accounting and regulatory definition of default, has resulted in minor refinements to the wholesale watch list framework.
- **Debt counselling and forbearance:** Debt counselling and forbearance accounts, which are up to date or in early arrears (that is, less than 90 days past due), were not previously classified as defaulted from an accounting perspective. Alignment between the accounting and regulatory definition of default has triggered the reclassification of a number of accounts from PL into stage 3.
- **Retail cure period of 12 months:** The Group has historically elected to apply a stringent regulatory cure period of 12 months to defaulted assets (regardless of the trigger of the default). No cure period was however applied to NPL assets under IAS 39. Alignment between the regulatory and accounting definitions of default, has resulted in a greater population of customers being included within stage 3, since the Group has not as yet observed 12 months of consecutive performance.

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Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.3 ECL analysis by market segment and class of credit exposure

	Carrying value of financial assets measured at fair value through profit or loss Rm	Stage 1 Gross carrying value Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa	—	413 118	2 899	0.70
Retail Banking South Africa	—	352 726	2 356	0.67
Credit cards	—	30 913	832	2.69
Instalment credit agreements	—	73 806	582	0.79
Loans to associates and joint ventures	—	25 490	1	—
Mortgages	—	197 020	288	0.15
Other loans and advances	—	3 059	20	0.65
Overdrafts	—	4 847	61	1.26
Personal and term loans	—	17 591	572	3.25
Business Banking South Africa	—	60 392	543	0.90
CIB South Africa	45 263	195 965	415	0.21
Absa Regional Operations	—	87 849	879	1.00
WIMI	—	5 342	24	0.45
Head Office, Treasury and other operations in South Africa	—	269	(195)	—
Loans and advances to customers	—	269	6	2.23
Reclassification to provisions[1]	—	—	(201)	—
Loans and advances to customers	45 263	702 543	4 022	0.57
Loans and advances to banks	19 800	30 190	9	0.03
Loans and advances to customers and banks	65 063	732 733	4 031	0.55

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

31 December 2018

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.3 ECL analysis by market segment and class of credit exposure (continued)

	Carrying value of financial assets measured at fair value through profit or loss Rm	Stage 1 Gross carrying value Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa	—	390 374	3 029	0.78
Retail Banking South Africa	—	336 635	2 379	0.71
Credit cards	—	29 329	816	2.78
Instalment credit agreements	—	67 498	686	1.02
Loans to associates and joint ventures	—	23 037	2	0.01
Mortgages	—	193 979	308	0.16
Other loans and advances	—	2 453	8	0.33
Overdrafts	—	4 360	58	1.33
Personal and term loans	—	15 979	501	3.14
Business Banking South Africa	—	53 739	650	1.21
CIB South Africa	26 899	156 285	482	0.31
Absa Regional Operations	—	65 662	1 090	1.66
WIMI	—	4 658	27	0.58
Head Office, Treasury and other operations in South Africa	—	187	(188)	—
Loans and advances to customers	—	187	8	4.28
Reclassification to provisions[1]	—	—	(196)	—
Loans and advances to customers	26 899	617 166	4 440	0.72
Loans and advances to banks	17 198	36 162	40	0.11
Loans and advances to customers and banks	44 097	653 328	4 480	0.69

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

1 January 2018

Stage 2			Stage 3			
Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Gross carrying value Rm	ECL allowance Rm	ECL coverage %	Net total exposure Rm
34 888	3 427	9.82	37 612	15 278	40.62	441 140
27 980	3 084	11.02	31 942	12 631	39.54	378 463
4 392	1 431	32.58	5 918	4 204	71.04	33 188
5 217	629	12.06	4 167	1 599	38.37	73 968
—	—	—	—	—	—	23 035
14 461	257	1.78	18 213	4 489	24.65	221 599
345	18	5.22	11	8	72.73	2 775
1 024	160	15.63	416	280	67.31	5 302
2 541	589	23.19	3 217	2 051	63.76	18 596
6 908	343	4.97	5 670	2 647	46.68	62 677
35 232	384	1.09	2 143	955	44.56	218 738
10 732	798	7.44	5 650	3 567	63.13	76 589
229	6	2.62	330	233	70.61	4 951
769	(172)	—	—	(47)	—	1 363
769	11	1.43	—	—	—	937
—	(183)	—	—	(47)	—	426
81 850	4 443	5.43	45 735	19 986	43.70	742 781
2 065	27	1.31	—	—	—	55 358
83 915	4 470	5.33	45 735	19 986	43.70	798 139

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.3 ECL analysis by market segment and class of credit exposure (continued)

	2017[1]						
	Performing loans			Non-performing loans			
Loans and advances	Exposure Rm	Impairment Rm	Coverage ratio %	Exposure Rm	Impairment Rm	Coverage ratio %	Net total exposure Rm
RBB South Africa	436 694	3 997	0.92	23 868	9 671	40.52	446 894
Retail Banking South Africa	374 760	3 223	0.86	20 534	8 576	41.76	383 495
Credit cards	34 503	729	2.11	5 053	3 605	71.34	35 222
Instalment credit agreements	74 429	682	0.92	2 362	1 117	47.29	74 976
Loans to associates and joint ventures	23 037	—	—	—	—	—	23 037
Mortgages	215 469	1 124	0.52	10 353	2 073	20.02	222 625
Other loans and advances	2 807	16	0.57	—	—	—	2 807
Overdrafts	5 348	71	1.33	383	215	56.14	5 445
Personal and term loans	19 167	601	3.14	2 383	1 566	65.72	19 383
Business Banking South Africa	61 934	774	1.25	3 334	1 095	32.84	63 399
Mortgages (including CPF)	26 158	141	0.54	1 477	519	35.14	26 975
Overdrafts	19 864	396	1.99	1 082	374	34.57	20 176
Term loans	15 912	237	1.49	775	202	26.06	16 248
CIB South Africa	218 437	559	0.26	2 019	832	41.21	219 065
Absa Regional Operations	76 738	981	1.28	4 742	2 636	55.59	77 863
WIMI	4 930	13	0.26	262	175	66.79	5 004
Head Office, Treasury and other operations in South Africa	956	10	1.05	—	—	—	946
Loans and advances to customers	737 755	5 560	0.75	30 891	13 314	43.10	749 772
Loans and advances to banks	55 426	—	—	—	—	—	55 426
Loans and advances to customers and banks	793 181	5 560	0.70	30 891	13 314	43.10	805 198

[1] These numbers have been restated; refer to the reporting changes overview on the inside cover page. IAS 39 has been applied in determining these balances.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.4 Reconciliation of ECL allowance

The following table sets out a reconciliation of the opening and closing IFRS 9 ECL allowances for loans and advances to customers, by market segment:

	2018					
Loans and advances to customers at amortised cost	RBB South Africa Rm	CIB South Africa Rm	Absa Regional Operations Rm	WIMI Rm	Head Office, Treasury and other operations in South Africa Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	21 734	1 821	5 455	266	(407)	28 869
Stage 1	3 029	482	1 090	27	(188)	4 440
Stage 2	3 427	384	798	6	(172)	4 443
Stage 3	15 278	955	3 567	233	(47)	19 986
Transfers between stages	—	—	—	—	—	—
Stage 1 net transfers	1 079	34	119	(1)	—	1 231
Stage 2 net transfers	(1 336)	(36)	(298)	(1)	—	(1 671)
Stage 3 net transfers	257	2	179	2	—	440
Current period provision	6 147	1 207	476	(4)	3	7 829
Amounts written off	(5 388)	(330)	(1 769)	(12)	—	(7 499)
Foreign exchange movement	—	—	968	—	—	968
Balance at the end of the reporting period	22 493	2 698	5 130	250	(404)	30 167
Stage 1	2 899	415	879	24	(195)	4 022
Stage 2	3 886	305	842	20	(191)	4 862
Stage 3	15 708	1 978	3 409	206	(18)	21 283

The following table sets out a reconciliation of the opening and closing IFRS 9 ECL allowances for banks, by market segment:

	2018			
Loans and advances to banks at amortised cost	CIB South Africa Rm	Absa Regional Operations Rm	Head Office, Treasury and other operations in South Africa Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	26	41	—	67
Stage 1	4	36	—	40
Stage 2	22	5	—	27
Stage 3	—	—	—	—
Current period provision	(11)	(33)	5	(39)
Foreign exchange movements	—	(5)	—	(5)
Balance at the end of the reporting period	15	3	5	23
Stage 1	6	2	1	9
Stage 2	9	1	4	14
Stage 3	—	—	—	—

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

4. Impairment losses (continued)

4.5 Reconciliation of IAS 39 impairment allowance

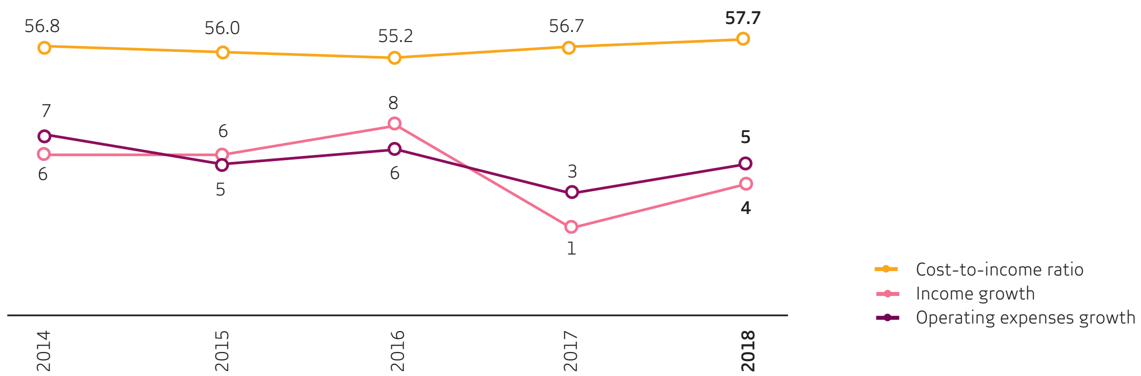
The following table sets out a reconciliation of the opening and closing IAS 39 impairment allowances for loans and advances to customers:

	2017					
Reconciliation of allowances for impairment losses on loans and advances to customers	RBB South Africa Rm	CIB South Africa Rm	Absa Regional Operations Rm	WIMI Rm	Head Office, Treasury and other operations in South Africa Rm	Total expected credit losses Rm
Balances at the beginning of the reporting period	13 880	1 828	3 933	71	4	19 716
Net present value unwind on non-performing book	(713)	—	—	—	—	(713)
Exchange differences	—	—	(331)	—	—	(331)
Transfer between segments	(1)	1	—	—	—	—
Amounts written off	(5 364)	(1 005)	(1 410)	(5)	1	(7 783)
Impairment raised – identified	6 000	653	1 339	121	—	8 113
Impairment raised/(utilised) – unidentified	(134)	(86)	86	1	5	(128)
Balance at the end of the reporting period	13 668	1 391	3 617	188	10	18 874

Statement of financial position - identified and unidentified impairments	2017 Rm
Comprising:	
Identified impairments	16 335
Performing loans	3 020
NPLs	13 315
Unidentified impairments	2 539
Model driven	1 145
Macroeconomic	1 394
	18 874

5. Operating expenses

Jaws and cost-to-income ratio (%)



Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

5. Operating expenses (continued)

Breakdown of operating expenses	2018 Rm	2017 Rm	Change %
Administration fees	468	499	(6)
Amortisation of intangible assets	815	650	25
Auditors' remuneration	331	276	20
Cash transportation	1 266	1 089	16
Depreciation	2 320	1 984	17
Equipment costs	370	444	(17)
Information technology	3 194	3 143	2
Marketing costs	1 595	1 709	(7)
Operating lease expenses on properties	1 606	1 606	—
Other[1]	2 663	2 035	31
Printing and stationery	362	367	(1)
Professional fees	1 820	1 699	7
Property costs	1 759	1 731	2
Staff costs	24 031	23 138	4
Bonuses	2 066	2 058	0
Deferred cash and share-based payments	638	712	(10)
Other[2]	979	1 197	(18)
Salaries and current service costs on post-retirement benefit funds	19 923	18 684	7
Training costs	425	487	(13)
Telephone and postage	1 042	1 033	1
	43 642	41 403	5

Breakdown of IT-related spend included in operating expenses	2018 Rm	2017 Rm	Change %
Amortisation of intangible assets and depreciation of IT equipment	1 958	1 563	25
Information technology	3 194	3 143	2
Staff costs	1 983	2 036	(3)
Other	751	620	21
	7 886	7 362	7

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

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

5. Operating expenses (continued)

On a normalised basis operating costs increased by 5% to **R43 642m** (2017: R41 403m) with staff costs increasing by 4% and non-staff costs increasing by 7%. On a CCY basis normalised operating costs increased by 6% with staff costs increasing by 4% and non-staff costs increasing by 8%.

- Administration fees decreased by **6%** (CCY 6%) mainly from a reduction in fees paid for externally managed product services.
- Amortisation of intangible assets increased by **25%** (CCY 26%) and reflects continuing investment in new digital, data and automation capabilities.
- Cash transportation costs increased by **16%** (CCY 16%) and reflect an increase in the industry's cash infrastructure costs.
- Depreciation increased by **17%** (CCY 18%) and reflects investment on improving technology service levels and into optimisation of the corporate property portfolio and branch network.
- Information technology costs increased by **2%** (CCY 2%) with low growth as the benefit of technology optimisation initiatives was offset by continued investment in technology services post separation from Barclays PLC.
- Marketing costs decreased by **7%** (CCY 7%) reflecting lower product campaign spend.
- Other costs increased by **31%** (CCY 31%), mainly attributable to Absa Regional Operations' change initiatives and other information technology services previously reimbursed by Barclays PLC.
- Property costs and operating lease expenses of **R3 365m** (2017: R3 337m) are marginally higher than the prior year, up **1%** (CCY up 1%) benefitting from the impact of ongoing optimisation of corporate and branch property costs.
- Professional fees increased by **7%** (CCY 6%) mainly from the onboarding of services previously provided by Barclays PLC.
- Staff costs grew by **4%** (CCY 4%) to **R24 031m** (2017: R23 138m). Salary costs increased by **7%** (CCY 7%), which is largely in line with inflation. The afore-mentioned reflected investment hiring relating to the build-out of new capabilities post separation from Barclays PLC and was offset by the impact of a reduction in headcount. Bonuses and deferred cash and share-based payments of **R2 704m** (2017: R2 770m) decreased by **2%** (CCY 2%) reflective of the Group's financial performance.

6. Indirect taxation

	2018 Rm	2017 Rm	Change %
Training levy	**211**	191	10
Value-added tax net of input credits	**1 187**	1 363	(13)
	1 398	1 554	(10)

7. Taxation expense

	2018 Rm	2017[1] Rm	Change %
Reconciliation between operating profit before income tax and the taxation expense			
Operating profit before income tax	**24 041**	22 859	5
Share of post-tax results of associates and joint ventures	**(179)**	(170)	5
	23 862	22 689	5
Tax calculated at a tax rate of 28%	**6 681**	6 353	5
Effect of different tax rates in other countries	**34**	25	36
Expenses not deductible for tax purposes[2]	**846**	789	7
Recognition of previously unrecognised deferred tax assets	**—**	(7)	(100)
Dividend income[3]	**(434)**	(413)	5
Non-taxable interest[3, 4]	**(181)**	(193)	(6)
Other income not subject to tax[3]	**(124)**	(251)	(51)
Other	**(72)**	(39)	(85)
Items of a capital nature	**16**	26	(38)
	6 766	6 290	8

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

[2] Includes donations, non-deductible levies and non-deductible expenses.

[3] In the prior reporting period 'Income not subject to tax' (R857m) has been disaggregated to 'Dividend Income' (R413m), 'Non-taxable interest' (R192m) and 'Income not subject to tax' (R252m).

[4] Relates to interest earned from certain governments in Africa regions as well as interest earned on capital instruments, which are exempt from tax.

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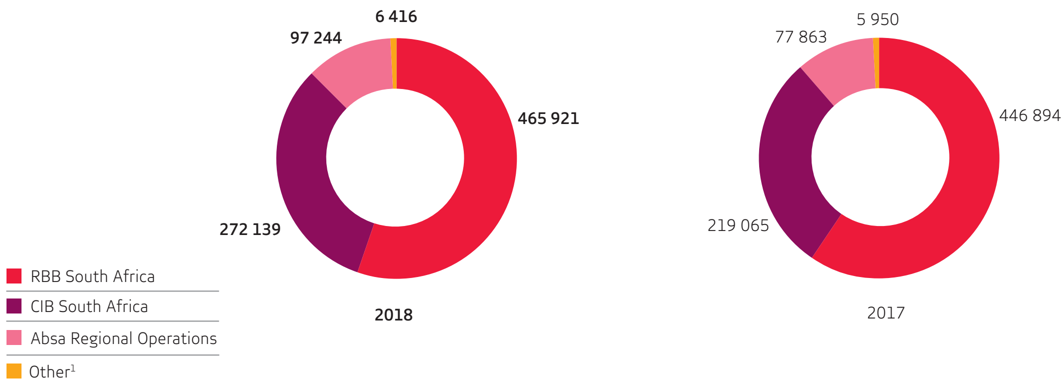
for the reporting period ended 31 December

8. Loans and advances to customers

Loans and advances to customers by segment (Rm)



	2018 %	2017 %
RBB South Africa	55.4	59.6
Retail Banking South Africa	47.1	51.1
Business Banking South Africa	8.3	8.5
CIB South Africa	32.3	29.2
Absa Regional Operations	11.6	10.4
Other[1]	0.7	0.8
	100.0	100.0

[1] Includes WIMI and Head Office, Treasury and other operations in South Africa.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

8. Loans and advances to customers (continued)

Loans and advances to customers by segment	2018 Rm	2017[1] Rm	Change %
RBB South Africa			
Gross loans and advances to customers	**488 414**	460 562	6
Impairment losses on loans and advances to customers	**(22 493)**	(13 668)	65
	465 921	446 894	4
Retail Banking South Africa			
Credit cards	**41 226**	39 556	4
Instalment credit agreements	**85 651**	76 791	12
Loans to associates and joint ventures	**25 490**	23 037	11
Mortgages	**229 557**	225 822	2
Other loans and advances	**3 526**	2 807	26
Overdrafts	**6 668**	5 731	16
Personal and term loans	**23 896**	21 550	11
Gross loans and advances to customers	**416 014**	395 294	5
Impairment losses on loans and advances to customers	**(19 209)**	(11 799)	63
	396 805	383 495	3
Business Banking South Africa			
Mortgages (including CPF)	**30 301**	27 635	10
Overdrafts	**22 173**	20 946	6
Term loans	**19 926**	16 687	19
Gross loans and advances to customers	**72 400**	65 268	11
Impairment losses on loans and advances to customers	**(3 284)**	(1 869)	76
	69 116	63 399	9
CIB South Africa			
Foreign currency loans	**36 143**	25 676	41
Mortgages	**27 798**	20 203	38
Term loans	**110 702**	89 905	23
Overdrafts	**21 759**	20 121	8
Overnight finance	**18 038**	19 033	(5)
Preference shares	**20 450**	17 824	15
Reverse repurchase agreements	**29 414**	19 316	52
Other loans and advances	**10 533**	8 378	26
Gross loans and advances to customers	**274 837**	220 456	25
Impairment losses on loans and advances to customers	**(2 698)**	(1 391)	94
	272 139	219 065	24
Absa Regional Operations			
Gross loans and advances to customers	**102 374**	81 480	26
Impairment losses on loans and advances to customers	**(5 130)**	(3 617)	42
	97 244	77 863	25

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page. IAS 39 has been applied in determining these numbers.

Performance indicators and condensed normalised notes to the consolidated financial statements

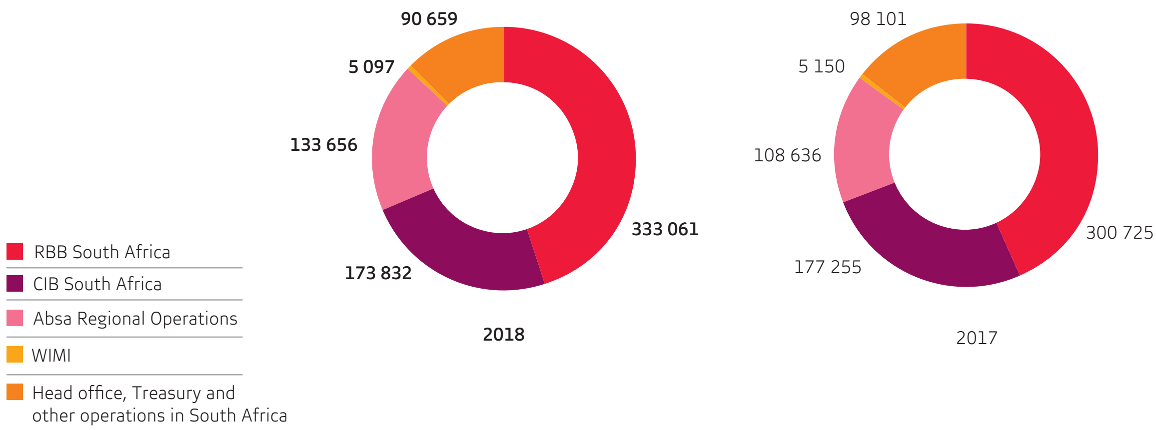
for the reporting period ended 31 December

8. Loans and advances to customers (continued)

Loans and advances to customers by segment (continued)	2018 Rm	2017[1] Rm	Change %
WIMI			
CPF	**1 370**	1 075	27
Overdrafts	**2 485**	2 241	11
Other loans and advances	**2 129**	1 876	13
Gross loans and advances to customers	**5 984**	5 192	15
Impairment losses on loans and advances to customers	**(250)**	(188)	33
	5 734	5 004	15
Head Office, Treasury and other operations in South Africa			
Gross loans and advances to customers	**278**	956	(71)
Impairment losses on loans and advances to customers	**404**	(10)	<(100)
	682	946	(28)
Total loans and advances to customers			
Gross loans and advances to customers	**871 887**	768 646	13
Impairment losses on loans and advances to customers	**(30 167)**	(18 874)	60
Net loans and advances to customers	**841 720**	749 772	12

9. Deposits due to customers

Deposits due to customers by segment (Rm)



Total funding mix	2018 %	2017 %
Deposits due to customers	**72.3**	77.1
RBB South Africa	**32.7**	33.6
Retail Banking South Africa	**20.4**	20.9
Business Banking South Africa	**12.3**	12.7
CIB South Africa	**17.1**	19.8
Absa Regional Operations	**13.1**	12.1
WIMI	**0.5**	0.6
Head Office, Treasury and other operations in South Africa	**8.9**	11.0
Deposits from banks	**11.9**	7.5
Debt securities in issue	**15.8**	15.4
	100.0	100.0

[1] IAS 39 has been applied in determining these numbers.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

9. Deposits due to customers (continued)

Deposits due to customers by segment	2018 Rm	2017[1] Rm	Change %
RBB South Africa	**333 061**	300 725	11
Retail Banking South Africa	**207 696**	186 855	11
Call deposits	**255**	224	14
Cheque account deposits	**27 660**	25 155	10
Credit card deposits	**1 904**	1 896	0
Fixed deposits	**56 835**	44 503	28
Foreign currency deposits	**452**	360	26
Investment products	**73 391**	69 428	6
Notice deposits	**16 927**	14 428	17
Other deposits	**663**	606	9
Saving and transmission deposits	**29 609**	30 255	(2)
Business Banking South Africa	**125 365**	113 870	10
Call deposits	**13 279**	12 389	7
Cheque account deposits	**52 826**	46 693	13
Fixed deposits	**23 189**	20 889	11
Investment products	**30 742**	28 474	8
Notice deposits	**1 820**	1 778	2
Saving and transmission deposits	**3 509**	3 647	(4)
CIB South Africa	**173 832**	177 255	(2)
Call deposits	**24 720**	24 115	3
Cheque account deposits	**78 557**	82 877	(5)
Fixed deposits	**41 631**	49 218	(15)
Foreign currency deposits	**12 495**	13 243	(6)
Investment products	**1 716**	1 444	19
Notice deposits	**1 095**	523	>100
Other deposits	**732**	741	(1)
Repurchase agreements with non-banks	**12 793**	5 000	>100
Saving and transmission deposits	**93**	94	(1)
Absa Regional Operations	**133 656**	108 636	23
WIMI	**5 097**	5 150	(1)
Call deposits	**276**	403	(32)
Cheque account deposits	**1 884**	2 086	(10)
Fixed deposits	**779**	483	61
Foreign currency deposits	**129**	125	3
Investment products	**1 702**	1 660	3
Notice deposits	**23**	19	21
Saving and transmission deposits	**304**	374	(19)
Head office, treasury and other operations in South Africa	**90 659**	98 101	(8)
Total deposits due to customers	**736 305**	689 867	7

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

10. Debt securities in issue

Debt securities in issue	2018 Rm	2017 Rm	Change %
Commercial paper	**1 436**	227	>100
Credit-linked notes	**9 049**	8 375	8
Floating rate notes	**64 181**	63 125	2
Negotiable certificates of deposit	**53 809**	37 137	45
Other	**696**	1 132	(39)
Promissory notes	**1 257**	783	61
Structured notes and bonds	**101**	257	(61)
Senior notes	**30 442**	26 912	13
	160 971	137 948	17
Segment split			
RBB South Africa	**—**	400	(100)
CIB South Africa	**11 565**	12 532	(8)
Absa Regional Operations	**1 363**	379	>100
Head Office, Treasury and other operations in South Africa	**148 043**	124 637	19
	160 971	137 948	17

11. Equity and borrowed funds

	2018 Rm	2017 Rm	Change %
Authorised			
880 467 500 (2017: 880 467 500; ordinary shares of R2.00 each	**1 761**	1 761	—
Issued			
847 750 679 (2017: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696	—
7 557 551 (2017: 2 196 604) treasury shares held by Group entities	**(16)**	(5)	>100
	1 680	1 691	(1)
Total issued capital			
Share capital	**1 680**	1 691	(1)
Share premium	**3 657**	3 949	(7)
	5 337	5 640	(5)

Number of ordinary shares in issue (after deduction of treasury shares)	2018 Number of shares (million)	2017 Number of shares (million)	Change %
Ordinary shares in issue of R2.00 each	**847.8**	847.8	—
Treasury shares held by the Group	**(7.6)**	(2.2)	>100
	840.2	845.6	(1)

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

11. Equity and borrowed funds (continued)

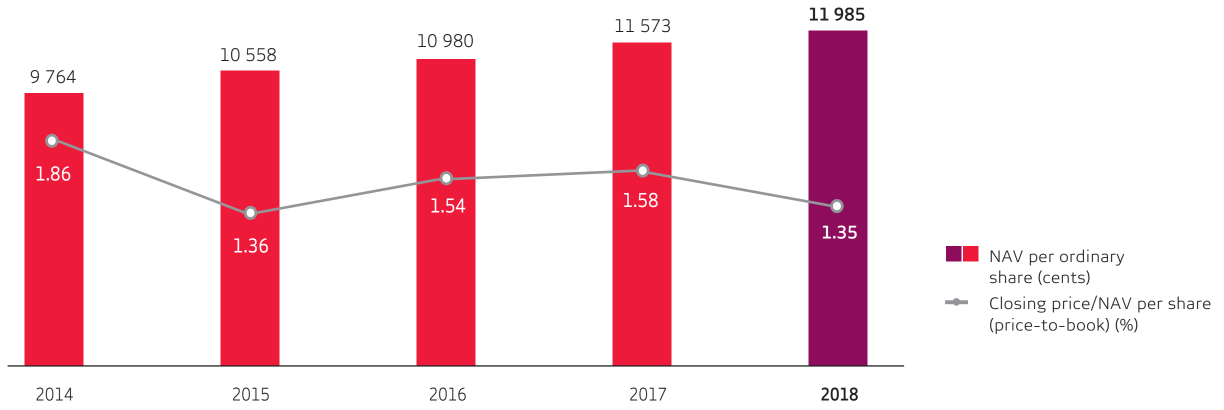
Borrowed funds		2018 Rm	2017 Rm	Change %
Subordinated callable notes issued by Absa Bank Limited				
The following subordinated debt instruments qualify as Tier 2 Capital in terms of Basel III.				
Interest rate	**Final maturity date**			
8.295%	21 November 2023	—	1 188	(100)
Three month JIBAR + 2.05%	21 November 2023	—	2 007	(100)
Consumer Price Index linked notes fixed at 5.50%	7 December 2028	**1 500**	1 500	—
Subordinated callable notes issued by Absa Group Limited				
Interest rate	**Final maturity date**			
10.05%	5 February 2025	**807**	807	—
10.835%	19 November 2024	**130**	130	—
11.37%	4 September 2025	**508**	508	—
11.40%	29 September 2025	**288**	288	—
11.74%	20 August 2026	**140**	140	—
11.81%	3 September 2027	**737**	737	—
12.43%	5 May 2026	**200**	200	—
Three-month JIBAR + 2.45%	29 November 2028	**1 500**	—	100
Three-month JIBAR + 3.30%	19 November 2024	**370**	370	—
Three-month JIBAR + 3.50%	5 February 2025	**1 693**	1 693	—
Three-month JIBAR + 3.60%	3 September 2027	**437**	437	—
Three-month JIBAR + 4.00%	5 May 2026	**30**	30	—
Three-month JIBAR + 4.00%	20 August 2026	**31**	31	—
Three-month JIBAR + 4.00%	3 November 2026	**1 510**	1 510	—
Three-month JIBAR + 3.78%	17 March 2027	**500**	500	—
Three-month JIBAR + 3.85%	25 May 2027	**642**	642	—
Three-month JIBAR + 3.85%	3 November 2026	**500**	500	—
Three-month JIBAR + 3.15%	17 March 2027	**390**	390	—
Three-month JIBAR + 3.45%	25 May 2027	**295**	295	—
Three-month JIBAR + 3.85%	14 August 2029	**1 014**	1 014	—
USD 6.25%	25 April 2028	**4 932**	—	100
Subordinated callable notes issued by other subsidiaries				
National Bank of Commerce 16.44% fixed-rate note	29 January 2024	**34**	29	17
Barclays Bank of Botswana Limited, Bank rate +2.25%	14 November 2023	**139**	—	100
Other				
Accrued interest		**1 222**	918	33
Fair value adjustments on total subordinated debt instruments		**63**	31	>100
Foreign exchange movement		**613**	—	100
		20 225	15 895	27

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

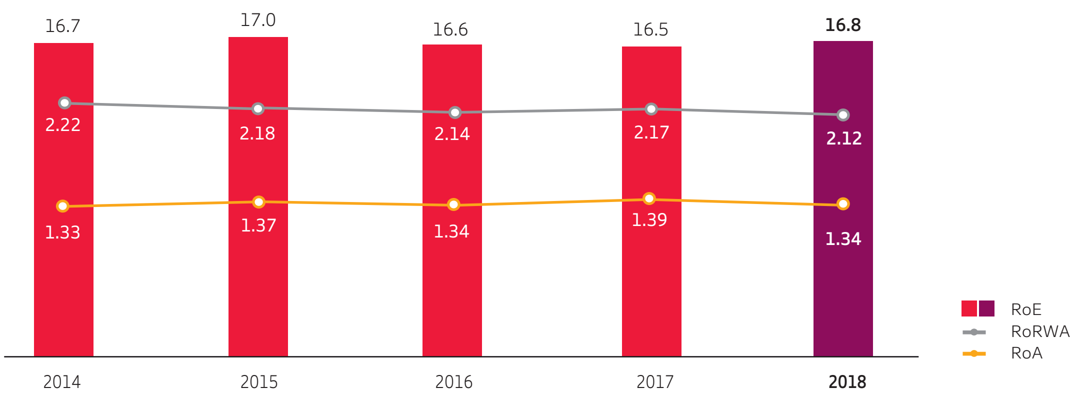
11. Equity and borrowed funds (continued)

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



12. Returns

RoE, RoA and RoRWA (%)[1]



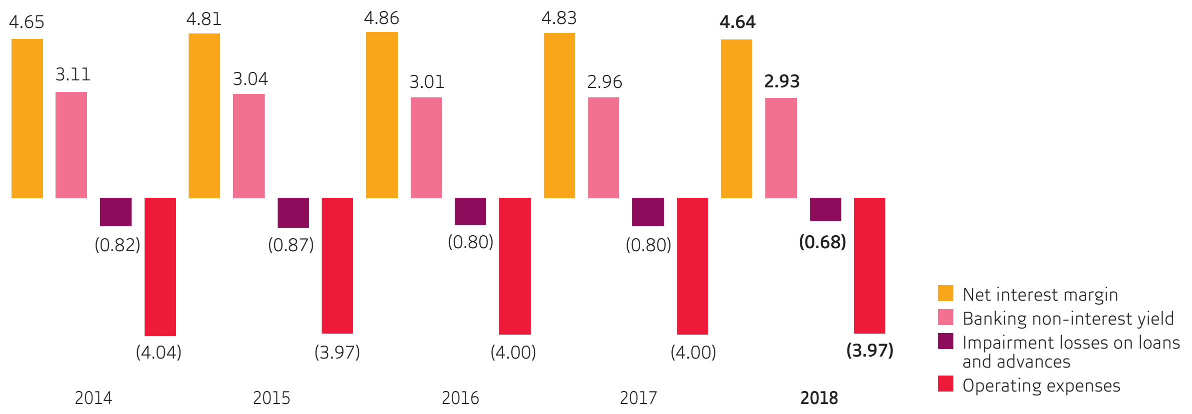
[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

13. RoE decomposition

Major drivers of RoE (%)[1]



		2018 %	2017[1] %
	Net interest margin (average interest-bearing assets)[2]	**4.64**	4.83
Less:	Impairment losses/average interest-bearing assets	**0.68**	0.80
Equals:	Net interest margin – after impairment losses (average interest-bearing assets)	**3.97**	4.03
Multiply:	Average interest-bearing assets/average banking assets	**85.02**	84.60
Equals:	Banking interest yield	**3.36**	3.41
Plus:	Banking non-interest yield	**2.93**	2.96
Equals:	Banking income yield	**6.29**	6.37
Less:	Operating expenses/average banking assets	**3.97**	4.00
Equals:	Net banking return	**2.32**	2.37
Less:	Other[3]	**0.86**	0.86
Equals:	Banking return	**1.46**	1.51
Multiply:	Average banking assets/total average assets	**91.32**	92.30
Equals:	RoA	**1.34**	1.39
Multiply:	Leverage	**12.54**	11.90
Equals:	RoE	**16.8**	16.5

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

[2] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.80%** (2017: 4.95%).

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

14. Off-statement of financial position items

	2018 Rm	2017 Rm	Change %
Commitments			
Authorised capital expenditure			
Contracted but not provided for	**1 304**	270	>100
	1 304	270	>100
Operating lease payments due			
Not later than one year	**1 408**	1 365	3
Later than one year and no later than five years	**3 905**	3 056	28
Later than five years	**707**	948	(25)
	6 020	5 369	12
Contingencies			
Guarantees[1]	**46 529**	38 799	20
Irrevocable debt facilities[2]	**199 062**	162 907	22
Irrevocable equity facilities	**8**	33	(76)
Letters of credit	**14 838**	7 814	90
Other	**63**	262	(76)
	260 500	209 815	24

Performance

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

15. Legal proceedings

Legal matters

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

- Pinnacle Point Holdings Proprietary Limited: It is alleged that a local bank conducted itself unlawfully in relation to a financial product offered by it, and that Absa Bank Limited was privy to such conduct. Subsequent to the withdrawal of the first plaintiff's (Pinnacle Point Holdings) claim, the total claim amount has been substantially reduced, however, the second to fifth plaintiffs persist with their claims for damages for an amount of R470m.
- Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme, in which Corporate Money Managers (CMM) managed a portfolio of assets within the Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the fund) allege that the defendants caused damages to them arising from their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act, in respect of which they seek payment of R934m.

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

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

[1] Guarantees include performance and payment guarantee contracts.

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

15. Legal proceedings (continued)

Legal matters (continued)

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

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

Regulatory matters

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

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

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

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

16. Income taxes

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

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

Performance indicators and condensed normalised notes to the consolidated financial statements

for the reporting period ended 31 December

17. Standards issued not yet effective

IFRS 16 Leases

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

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

- a right-of-use asset together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and
- depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income.

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

During 2018, the joint leases programme (incorporating corporate real estate services and finance) has focused its efforts on implementing the IT solution, which will ensure that leases are recognised and disclosed in terms of the requirements of IFRS 16, collating the required lease data, designing and testing new processes, and ensuring appropriate financial disclosures.

The effective date of IFRS 16 is 1 January 2019. The Group intends to apply the modified retrospective approach on adoption, with right-of-use assets measured retrospectively using the Group's transition date incremental borrowing rate.

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

IFRS 17 Insurance contracts

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

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

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

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

Segment performance

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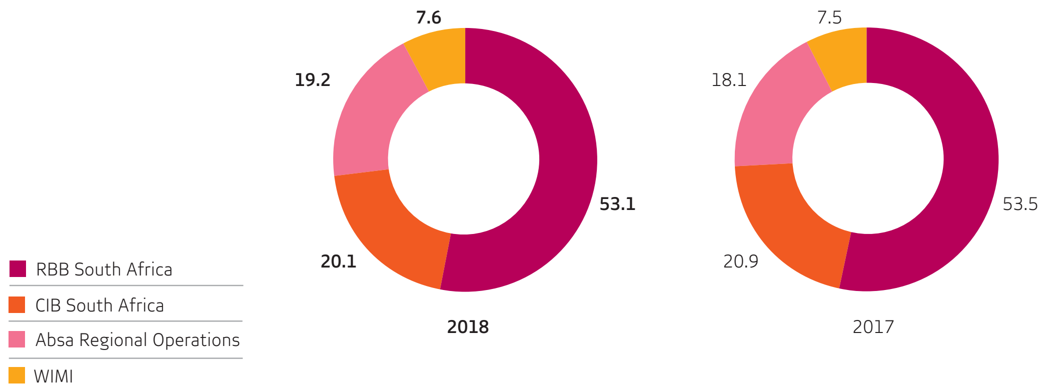
Segment performance overview

for the reporting period ended 31 December

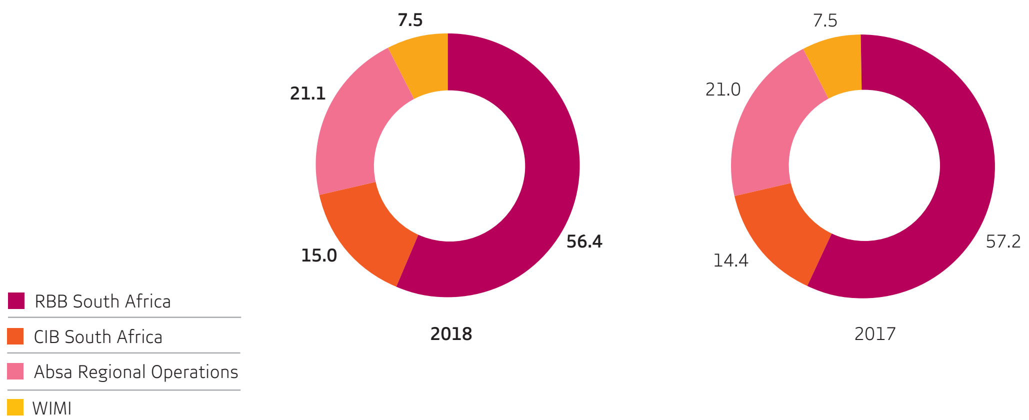
Performance per market segment

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



Headline earnings	2018 Rm	2017[1] Rm	Change %
RBB South Africa	**8 880**	8 748	2
CIB South Africa	**3 367**	3 411	(1)
Absa Regional Operations	**3 218**	2 954	9
WIMI	**1 268**	1 231	3
Head Office, Treasury and other operations in South Africa	**(605)**	(721)	(16)
	16 128	15 623	3

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



Income	2018 Rm	2017[1] Rm	Change %
RBB South Africa	**43 591**	42 607	2
CIB South Africa	**11 595**	10 706	8
Absa Regional Operations	**16 323**	15 617	5
WIMI	**5 831**	5 580	4
Head Office, Treasury and other operations in South Africa	**(1 680)**	(1 520)	11
	75 660	72 990	4

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

Segment performance overview

for the reporting period ended 31 December

Segment reporting structure

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

Absa Group Limited

RBB South Africa

Retail Banking
- Home Loans
- Vehicle and Asset Finance
- Card and Payments
- Personal Loans
- Transactional and Deposits
- Other

Business Banking
- Debt Products
- Deposit Products
- Transactional Products
- Equities

CIB South Africa

Corporate Bank

Investment Bank
- Markets
- Banking
- Commercial Property Finance
- Private Equity and Infrastructure

Absa Regional Operations

RBB

CIB
- Corporate
- Investment Bank

Head Office, Treasury and other operations

WIMI
- Continuing Business Lines
  - Life Insurance
  - Wealth and Investment Management[1]
  - Short-term Insurance
  - Fiduciary Services
  - Distribution
  - Other
- Terminating Business Lines

Head Office, Treasury and other operations in South Africa[2]
- Enterprise Functions
- Group Treasury
- Consolidation Centre

Barclays separation effects
- Financial impact of the Barclays PLC separation to differentiate between normal business activities and the IFRS impact of the separation.

······ Normalised
—— IFRS

[1] Includes the Wealth banking portfolio.
[2] Includes Absa Manx Insurance Company.

Segment performance overview

for the reporting period ended 31 December

Operational metrics	2018	2017	Change %
South Africa			
Outlets (including number of branches and sales centres)	**671**	705	(5)
ATMs	**8 961**	8 919	0
Africa Regions			
Outlets (including number of branches and sales centres)	**403**	415	(3)
ATMs	**1 108**	1 134	(2)
Number of permanent and temporary employees	**40 856**	41 703	(2)
South Africa (excludes WFS employees)	**30 819**	31 649	(3)
Africa Regions	**10 037**	10 054	(0)

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Segment report per market segment

for the reporting period ended 31 December

	RBB South Africa			CIB South Africa			Absa Regional Operations
	2018	2017[1]	Change %	2018	2017[1]	Change %	2018
Statement of comprehensive income							
Net interest income	25 508	25 421	0	7 006	6 434	9	11 166
Non-interest income	18 083	17 186	5	4 589	4 272	7	5 157
Total income	43 591	42 607	2	11 595	10 706	8	16 323
Impairment losses	(4 555)	(5 038)	(10)	(998)	(567)	76	(794)
Operating expenses	(25 770)	(24 476)	5	(6 304)	(5 644)	12	(9 535)
Other operating expenses	(202)	(160)	26	(32)	(178)	(82)	(201)
Operating profit before income tax	13 064	12 933	1	4 261	4 317	(1)	5 793
Tax expense	(3 633)	(3 664)	(1)	(688)	(759)	(9)	(2 011)
Profit for the reporting period	9 431	9 269	2	3 573	3 558	0	3 782
Profit attributable to:							
Ordinary equity holders	8 814	8 741	1	3 367	3 411	(1)	3 237
Non-controlling interest – ordinary shares	286	269	6	—	—	—	545
Non-controlling interest – preference shares	214	229	(7)	134	129	4	—
Non-controlling interest – additional Tier 1	117	30	>100	72	18	>100	—
	9 431	9 269	2	3 573	3 558	0	3 782
Headline earnings	8 880	8 748	2	3 367	3 411	(1)	3 218
Operating performance (%)							
Net interest margin on average interest-bearing assets[2]	3.58	3.73		2.39	2.35		7.44
Credit loss ratio	0.94	1.10		0.36	0.24		0.77
Non-interest income as % of income	41.5	40.3		39.6	39.9		31.6
Income growth	2	2		8	4		5
Operating expenses growth	5	7		12	2		6
Cost-to-income ratio	59.1	57.4		54.4	52.7		58.4
Statement of financial position (Rm)							
Loans and advances to customers	465 921	446 894	4	272 139	219 065	24	97 244
Loans and advances to banks	11 214	7 893	42	38 027	31 728	20	11 278
Investment securities	45 190	43 100	5	39 391	31 277	26	36 043
Other assets	281 660	255 962	10	182 282	213 655	(15)	48 395
Total assets	803 985	753 849	7	531 839	495 725	7	192 960
Deposits due to customers	333 061	300 725	11	173 832	177 255	(2)	133 656
Debt securities in issue	—	400	(100)	11 565	12 532	(8)	1 363
Other liabilities	462 611	440 425	5	339 364	299 139	13	35 052
Total liabilities	795 672	741 550	7	524 761	488 926	7	170 071
Financial performance (%)							
RoRWA	2.68	2.72		1.72	1.82		1.75
RoA	1.17	1.19		0.66	0.74		1.84
RoRC[3]	24.0	23.1		15.6	16.3		18.5

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

[2] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.80%** (2017: 4.95%).

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

Absa Regional Operations		WIMI			Head Office, Treasury and other operations in South Africa			Normalised Group performance		
2017	Change %	2018	2017[1]	Change %	2018	2017[1]	Change %	2018	2017	Change %
10 764	4	317	362	(12)	(572)	(662)	(14)	43 425	42 319	3
4 853	6	5 514	5 218	6	(1 108)	(858)	29	32 235	30 671	5
15 617	5	5 831	5 580	4	(1 680)	(1 520)	11	75 660	72 990	4
(1 289)	(38)	35	(120)	<(100)	(12)	(8)	50	(6 324)	(7 022)	(10)
(9 000)	6	(3 578)	(3 617)	(1)	1 545	1 334	16	(43 642)	(41 403)	5
(177)	14	(162)	(219)	(26)	(1 056)	(972)	9	(1 653)	(1 706)	(3)
5 151	12	2 126	1 624	31	(1 203)	(1 166)	3	24 041	22 859	5
(1 665)	21	(740)	(453)	63	306	251	22	(6 766)	(6 290)	8
3 486	8	1 386	1 171	18	(897)	(915)	(2)	17 275	16 569	4
2 972	9	1 381	1 162	19	(896)	(916)	(2)	15 903	15 370	3
514	6	1	5	(80)	(1)	1	<(100)	831	789	5
—	—	3	4	(25)	—	—	—	351	362	(3)
—	—	1	—	100	—	—	—	190	48	>100
3 486	8	1 386	1 171	18	(897)	(915)	(2)	17 275	16 569	4
2 954	9	1 268	1 231	3	(605)	(721)	(16)	16 128	15 623	3
7.18		n/a	n/a		n/a	n/a		4.64	4.83	
1.34		(0.45)	1.58		n/a	n/a		0.73	0.87	
31.1		94.6	93.5		n/a	n/a		42.6	42.0	
(3)		4	5		n/a	n/a		4	1	
(2)		(1)	3		n/a	n/a		5	3	
57.6		61.4	64.8		n/a	n/a		57.7	56.7	
77 863	25	5 734	5 004	15	682	946	(28)	841 720	749 772	12
11 892	(5)	2 520	1 847	36	(9 899)	2 066	<(100)	53 140	55 426	(4)
28 824	25	4 218	4 765	(11)	10 578	3 443	>100	135 420	111 409	22
44 141	10	37 976	39 081	(3)	(295 041)	(300 763)	(2)	255 272	252 076	1
162 720	19	50 448	50 697	(0)	(293 680)	(294 308)	0	1 285 552	1 168 683	10
108 636	23	5 097	5 150	(1)	90 659	98 101	(8)	736 305	689 867	7
379	>100	—	—	—	148 043	124 637	19	160 971	137 948	17
33 379	5	39 850	40 493	(2)	(601 454)	(581 074)	4	275 423	232 362	19
142 394	19	44 947	45 643	(2)	(362 752)	(358 336)	1	1 172 699	1 060 177	11
1. 77		n/a	n/a		n/a	n/a		2.12	2.17	
1.71		2.47	2.16		n/a	n/a		1.34	1.39	
16.6		21.7	20.8		n/a	n/a		n/a	n/a	

Segment report per geographical segment

for the reporting period ended 31 December

	South Africa		
	2018	2017[1]	Change %
Statement of comprehensive income (Rm)			
Net interest income	**32 229**	31 518	2
Non-interest income	**26 687**	25 403	5
Total income	**58 916**	56 921	4
Impairment losses on loans and advances	**(5 530)**	(5 733)	(4)
Operating expenses	**(33 688)**	(32 004)	5
Other operating expenses	**(1 431)**	(1 479)	(3)
Operating profit before income tax	**18 267**	17 705	3
Tax expenses	**(4 721)**	(4 627)	2
Profit for the reporting period	**13 546**	13 078	4
Profit attributable to:			
Ordinary equity holders	**12 719**	12 402	3
Non-controlling interest – ordinary shares	**286**	266	8
Non-controlling interest – preference shares	**351**	362	(3)
Non-controlling interest – additional Tier 1	**190**	48	>100
	13 546	13 078	4
Headline earnings	**12 968**	12 650	3
Operating performance (%)			
Net interest margin on average interest-bearing assets[2]	**4.10**	4.33	
Credit loss ratio	**0.72**	0.81	
Non-interest income as % of income	**45.3**	44.6	
Income growth	**4**	1	
Cost growth	**5**	5	
Cost-to-income ratio	**57.2**	56.2	
Statement of financial position (Rm)			
Loans and advances to customers	**744 476**	671 909	11
Loans and advances to banks	**41 191**	42 970	(4)
Investment securities	**98 640**	82 068	20
Other assets	**205 354**	206 722	(1)
Total assets	**1 089 661**	1 003 669	9
Deposits due to customers	**602 649**	581 231	4
Debt securities in issue	**159 608**	137 569	16
Other liabilities	**238 182**	197 386	21
Total liabilities	**1 000 439**	916 186	9
Financial performance (%)			
RoRWA	**2.26**	2.30	
RoA	**1.26**	1.33	

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

[2] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.80%** (2017: 4.95%).

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Africa Regions				Normalised Group performance			
2018	2017	CCY%	Change %	2018	2017[1]	CCY%	Change %
11 196	10 801	5	4	**43 425**	42 319	3	3
5 548	5 268	8	5	**32 235**	30 671	6	5
16 744	16 069	6	4	**75 660**	72 990	4	4
(794)	(1 289)	(40)	(38)	**(6 324)**	(7 022)	(10)	(10)
(9 954)	(9 399)	8	6	**(43 642)**	(41 403)	6	5
(222)	(227)	(1)	(2)	**(1 653)**	(1 706)	(3)	(3)
5 774	5 154	15	12	**24 041**	22 859	6	5
(2 045)	(1 663)	27	23	**(6 766)**	(6 290)	8	8
3 729	3 491	9	7	**17 275**	16 569	5	4
3 184	2 968	11	7	**15 903**	15 370	4	3
545	523	(3)	4	**831**	789	1	5
—	—	—	—	**351**	362	(3)	(3)
—	—	—	—	**190**	48	>100	>100
3 729	3 491	9	7	**17 275**	16 569	5	4
3 160	2 973	10	6	**16 128**	15 623	4	3
7.46	7.20			**4.64**	4.83		
0.77	1.33			**0.73**	0.87		
33.1	32.8			**42.6**	42.0		
4	(1)			**4**	1		
6	(2)			**5**	3		
59.5	58.5			**57.7**	56.7		
97 244	77 863	12	25	**841 720**	749 772	11	12
11 949	12 456	(12)	(4)	**53 140**	55 426	(6)	(4)
36 780	29 341	13	25	**135 420**	111 409	18	22
49 918	45 354	(4)	10	**255 272**	252 076	(1)	1
195 891	165 014	6	19	**1 285 552**	1 168 683	8	10
133 656	108 636	10	23	**736 305**	689 867	5	7
1 363	379	>100	>100	**160 971**	137 948	17	17
37 241	34 976	(5)	6	**275 423**	232 362	17	19
172 260	143 991	7	20	**1 172 699**	1 060 177	9	11
1.70	1.76			**2.12**	2.17		
1.78	1.70			**1.34**	1.39		

Retail and Business Banking South Africa

for the reporting period ended 31 December

RBB SA headline earnings grew 2% to **R8 880m** (2017: R8 748m) with a 10% reduction in impairments, offset by a decrease of 2% in pre-provision profit.

Asset production momentum,

which began in the second half of 2017, continued in 2018 with most of the portfolios delivering double digit growth.

Gross loans and advances grew 6% to R488bn,

improving from 3% in 2017, primarily driven by the increase in asset production.

Home Loans advances increased 2% to R232bn,

maintaining growth momentum from the first half of 2018.

Deposits grew faster

in the second half supported by targeted marketing initiatives. The deposits growth rate improved from 5% at half year to 11% by year end to **R333bn.**

Non-interest income grew 5%

mainly driven by production growth and an increase in the cheque account base.

Credit loss ratio reduced by 16 bps

to **0.94%** (2017: 1.10%).

Return on Regulatory Capital (RoRC) increased to 24.0%

(2017: 23.1%).

Net interest income was flat

due to the implementation of IFRS 9 in 2018. Excluding these changes, the underlying growth in net interest income was 5%, underpinned by the increase in deposits and advances portfolios.

Deposit margins contracted

largely due to the growth in the relative composition of the investment deposits portfolio.

The store card portfolio continued to experience pressure,

reducing by a further 10% due to reduced customer activity.

Operating expenses

growth contained at 5% despite one-off costs.

Salient features	2018	2017[1]	Change %
Income (Rm)	**43 591**	42 607	2
Pre-provision profit (Rm)	**17 821**	18 131	(2)
Attributable earnings (Rm)	**8 814**	8 741	1
Headline earnings (Rm)	**8 880**	8 748	2
Credit loss ratio (%)	**0.94**	1.10	
Cost-to-income ratio (%)	**59.1**	57.4	
RoRWA (%)	**2.68**	2.72	
RoA (%)	**1.17**	1.19	
RoRC (%)	**24.0**	23.1	

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

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Retail and Business Banking South Africa

for the reporting period ended 31 December

Headline earnings by segment	2018 Rm	2017[1] Rm	Change %
RBB South Africa	**8 880**	8 748	2
Home Loans	**1 736**	1 735	0
Vehicle and Asset Finance	**877**	966	(9)
Card and Payments	**1 723**	1 497	15
Personal Loans	**461**	430	7
Transactional and Deposits	**2 311**	2 375	(3)
Other	**(749)**	(763)	(2)
Business Banking (excluding equities)	**2 579**	2 539	2
Business Banking equities	**(58)**	(31)	87

Business profile

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

Key business areas

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

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

Retail and Business Banking South Africa

for the reporting period ended 31 December

	Home Loans			Vehicle and Asset Finance			Card and Payments[2]		
	2018	2017[1]	Change %	2018	2017[1]	Change %	2018	2017[1]	Change %
Statement of comprehensive income (Rm)									
Net interest income	3 958	4 434	(11)	3 223	3 054	6	4 596	4 687	(2)
Non-interest income	467	446	5	891	895	(0)	3 871	3 742	3
Total income	4 425	4 880	(9)	4 114	3 949	4	8 467	8 429	0
Impairment losses	(113)	(689)	(84)	(1 096)	(847)	29	(1 478)	(1 924)	(23)
Operating expenses	(1 872)	(1 752)	7	(2 019)	(1 951)	3	(4 094)	(3 927)	4
Other expenses	(19)	(18)	6	132	136	(3)	(116)	(118)	(2)
Operating profit before income tax	2 421	2 421	0	1 131	1 287	(12)	2 779	2 460	13
Tax expenses	(685)	(686)	0	(294)	(321)	(8)	(783)	(692)	13
Profit for the reporting period	1 736	1 735	0	837	966	(13)	1 996	1 768	13
Profit attributable to:									
Ordinary equity holders	1 736	1 735	0	837	966	(13)	1 710	1 497	14
Non-controlling interest – ordinary shares	—	—	—	—	—	—	286	271	6
Non-controlling interest – preference shares	—	—	—	—	—	—	—	—	—
Non-controlling interest – additional Tier 1	—	—	—	—	—	—	—	—	—
	1 736	1 735	0	837	966	(13)	1 996	1 768	13
Headline earnings	1 736	1 735	0	877	966	(9)	1 723	1 497	15
Operating performance (%)									
Credit loss ratio	0.05	0.30		1.02	0.87		3.42	4.53	
Non-interest income as % of income	10.6	9.1		21.7	22.7		45.7	44.4	
Income growth	(9)	1		4	4		0	(3)	
Operating expenses growth	7	4		3	9		4	3	
Cost-to-income ratio	42.3	35.9		49.1	49.4		48.4	46.6	
Statement of financial position (Rm)									
Loans and advances to customers	227 086	224 892	1	111 496	101 092	10	36 662	37 167	(1)
Loans and advances to banks	771	419	84	361	37	>100	96	92	4
Investment securities	12 684	12 077	5	5 845	5 065	15	2 090	1 951	7
Other assets	8 658	7 821	11	6 315	7 513	(16)	14 205	10 679	33
Total assets	249 199	245 209	2	124 017	113 707	9	53 053	49 889	6
Deposits due to customers	1 541	1 619	(5)	511	458	12	1 901	1 893	0
Debt securities in issue	—	400	(100)	—	—	—	—	—	—
Other liabilities	246 297	241 210	2	121 575	110 647	10	49 779	45 092	10
Total liabilities	247 838	243 229	2	122 086	111 105	10	51 680	46 985	10
Financial performance (%)									
RoRWA	2.40	2.43		1.16	1.29		2.91	2.53	
RoA	0.70	0.71		0.75	0.90		3.41	2.77	

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

Personal Loans			Transactional and Deposits			Other			Total Retail Banking South Africa		
2018	2017[1]	Change %	2018	2017[1]	Change %	2018	2017[1]	Change %	2018	2017[1]	Change %
2 450	2 307	6	5 196	5 132	1	(184)	(235)	(22)	19 239	19 379	(1)
344	336	2	8 202	7 601	8	577	491	18	14 352	13 511	6
2 794	2 643	6	13 398	12 733	5	393	256	54	33 591	32 890	2
(1 105)	(1 112)	(1)	(524)	(193)	>100	3	1	>100	(4 313)	(4 764)	(9)
(1 047)	(933)	12	(9 651)	(9 228)	5	(1 020)	(888)	15	(19 703)	(18 679)	5
(2)	(1)	100	(13)	(14)	(7)	(123)	(117)	5	(141)	(132)	7
640	597	7	3 210	3 298	(3)	(747)	(748)	0	9 434	9 315	1
(179)	(167)	7	(899)	(923)	(3)	240	179	34	(2 600)	(2 610)	0
461	430	7	2 311	2 375	(3)	(507)	(569)	(11)	6 834	6 705	2
461	430	7	2 311	2 375	(3)	(755)	(760)	(1)	6 300	6 243	1
—	—	—	—	—	—	—	(3)	(100)	286	268	7
—	—	—	—	—	—	160	171	(6)	160	171	(6)
—	—	—	—	—	—	88	23	>100	88	23	>100
461	430	7	2 311	2 375	(3)	(507)	(569)	(11)	6 834	6 705	2
461	430	7	2 311	2 375	(3)	(749)	(763)	(2)	6 359	6 240	2
5.51	6.09		4.12	2.11		n/a	n/a		1.04	1.20	
12.3	12.7		61.2	59.7		n/a	n/a		42.7	41.1	
6	2		5	5		n/a	n/a		2	2	
12	(1)		5	9		n/a	n/a		5	6	
37.5	35.3		72.0	72.5		n/a	n/a		58.7	56.8	
18 320	17 132	7	3 239	3 211	1	2	1	100	396 805	383 495	3
—	—	—	9 471	6 852	38	409	409	—	11 108	7 809	42
1 016	898	13	470	277	70	12 721	12 694	0	34 826	32 962	6
465	410	13	196 696	178 472	10	4 810	5 014	(4)	231 149	209 909	10
19 801	18 440	7	209 876	188 812	11	17 942	18 118	(1)	673 888	634 175	6
11	11	—	203 721	182 862	11	11	12	(8)	207 696	186 855	11
—	—	—	—	—	—	—	—	—	—	400	(100)
19 788	17 998	10	3 988	3 573	12	18 608	18 745	(1)	460 035	437 265	5
19 799	18 009	10	207 709	186 435	11	18 619	18 757	(1)	667 731	624 520	7
1.97	1.89		11.68	13.07		n/a	n/a		2.52	2.52	
2.42	2.39		1.23	1.36		n/a	n/a		0.99	1.01	

Retail and Business Banking South Africa

for the reporting period ended 31 December

	Business Banking (excluding Equities)		
	2018	2017[1]	Change %
Statement of comprehensive income (Rm)			
Net interest income	6 265	6 098	3
Non-interest income	3 649	3 543	3
Total income	9 914	9 641	3
Impairment losses on loans and advances	(210)	(274)	(23)
Operating expenses	(5 990)	(5 710)	5
Other expenses	(28)	(27)	4
Operating profit before income tax	3 686	3 630	2
Tax expenses	(1 024)	(1 028)	0
Profit for the reporting period	2 662	2 602	2
Profit attributable to:			
Ordinary equity holders	2 581	2 539	2
Non-controlling interest – ordinary shares	—	—	—
Non-controlling interest – preference shares	53	56	(5)
Non-controlling interest – additional Tier 1	28	7	>100
	2 662	2 602	2
Headline earnings	2 579	2 539	2
Operating performance (%)			
Credit loss ratio	0.30	0.43	
Non-interest income as % of income	36.8	36.7	
Income growth	3	5	
Cost growth	5	11	
Cost-to-income ratio	60.4	59.2	
Statement of financial position (Rm)			
Loans and advances to customers	69 116	63 399	9
Loans and advances to banks	—	—	—
Investment securities	10 000	9 622	4
Other assets	49 062	44 552	10
Total assets	128 178	117 573	9
Deposits due to customers	125 365	113 870	10
Debt securities in issue	—	—	—
Other liabilities	744	1 161	(36)
Total liabilities	126 109	115 031	10
Financial performance (%)			
RoRWA	3.45	3.65	
RoA	2.13	2.18	

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

Business Banking Equities			Total Business Banking South Africa		
2018	2017[1]	Change %	2018	2017[1]	Change %
4	(56)	<(100)	6 269	6 042	4
82	132	(38)	3 731	3 675	2
86	76	13	10 000	9 717	3
(32)	—	100	(242)	(274)	(12)
(77)	(87)	(11)	(6 067)	(5 797)	5
(33)	(1)	>100	(61)	(28)	>100
(56)	(12)	>100	3 630	3 618	0
(9)	(26)	(65)	(1 033)	(1 054)	(2)
(65)	(38)	71	2 597	2 564	1
(67)	(41)	63	2 514	2 498	1
—	1	(100)	—	1	(100)
1	2	(50)	54	58	(7)
1	—	100	29	7	>100
(65)	(38)	71	2 597	2 564	1
(58)	(31)	87	2 521	2 508	1
n/a	n/a		0.35	0.43	
n/a	n/a		37.3	37.8	
13	(60)		3	3	
(11)	(36)		5	10	
89.0	114.6		60.7	59.7	
—	—	—	69 116	63 399	9
106	84	26	106	84	26
364	516	(29)	10 364	10 138	2
1 449	1 501	(3)	50 511	46 053	10
1 919	2 101	(9)	130 097	119 674	9
—	—	—	125 365	113 870	10
—	—	—	—	—	—
1 832	1 999	(8)	2 576	3 160	(18)
1 832	1 999	(8)	127 941	117 030	9
n/a	n/a		3.23	3.41	
(3.62)	(1.38)		2.05	2.12	

Retail and Business Banking South Africa

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Key changes to the RBB SA operating model

RBB SA embarked on a journey to restore its leadership position in the market with the objective of delivering key growth objectives over the medium term with a renewed focus on customer value management, anchoring the strategy on a customer centric growth approach. The journey began with the review of the operating model, the objective of which is delivering optimally for customer needs and capabilities to provide holistic propositions to customers, while enabling distributed leadership and end-to-end accountability for business performance. This resulted in business being completely in control of the resources to deliver their individual plans.

The review of the operating model required the restructure of the organisational construct to a focused and simplified organisational design. This allowed the organisation to pivot away from multiple layers of executive management and hand-offs which had resulted in strategic misalignment and a lack of focus across the value chain. The business has now been arranged into the following units:

- Customer Value Management;
- Relationship Banking;
- Home Loans;
- Vehicle and Asset Finance;
- Everyday Banking;
- Virtual Channels; and
- Physical Channels.

The establishment of **Customer Value Management** emphasises renewed focus on customer needs, supported by the collaboration with various business units and strategic enablers across the business to provide a single client vision with the use of advanced analytics.

Relationship Banking was formed to provide banking services to all customers where a named relationship exists within the Bank with single 'warm-body' relationship managers to serve customers' personal and business needs. This has resulted in the consolidation of the Card Acquiring, Commercial Asset Finance, Business Banking and Private Banking portfolios. Relationship Banking will also focus on acquiring young and self-employed professionals in the private banking market.

Home Loans implementation of the new operating model will allow the business end to end accountability for risk and operations and will focus the business on providing a digital mortgage delivery model as well as targeting first time buyers through data-driven insights.

Vehicle and Asset Finance will focus on optimising relationships with dealers, building collections capabilities, leveraging the bank assurance capability as well as delivery of a differentiated end-to-end customer acquisition solution to improve returns.

Everyday Banking will form the foundation for day to day banking services throughout the life of the customer, aiming to provide a single account experience consolidating the Transactional, Savings & Investments, Personal Loans and Credit Card Issuing portfolios. Everyday Banking will allow management to effectively deliver on customer needs throughout the customers' lifecycle using advanced analytics to deliver relevant products and services at the right time.

The primary focus of the channels will be to provide an enhanced service experience to customers. **Physical channel** will focus on delivering on the sales imperatives, and will continue to be a pivotal point to interact with customers. The Physical Channel priority, however, will remain on strategically optimising and realigning the current branch and ATM footprint whilst remaining within easy reach for customers with relevant outlet formats creating efficiencies through self-service platforms and improving the service to sales staff mix. **Virtual Channels** will focus on increasing the rate of digital adoption and cultivating customer loyalty. Furthermore and in line with our group strategic pillar of being digitally led and scalable, Virtual Channels will focus on ensuring that we strategically respond to the increasing consumer demand for a choice to interact with us digitally through best in breed digital platforms with superior customer experience to augment our Everyday Banking proposition. This will ensure that we remain relevant to our customers especially in the face of new digital entrants to the market.

Each of these strategic execution plans from the individual RBB business units will be underpinned by 5 key growth objectives:

- **Cultural Journey:** In order to drive change from authoritative culture to one defined by results, learning and enjoyment.
- **Get back to acquiring customers:** Primary focus on acquiring and retaining customers including changing the average age profile of the customer base by specifically focusing on youth.
- **Build relationships for life:** Serve and build relationships with customers throughout their lifetime.
- **Drive efficiencies:** Drive demand-driven delivery, focused on customer needs, reduced complexity, increased simplicity and lean operations, ultimately reducing the businesses cost base.
- **Digital first in everything we do:** Digitally-led, both in the front and back-end of the business.

The results disclosed in this booklet reflect the previous structure, with the new organisational design being reported from the 2019 interim financial results.

Retail and Business Banking South Africa

for the reporting period ended 31 December

Business performance

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

- Retail deposits grew 11% while the market grew 9% (BA900 December 2018), with a stronger 2nd half performance;
- Home Loans registration increased 11%, while the market grew 7% (Lightstone);
- VAF production grew 16% with the Retail and Commercial portfolios growing 20% and 11% respectively;
- Credit limits granted on new accounts and limit increases to existing customers grew 44% and 145% respectively;
- Credit and debit card turnover grew 9%;
- Merchant acquiring volumes grew 13% supported by growth in the merchant base;
- Personal Loans production grew 24% through enhancements to the acquisition strategies; and
- Increase in App adoption with active users growing 20%.

The asset production growth was achieved without a material change in the risk appetite, and was attained mainly through improving internal processes and acquisition strategies. The asset production momentum has translated into growth of 6% in gross loans and advances to **R488bn** (2017: R461bn).

The growth in production contributed to an improvement in the flow market share:

- Home loans increased to **19%** (2017: 18%) (Lightstone); and
- Flow market share on new vehicle sales increased to **10.4%** (2017: 10.1%) (NAAMSA).

Balance sheet market share per the December 2018 BA900 reflected:

- Retail deposits increased to **21.7%** (2017: 21.3%);
- Home Loans reduced marginally to **22.9%** (2017:23.7%);
- VAF market share increased to **19.6%** (2017: 18.7%);
- Credit cards improved to **23.7%** (2017: 23.3%); and
- Personal Loans remained flat at **10.7%** (2017: 10.7%)

Challenges experienced in the year included:

- Subdued transactional volumes in both the Retail and Business portfolios;
- Increase in digital fraud, particularly incidents of phishing attacks;
- Operational challenges following the implementation of a strategic collections system in the Card and VAF portfolios;
- Margin compression in the deposits portfolio due to growth in investment products; and

The credit risk profile of the loan book was driven by proactive credit risk mitigating strategies, the quality of new loans and effective collections across most of the portfolios. Growth and stable delinquency levels year on year was supported largely by payment optimisation initiatives together with planned actions to mitigate operational challenges following the deployment of a strategic collections system. Impairment stock increased in line with book growth as IFRS9 requires higher provision levels from the point of origination. The debt counseling portfolio continued to perform in line with expectations.

Vintage performance on new registered Home Loans continued to trend in line with expectations following new business strategy changes, focusing on customer quality during 2017 and 2018. AVAF and Overdrafts experienced signs of deterioration in older vintages in the first half of 2018 which triggered a review of acquisition strategies and a subsequent improvement in the newer vintages was observed. Card and Personal Loans vintage performance closed out the year within the set thresholds.

Secured products litigation processes were extended due to changes in court procedures relating to collateral realisation. The change in legislation governing Sale in Execution (SIE) properties in December 2017 resulted in the lengthening of the write off period of accounts in legal in Home Loans. The AVAF legal portfolio also increased due to changes in court procedures relating to the collateral realisation process.

Sim-swap related fraud incidents reduced significantly following the implementation of two-factor authentication (2FA) in 2017. However, 2018 saw an increase in phishing attacks as syndicates changed their strategies which resulted in higher fraud losses. In mitigation, a continued investment in fraud detection tools and sustained focus on customer awareness and education will further strengthen fraud prevention capabilities.

The physical channels footprint optimisation journey continued into 2018, with a further reduction of 21 887 square meters, and a net reduction of 34 outlets to 671 as at 31 December 2018. The optimisation of the branch and ATM footprint was achieved while remaining within strategic reach of customers.

Retail and Business Banking South Africa

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Business performance (continued)

Strategic actions were primarily focused on improving customer experience, process automation as well as stabilising and enhancing the IT infrastructure. Investments made in the year included:

- Launching ChatBanking on WhatsApp platform, a world first and was profiled in the New York Times;
- Developing a new Absa banking app which also allowed customers to open an account digitally within the app;
- Absa brand refresh initiative;
- Implementation of the new RBB SA operating model;
- Enhancing the cyber and physical security platforms;
- Improving the loan disbursement and fulfilment processes across the product range;
- Building the collections capabilities; and
- Maintaining systems operational stability to drive improved customer experience across the digital and physical channels.

Looking ahead, the focus will be on regaining market leadership by leveraging the scale of the business whilst deepening the relationship with customers. This will be enabled by driving world class customer experiences enabled by digital capabilities and data driven insights.

Financial performance

Headline earnings grew 2% to **R8 880m** (2017: R8 748m) reflecting a reduction of 10% in impairments and a decline of 2% in pre-provision profit.

During the second half of the year, conclusion on the treatment of interest in suspense recovered on cured accounts was received from the IFRS-IC, with the result being that the interest in suspense recovered on cured accounts is now accounted for under impairments. A total reduction of R608m has been included in impairments, which was previously accounted for under net interest income. Suspended interest increased by R501m due to an increase in accounts treated as 'in-default' following the implementation of IFRS9. Excluding the impact of the IFRS-IC conclusion and IFRS9, the pre-provision profit increased by 2%. The comparative prior periods have not been restated for the impact of the IFRS-IC conclusion and IFRS9.

Gross loans and advances to customers increased 6% to **R488bn** (2017: R461bn), underpinned by double digit growth in production across most of the lending product range. The Home Loans portfolio grew 2% as the business improved the acquisition strategies including amending the lending scorecards with a focus on growing the high LTV (loan to value) customer segment while improving margins. Business Banking increased 11%, while AVAF and Personal Loans each grew 12%. Card and Payments increased 4%, with growth of 11% in the credit card portfolio offset by the decline of 10%% in the store card portfolio.

Deposits due to customers grew 11% to **R333bn** (2017: R301bn), supported by targeted marketing campaigns as customers continued to seek better yields in a competitive market.

Net interest income was flat at **R25 508m** (2017: R25 421m). Normalised for the impact of the IFRS-IC conclusion and IFRS9, net interest income grew 5% largely due to the growth in advances and deposits as well as an improvement in advances front book margins. This was partly offset by margin compression on deposits given the growth in investment products.

Non-interest income increased 5% to **R18 083m** (2017: R17 186m) driven by growth in card transaction volumes with issuing and merchant acquiring turnovers growing 9% and 13% respectively, an increase in the cheque account base as well as a change in the classification of fees deemed not recoverable which are now accounted for in impairments. This was partly offset by the loss on the sale of Absa Technology Finance Solutions (ATFS), lower Equities revaluations and the impact of other one-off items recognised in 2017 not repeated in 2018.

Impairments reduced 10% to **R4 555m** (2017: R5 038m) due to a reclassification of suspended interest on cured accounts per the IFRS-IC conclusion. Excluding the impact of IFRS-IC, impairments grew 2% as proactive credit risk mitigating strategies, improved collections and one-off recoveries were partly offset by the impact of advances growth and operational challenges following the implementation of a new collections system in the VAF and Credit Card portfolios. The credit loss ratio reduced to **0.94%** (2017: 1.10%) while stage 3 coverage increased to **41.38%** (1 January 2018: 40.62%).

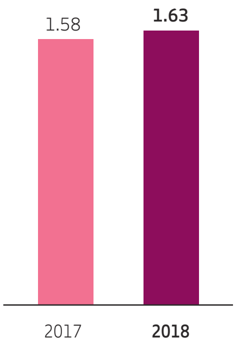
Operating costs were contained at 5% with efficiency gains from the optimising of the physical channel network largely offsetting higher IT investment costs, one off costs for business restructure, digital fraud and annual salary increases.

Retail and Business Banking South Africa

for the reporting period ended 31 December

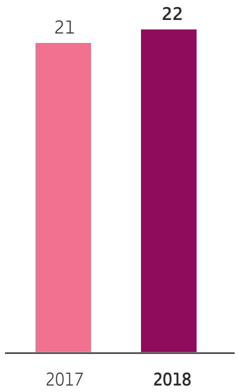
Financial performance (continued)

Retail and Business Banking Penetration rate (average number)



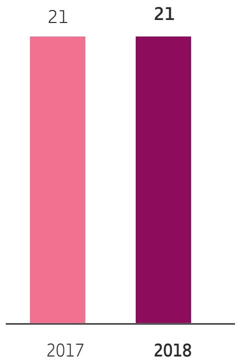
Average number of products per customer increased marginally

Retail Deposits market share (%)



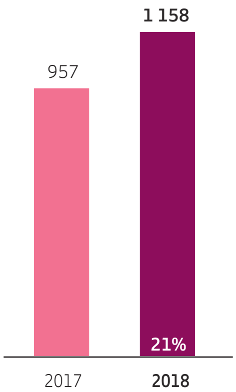
Deposits increased slightly since the start of the year

Retail Banking asset market share (%)



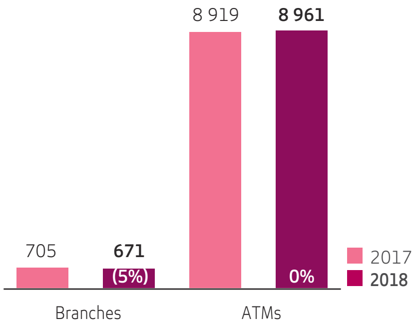
Asset market was broadly unchanged since the start of the year

Digital footprint (thousands and change %)



The number of Absa Banking App users continued to grow

Physical footprint (number and change %)



Physical footprint reduced but continued to maintain optimal scale

Retail and Business Banking South Africa

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Business unit performance

Home Loans

The housing market remained subdued throughout 2018, with consumers getting a slight reprieve in Q1 when the lending rates were lowered by 25 bps, however this was reversed in Q4 given the upside risks to the inflation outlook.

Absa Homeowner Sentiment Index declined 5%

to 77% (2017: 82%).

National House Price Inflation index decreased 1%

to 3.9% (2017: 4.9%) (Lightstone).

A number of activities were implemented to support production growth, including effecting process enhancements, enhancing risk appetite, developing new acquisition strategies as well as improving lending scorecards to optimise margins and valuation methodologies, leading to:

Growth of 11% in new mortgages

registered, against market growth of 7% (Lightstone)

Increase in flow market share to 19%

(2017: 18%) on a year to date basis (Lightstone)

Increase in the average LTV (loan to value) to 84%

(2017: 82%)

A reduction of 12 bps

in the average concession.

Gross loans and advances grew 2% to **R232bn** (2017: R228bn), underpinned by the growth in the value of mortgages registered which was delivered without a significant increase in the risk profile. IFRS9 introduced a significant increase in credit risk bucket and default definition change which had the impact on of higher suspended interest. Stock market share reduced marginally to **22.9%** (2017: 23.7%) (BA900 December 2018).

Headline earnings remained flat at **R1 736m** (2017: R1 735m) with collections performance offsetting the adverse impact of IFRS9 on net interest income.

Income declined 9% to **R4 425m** (2017: R4 880m). Excluding the impact of IFRS 9 and the IFRS-IC conclusion, the underlying income was flat due to the run-off of the back book which generated higher margins relative to the front book.

Impairments reduced 84% to **R113m** (2017: R689m). Excluding the impact of the IFRS-IC conclusion, impairments reduced 47% primarily due to collections performance and lower inflows into arrears following the implementation of payment optimisation initiatives. The credit loss ratio improved to **0.05%** (2017: 0.30%). Stage 3 loan coverage increased to **25.89%** (1 January 2018: 24.65%) due to growth in the legal book following changes in legislation governing SIEs (Sales in Execution) properties, which lengthened the capital write off period.

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

- Maintaining a continuous and consistent presence in the market;
- Claiming a leadership position for first time home buyers;
- Creating an end-to-end digital channel experience for our customers;
- Origination of good quality loans and responsible lending; and
- Enhancing collection capabilities to actively manage delinquencies.

Retail and Business Banking South Africa

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Business unit performance (continued)

Vehicle and Asset Finance

The domestic vehicle sales market contracted in 2018 amidst a subdued economy.

▼ Market vehicle sales volumes declined 1%
for the 12 months ending December 2018 (NAAMSA).

▼ Vehicle price inflation averaged 3.1%
for the period ending December 2018 (StatsSA).

Below is an overview of the key business drivers impacting performance:

▼ Collections performance was suboptimal
following the deployment of a new strategic collections system.

▲ The commercial portfolio production increased 11%
while the retail portfolio increased 20%.

The production momentum was maintained through a deliberate focus on dealer relationships and offering an integrated RBB value proposition. Key priorities included improving collections capabilities and the delivery of a differentiated customer end-to-end acquisition solution.

Gross loans and advances to customers grew 12% to **R115bn** (2017: R103bn) underpinned by the solid growth in production across the retail and commercial portfolios. Flow market share grew to **10.4%** (2017: 10.1%) (NAAMSA) while stock market share increased to **19.6%** (2017: 18.7%) (BA900 December 2018).

Headline earnings declined 9% to **R877m** (2017: R966m) due to an increase in impairments, however pre-provision profit grew 5% reflecting production and book growth.

Income increased 4% to **R4 114m** (2017: R3 949m) with net interest income growing 6% while non-interest income remained flat. Net interest income growth excluding the impact of the IFRS-IC conclusion and IFRS9 was 11% underpinned by production and improved pricing in the retail portfolio. Non-interest income growth was muted by the loss on disposal of ATFS (Absa Technology Finance Solutions Proprietary Limited) in the first half of the year with underlying growth of 4% supported by production growth across the key portfolios.

Impairments increased 29% to **R1 096m** (2017: R847m). Excluding the impact of the IFRS-IC conclusion, impairments grew 42% mainly due to book growth, increased inflows into early arrears, suboptimal performance following the deployment of a new strategic collections system as well as a deterioration of the legal book. The charge from new business increased 117% as IFRS9 required higher provision at point of origination in relation to IAS39. The credit loss ratio increased to **1.02%** (2017: 0.87%). Stage 3 loan coverage increased to **39.19%** (1 January 2018: 38.38%) primarily due to the deterioration within the legal book as a result of changes to the collateral realisation process.

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

- Improving returns through the quality of new production, building cost efficiencies and non-interest income growth from our bancassurance model;
- Implementing an end-to-end customer asset acquisition solution to enhance customer and dealer experience through automation and digitisation;
- Improving collections strategies and capabilities; and
- Create and strengthen key partnership with industry stakeholders, specifically the dealer network.

Retail and Business Banking South Africa

for the reporting period ended 31 December

Business unit performance (continued)

Card and Payments

Consumer demand for credit slowed, impacted by various economic headwinds.

▲ **Retail sales were stronger**
than expected despite headwinds.

▼ **Tightening credit market**
with a fairly sharp rise in rejection rates on new consumer credit applications (NCR).

Below is an overview of key performance indicators by portfolio:

▲ **Merchant acquiring trading volumes increased 13%**
with an improved contribution from the commercial merchants.

▲ **Credit card turnover increased 9%**
supported by the growth in limits granted on new accounts and limit increases to existing customers.

▼ **The store card trading volumes declined 8%**
reflecting a reduction in customer activity.

Gross loans and advances to customers increased 4% to **R44bn** (2017: R42bn) with the credit card portfolio growing 11% while the store card portfolio contracted by 10%.

Credit cards advances growth was supported by an increase of 10% in total credit limits issued, improvement in the utilisation rate and leveraging the Absa Rewards proposition. The growth in limits was enabled by changes to credit risk strategies, an introduction of new sales channels as well an increased focus on the targeted customer segments. Store cards performance remained under pressure. Credit card stock market share improved marginally to **23.7%** (2017: 23.3%) (BA900 December 2018).

Headline earnings grew 15% to **R1 723m** (2017: R1 497m), mainly driven by a reduction in impairments, while pre-provision profit declined by 3%.

Income was flat at **R8 467m** (2017: R8 429m) with net interest income reducing 2% and non-interest income growing 3%. Excluding the impact of the IFRS-IC conclusion and IFRS 9, net interest income grew 2% primarily driven by the increase in credit card advances. Non-interest income growth was underpinned by increase in merchant acquiring and credit card volumes.

Impairments decreased 23% to **R1 478m** (2017: R1 924m). Excluding the impact of the IFRS-IC conclusion, impairments reduced 20% primarily driven by a one-off recovery and reduction in the store card portfolio, offset by the credit card book growth and operational challenges following the implementation of a new collections system. The combined credit loss ratio decreased to **3.42%** (2017: 4.53%). Stage 3 coverage decreased to **69.41%** (1 January 2018: 71.04%).

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

› Driving effortless and consistent customer onboarding processes through the customer's preferred channel;
› Enhancing self-service capabilities; and
› Continuing to focus on operational efficiencies.

Retail and Business Banking South Africa

for the reporting period ended 31 December

Business unit performance (continued)

Personal Loans

Consumer credit health continued to weaken through 2018 as headwinds to household consumption persisted:

Tightening credit market

with a fairly sharp rise in rejection rates on new consumer credit applications (NCR).

Production momentum carried through from the second half of 2017 reflecting:

Full year growth of 24%

in 2018.

Increase in the approval rate to 53%

(2017: 43%).

The growth was enabled by an improved acquisition strategy targeted at new-to-bank and existing customers. All sales channels continued to improve performance through enhanced loan fulfilment processes with focus on operational efficiencies and customer experience. Focus remained on proactively managing risk within appropriate appetite. The growth in production led to an increase of 12% in gross loans and advances to **R21bn** (2017: R19bn). Stock market share remained flat at **10.7%** (2017: 10.8%) (BA900 December 2018).

Headline earnings increased 7% to **R461m** (2017: R430m) reflecting a growth of 2% in pre-provision profit and a 1% reduction in impairments.

Income increased 6% to **R2 794m** (2017: R2 643m). Excluding the impact of the IFRS-IC conclusion and IFRS9, the income increased 11% underpinned by the book growth through production as well as an improvement in new business margins.

Impairments reduced 1% to **R1 105m** (2017: R1 112m) due to focus on off balance sheet recoveries and the reclassification of suspended interest on cured accounts from income per the IFRS-IC conclusion. Excluding the impact of the IFRS-IC conclusion, impairments grew 5%, primarily driven by book growth. The credit loss ratio reduced to **5.51%** (2017: 6.09%). Stage 3 loan coverage increased to **64.35%** (1 January 2018: 63.75%).

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

- Increase digitisation of acquisition channels;
- Simplification of product and service offering;
- Improving the loan fulfilment process;
- Migration of customer to more appropriate and convenient channels; and
- Continuous review of credit and collection strategies.

Retail and Business Banking South Africa

for the reporting period ended 31 December

Business unit performance (continued)

Transactional and Deposits

Economic headwinds hampered household spending, with the economy briefly entering a recession in H1 for the first time since 2009:

▼ Consumption spending growth was subdued
in 2018 as the consumer faced various headwinds, including a weak labour market.

▲ Retail deposits market grew 9%
(BA900 December 2018).

Key business drivers impacting performance included:

▲ Debit card turnover increased 9%

▲ Deposits grew 11%
primarily in the investment portfolio.

▼ Overdrafts book quality deteriorated
in the older vintages.

Gross loans and advances to customers increased 10% to **R3 835m** (2017: R3 488m) mainly supported by growth in the active cheque account base as well as an increase in the utilisation rate of overdraft limits.

Deposits grew 11% to **R204bn** (2017: R183bn), improving from a growth rate of 7% at half year. The growth was primarily derived from investment deposits which grew 15% through targeted marketing campaigns while transactional deposits grew 4% supported by the growth in primary customers. The faster growth in investment deposits put pressure on interest margins. Retail Deposits stock market share improved to **21.7%** (2017: 21.3%) (BA900 December 2018).

Headline earnings declined 3% to **R2 311m** (2017: R2 375m) with a 7% increase in pre-provision profit being offset by an increase in impairments.

Income grew 5% to **R13 398m** (2017: R12 733m) with net interest income growth of 1% while non-interest income grew 8%. The growth in net interest income was driven by the increase in advances and deposits, offset by the margin compression in the deposits portfolio due to a higher composition of investment deposits coupled with higher client rates. The growth in non-interest income was driven by expansion in the cheque account base, an increase in debit card turnover and the reclassification of fees deemed not recoverable from income to impairments, slightly offset by the impact of increased adoption of digital channels and items recognised in 2017 not repeated in 2018.

Impairments increased 171% to **R524m** (2017: R193m) largely due to front book growth, a change in the classification of fees not deemed recoverable and deterioration in the quality of the overdrafts in the older vintages of the book given the economic pressure on consumers. The credit loss ratio increased to **4.12%** (2017: 2.11%). Stage 3 loan coverage reduced marginally to **66.31%** (1 January 2018: 67.31%).

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

- Driving primary transactional relationship through a robust Customer Engagement Strategy;
- Providing tailored customer value propositions underpinned by analytics-driven insights;
- Delivering a frictionless, day-to-day singular transactional banking experience across all channels;
- Building a scalable and digitally led business; and
- Increasing digitisation of acquisition channels such as in-app account opening, virtual and other digital capabilities.

Retail and Business Banking South Africa

for the reporting period ended 31 December

Business unit performance (continued)

Business Banking excluding Equities

Corporate demand for credit slowed; subdued by various economic challenges including tax and petrol price increases.

Business confidence stalled
in 2018 across sectors as political and policy uncertainty continued to weigh on sentiment.

Persistent drought
in some parts of the country.

Gross loans and advances to customers grew 11% to R72bn (2017: R66bn), continuing the momentum in the asset franchise throughout 2018 across the commercial and enterprise segments:

- Term Loans grew 19%;
- Overdrafts grew 5%;
- Commercial Property Finance portfolio grew 10%; and
- Agri loans grew 9%.

Deposits grew 10% to **R125bn** (2017: R114bn), improving from 3% in the first half of 2018, across both transactional and investment products.

Headline earnings grew by 2% to **R2 579m** (2017: R2 539m) reflecting a stable pre-provision profit and a reduction in impairments.

Income grew 3% to **R9 914m** (2017: R9 641m). Excluding the impact of the IFRS-IC conclusion and IFRS 9, net interest income increased 5% reflecting growth in the advances and deposits portfolio, slightly reduced by a compression in deposits margins. Non-interest income growth of 3% was impacted by the slowdown in the core transactional portfolio.

Impairments decreased 23% to **R210m** (2017: R274m) with the credit loss ratio improving to **0.30%** (2017: 0.43%). Excluding the impact of the IFRS-IC conclusion, impairments grew 22% driven by large name defaults in the commercial segment and front book growth. Stage 3 coverage increased to **50.18%** (1 January 2018: 46.68%).

Operating expenses grew 5% to **R5 990m** (2017: R5 710m) primarily due to increased annual salary increases, cost of cash, higher amortisation charges relating to IT infrastructure costs and investment in physical and cyber security.

Looking ahead, Business Banking will play an integral part in delivering on Relationship Banking and RBB growth strategy with key growth objectives including the following:

- Improving the customer on-boarding experience;
- Growing presence in young and self-employed professionals;
- Delivering end-to-end solutions for entrepreneurs in the growth segment;
- Diversifying and growing the premium segment through key growth sectors and products with a focus on deposits; and
- Optimising our dominant cash position through efficiencies.

Business Banking Equities

The Equities portfolio continued to wind down through planned realisations, with the portfolio reducing by 6% to **R903m** (2017: R963m).

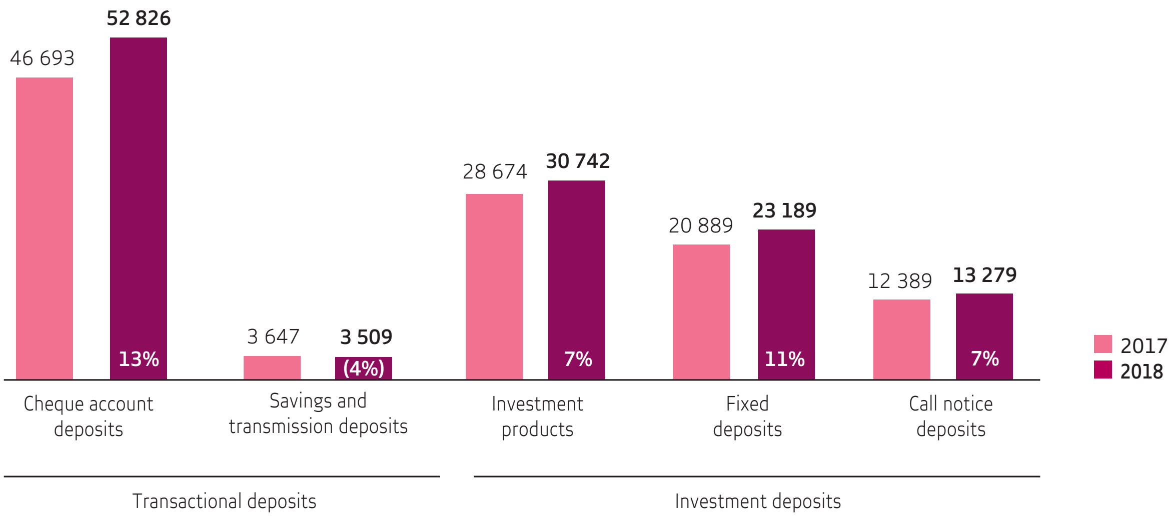
The Headline Earnings loss in Equities increased 87% to **R58m** (2017 R31m) in 2018 reflecting lower revaluation gains, impairment of a structured property transaction and the write down of the investment in a subsidiary.

Retail and Business Banking South Africa

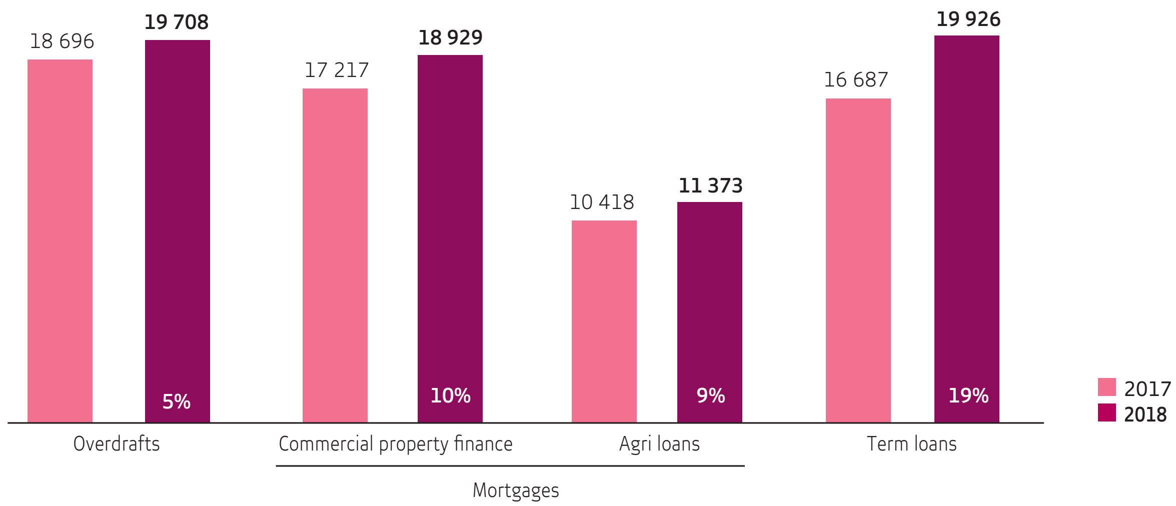
for the reporting period ended 31 December

Business unit performance (continued)

Deposits (Rm and change %)



Gross loans and advances (Rm and change %)



CIB

for the reporting period ended 31 December

The CIB business across the continent is managed as a combined franchise. The commentary that follows focuses on the performance in South Africa, while incorporating a view of how the combined business performed; hereafter referred to as Total CIB.

CIB SA

CIB South Africa produced income growth of 8% to R11 595m (2017: R10 706m) supported by continued momentum in the Corporate Bank, coupled with a solid performance from the Investment Bank. This was however offset by higher credit impairments up 76% to R998m (2017: R567m) and higher operating cost growth of 12% to R6 304m (2017: R5 644m), resulting in a 1% decline in headline earnings to R3 367m (2017: R3 411m).

Key performance highlights for the period include the following:

Double digit income growth of 11% in Corporate,

to **R5 037m** (2017: R4 539m) which represents an annual compound growth of 11% over 5 years.

Income growth in the Markets business of 10%

to **R3 509m** (2017: R3 204m) supported by the Foreign Exchange and Equities franchises (up 21% and 43% respectively).

Customer loans continue to grow, up 24%

to **R272bn** (2017: R219bn); average customer loans up 13% to **R234bn** (2017: R206bn).

Maintained a 40% ratio of non-interest income as a percentage of total income,

which continues to be an area of focus for the business.

Negative Jaws of (4%) driven by high operating cost growth

of 12% to **R6 304m** (2017: R5 644m) after several years of low costs growth, up 9% when excluding the impact of post separation run costs.

Higher credit impairments

resulted in a deterioration of the credit loss ratio to **0.36%** (2017: 0.24%).

Customer deposits balances declined by 2%

to **R174bn** (2017: R177bn), while average deposits grew by 5%.

Decline in the return on regulatory capital

to **15.6%** (2017: 16.3%) despite improved RWA density and efficient capital management.

CIB SA salient features	2018	2017[1]	Change %
Income (Rm)	**11 595**	10 706	8
Headline earnings (Rm)	**3 367**	3 411	(1)
Pre-provision profit (Rm)	**5 291**	5 062	5
Cost-to-income ratio (%)	**54.4**	52.7	
Credit loss ratio (%)	**0.36**	0.24	
RoRC (%)	**15.6**	16.3	
RoRWA (%)	**1.72**	1.82	
RoA (%)	**0.66**	0.74	

Total CIB

Including the ARO business, total headline earnings increased by 2% to **R5 875m** (2017: R5 759m, up 4% in CCY); impacted by operating costs growth of 12% (up 13% in CCY) and credit impairments growth of 14% (up 15% in CCY). This was offset by a strong income performance, up 7% to **R18 177m** (2017: R17 024m, 8% in CCY).

Key performance highlights for the period include the following:

Income growth from both the Corporate Bank and the Investment Bank

up 10% and 6% respectively (in CCY).

Maintained a return on regulatory capital of 21.4%.

Successfully diversified the ARO business across the continent,

thereby reducing reliance on single markets for performance.

Maintained a credit loss ratio of 0.32%

as an increase in South Africa was offset by low losses outside South Africa.

High operating cost growth of 12%

to **R8 907m** (2017: R7 950m, up 13% in CCY) mainly due to build out of capabilities post separation from Barclays PLC (up 9% when excluding the impact of post separation run costs).

Customer loans growing faster

than customer deposits (up 24% vs 3% respectively).

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

CIB South Africa

for the reporting period ended 31 December

	Corporate		
	2018	2017[1]	Change %
Statement of comprehensive income (Rm)			
Net interest income	**3 660**	3 191	15
Non-interest income	**1 377**	1 348	2
Total income	**5 037**	4 539	11
Impairment losses	**(231)**	(117)	97
Operating expenses	**(3 152)**	(2 780)	13
Other operating expenses	**49**	(12)	<(100)
Operating profit before income tax	**1 703**	1 630	4
Tax expenses	**(467)**	(457)	2
Profit for the reporting period	**1 236**	1 173	5
Profit attributable to:			
Ordinary equity holders	**1 171**	1 124	4
Non-controlling interest – preference shares	**45**	42	7
Non-controlling interest – additional Tier 1	**20**	7	>100
	1 236	1 173	5
Headline earnings	**1 171**	1 124	4
Operating performance (%)			
Net interest margin on average interest-bearing assets	**2.55**	2.30	
Credit loss ratio	**0.31**	0.19	
Non-interest income as % of income	**27.3**	29.7	
Income growth	**11**	9	
Operating expenses growth	**13**	4	
Cost-to-income ratio	**62.6**	61.2	
Statement of financial position (Rm)			
Loans and advances to customers	**86 754**	72 091	20
Loans and advances to banks	**8 899**	2 085	>100
Investment securities	**4 839**	4 932	(2)
Other assets	**47 393**	78 390	(40)
Total assets	**147 885**	157 498	(6)
Deposits due to customers	**137 298**	149 494	(8)
Debt securities in issue	**—**	—	—
Other liabilities	**9 319**	6 716	39
Total liabilities	**146 617**	156 210	(6)
Financial performance (%)			
RoRWA	**1.92**	2.04	
RoA	**0.77**	0.77	

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

Investment Bank			Total CIB South Africa		
2018	2017[1]	Change %	2018	2017[1]	Change %
3 346	3 243	3	7 006	6 434	9
3 212	2 924	10	4 589	4 272	7
6 558	6 167	6	11 595	10 706	8
(767)	(450)	70	(998)	(567)	76
(3 152)	(2 864)	10	(6 304)	(5 644)	12
(81)	(166)	(51)	(32)	(178)	(82)
2 558	2 687	(5)	4 261	4 317	(1)
(221)	(302)	(27)	(688)	(759)	(9)
2 337	2 385	(2)	3 573	3 558	0
2 196	2 287	(4)	3 367	3 411	(1)
89	87	2	134	129	4
52	11	>100	72	18	>100
2 337	2 385	(2)	3 573	3 558	0
2 196	2 287	(4)	3 367	3 411	(1)
2.23	2.41		2.39	2.35	
0.38	0.25		0.36	0.24	
49.0	47.4		39.6	39.9	
6	1		8	4	
10	—		12	2	
48.1	46.5		54.4	52.7	
185 385	146 974	26	272 139	219 065	24
29 128	29 643	(2)	38 027	31 728	20
34 552	26 345	31	39 391	31 277	26
134 889	135 265	(0)	182 282	213 655	(15)
383 954	338 227	14	531 839	495 725	7
36 534	27 761	32	173 832	177 255	(2)
11 565	12 532	(8)	11 565	12 532	(8)
330 045	292 423	13	339 364	299 139	13
378 144	332 716	14	524 761	488 926	7
1.63	1.73		1.72	1.82	
0.61	0.73		0.66	0.74	

Total CIB

for the reporting period ended 31 December

	Corporate			
	2018	2017[1]	CCY %	Change %
Statement of comprehensive income (Rm)				
Net interest income	7 890	7 190	11	10
Non-interest income	2 024	1 925	6	5
Total income	9 914	9 115	10	9
Impairment losses	(263)	(456)	(42)	(42)
Operating expenses	(5 007)	(4 456)	13	12
Other operating expenses	22	(33)	<(100)	<(100)
Operating profit before income tax	4 666	4 170	13	12
Tax expenses	(1 264)	(1 112)	15	14
Profit for the reporting period	3 402	3 058	12	11
Profit attributable to:				
Ordinary equity holders	3 174	2 776	15	14
Non-controlling interest - ordinary shares	163	233	(34)	(30)
Non-controlling interest – preference shares	45	42	(8)	7
Non-controlling interest – additional Tier 1	20	7	100	>100
	3 402	3 058	12	11
Headline earnings	3 174	2 776	15	14
Statement of financial position (Rm)				
Loans and advances to customers	135 770	111 328	17	22
Loans and advances to banks	8 927	2 205	>100	>100
Investment securities	5 185	5 362	(4)	(3)
Other assets	64 707	96 866	(31)	(33)
Total assets	214 589	215 761	(2)	(1)
Deposits due to customers	195 818	197 115	(4)	(1)
Debt securities in issue	—	—	(100)	—
Other liabilities	16 748	16 109	19	4
Total liabilities	212 566	213 224	(2)	(0)
Financial performance (%)				
RoRWA	3.02	2.74		
RoA	1.49	1.34		
RoRC	27.6	24.6		

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

Investment Bank				Total CIB			
2018	2017[1]	CCY %	Change %	**2018**	2017[1]	CCY %	Change %
3 336	3 265	2	2	**11 226**	10 455	6	7
4 927	4 644	8	6	**6 951**	6 569	8	6
8 263	7 909	6	4	**18 177**	17 024	8	7
(767)	(450)	71	70	**(1 030)**	(906)	15	14
(3 900)	(3 494)	12	12	**(8 907)**	(7 950)	13	12
(89)	(174)	(49)	(49)	**(67)**	(207)	(68)	(68)
3 507	3 791	(6)	(7)	**8 173**	7 961	4	3
(570)	(632)	(8)	(10)	**(1 834)**	(1 744)	7	5
2 937	3 159	(5)	(7)	**6 339**	6 217	3	2
2 701	2 983	(7)	(9)	**5 875**	5 759	4	2
95	78	17	22	**258**	311	(21)	(17)
89	87	(10)	2	**134**	129	(9)	4
52	11	100	100	**72**	18	100	>100
2 937	3 159	(5)	(7)	**6 339**	6 217	3	2
2 701	2 983	(7)	(9)	**5 875**	5 759	4	2
185 385	146 974	26	26	**321 155**	258 302	22	24
29 981	30 934	(3)	(3)	**38 908**	33 139	17	17
34 628	26 357	31	31	**39 813**	31 719	25	26
147 019	144 518	1	2	**211 726**	241 384	(12)	(12)
397 013	348 783	14	14	**611 602**	564 544	8	8
36 534	27 761	32	32	**232 352**	224 876	1	3
11 565	12 532	(8)	(8)	**11 565**	12 532	(8)	(8)
343 063	302 752	13	13	**359 811**	318 861	13	13
391 162	343 045	14	14	**603 728**	556 269	8	9
1.85	2.09			**2.34**	2.36		
0.74	0.93			**1.01**	1.09		
16.9	19.0			**21.4**	21.4		

CIB

for the reporting period ended 31 December

Business profile

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

Key business areas

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

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

Financial performance

CIB SA

In South Africa, headline earnings declined by 1% to **R3 367m** (2017: R 3 411m), adversely impacted by a single name charge in the consumer sector, as impairments were up 76% to **R998m** (2017: R567m); coupled with a high operating cost growth of 12% to **R6 304m** (2017: R5 644m). Excluding impairments, the business delivered pre-provision profit growth of 5% to **R5 291m** (2017: R5 062m).

Income increased by 8% to **R11 595m** (2017: R10 706m); supported by client revenue growth achieved through improved product penetration with existing clients, on-boarding of new clients, as well as continued momentum on the transactional banking strategy. The focus product areas (Transactional Banking, Deposits, Foreign Exchange, Trade and Equities) continue to deliver positive results.

- The Corporate Bank delivered income growth of 11% to **R5 037m** (2017: R4 539m). This growth was supported by customer loans growth (average customer loans up 13% to **R69bn** (2017: R61bn) and improved margins in Debt Finance, Trade and Deposits. The continued focus on converting client relationships to primary bank status resulted in average customer cheque deposits growth of 8% and growth in transactional banking income, with both these products improving market share.
- The Investment Bank grew income by 6% to **R6 558m** (2017: R6 167m), supported by performance in Markets (up 10%) and CPF (up 38%). The Markets performance was driven by increased client flows and a re-focus on the Equity franchise build out, while CPF benefited from increased market presence. This was slightly offset by a 2% decline from the Banking business.

Operating costs increased by 12% to **R6 304m** (2017: R5 644m), impacted by the build out of capabilities post separation from Barclays PLC and increased marketing costs, while the business continued to invest in systems and technology; up 9% when excluding the impact of post separation run costs.

Customer loans increased by 24% to **R272bn** (2017: R219bn) with significant growth in the last quarter of 2018 (particularly in short-term facilities), while average customer loans increased by 13% to **R234bn** (2017: R206bn). Customer deposits declined by 2% to **R174bn** (2017: R177bn) with average customer deposits up 5% to **R182bn** (2017: R173bn). Customer deposits continue to remain a key focus.

CIB ARO

CIB ARO headline earnings increased by 7% to **R2 508m** (2017: R2 348m, up 11% in CCY), driven by a combination of income growth and significantly lower impairments, partly offset by higher operating expenses. Income growth of 7% in CCY was driven by balance sheet growth in Corporate, while the Investment Bank was impacted by the non-repeat of some once off client trades in the prior year.

Balance sheet growth was impacted by currency translations, with customer loans up 25% to **R49bn** (2017: R39bn, up 11% in CCY), and customer deposits up 23% to **R59bn** (2017: R48bn, up 10% in CCY).

CIB

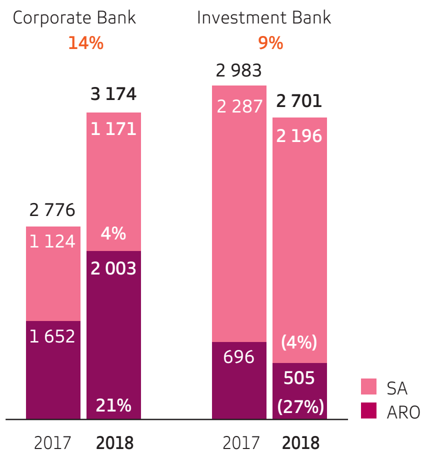
for the reporting period ended 31 December

Financial performance (continued)

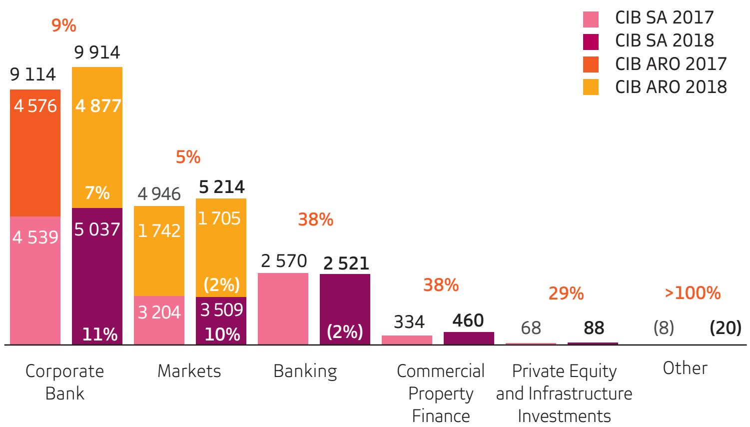
Total CIB

CIB increased headline earnings by 2% to **R5 875m** (2017: R5 759m; up 4% in CCY), supported by income growth of 7% to **R18 177m** (2017: R17 024m, up 8% in CCY) benefiting from a successful conversion of client relationships to primary bank as well as growth in customer loans. This was offset by separation related costs across the continent, with an overall operating costs growth of 12% to **R8 907m** (2017: R7 950m, up 13% in CCY); and higher credit impairments of **R1 030m** (2017: R906m).

Total CIB headline earnings (Rm and change %)



Total CIB gross income mix (Rm and change %)



Business performance

The Corporate and Investment Bank delivered a credible income performance and has made significant progress to execute on key priorities. The UK office was launched to bolster relationships and drive more connectivity with global clients. The separation programme is on track, with the overall book of work delivering within budget and according to the timelines expected. The benefits of the separation programme provide a platform to transform the business through the deployment of new and improved technology, which includes an enhanced digital experience for our clients.

In 2018, notable achievements include:

- An increase in the breadth and depth of the client franchise with several client acquisitions and an increase in primary banking relationships.
- Closed milestone deals in key sectors which have generated significant levels of economic activity including an increase in foreign direct investment.
- Contributed to the supply of sustainable energy by participating in major renewable energy transactions in wind and solar technologies.

Furthermore, the following accolades were received in this period:

First half of the year:

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

CIB

for the reporting period ended 31 December

Business performance *(continued)*

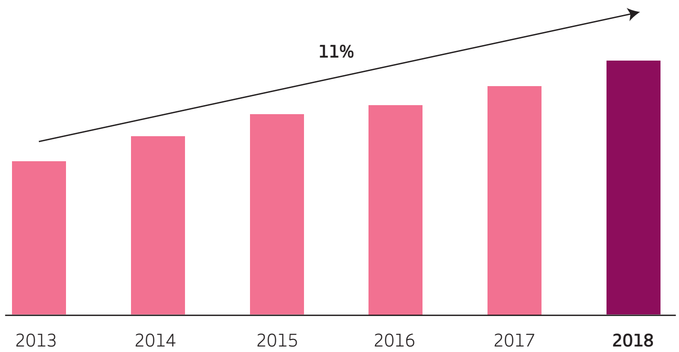
Second half of the year:

- Best Trade Finance Bank in South Africa, The Asian Banker
- Best Cash Management Bank in Mauritius, The Asian Banker
- Best Transaction Bank in Mauritius, The Asian Banker
- Best Loan House in South Africa, EMEA Finance
- Best Investment Bank in Botswana and Zambia, EMEA Finance
- Best Research Team for Africa, Credit, Economics, Fixed Income, Forex and overall best Research House, JSE Spire Awards
- Best Market Making Team for Forex, Forex Futures and Forex Options, JSE Spire Awards
- Best Sales Team for Forex, Forex Derivatives and Bonds, JSE Spire Awards
- Best Team for Credit Bonds, JSE Spire Awards
- Best Funder/Incubator of Small, Medium & Micro Enterprises, Association of Black Securities and Investment Professionals
- Best Bank in Ghana, Euromoney

Corporate SA

The SA performance was driven by net interest income growth of 15% to **R3 660m** (2017: R3 191m), which benefited from average customer loans growth of 13% to **R69bn** (2017: R61bn) as well as improved margins. Non-interest income growth of 2% at **R1 377m** (2017: R1 349m) was adversely impacted by a decline in fee income in the Trade business, following the non-repeat of landmark deals in the base.

Corporate SA income growth trend



The year-on-year income performance was driven by a solid performance from all underlying product houses:

- **Trade** continued with the income growth momentum that was seen in the first half of the year (up 26%), with the business concluding some market leading transactions in the Telecommunications sector. This was offset by a decline in fee income.
- **Deposits** income increased by 12%, driven by primary banking initiatives with average operational cheque deposits up 7% to **R58bn** (2017: R54bn). Overall corporate customer deposits grew by 3% on average to **R145bn** (2017: R142bn), adversely impacted by a decline in call deposits and foreign currency deposits.
- **Transactional banking** income increased by 9% mainly driven by an uptick in domestic transactional banking sales and continued momentum in Collections.
- **Debt Finance** increased by 16% driven by balance sheet growth, which resulted in net interest income growth.
- **Working Capital** income increased by 8%, supported by higher margin due to changes in the underlying client mix.

Salient features	2018	2017[1]	Change %
Gross income (Rm)	5 037	4 539	11
Credit impairments (Rm)	(231)	(117)	97
Net income (Rm)	4 806	4 422	9
Average loans and advances to customers (Rbn)	69.2	61.1	13
Average deposits due to customers (Rbn)	145.4	141.7	3

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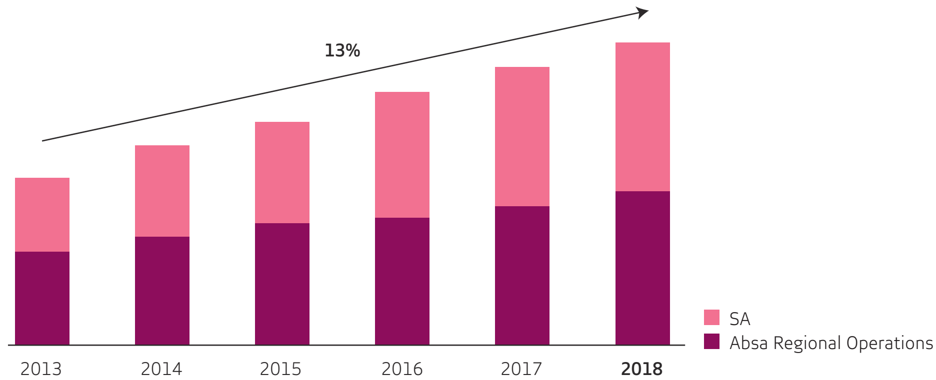
Business performance *(continued)*

Total Corporate

The Corporate Bank delivered income growth of 9% to **R9 914m** (2017: R9 115m, up 10% in CCY). This was driven by growth from both SA (up 11% to R5 037m) and ARO (up 7% to R4 877m).

Total Corporate income growth trend



Investment Bank SA

In South Africa, the Investment Bank increased income by 6%, supported by growth from all business units with the exception of Banking, which was adversely impacted by a slowdown in corporate Mergers & Acquisitions (M&A) activity and Equity Capital Markets.

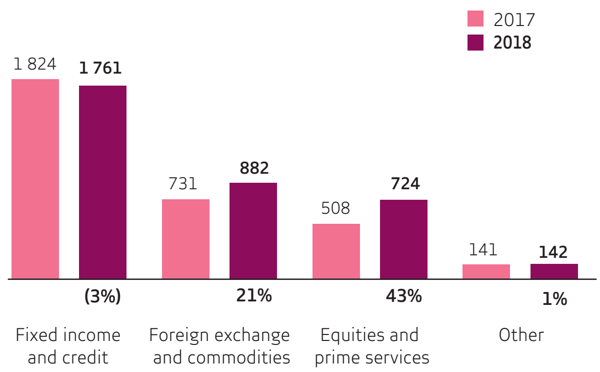
The performance by business unit can be summarised as follows:

Markets SA

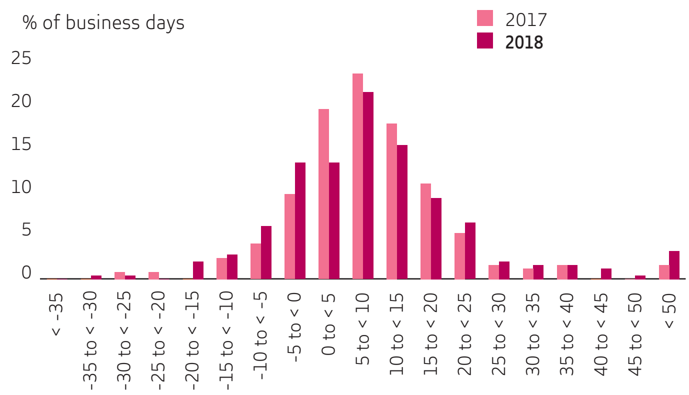
Markets SA income increased by 10% to **R3 509m** (2017: R3 204m), driven by:

- **Foreign Exchange and Commodities increased by 21% to R882m** (2017: R731m) due to increased client flow as a result of sector alignment, value add to clients and continued focus on strategic internal initiatives. The business was able to monetise the inherent market volatility for both FX and Commodities.
- **Equities and Prime Services increased by 43% to R724m** (2017: R508m). The derivatives business has strengthened the franchise offering, and yielded diversified returns and a client centric focus. Balance sheet optimisation and sound risk management created additional growth opportunities.
- **Fixed income and Credit decreased by 3% to R1 761m** (2017: R1 824m) driven by generalised risk sell off in sub-Saharan markets and spread compression on secured financing deals. Client hedging activity in inflation linked products and non-ZAR interest rate trading portfolios performed well, as did trades in Property and Infrastructure.

Markets gross income split (Rm and change %)



Daily markets income distribution (Rm)



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

CIB

for the reporting period ended 31 December

Business performance *(continued)*

Investment Bank *(continued)*

Banking SA

Banking income declined marginally by 2% to **R2 521m** (2017: R2 570) with Global Finance growth of 4% to **R2 418m** (2017: R2 330) offset by the Advisory business, down 57% to **R103m** (2017: R240m).

The **Advisory business** was impacted by a material slowdown in corporate M&A activity and Equity Capital Markets. Overall market conditions across sub-Saharan Africa remain challenging, particularly leading up to various elections, which when coupled with reduced emerging markets interest from offshore, may lead to continued lower corporate activity across sectors.

Global Finance performance was driven by a combination of a few factors:

- Average balance sheet growth of 7% to **R104bn** (2017: R97bn) as the business continued to support its clients' growth strategies across the continent. This was, however, offset by margin compression on the overall portfolio.
- The preference share business continued to contribute positively to the overall Global Finance franchise, driven by a combination of refinancing and new transactions to finance clients' acquisitions and strategic equity holdings.
- This business further benefited from participating in the majority of the latest round of renewable energy projects; coupled with increased market presence in Debt Capital Markets.

Credit impairments increased by 81% to **R805m** (2017: R445m) mainly due to a single name charge in the consumer sector.

Salient features	2018	2017[1]	Change %
Gross income (Rm)	2 521	2 570	(2)
Global finance (Rm)	2 418	2 330	4
Advisory (Rm)	103	240	(57)
Credit impairment (Rm)	(805)	(445)	81
Net income (Rm)	1 716	2 125	(19)
Average loans and advances to customers (Rbn)	104.2	97.3	7

Commercial Property Finance SA (CPF)

The CPF business has maintained its growth momentum in this reporting period, delivering gross income growth of 38% to **R460m** (2017: R334m) and an annual compound growth of 28% over the last two years. Net interest income increased by 31% supported by average portfolio asset growth of 27% while non-interest income has grown in excess of 300%, off a low base. This business continues to increase market presence in South Africa whilst maintaining portfolio diversification and quality.

Salient features	2018	2017[1]	Change %
Gross income (Rm)	460	334	38
Credit impairment (Rm)	17	(4)	<(100)
Net income (Rm)	477	330	45
Average portfolio assets (Rbn)	31.9	25.1	27

Private Equity and Infrastructure Investments SA

Non-Core Private Equity and Infrastructure Investments reported income of **R89m** (2017: R68m) mainly as a result of positive revaluations in the portfolio.

Salient features	2018	2017	Change %
Revaluations (Rm)	27	(111)	<(100)
Realisations, dividends, interest and fees (Rm)	82	190	(57)
Funding (Rm)	(20)	(11)	82
Net income (Rm)	89	68	31
Total portfolio size (Rbn)	1.8	1.7	6

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

CIB

for the reporting period ended 31 December

Business performance *(continued)*

Total Investment Bank

Including ARO, the total Investment Bank increased income by 4% to **R8 263m** (2017: R7 909m, up 6% in CCY). The Investment Bank business in ARO was down 2% (up 3% in CCY) impacted by the non-repeat of some large client trades in the prior year.

Looking ahead

CIB's ambition is to be the leading Pan-African Corporate and Investment Bank. It has a strong growth agenda and will focus its efforts on the following priorities:

- Deliver a winning Corporate Bank that focuses on the core offerings including innovative corporate products (integrated propositions) and re-launching Custody and Trustee services in South Africa with the strategic intent to roll out across all of Absa Group's geographies.
- Product expansion by deepening the financing and structuring propositions on a Pan Africa basis.
- Focus on key growth sectors through stronger origination and commercialisation capabilities.
- Regional expansion into key non-presence markets and leverage strategic partners to broaden our footprint in Africa. In particular, focus will be afforded to commercialising the recently announced Societe-Generale partnership which will increase CIB's reach across the continent.
- Leveraging the UK Office to bolster relationships as we increase our participation in key global corridors.

Recruitment and engagement of staff is a key priority of the group and CIB will focus on entrenching a culture that creates a thriving organisation, with a focus on building a diverse talent pool to drive the growth ambition of the group.

The Separation Programme reaches a period of significant intensity in 2019, with several major projects scheduled for completion. Resources have been prioritised to ensure that the business delivers within set timelines.

Absa Regional Operations

for the reporting period ended 31 December

Key performance highlights for the reporting period include:

Headline earnings increased by 9%

(CCY: 13%) and RoE increased from 16.6% to **18.5%.**

Impairments reduced by 38%

(CCY: 40%) resulting in an improved credit loss ratio of **0.77%** (2017: 1.34%).

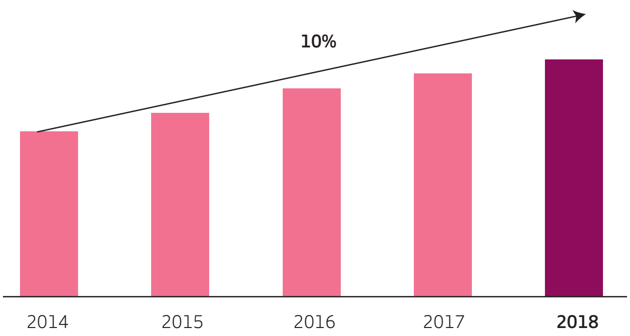
Revenue growth of **5%** (CCY: 6%) was supported by revenue growth in RBB of **5%** (CCY: 6%) and Corporate of **7%** (CCY: 8%). Whilst revenue declined by **2%** (CCY up: 3%) in Investment Banking as a result of large trades in the Markets business in the prior year. Lower interest rates in most countries where we operate was reflected in lower endowment revenue and reduced the revenue growth trajectory.

Momentum from the prior year on the balance sheet continued into the current year with loans and advances to customers growing by **25%** (CCY: 12%) and deposits due to customers growing by **23%** (CCY: 10%).

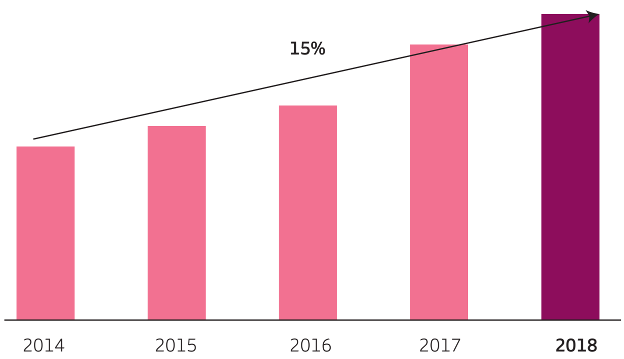
Cost-to-income ratio deteriorated to **58.4%** (2017: 57.6%) as cost growth exceeded revenue growth. This was driven by incremental operating costs following the sell down by Barclays PLC in the prior year.

Salient features	2018	2017	CCY%	Change %
Income (Rm)	16 323	15 617	6	5
Attributable earnings (Rm)	3 237	2 972	13	9
Headline earnings (Rm)	3 218	2 954	13	9
Credit loss ratio (%)	0.77	1.34		
Cost-to-income ratio (%)	58.4	57.6		
RoRC (%)[1]	18.5	16.6		
RoRWA (%)	1.75	1.77		
RoA (%)	1.84	1.71		

ARO Income growth trend CCY (CAGR)



ARO Headline earnings growth trend CCY (CAGR)



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

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Absa Regional Operations

for the reporting period ended 31 December

	RBB				CIB			
	2018	2017	CCY%	Change %	2018	2017	CCY%	Change %
Statement of comprehensive income (Rm)								
Net interest income	**6 997**	6 747	5	4	**4 220**	4 021	6	5
Non-interest income	**2 751**	2 550	10	8	**2 362**	2 297	8	3
Total income	**9 748**	9 297	6	5	**6 582**	6 318	7	4
Impairment losses	**(820)**	(950)	(15)	(14)	**(32)**	(339)	(93)	(91)
Operating expenses	**(6 914)**	(6 729)	5	3	**(2 603)**	(2 306)	15	13
Other operating expenses	**(182)**	(147)	27	24	**(35)**	(29)	23	21
Operating profit before income tax	**1 832**	1 471	26	25	**3 912**	3 644	11	7
Tax expenses	**(682)**	(580)	22	18	**(1 146)**	(985)	20	16
Profit for the reporting period	**1 150**	891	29	29	**2 766**	2 659	7	4
Profit attributable to:								
Ordinary equity holders	**863**	688	29	25	**2 508**	2 348	11	7
Non-controlling interest – ordinary shares	**287**	203	30	41	**258**	311	(21)	(17)
	1 150	891	29	29	**2 766**	2 659	7	4
Headline earnings	**844**	670	29	26	**2 508**	2 348	11	7
Operating performance (%)								
Net interest margin on average interest-bearing assets[1]	**10.18**	10.03			**7.01**	6.58		
Credit loss ratio	**1.80**	2.22			**0.07**	0.84		
Non-interest income as % of income	**28.2**	27.4			**35.9**	36.4		
Income growth	**5**	(8)			**4**	7		
Operating expenses growth	**3**	(4)			**13**	3		
Cost-to-income ratio	**70.9**	72.4			**39.5**	36.5		
Statement of financial position (Rm)								
Loans and advances to customers	**48 229**	38 627	13	25	**49 016**	39 237	11	25
Loans and advances to banks	**3**	1	>100	>100	**881**	1 411	(45)	(38)
Investment securities	**4**	11	(63)	(64)	**422**	442	(16)	(5)
Other assets	**34 075**	35 416	(14)	(4)	**29 444**	27 729	3	6
Total assets	**82 311**	74 055	(0)	11	**79 763**	68 819	7	16
Deposits due to customers	**72 443**	59 375	9	22	**58 520**	47 621	10	23
Debt securities in issue	**32**	28	0	14	**—**	—	—	—
Other liabilities	**11 158**	15 034	(29)	(26)	**20 447**	19 722	4	4
Total liabilities	**83 633**	74 437	1	12	**78 967**	67 343	8	17
Financial performance (%)								
RoRWA	**1.25**	0.98			**4.52**	4.16		
RoA	**1.15**	0.79			**3.65**	3.52		

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

Head Office, Treasury and other operations in Absa Regional Operations				Total Absa Regional Operations			
2018	2017	CCY%	Change %	2018	2017	CCY%	Change %
(51)	(4)	>100	>100	11 166	10 764	5	4
44	6	>100	>100	5 157	4 853	9	6
(7)	2	<(100)	<(100)	16 323	15 617	6	5
58	—	100	100	(794)	(1 289)	(40)	(38)
(18)	35	<(100)	<(100)	(9 535)	(9 000)	8	6
16	(1)	<(100)	<(100)	(201)	(177)	17	14
49	36	26	36	5 793	5 151	15	12
(183)	(100)	82	83	(2 011)	(1 665)	25	21
(134)	(64)	>100	>100	3 782	3 486	11	8
(134)	(64)	>100	>100	3 237	2 972	13	9
—	—	(37)	—	545	514	(1)	6
(134)	(64)	>100	>100	3 782	3 486	11	8
(134)	(64)	>100	>100	3 218	2 954	13	9
n/a	n/a			7.44	7.18		
n/a	n/a			0.77	1.34		
n/a	n/a			31.6	31.1		
n/a	n/a			5	(3)		
n/a	n/a			6	(2)		
n/a	n/a			58.4	57.6		
(1)	(1)	<(100)	—	97 244	77 863	12	25
10 394	10 480	(9)	(1)	11 278	11 892	(13)	(5)
35 617	28 371	13	26	36 043	28 824	13	25
(15 124)	(19 004)	(10)	(20)	48 395	44 141	(5)	10
30 886	19 846	24	56	192 960	162 720	6	19
2 693	1 640	54	64	133 656	108 636	10	23
1 331	351	>100	>100	1 363	379	>100	>100
3 447	(1 377)	<(100)	<(100)	35 052	33 379	(7)	5
7 471	614	>100	>100	170 071	142 394	7	19
n/a	n/a			1.75	1.77		
n/a	n/a			1.84	1.71		

Absa Regional Operations

for the reporting period ended 31 December

Business profile

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

Key segments

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

Key business entities

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

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

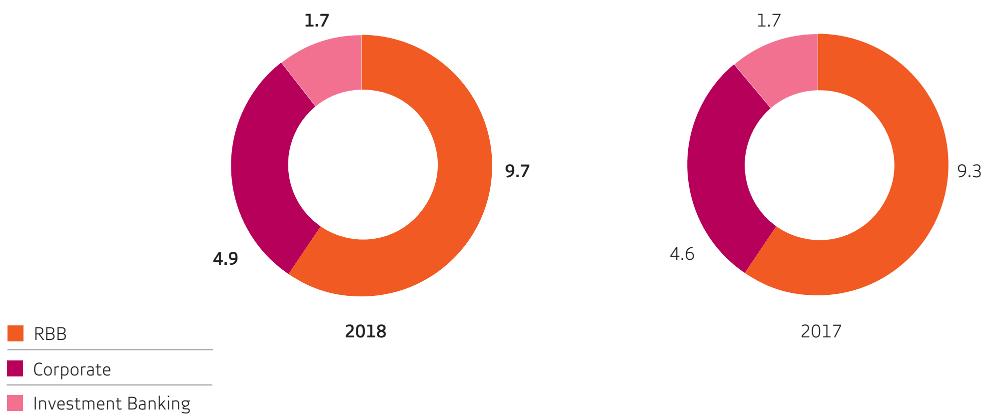
Financial performance

ARO delivered headline earnings growth of **9%** (CCY: 13%) to **R3 218m** (2017: R2 954m) and Return on Equity of **18.5%** (2017: 16.6%). This was achieved while maintaining prudent lending in the consumer portfolio, liquidity constraints in Corporate and lower average interest rates compared to the comparative period as most markets started to show signs of recovery. The Rand started the year stronger than the comparative period, but lost momentum towards the end of the year to close weaker compared to the prior year against the basket of currencies in which we operate. This had a negative impact on translated earnings, but a positive impact on balance sheet growth.

Continued benefits were extracted from favourable strategic decisions made in the prior year, seeing RBB headline earnings grow by **26%** (CCY: 29%) and Corporate headline earnings grow by **21%** (CCY: 24%). Headline earnings in the Investment Banking business ended lower than the prior year as a result of large trades in the Markets business not repeated in the current year.

A continued focus on the quality of our book, coupled with improved collections and recoveries and the implementation of key systems has seen a **38%** (CCY: 40%) decline in impairments. Despite incremental operating costs, relating mainly to new technology services being incurred directly by business following the sell down by Barclays PLC in the prior year, cost growth was well contained, reflecting an increase of **6%** (CCY: 8%).

Income contribution by segment (Rbn)



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Absa Regional Operations

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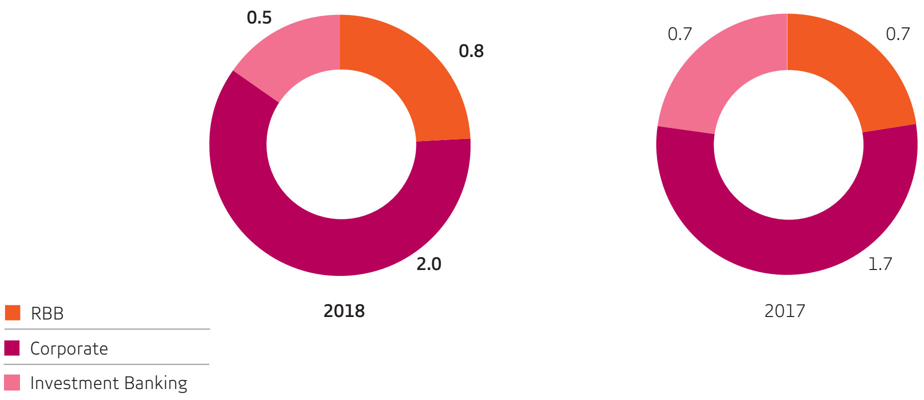
Financial performance *(continued)*

Headline earnings contribution by segment (Rbn)



Net interest income increased by **4%** (CCY: 5%) to **R11 166m** (2017: R10 764m) with RBB's net interest income increasing by **4%** (CCY: 5%) to **R6 997m** (2017: R6 747m) and CIB's net interest income increasing by **5%** (CCY: 6%) to **R4 220m** (2017: R4 021m), despite decreasing interest rates. RBB's net interest income growth was driven by **25%** (CCY: 13%) growth in loans and advances to customers driven by new product launches and strong unsecured lending growth. This was achieved while maintaining prudent lending criteria in strained markets.

Non-interest income grew by **6%** (CCY: 9%) to **R5 157m** (2017: R4 853m). RBB's non-interest income increased by **8%** (CCY: 10%) to **R2 751m** (2017: R2 550m) driven by debit card fees, insurance income and trade fees growing by 17%, 16% and 7% respectively. CIB's non-interest income increased by **3%** (CCY: 8%) to **R2 362m** (2017: R2 297m). The growth in CIB's non-interest income reflects strong transactional growth in Corporate which was partially offset by large single trades concluded in the prior year not repeated in the current year.

Impairments improved by **38%** (CCY: 40%) to **R794m** (2017: R1 289m) resulting in an improved credit loss ratio of **0.77%** (2017: 1.34%). The improvement was driven by improved portfolio construct across most portfolios, an increased focus on collections capabilities and lower identified impairments compared to the comparative period.

The continued focus on cost containment and right sizing the business in the current economic climate, including the optimisation of the branch network drove sub-inflationary underlying cost growth, despite high inflation rates in some countries, most notably Mozambique. Operating expenses were also adversely impacted by incremental costs following the Barclays separation at the end of the first half of the prior year. Operating expenses increased by **6%** (CCY: 8%) to **R9 535m** (2017: R9 000m). This, coupled with lower revenue growth resulted in a higher cost-to-income ratio of **58.4%** (2017: 57.6%).

Loans and advances to customers grew by **25%** (CCY: 12%) to **R97.2bn** (2017: R77.9bn). RBB's loans and advances grew by **25%** (CCY: 13%) to **R48.2bn** (2017: R38.6bn) while maintaining prudent lending criteria. Commercial loans grew by 19% in CCY driven by strong agricultural sector growth. CIB's loans and advances to customers increased by **25%** (CCY: 11%) to **R49.0bn** (2017: R39.2bn) as a result of increased focus on origination and leading syndicated deals as well as improved appetite in our target sectors. These include global corporates, public sector and telecommunications.

Deposits due to customers grew by **23%** (CCY: 10%) to **R133.7bn** (2017: R108.6bn). RBB's deposits due to customers increased by **22%** (CCY: 9%) to **R72.4bn** (2017: R59.4bn) as pressure on consumers eased following the recovery of most economies. CIB's deposits due to customers increased by **23%** (CCY: 10%) to **R58.5bn** (2017: R47.6bn) driven by sustained investment in transactional platforms and enhanced client solutions driving improved wallet share, and despite regulations aimed at moving public sector deposits away from commercial banks.

RBB Absa Regional Operations

for the reporting period ended 31 December

Key performance highlights for the reporting period include:

Headline earnings grew by 26%

(CCY: 29%) to **R844m** (2017: R670m), despite some headwinds, including increased competition for liquidity and a decline in interest rates.

Retail Bank and Business Banking showed growth in loans and advances to customers

of 11% and 19% respectively.

Improved credit loss ratio of 1.80%

(2017: 2.22%).

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

RoRWA improved to 1.25%

(2017: 0.98%) and RoA improved to 1.15% (2017: 0.79%).

Accolades received include:

- Barclays Bank of Kenya received the Asian Banker award for the deposit product of the year for the Twin Plus account;
- Barclays Bank of Kenya awarded best Shari'ah-compliant investment bank in Kenya for 2018 Business Vision;
- Barclays Bank of Kenya received the IFM International award for the most innovative digital banking product for Timiza;
- Barclays Bank of Botswana named Botswana's 'Best Investment Bank Year 2018' by Europe, the Middle East and Africa (EMEA);
- Barclays Bank of Zambia awarded the Best Customer Service Award by the Chartered Institute of Customer Services Management Awards; and
- Barclays Bank of Ghana received the Euromoney Best bank in Ghana award.

Salient features	2018	2017	CCY%	Change %
Income (Rm)	**9 748**	9 297	6	5
Attributable earnings (Rm)	**863**	688	29	25
Headline earnings (Rm)	**844**	670	29	26
Credit loss ratio (%)	**1.80**	2.22		
Cost-to-income ratio (%)	**70.9**	72.4		
RoRWA (%)	**1.25**	0.98		
RoA (%)	**1.15**	0.79		

RBB Absa Regional Operations

for the reporting period ended 31 December

	RBB			
	2018	2017	CCY%	Change %
Statement of comprehensive income (Rm)				
Net interest income	**6 997**	6 747	5	4
Non-interest income	**2 751**	2 550	10	8
Total income	**9 748**	9 297	6	5
Impairment losses	**(820)**	(950)	(15)	(14)
Operating expenses	**(6 914)**	(6 729)	5	3
Other operating expenses	**(182)**	(147)	27	24
Operating profit before income tax	**1 832**	1 471	26	25
Tax expenses	**(682)**	(580)	22	18
Profit for the reporting period	**1 150**	891	29	29
Profit attributable to:				
Ordinary equity holders	**863**	688	29	25
Non-controlling interest – ordinary shares	**287**	203	30	41
	1 150	891	29	29
Headline earnings	**844**	670	29	26
Operating performance (%)				
Net interest margin on average interest-bearing assets[1]	**10.18**	10.03		
Credit loss ratio	**1.80**	2.22		
Non-interest income as % of income	**28.2**	27.4		
Income growth	**5**	(8)		
Cost growth	**3**	(4)		
Cost-to-income ratio	**70.9**	72.4		
Statement of financial position (Rm)				
Loans and advances to customers	**48 229**	38 627	13	25
Loans and advances to banks	**3**	1	>100	>100
Investment securities	**4**	11	(63)	(64)
Other assets	**34 075**	35 416	(14)	(4)
Total assets	**82 311**	74 055	(0)	11
Deposits due to customers	**72 443**	59 375	9	22
Debt securities in issue	**32**	28	0	14
Other liabilities	**11 158**	15 034	(29)	(26)
Total liabilities	**83 633**	74 437	1	12
Financial performance (%)				
RoRWA	**1.25**	0.98		
RoA	**1.15**	0.79		

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

RBB Absa Regional Operations

for the reporting period ended 31 December

Business profile

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

Key product/segment areas

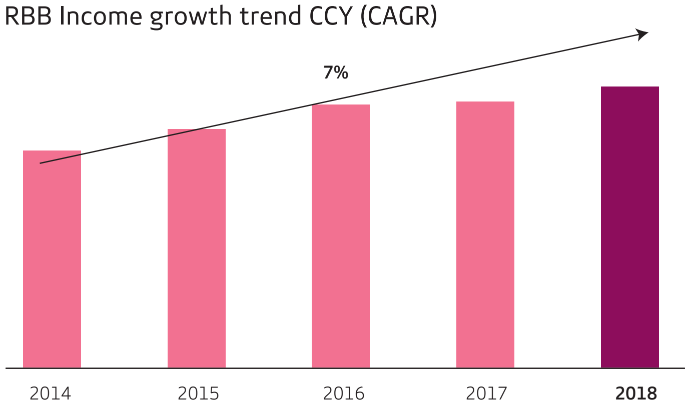
- **Premier banking:** Represents the affluent retail segment in each market. They are offered exclusive banking with tailor-made solutions through dedicated relationship managers and Premier suites.
- **Prestige banking:** Represents the emerging affluent retail segment in each market. They are serviced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

Financial performance

RBB produced headline earnings growth of **26%** in spite of a challenging operating environment that included declining interest rates, much greater competition from traditional banks and payment Fintechs, as well as the growing demands from the PLC separation.

Income grew by **5%** (CCY: 6%) to **R9 748m** (2017: R9 297m), impairments improved by **14%** (CCY: 15%) to **R820m** (2017: R950m) while operating expenses increased by **3%** (CCY: 5%) to **R6 914m** (2017: R6 729m) resulting in positive Jaws of 2%.

RBB Income growth trend CCY (CAGR)



Despite challenges in our larger Business Banking markets as a result of market forces and Regulatory limitations, on a CCY basis revenue grew by 6%. Underlying revenue growth was achieved mainly due to:

- Increased focus on customers through the Customer Lifecycle Management framework which helped increase the average product per customer to **1.75** (2017: 1.73);
- Offering holistic banking through an improved suite of product and services focused on specific sectors and customer types;
- Continued success in the commercial banking segment through focused relationship building;
- Introducing new mobile led customer acquisition channels which have helped grow our net acquisition of customer liabilities by 8%; and
- Customer centric design to continuously improve customer experience.

Net interest income improved by **4%** (CCY: 5%) to **R6 997m** (2017: R6 747m) despite:

- Reduced customer deposit margins largely driven by falling interest rates as well as increased competitor pricing to attract liquidity most notably in Botswana, Kenya, Ghana, Mozambique, Zambia and Tanzania;
- A more prescriptive approach to our consumer lending to employees in specific sectors such as mining in Botswana and Zambia in order to minimise the impact on impairments. To counter this and take advantage of falling interest rates in some markets we have implemented measures to target specific lending opportunities that has resulted in sales growth of 31%; and
- Reduction in Treasury bill rates in certain markets has also had a significant impact on the interest income.

RBB Absa Regional Operations

for the reporting period ended 31 December

Financial performance *(continued)*

Non-interest income grew by **8%** (CCY: 10%) to **R2 751m** (2017: R2 550m) predominantly due to improved performances in the Cards and Payments business, Trade and working capital facilities with business clients, as well as improved performance in Bancassurance. The increased focus to drive customer awareness and education on debit card usage has contributed to an increase of 4% on point of sale spend. The Card acquiring business increased the number of active merchants by 7% resulting in growth in turnover, largely coming from the Government, Retail sectors and e-commerce payment channels. Our cards issuing business showed an 8% increase in cards in force, driving a 10% increase in total card spend and 17% increase in fee income. Higher performance was seen in Bancassurance through increased focus on customer penetration and increased standalone insurance sales resulting in income growth of 16%. Regulatory changes capping or abolishing on certain fees as well as the customer migration to lower fee channels has resulted in transactional fee income growth of 6%. ATM and the Branch network remain the top two preferred transaction channels which contributed to the bulk of our transactional activity in terms of value but Internet banking and mobile banking usage has increased by 20% and 139% respectively while conventional channels (ATMs and Branch network) has reduced by 2%. Barclays Internet Retail (BIR) and Barclays Mobile Banking (BMB) has seen active customer growth of 18%. This has helped to improve our customer service levels including waiting times in our branches but has dampened fee income growth. Trade and working capital facility income increased in Business Bank by 7% driven by greater focus on client needs.

Impairments improved by **14%** (CCY: 15%) from R950m to **R820m** resulting in a credit loss ratio of **1.80%** (2017: 2.22%). This performance has resulted from improved credit and collection strategies, improved collection technologies, improvements in the level of resourcing and skills and a relatively benign macro operating environment.

Through branch optimisation, enhanced digital capability and effective cost management, operating expenses have shown sub inflationary growth of **3%** (CCY: 5%) to **R6 914m** (2017: R6 729m). Sub inflation cost growth has resulted in an improvement in our cost-to-income ratio to **70.9%** (2017: 72.4%).

Total loans and advances grew by **25%** (CCY: 13%) to **R48.2bn** (2017: R38.6bn). Key asset balance sheet highlights include the following:

- Through a combination of better customer engagement and selective lending, net consumer loans and mortgages grew by 6% and 7% respectively. This has helped improve return on assets;
- Total number of loan bookings in the Retail segment grew by 21% with gross value growing by 31%; and
- Business Bank lending increased by 19% as a result of greater focus on specific sectors and clients.

Deposits due to customers grew by **22%** (CCY: 9%) to **R72.4bn** (2017: R59.4bn) despite market liquidity challenges in a number of our key markets and aggressive competitor pricing. To reduce our cost of funding, specific measures such as enhancing our transactional offering were taken to grow our active client base.

Business performance

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

Growth was supported by:

- Launch of a Virtual Banking proposition (Timiza) in Kenya providing customers with mobile lending and savings products, which resulted in over 1.7 million loan disbursements to 415 thousand active customers;
- Launch of a mobile lending proposition (Kongola) in Zambia, which resulted in 460 thousand loan disbursements to 160 thousand active customers;
- Further expansion of our pre-paid card business that included the issuance of approximately 90 thousand pre-paid cards to farmers in Zambia for the payment of farming materials and a co-branded card with a multi-national fuel retailer;
- Launch of purchase order finance, Business Internet Banking, improvement of enterprise development capabilities and expanding our structured trade and commodity finance in a number of our businesses in support of our customers; and
- Winning of key South African outbound clients in our payments business.

Efficiency was supported by:

- Continued growth in digital adoption by customers across a number of channels including iATM (withdrawal and deposits), Mobile Banking, POS and internet banking. Transactional volumes from mobile and internet banking grew by 94%;
- Mobile on-boarding of clients which continues to drive increased sales volumes and enhanced customer experience;
- Roll out of agency banking to two additional markets namely Tanzania and Uganda which helped optimise cost to serve and will increase our points of presence to facilitate greater ease for customers to transact with us; and
- Continued optimisation of the branch network to serve customers more economically and efficiently.

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

- Customer Lifecycle Management to further improve the quality of new-to-franchise customer acquisition and deepen the relationship with existing customers through enhanced digital solutions with a focus on mobile and internet banking solutions;
- Optimised branch operating model to build fit-for-purpose branches, ensuring that we are optimally positioned to serve our customers and reduce service costs;
- Continuing to embed and enhance the sector focus approach in Commercial and Small and Medium Enterprise Banking;
- Driving the retail segment with refreshed customer value propositions with particular focus on affluent customers;
- Extracting further opportunities from the Corporate customer ecosystems;
- Commercialising a new digital platform aiding the trade between suppliers and buyers within the Agriculture industry;
- Driving the rollout of a value adding tool for our SME clients that will help support small business owners in the formulation of business plans and financial statements; and
- Commercialising new business opportunities such as mobile lending and payments.

CIB Absa Regional Operations

for the reporting period ended 31 December

Key performance highlights for the reporting period include:

The Corporate business delivered headline earnings growth of 21%

(CCY: 24%).

Corporate non-interest income was up by 12%

(CCY: 16%).

Investment Banking revenue was down 2%

(CCY up 3%) as a result of large single trades in one of our jurisdictions in 2017. However in the majority of our other markets double-digit growth in Investment Banking revenue was achieved.

Impairments declined by 91%

(CCY: 93%) resulting in an improved credit loss ratio of **0.07%** (2017: 0.84%).

Improvement in returns with growth

in RoA and RoRWA to **3.65%** (2017: 3.52%) and **4.52%** (2017: 4.16%) respectively.

Accolades received included the following:

- Achieved 2nd place on the loan league tables for Sub-Saharan Africa;
- Banker Africa East Africa Awards: Best Investment Bank in Tanzania;
- EMEA Finance African Banking Awards 2018: Best Investment Bank in Botswana and Best Investment Bank in Zambia;
- EMEA Project Finance Awards: Best Infrastructure deal (Mozambique) and Best Oil & Gas deal (Nigeria); and
- Asian Banker Transaction Awards: Best Transaction Bank in Mauritius and Best Cash Management Bank in Mauritius.

Cost growth of 13%

(CCY: 15%), largely due to incremental operating costs following the sell down by Barclays PLC in the prior year, caused an increase in the cost-to-income ratio to **39.5%** (2017: 36.5%).

Strong balance sheet growth

with loans and advances to customers up by **25%** (CCY: 11%) while customer deposits increased by **23%** (CCY: 10%).

Salient features	2018	2017	CCY%	Change %
Income (Rm)	**6 582**	6 318	7	4
Attributable earnings (Rm)	**2 508**	2 348	11	7
Headline earnings (Rm)	**2 508**	2 348	11	7
Credit loss ratio (%)	**0.07**	0.84		
Cost-to-income ratio (%)	**39.5**	36.5		
RoRWA (%)	**4.52**	4.16		
RoA (%)	**3.65**	3.52		

Business profile

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

CIB Absa Regional Operations

for the reporting period ended 31 December

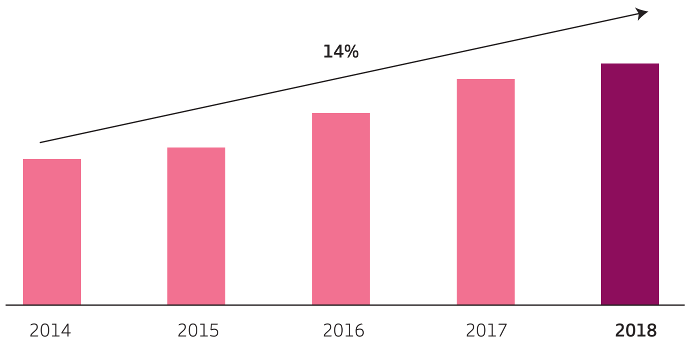
Key business areas

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

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

Financial performance

CIB Income growth trend CCY (CAGR)



Corporate

Headline earnings increased by **21%** (CCY: 24%) to **R2 003m** (2017: R1 652m) on the back of revenue growth coupled with lower impairments.

Salient features	2018	2017	CCY%	Change %
Income (Rm)	**4 877**	4 576	8	7
Attributable earnings (Rm)	**2 003**	1 652	24	21
Headline earnings (Rm)	**2 003**	1 652	24	21
Credit loss ratio (%)	**0.07**	0.84		
Cost-to-income ratio (%)	**38.0**	36.6		
RoRWA (%)	**4.55**	3.57		
RoA (%)	**3.30**	2.76		

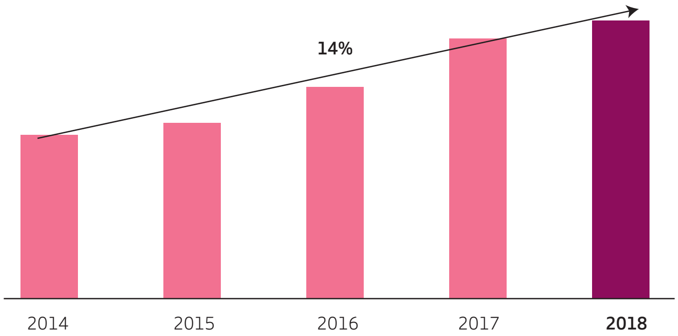
Revenue was up **7%** (CCY: 8%) to **R4 877m** (2017: R4 576m), with net interest income up **6%** (CCY: up 7%) to **R4 230m** (2017: R3 999m) supported by a successful conversion of client relationships to primary banked and a strong balance sheet performance. However, several markets experienced an adverse interest rate environment that negatively impacted product margins.

CIB Absa Regional Operations

for the reporting period ended 31 December

Financial performance *(continued)*

Corporate income growth trend CCY (CAGR)



Our focus on transactional accounts and customer growth as well as advisory fees from large transactions contributed to growth of **12%** (CCY: 16%) in non-interest income to **R647m** (2017: R577m).

Impairments on loans and advances reduced by **91%** (CCY: 93%) to **R32m** (2017: R339m), despite asset growth of **25%** (CCY: 11%), through improved risk management and client on-boarding procedures and controls.

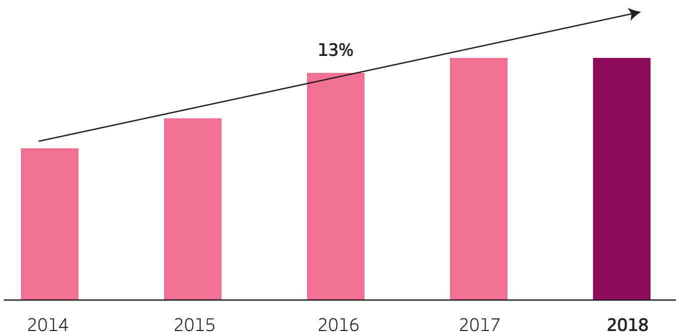
Operating expenses increased by **11%** (CCY: 13%) to **R1 855m** (2017: R1 676m) resulting in negative Jaws of **4%** and an increase in the cost-to-income ratio to **38.0%** (2017: 36.6%).

Loans and advances to customers increased by **25%** (CCY: 11%) to **R49.0bn** (2017: R39.2bn) as a result of increased focus on origination and leading syndicated deals as well as improved appetite in our target sectors. These include global corporates, public sector and telecommunications.

Deposits due to customers increased by **23%** (CCY: 10%) to **R58.5bn** (2017: R47.6bn), due to improved product offerings and platforms, with increased focus on relationships with regional corporate and public sector clients.

Investment Banking

Investment Banking income growth trend CCY (CAGR)



Headline earnings decreased by **27%** (CCY: 20%) to **R505m** (2017: R696m) with revenue down by **2%** (CCY: up 3%) to **R1 705m** (2017: R1 742m) and operating expenses up by **19%** (CCY: 20%) to **R748m** (2017: R630m).

The decrease in revenue was driven by large trades in the Markets business in the 2017 base that have not been repeated, as well as less favourable market making conditions. Baseline revenue from client activity improved and diversified with majority of our other markets achieving double-digit growth in Investment Banking revenue. Improved cross-sell through intensive client engagement, adoption of new products, improved risk management activity and investment in top talent drove increased volumes and profitability in most of our countries.

Operating expenses increased by **19%** (CCY: 20%) to **R748m** (2017: R630m) largely due to incremental operating costs following the sell down by Barclays PLC. This resulted in negative Jaws of **21%** and an increase in the cost-to-income ratio to **43.8%** (2017: 36.2%).

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CIB Absa Regional Operations

for the reporting period ended 31 December

Financial performance *(continued)*

Investment Banking *(continued)*

Salient features	2018	2017	CCY%	Change %
Income (Rm)	**1 705**	1 742	3	(2)
Attributable earnings (Rm)	**505**	696	(20)	(27)
Headline earnings (Rm)	**505**	696	(20)	(27)
Credit loss ratio (%)	**n/a**	n/a		
Cost-to-income ratio (%)	**43.8**	36.2		
RoRWA (%)	**4.41**	6.85		
RoA (%)	**6.29**	10.31		

CIB Absa Regional Operations

for the reporting period ended 31 December

	Corporate			
	2018	2017	CCY%	Change %
Statement of comprehensive income (Rm)				
Net interest income	**4 230**	3 999	7	6
Non-interest income	**647**	577	16	12
Total income	**4 877**	4 576	8	7
Impairment losses	**(32)**	(339)	(93)	(91)
Operating expenses	**(1 855)**	(1 676)	13	11
Other operating expenses	**(27)**	(21)	32	29
Operating profit before income tax	**2 963**	2 540	18	17
Tax expenses	**(797)**	(655)	25	22
Profit for the reporting period	**2 166**	1 885	16	15
Profit attributable to:				
Ordinary equity holders	**2 003**	1 652	24	21
Non-controlling interest – ordinary shares	**163**	233	(34)	(30)
	2 166	1 885	16	15
Headline earnings	**2 003**	1 652	24	21
Operating performance (%)				
Net interest margin on average interest-bearing assets	**6.94**	6.65		
Credit loss ratio	**0.07**	0.84		
Non-interest income as % of income	**13.3**	12.6		
Income growth	**7**	10		
Operating expenses growth	**11**	1		
Cost-to-income ratio	**38.0**	36.6		
Statement of financial position (Rm)				
Loans and advances to customers	**49 016**	39 237	11	25
Loans and advances to banks	**28**	120	(80)	(77)
Investment securities	**346**	430	(29)	(20)
Other assets	**17 314**	18 476	(10)	(6)
Total assets	**66 704**	58 263	4	14
Deposits due to customers	**58 520**	47 621	10	23
Other liabilities	**7 429**	9 393	(21)	(21)
Total liabilities	**65 949**	57 014	5	16
Financial performance (%)				
RoRWA	**4.55**	3.57		
RoA	**3.30**	2.76		

Investment Bank				CIB			
2018	2017	CCY%	Change %	2018	2017	CCY%	Change %
(10)	22	<(100)	<(100)	4 220	4 021	6	5
1 715	1 720	5	(0)	2 362	2 297	8	3
1 705	1 742	3	(2)	6 582	6 318	7	4
—	—	—	—	(32)	(339)	(93)	(91)
(748)	(630)	20	19	(2 603)	(2 306)	15	13
(8)	(8)	(1)	—	(35)	(29)	23	21
949	1 104	(7)	(14)	3 912	3 644	11	7
(349)	(330)	11	6	(1 146)	(985)	20	16
600	774	(16)	(22)	2 766	2 659	7	4
505	696	(20)	(27)	2 508	2 348	11	7
95	78	17	22	258	311	(21)	(17)
600	774	(16)	(22)	2 766	2 659	7	4
505	696	(20)	(27)	2 508	2 348	11	7
n/a	n/a			7.01	6.58		
n/a	n/a			0.07	0.84		
100.6	98.7			35.9	36.4		
(2)	(2)			4	7		
19	10			13	3		
43.8	36.2			39.5	36.5		
—	—	—	—	49 016	39 237	11	25
853	1 291	(42)	(34)	881	1 411	(45)	(38)
76	12	>100	>100	422	442	(16)	(5)
12 130	9 253	23	31	29 444	27 729	3	6
13 059	10 556	16	24	79 763	68 819	7	16
—	—	—	—	58 520	47 621	10	23
13 018	10 329	19	26	20 447	19 722	4	4
13 018	10 329	19	26	78 967	67 343	8	17
4.41	6.85			4.52	4.16		
6.29	10.31			3.65	3.52		

CIB Absa Regional Operations

for the reporting period ended 31 December

Business performance

Corporate

The underlying business performed well over the period, with revenue up 8% in CCY, although the declining interest rate environment impacted margins. A marked improvement in our fee businesses was also noted.

Contributors to growth included the following:

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

Factors that adversely affected the business during the period:

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

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

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

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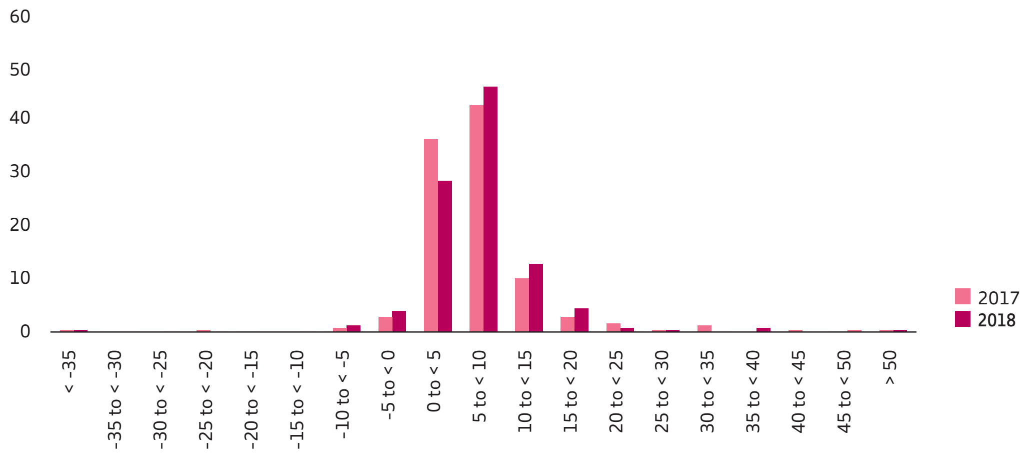
Business performance *(continued)*

Investment Banking

Revenue grew by 3% in CCY, due to large single trades concluded in the prior year not repeated in the current year. Excluding these large single deals, revenue grew by 22%, with above inflationary growth in the majority of our jurisdictions, marking a successful diversification of the business away from reliance on our largest markets.

Daily markets income distribution (%)



Favourable factors contributing to this performance included the following:

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

Adverse factors included:

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

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

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

WIMI

for the reporting period ended 31 December

WIMI's headline earnings grew by 3% to R1 268m (2017: R1 231m). Key features of our results were:

▲ **Embedded value of new business increased 15%**

▲ **ROE improving to 21.7%**
(2017: 20.8%).

▲ **Short-term insurance margin improving to 4.5%**
(2017: (0.2%)). Underwriting margins in Africa remain a challenge.

▼ **Margin compression in Investment cluster**

▲ **Jaws (difference between cost and revenue growth) of 5% achieved on the back of strong revenue performance**

Salient features	2018	2017[1]	Change %
Headline earnings (Rm)	1 268	1 231	3
Gross operating income (Rm)	6 869	6 261	10
Cost-efficiency ratio (%)	33.3	36.0	
Combined ratio (%)	95.5	100.2	
Jaws (%)	5	5	
Assets under management and administration (Rbn)	337	335	1
Embedded value of new business (EVNB) (Rm)	690	599	15
Return on embedded value (%)	31.3	33.5	
RoE (%)	21.7	20.8	

	Continuing business lines			Terminating business lines			WIMI		
	2018 Rm	2017[1] Rm	Change %	2018 Rm	2017 Rm	Change %	2018 Rm	2017[1] Rm	Change %
Total income	5 510	5 140	7	321	440	(27)	5 831	5 580	4
Total costs	(3 661)	(3 534)	4	(79)	(302)	(74)	(3 740)	(3 836)	(3)
Impairment (losses)/releases	35	(120)	<(100)	—	—	—	35	(120)	<(100)
Profit before income tax	1 884	1 486	27	242	137	77	2 126	1 623	31
Headline earnings	1 195	1 110	8	73	121	(40)	1 268	1 231	3

Business profile

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

Key business areas

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

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

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Operating environment

Consumers continue to be under pressure with the unemployment rate in South Africa rising to 27.5% in the third quarter of last year from 27.2% in the second quarter. Consumers reported high confidence levels in the second quarter of 2018, but are reluctant to borrow aggressively, as evidenced by bank credit to household going up just 4.8% year on year in August last year. Against this backdrop RBB SA has managed to sustain positive lending momentum, continuing to boost WIMI net premium income and embedded value of new business growth. We also continue to place significant focus on policy retention and premium collections.

Global markets have seen significant volatility in 2018 and the South African market has also had the additional impact of emerging market uncertainty emanating from the Turkish currency and debt crisis. The Johannesburg Stock Exchange Shareholder Weighted index declined significantly over the year with the rand also depreciating significantly relative to the US dollar and ended at R14.38 against the dollar. This has impacted WIMI's Investment Cluster significantly in terms of earnings and performance, and also adversely impacted WIMI's investment returns on shareholder funds.

The draft Conduct of Financial Institutions (COFI) Bill 2018 has been published for public commentary. The COFI Bill is the next phase of the legislative reforms aimed at strengthening the regulation of how the financial services industry treats its customers. COFI follows the Financial Sector Regulation Act, 2017 (FSRA), which established the two new authorities with dedicated mandates, i.e. the Prudential Authority which manages prudential risk (financial health), and the Financial Sector Conduct Authority which manages the market conduct risk across all financial institutions. Both regulators became operational on 1 April 2018. COFI Bill will outline what customers and industry players can expect of financial institutions.

The Financial Sector Conduct Authority and Prudential Authority have both published their regulatory strategies for the period 2018–2021, setting out its regulatory and supervisory priorities for the next three years, the principles and matters it should have regard to when performing its functions, as well as the intended key outcomes of its respective strategies.

The competition for clients is expected to continue to intensify as new entrants, joint ventures and partnerships, and strategic shifts in operating models from traditional competitors emerge in order to capture market share in a subdued consumer environment. The execution of the strategic response to increased competition, changing consumer habits and preferences, technological advancements and changes in the regulatory environment will be the determinant of outperformance as competition for market share increases. WIMI's role in achieving Absa Group's strategic intent of restoring leadership in our core businesses is to intensify its efforts in building a leading bancassurance and wealth operating model that ensures deeper alignment and collaboration with RBB SA.

Business performance

Our main effort remains gathering assets under management and growing premium income through the protection of client assets, enabled by a scalable digitally-led business, whilst continuing the momentum we have laid the foundations for over the past few years. We continue to make progress to execute against these areas, with key highlights being:

- In our efforts to **grow premium income**, we have improved our life insurance strike rates on unsecured lending products and seen growth in our funeral and embedded offerings. We also implemented risk-based pricing, deep analytics and the utilisation of machine learning algorithms in our leads generation activities in our life and short-term insurance offerings. The lending momentum in RBB is also improving and supporting our growth. As a result, we have achieved 10% growth in Life net premium income and 8% growth in Short-term Insurance net premium income. Sustained improvement in the underwriting margin of **4.5%** (2017: (0.2%)) was mainly driven by an improved attritional loss ratio, attributable to portfolio underwriting actions and favourable weather conditions.
- We continued to gain traction with our efforts to **gather and retain Assets under Management and Administration (AuM)**, resulting in assets under management increasing from R335bn to R337bn. Continued focus on asset retention from internal channels has resulted in Retail Advisor channel flows increasing significantly from prior year. This was however offset by a decline in market returns. In terms of Investment cluster revenue strong flows were however more than offset by continued margin compression.
- The **pace of digital development** has shown pleasing progress as we have implemented the new Absa brand on all digital channels and deployed online banking sales capability for various Life and Short-term Insurance products. We launched a digital Funeral sales capability via a Smart Phone App, which affected the doubling of our Life Insurance digital sales volumes during 2018. Having deployed our digital Short-term Insurance claims capability, we have seen numerous clients register their claims through this platform last year which improved customer service and eased operational backlogs.
- Deepening **customer-centricity** and acceleration of the WIMI customer value proposition have shown great traction during 2018, resulting in a Net Promoter Score (NPS) of **42.9%**. Complaints have also decreased by 25% year-on-year due to the adoption of processes to identify and deal with customer dissatisfaction earlier in the frontline. We continue to monitor progress for further improvement opportunities as we strive to lower complaints even further.
- We are pleased to have been awarded with the following **accolades for 2018**:
  - Our Wealth Advisory business has achieved the following rankings during the 2018 Euromoney Private Banking and Wealth Management Survey: Number 1 for Super Affluent Clients across Sub-Saharan Africa; Number 1 for Social Impact Investing; Number 2 for Family Office Services; Number 2 for High Net Worth Clients across Sub-Saharan Africa; Number 2 for Ultra High Net Worth Clients across Sub-Saharan Africa and Number 3 for International Clients.
  - Absa Trust Company won top honours at the Batseta Imbasa Yegolide award ceremony in the category of 'Trust and Beneficiary Fund Administrator of the Year'.
  - The Absa Asset Management and Multi-Management teams won the following accolades at the Raging Bull Awards:
    - The Absa Property Equity Fund won the Raging Bull accolade for top performer on the basis of risk adjusted returns for a five-year period (fourth year in a row) and the certificate for top performance by a domestic collective investment scheme, Best South African Real Estate Fund.
    - The Absa Multi-Managed Bond Fund won the Raging Bull Award in the ASISA South African Interest Bearing Variable Term Category. This is the third time that the Absa Multi-Managed Investment team has achieved this honour in the last four years.
  - Our Direct Distribution business has for the second year running been awarded with the Gold Award for Best Contact Centre – Medium (In-house) during the World Contact Centre Awards for Europe, Middle East and Africa.
  - Absa Stockbrokers and Portfolio Management (SPM) impressed at South Africa's Top Stockbroker of the Year Awards in 2018. SPM was ranked third place, after being ranked 11th out of 22 in 2015, sixth a year later and seventh in 2017.

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	Life Insurance			Wealth and Investment Management			Short-term Insurance		
	2018 Rm	2017[1] Rm	Change %	2018 Rm	2017[1] Rm	Change %	2018 Rm	2017 Rm	Change %
Statement of comprehensive income									
Net insurance premium income	**3 675**	3 330	10	**—**	—	—	**3 255**	3 018	8
Net insurance claims and benefits paid	**(1 305)**	(1 166)	12	**—**	—	—	**(2 108)**	(2 069)	2
Investment income									
Policyholder investment contracts	**178**	2 099	(92)	**—**	—	—	**—**	—	—
Policyholder insurance contracts	**(6)**	238	<(100)	**—**	—	—	**53**	55	(4)
Changes in investment and insurance contract liabilities									
Policyholder investment contracts	**131**	(1 967)	<(100)	**—**	—	—	**—**	—	—
Policyholder insurance contracts	**177**	(40)	<(100)	**—**	—	—	**—**	—	—
Other income[2]	**61**	36	69	**1 620**	1 473	10	**98**	117	(16)
Gross operating income	**2 911**	2 530	15	**1 620**	1 473	10	**1 298**	1 121	16
Net commission paid by insurance companies[3]	**(852)**	(813)	5	**—**	2	(100)	**(479)**	(444)	8
Operating expenses	**(592)**	(588)	1	**(1 052)**	(1 029)	2	**(535)**	(491)	9
Other operating expenses	**(125)**	(91)	37	**(9)**	(5)	80	**(10)**	(104)	(90)
Net operating income	**1 342**	1 038	29	**559**	441	27	**274**	82	>100
Investment income on shareholder funds	**50**	104	(52)	**48**	53	(9)	**144**	145	(1)
Shareholder expenses	**—**	—	—	**—**	—	—	**—**	—	—
Taxation expense	**(518)**	(299)	73	**(164)**	(146)	12	**(129)**	(66)	95
Profit for the period	**874**	843	4	**443**	348	27	**289**	161	80
Headline earnings	**870**	835	4	**440**	343	28	**299**	226	32
Note									
Investment income									
Policyholder investment contracts	**178**	2 099	(92)	**—**	—	—	**—**	—	—
Net interest income	**1 055**	1 035	2	**—**	—	—	**—**	—	—
Dividend income	**285**	295	(3)	**—**	—	—	**—**	—	—
Fair value gains/(losses)	**(1 163)**	769	<(100)	**—**	—	—	**—**	—	—
Policyholder insurance contracts	**(6)**	238	<(100)	**—**	—	—	**53**	55	(4)
Net interest income	**112**	105	7	**—**	—	—	**53**	55	(4)
Dividend income	**16**	12	33	**—**	—	—	**—**	—	—
Fair value gains/(losses)	**(134)**	121	<(100)	**—**	—	—	**—**	—	—
Shareholder funds	**50**	104	(52)	**48**	53	(9)	**144**	145	(1)
Net interest income	**70**	50	40	**44**	46	(4)	**137**	130	5
Dividend income	**17**	20	(15)	**—**	—	—	**4**	9	(56)
Fair value gains/(losses)	**(37)**	34	<(100)	**4**	7	(43)	**3**	6	(50)
Total	**222**	2 441	(91)	**48**	53	(9)	**197**	200	(2)
Net interest income	**1 237**	1 190	4	**44**	46	(4)	**190**	185	3
Dividend income	**318**	327	(3)	**—**	—	—	**4**	9	(56)
Fair value gains/(losses)	**(1 334)**	924	<(100)	**4**	7	(43)	**3**	6	(50)

Net fee and commission income	2018 Rm	2017 Rm	Change %
Employee benefit-related fees	**81**	332	(76)
Investment management and related fees	**1 311**	1 295	1
Net commission from distribution business	**371**	444	(16)
Net commission paid by insurance companies[3]	**(1 331)**	(1 254)	6
Trust and estate income	**332**	355	(6)
Other	**71**	89	(20)
Total	**835**	1 261	(34)

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

Fiduciary and Distribution Services			Other			WIMI		
2018 Rm	2017 Rm	Change %	2018 Rm	2017[1] Rm	Change %	2018 Rm	2017[1] Rm	Change %
—	—	—	—	—	—	6 930	6 348	9
—	—	—	—	—	—	(3 413)	(3 235)	6
—	—	—	(493)	16	<(100)	(315)	2 115	<(100)
—	—	—	—	—	—	47	293	(84)
—	—	—	493	(16)	<(100)	624	(1 983)	<(100)
—	—	—	—	—	—	177	(40)	<(100)
895	1 137	(21)	145	—	100	2 819	2 763	2
895	1 137	(21)	145	—	100	6 869	6 261	10
—	1	(100)	—	—	—	(1 331)	(1 254)	6
(747)	(942)	(21)	(172)	(224)	(23)	(3 098)	(3 274)	(5)
(9)	(11)	(18)	(9)	(8)	13	(162)	(219)	(26)
139	185	(25)	(36)	(232)	(84)	2 278	1 514	50
81	83	(2)	5	68	(93)	328	453	(28)
—	—	—	(480)	(343)	40	(480)	(343)	40
(55)	(67)	(18)	126	125	1	(740)	(453)	63
165	201	(18)	(385)	(382)	1	1 386	1 171	18
118	209	(44)	(459)	(382)	20	1 268	1 231	3
—	—		(493)	16	<(100)	(315)	2 115	<(100)
—	—	—	6	2	>100	1 061	1 037	2
—	—	—	73	72	1	358	367	(2)
—	—		(571)	(58)	>100	(1 734)	711	<(100)
—	—		—	—	—	47	293	(84)
—	—	—	—	—	—	165	160	3
—	—	—	—	—	—	16	12	33
—	—	—	—	—	—	(134)	121	<(100)
81	83	(2)	5	68	(93)	328	453	(28)
80	70	14	18	12	50	349	308	13
—	—	—	—	—	—	21	29	(28)
1	13	(92)	(13)	56	<(100)	(42)	116	<(100)
81	83	(2)	(488)	84	<(100)	60	2 861	(98)
80	70	14	24	14	71	1 575	1 505	5
—	—	—	73	72	1	395	408	(3)
1	13	(92)	(584)	(2)	>100	(1 910)	948	<(100)

	South Africa			Africa Regions			Total WIMI		
Segment report per geographical segment	2018 Rm	2017[1] Rm	Change %	2018 Rm	2017 Rm	Change %	2018 Rm	2017[1] Rm	Change %
Statement of comprehensive income									
Net insurance premium income	6 024	5 498	10	906	850	7	6 930	6 348	9
Net insurance claims and benefits paid	(2 993)	(2 881)	4	(420)	(354)	19	(3 413)	(3 235)	6
Gross operating income	6 279	5 670	11	590	591	(0)	6 869	6 261	10
Operating expenses	(2 678)	(2 875)	(7)	(420)	(399)	5	(3 098)	(3 274)	(5)
Net operating income	2 326	1 536	51	(48)	(22)	>100	2 278	1 514	50
Profit for the reporting period	1 440	1 166	23	(54)	5	<(100)	1 386	1 171	18
Headline earnings	1 326	1 212	9	(58)	19	<(100)	1 268	1 231	3

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	2018 Rm	2017[1] Rm	Change %
Statement of financial position			
Assets			
Cash balances and loans and advances to banks[2]	**2 295**	2 602	(12)
Non-current assets held for sale	**143**	153	(7)
Investment securities[2]	**357**	386	(8)
Financial assets backing investment and insurance liabilities			
Policyholder investment contracts	**29 752**	30 511	(2)
Cash balances and loans and advances to banks	**2 074**	1 984	5
Investment securities	**27 678**	28 527	(3)
Policyholder insurance contracts	**3 335**	3 750	(11)
Cash balances and loans and advances to banks	**1 041**	904	15
Investment securities	**1 721**	1 994	(14)
Reinsurance assets	**573**	852	(33)
Shareholder funds	**4 950**	3 867	28
Cash balances and loans and advances to banks	**2 776**	1 482	87
Investment securities	**2 174**	2 385	(9)
Other assets[3]	**9 282**	9 139	2
Property and equipment	**334**	289	16
Total assets	**50 448**	50 697	(0)
Liabilities			
Non-current liabilities held for sale	**124**	48	>100
Liabilities under investment contracts	**29 699**	30 607	(3)
Policyholder liabilities under insurance contracts	**4 034**	4 268	(5)
Other liabilities	**10 971**	10 544	4
Other liabilities[3]	**10 847**	10 448	4
Other liabilities relating to investment contracts	**124**	96	29
Deferred tax liabilities	**119**	176	(32)
Total liabilities	**44 947**	45 643	(2)
Equity			
Capital and reserves	**5 326**	4 879	9
Non-controlling interest	**175**	175	—
Total equity	**5 501**	5 054	9
Total liabilities and equity	**50 448**	50 697	(0)

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

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Reconciliation with Group	2018 WIMI Rm	2018 Inter-segment elimination Rm	2018 Other[1] Rm	2018 Group Rm
Statement of financial position				
Investment securities				
Investment linked to investment contracts	27 678	(9 197)	—	18 481
Policyholder liabilities under insurance contracts	4 034	(146)	280	4 168
Statement of comprehensive income				
Net insurance premium income	6 930	(168)	428	7 190
Net insurance claims and benefit paid	(3 413)	—	(152)	(3 565)
Gains and losses from investment activities – net gains on investments from insurance activities – policyholder investment contracts	(315)	(713)	—	(1 028)

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

Cost-efficiency ratio – WIMI	2018 Rm	2017[2] Rm	Change %	Where included in Group's statement of comprehensive income
Income	10 754	10 036	7	Net fee and commission income; other operating income; net interest income
Gross premium income	7 934	7 233	10	Net insurance premium income
Net commission from distribution business	312	355	(12)	Net fee and commission income
Non-insurance-related income[3]	1 499	1 684	(11)	Net fee and commission income
Banking-related income	253	282	(10)	Net fee and commission income
Other income	756	482	57	Net fee and commission income; other operating income; net interest income
Operating expenses	3 578	3 617	(1)	Operating expenses
Cost-efficiency ratio (%)	33.3	36.0	(8)	

Reconciliation of WIMI non-interest income to Group	2018 Rm	2017[2] Rm	Change %	Where included in Group's statement of comprehensive income
Aforementioned income	10 754	10 036	7	
Net commission paid by insurance companies	(1 331)	(1 254)	6	Net fee and commission income
Reinsurance premiums	(1 004)	(885)	13	Net insurance premium income
Net insurance claims and benefits paid	(3 413)	(3 235)	6	Net claims and benefits paid on insurance contracts
Changes in investment and insurance contract liabilities	801	(1 943)	<(100)	Changes in investment and insurance contract liabilities
Gains and losses from investments activities	59	2 861	(98)	Gains and losses from investment activities
Other income	(99)	(80)	24	Other operating income
Banking-related income	(253)	(282)	(10)	Net interest income
Non-interest income	5 514	5 218	6	

[1] Consists of Absa Manx Insurance Company and Woolworths Financial Services.
[2] These numbers have been restated, refer to the reporting changes overview on the inside front cover.
[3] Fee income relating to employee benefits, trust, estate and portfolio management fees.

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Financial performance per business unit

Life Insurance

Life Insurance increased net premium income by 10% to **R3 675m** (2017: R3 330m), while headline earnings increased by 4% to **R870m** (2017: R835m). In the 2018 financial year the Life Insurance Group amended its accounting policy regarding discretionary margins, resulting in a release of reserves in the year of **R107m** (2017: R64m). EVNB (Embedded Value of New Business) grew by 15%, this was driven by the South African and Africa Regions businesses where EVNB grew 14% and 22% respectively. Operating expenses growth was contained to 1% from a continued focus on efficiency.

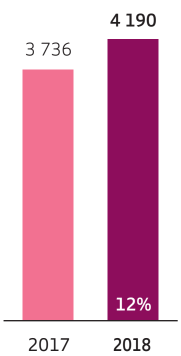
South Africa Life

Headline earnings increased by 9% mainly due to an 11% year-on-year growth in net premiums and the partial release of discretionary margins reducing new business strain. This was partly offset by a 60% reduction in returns on shareholder funds to **R43m** (2017: R105m) due to a decline in equity markets. In addition the accelerated utilisation of the assessed tax loss has resulted in the taxation charge increasing by 59% to **R487m** for the 2018 financial year. Net premium income increased by 11% to **R3 162m** (2017: R2 841m) due to sustained momentum of sales in standalone products, group schemes, embedded cover and Instant Life (online, direct) products. The realisation of the bancassurance opportunity has contributed to growth in standalone new business as the retail branches delivered another 18% growth in volumes year-on-year. In the 2018 year the Life Insurance Group changed its accounting policy with regards to discretionary margins. In accordance with the revised accounting policy, negative liabilities will still be eliminated, to avoid the premature recognition of profits. However, such elimination is only applied to the excess remaining after adjusting for the products' initial acquisition costs. This effectively eliminates the new business strain in the first year of a policy. The change in accounting policy has been applied retrospectively to the extent practicable, and comparatives restated accordingly. This resulted in an additional R64m in headline earnings in 2017, and **R107m** in 2018. Further details on the change in accounting policy are provided in the 'Reporting changes' section of this report.

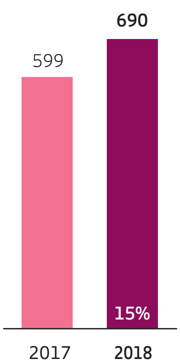
Africa Life

Higher Group Life claims in Mozambique have led to a 73% decline in headline earnings to **R12m** (2017: R45m). EVNB increased 22% from R44m to R54m, mainly due to improved margins in Botswana and Kenya.

Gross premium income
(Rm and change %)



Value of new business
(Rm and change %)



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Financial performance per business unit (continued)

Life insurance (continued)

Salient features – Group Life insurance	2018	2017	Change %
Shareholders' net assets (Rm)	**1 894**	1 414	34
Cost of solvency capital (Rm)	**(180)**	(275)	(35)
Value of business in force (Rm)	**4 749**	4 413	8
Embedded value (Rm)	**6 452**	5 552	16
Embedded value earnings (Rm)	**1 717**	1 620	6
Return on embedded value (%)	**31.3**	33.5	
EVNB (Rm)	**690**	599	15
Value of new business as a percentage of the present value of future premiums (%) (gross)	**13.7**	10.1	

Wealth and Investment Management

Wealth and Investment Management comprises two independent business units being Investment Cluster and Wealth Management.

Investment cluster

Group assets under management and administration grew by 1% to **R337bn** (2017: R335bn) and year-to-date net inflows of R19bn predominantly from Absa Multi-Management, offset by outflows from Exchange Traded Funds and Alternative Asset Management funds within derivatives products. Continued margin compression from customers moving into lower fee structure products has resulted in a 1% decline in revenue and a 6% decline in headline earnings.

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

Salient features – Investment cluster	2018	2017	Change %
Headline earnings (Rm)	**366**	390	(6)
Net flows (Rbn) – Group	**11.4**	37.4	(70)
Money market	**8.7**	4.8	81
Non-money market – retail	**0.8**	7.2	(89)
Non-money market – institutional	**1.9**	25.4	(93)
Net assets under management and administration (Rbn) – Group	**337**	335	1

	2018 Rbn	2017 Rbn	Change %
Assets under management and administration – Group	**337**	335	1
ETF	**20**	28	(29)
Money market	**75**	66	13
Non-money market	**251**	249	1
Intra-segment eliminations	**(9)**	(9)	(3)
Alternative asset management and exchange-traded funds	**78**	94	(17)
Deceased estates	**3**	3	(4)
Other	**24**	32	(24)
Portfolio management	**17**	26	(33)
Trusts	**2**	4	(55)
Unit trusts	**213**	175	21
Total	**337**	335	1

WIMI

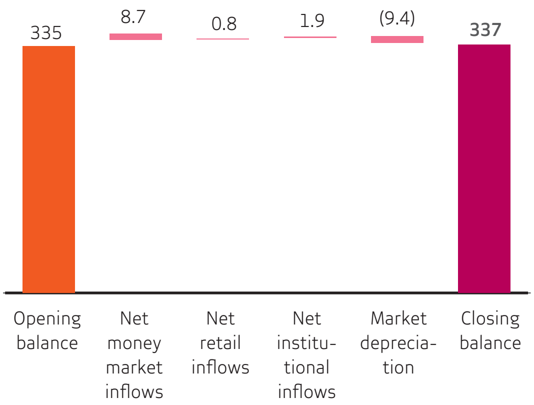
for the reporting period ended 31 December

Financial performance per business unit (continued)

Wealth and Investment Management (continued)

Investment cluster (continued)

Movement in assets under management and administration (Rbn)



Wealth Management

Headline earnings for the Wealth Management cluster grew 251% to **R74m** (2017: R49m loss). This is attributable to non-recurring large single client credit loss in the prior year, impairment recoveries from improved credit risk management and higher non-interest revenue in the current year. These drivers of growth were offset by a decline in net interest income from lower client deposit balances. Non-interest revenue increased by 9%, mainly due to higher investment structures fee income, credit fees and brokerage fees. Overall, the cluster has continued to show resilience and growth.

Salient features – Wealth Management cluster	**2018**	2017	Change %
Headline earnings (Rm)	**74**	(49)	<(100)
Net income (Rm)	**503**	508	(1)
Net interest income	**254**	280	(9)
Non-interest revenue	**249**	228	9
Credit impairments (Rm)	**35**	(120)	<(100)
Average loans and advances to customers (Rbn)	**5.7**	5.0	14
Client assets (Rbn)	**5.1**	5.2	(1)

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Financial performance per business unit (continued)

Short-term Insurance

Short-term Insurance achieved headline earnings of **R299m** (2017: R226m) increasing 32% on the prior year. Net insurance premium income increased by 8%, while underwriting margin improved to **4.5%** (2017: -0.2%). The improvement in underwriting margins can largely be attributed to improved loss ratios as a result of portfolio management actions, fewer catastrophic events and claims cost containment initiatives which assisted to offset lower margins in the Africa regions.

South Africa Short-term insurance

Headline earnings improved by 52% to **R324m** (2017: R214m). Underwriting margins have increased to **9.6%** (2017: 4.8%). This is largely as a result of focused portfolio management actions, including the implementation of best practice pricing methodology, sound underwriting practices and specific claims cost containment initiatives across the business. Results have also benefited from favourable weather conditions with less severe catastrophic events as compared to the prior year. The underwriting margin excluding these catastrophe events is a healthy **11.0%** (2017: 8.6%) reflecting the impact of re-pricing actions and improved claims cost management.

Net insurance premium income increased by 8% to **R2 862m** (2017: R2 657m). The increase in premiums is largely attributable to pricing interventions, particularly in the home-owners and iDirect businesses, as well as growth in new business from improved bank lending momentum.

Africa Short-term insurance

Headline loss of **R25m** (2017: R13m profit), impacted by worsening claims experience in Kenya as well as continued revenue pressure reflecting market conditions in Kenya and Mozambique. The loss ratio declined to **67%** (2017: 58%) in line with the above, and offset the favourable impact of portfolio management actions taken across the short-term estate.

Salient features – Short-term insurance	2018	2017	Change %
Headline earnings (Rm)	**299**	226	32
Net premium income (Rm)	**3 255**	3 018	8
Underwriting margin (%)[1]	**4.5**	(0.2)	
Loss ratio (%)	**65**	69	

Fiduciary Services and Distribution

Absa Trust reported an R18m decrease in headline earnings to **R94m**, (2017: R 112m). Revenue from the Trust division decreased by 15% as a result of lower fees recovered from the Investment cluster. Estates revenue increased by 4% compared to the prior year as a result of additional estate distributed. Expenditure growth was contained to 2% driven by continued scale efficiencies. Absa Trust is the biggest standalone trust company in the market. A return on equity of 96% was achieved and the business delivered attractive returns in line with our target range. The business generated R1.4bn gross new assets under management from cross-sell opportunities. The total assets under management book contribution to the Group amounts to R9bn.

Employee Benefits business was sold to Sanlam during the period due to not being core to the focused bancassurance model. The Employee Benefits business did not achieve the required scale and the transaction allows us rather to focus on our scaled operations, being the gathering of assets under management and growing premium income. In addition, through the third-party partnership with Sanlam, we will obtain access to the group life insurance customer base and scale assets under management and administration as Absa Life was formally appointed as one of the preferred risk providers to the purchaser Umbrella Fund's pool.

Distribution generated value to our product houses in the form of **R10bn** gross asset inflows (2017: R7bn) into Wealth and Investment Management funds (on Absa Linked Investments), and **R256m** of embedded value to Life Insurance from new policies (2017: R235m). Commission contribution from advisors within continuing operations achieved year-on-year growth of 9% at **R475m** (2017: R436m), showing strong productivity. Total net revenue was also supported by continuing growth delivered in our direct (telephony) distribution business. The sales of the Short-term intermediated Commercial and Industrial and Personal Lines Insurance brokerage businesses to PSG Konsult Limited were successfully concluded in 2018.

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

WIMI

for the reporting period ended 31 December

Financial performance per business unit (continued)

Fiduciary Services and Distribution (continued)

Salient features – Fiduciary Services and Distribution	2018	2017	Change %
Headline earnings (Rm)[1]	**118**	209	(44)
Fiduciary Services	**109**	162	(33)
Employee Benefits	**15**	50	(70)
Trust	**94**	112	(16)
Distribution	**9**	47	(81)
Average value of estates distributed (R'000)	**1 677**	1 151	46
Net assets under management (Rbn)	**12.8**	13.1	(2)
Third party	**3.5**	3.7	(5)
Investments	**9.3**	9.4	(1)

Other

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

Headline loss increased by 20% to a loss of **R459m** (2017: R382m loss) reflecting an increased cost base mainly due to higher Group cost recoveries, as well as a 93% decline in returns on the shareholder investment portfolio driven by volatility in local equities and foreign exchange markets. The non-headline earnings profit on the sale of the Employee Benefits business is included in the results of the 'Other' segment.

WIMI looking ahead

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

- Implement and embed an integrated bancassurance delivery model with RBB to provide customers with seamless access to superior solutions and the fulfillment of their needs in a holistic way.
- Build a digitally enabled end-to-end insurance capability.
- Continue to build a diverse multi-capability asset management offering that is empowered and scaled.
- Scale our Wealth Management offering through increased penetration of our market leading propositions to deepen share of wallet and strengthen retention.
- Grow our advisor footprint whilst driving initiatives to improve productivity and profitability.
- Simplify key customer journeys and enhance customers' experience with our brand.
- Pricing and Group Reward benefits for clients with multiple products.
- Digitally enabled approach to execution to enable a simple and efficient business.
- Drive a robust risk and control environment across all presence countries.

[1] Results and ratios have been not been restated to exclude the sale of the Short term intermediated businesses in 2018 and the Employee Benefits business in 2017. Continuing businesses continue to show good momentum.

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IFRS Group performance

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Consolidated IFRS salient features

for the reporting period ended 31 December

	2018	2017	Change %
Statement of comprehensive income (Rm)			
Income[1]	**76 515**	73 395	4
Operating expenses	**46 803**	43 304	8
Profit attributable to ordinary equity holders[1]	**13 917**	13 888	0
Headline earnings[1]	**14 142**	14 378	(2)
Statement of financial position			
Total assets (Rm)[1]	**1 288 744**	1 169 595	10
Financial performance (%)			
Return on equity (RoE)	**13.4**	14.2	
Return on average assets (RoA)	**1.17**	1.27	
Return on risk-weighted assets (RoRWA)	**1.86**	2.00	
Operating performance (%)			
Net interest margin on average interest-bearing assets[2]	**4.65**	4.83	
Credit loss ratio on gross loans and advances to customers and banks	**0.73**	0.87	
Non-interest income as percentage of total income	**42.8**	41.9	
Cost-to-income ratio	**61.2**	59.0	
Jaws	**(4)**	(7)	
Effective tax rate	**29.2**	28.1	
Share statistics (million)			
Number of ordinary shares in issue	**847.8**	847.8	
Number of ordinary shares in issue (excluding treasury shares)	**827.5**	832.8	
Weighted average number of ordinary shares in issue	**830.1**	833.7	
Diluted weighted average number of ordinary shares in issue	**831.7**	833.8	
Share statistics (cents)			
Headline earnings per ordinary share (HEPS)[1]	**1 703.7**	1 724.5	(1)
Diluted headline earnings per ordinary share (DHEPS)[1]	**1 700.4**	1 724.2	(1)
Basic earnings per ordinary share (EPS)[1]	**1 676.5**	1 665.7	1
Diluted basic earnings per ordinary share (DEPS)[1]	**1 673.3**	1 665.5	0
Dividend per ordinary share relating to income for the reporting period	**1 110**	1 070	4
Dividend cover (times)	**1.5**	1.6	(5)
NAV per ordinary share[1]	**13 233**	13 042	1
Tangible NAV per ordinary share[1]	**12 185**	12 396	(2)
Capital adequacy (%)			
Absa Group Limited	**16.1**	16.1	
Absa Bank Limited	**16.5**	16.9	
Common Equity Tier 1 (%)			
Absa Group Limited	**12.8**	13.5	
Absa Bank Limited	**12.2**	13.4	

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

[2] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.77%** (2017: 5.05%).

Consolidated IFRS statement of comprehensive income

for the reporting period ended 31 December

	Note	2018 Rm	2017 Rm	Change %
Net interest income		**43 755**	42 644	3
Interest and similar income		**89 236**	85 929	4
Effective interest income[1]		**87 634**	84 656	4
Other interest income[1]		**1 602**	1 273	26
Interest expense and similar charges		**(45 481)**	(43 285)	5
Effective interest expense[1]		**(45 481)**	(43 285)	5
Non-interest income		**32 760**	30 751	7
Net fee and commission income		**22 523**	21 711	4
Fee and commission income		**25 675**	24 724	4
Fee and commission expense		**(3 152)**	(3 013)	5
Net insurance premium income		**7 190**	6 598	9
Net claims and benefits incurred on insurance contracts		**(3 565)**	(3 334)	7
Changes in investment and insurance contract liabilities[2]		**808**	(2 023)	<(100)
Gains and losses from banking and trading activities	3.5	**5 820**	5 246	11
Gains and losses from investment activities		**(636)**	1 905	<(100)
Other operating income	3.7	**620**	648	(4)
Total income		**76 515**	73 395	4
Impairment losses		**(6 324)**	(7 022)	(10)
Operating income before operating expenditure		**70 191**	66 373	6
Operating expenditure	5	**(46 803)**	(43 304)	8
Other expenses		**(2 026)**	(2 270)	(11)
Other impairments		**(434)**	(648)	(33)
Indirect taxation	6	**(1 592)**	(1 622)	(2)
Share of post-tax results of associates and joint ventures		**179**	170	5
Operating profit before income tax		**21 541**	20 969	3
Taxation expense[2]	7	**(6 282)**	(5 882)	7
Profit for the reporting period		**15 259**	15 087	1
Profit attributable to:				
Ordinary equity holders[2]		**13 917**	13 888	0
Non-controlling interest – ordinary shares		**801**	789	2
Non-controlling interest – preference shares		**351**	362	(3)
Non-controlling interest – Additional Tier 1 capital		**190**	48	>100
		15 259	15 087	1
Earnings per share:				
Basic earnings per share (cents)[2]	1	**1 676.5**	1 665.7	1
Diluted earnings per share (cents)[2]	1	**1 673.3**	1 665.5	0

[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.

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

Consolidated IFRS statement of comprehensive income

for the reporting period ended 31 December

	2018 Rm	2017 Rm	Change %
Profit for the reporting period[1]	**15 259**	15 087	1
Other comprehensive income			
Items that will not be reclassified to profit or loss	**53**	(179)	<(100)
Movement on equity instruments designated at FVOCI	**27**	—	100
Fair value gains	**38**	—	100
Deferred tax	**(11)**	—	100
Movement on liabilities designated at FVTPL due to changes in own credit risk	**(13)**	(147)	(91)
Fair value gains	**(71)**	(147)	(52)
Deferred tax	**58**	—	100
Movement in retirement benefit fund assets and liabilities	**39**	(32)	<(100)
Decrease in retirement benefit surplus	**(26)**	(91)	>100
Decrease in retirement benefit deficit	**55**	44	>100
Deferred tax	**10**	15	(33)
Items that are or may be subsequently reclassified to profit or loss	**2 215**	(1 328)	<(100)
Movement in foreign currency translation reserve	**3 052**	(2 220)	<(100)
Differences in translation of foreign operations	**3 052**	(2 272)	<(100)
Release to profit or loss	**—**	52	(100)
Movement in cash flow hedging reserve	**(247)**	794	<(100)
Fair value gains	**265**	1 465	(96)
Amounts transferred within other comprehensive income	**(58)**	—	100
Amount removed from other comprehensive income and recognised in profit or loss	**(550)**	(365)	10
Deferred tax	**96**	(306)	<(100)
Movement in fair value of debt instruments measured at FVOCI	**(590)**	—	(100)
Fair value losses	**(750)**	—	(100)
Release to profit or loss	**(9)**	—	(100)
Deferred tax	**169**	—	100
Movement in available-for-sale reserve	**—**	98	(100)
Fair value gains	**—**	154	(100)
Release to profit or loss	**—**	67	(100)
Deferred tax	**—**	(123)	(100)
Total comprehensive income for the reporting period	**17 527**	13 580	29
Total comprehensive income attributable to:			
Ordinary equity holders[1]	**15 816**	12 654	25
Non-controlling interest – ordinary shares	**1 170**	516	>100
Non-controlling interest – preference shares	**351**	362	(3)
Non-controlling interest – Additional Tier 1 capital	**190**	48	>100
	17 527	13 580	29

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

Consolidated IFRS statement of financial position

as at 31 December

	Note	2018 Rm	Restated 2017 Rm	Change %	Restated 2016 Rm
Assets					
Cash, cash balances and balances with central banks		**46 929**	48 669	(4)	50 006
Investment securities		**135 420**	111 409	22	114 315
Loans and advances to banks		**53 140**	55 426	(4)	49 789
Trading portfolio assets		**128 569**	132 183	(3)	96 236
Hedging portfolio assets		**2 411**	2 673	(10)	1 745
Other assets[1]		**30 642**	24 576	25	28 107
Current tax assets		**819**	314	>100	894
Non-current assets held for sale		**239**	1 308	(82)	823
Loans and advances to customers		**841 720**	749 772	12	720 309
Reinsurance assets		**618**	892	(31)	985
Investments linked to investment contracts		**18 481**	18 936	(2)	18 816
Investments in associates and joint ventures		**1 310**	1 235	6	1 065
Investment properties		**508**	231	>100	478
Property and equipment		**15 835**	15 303	3	14 643
Goodwill and intangible assets		**8 672**	5 377	61	4 049
Deferred tax assets		**3 431**	1 291	>100	1 328
Total assets		**1 288 744**	1 169 595	10	1 103 588
Liabilities					
Deposits from banks		**121 421**	67 390	80	53 192
Trading portfolio liabilities		**51 632**	64 047	(19)	47 429
Hedging portfolio liabilities		**1 343**	1 123	20	2 064
Other liabilities[1]		**36 662**	35 360	4	30 261
Provisions		**4 017**	3 041	32	3 005
Current tax liabilities		**236**	57	>100	244
Non-current liabilities held for sale		**124**	48	>100	9
Deposits due to customers		**736 305**	689 867	7	674 865
Debt securities in issue		**160 971**	137 948	17	139 714
Liabilities under investment contracts		**29 674**	30 585	(3)	29 198
Policyholder liabilities under insurance contracts[1]		**4 168**	4 342	(4)	4 283
Borrowed funds		**20 225**	15 895	27	15 673
Deferred tax liabilities[1]		**360**	634	(43)	1 237
Total liabilities		**1 167 138**	1 050 337	11	1 001 174
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	11	**1 655**	1 666	(1)	1 693
Share premium	11	**10 205**	10 498	(3)	4 467
Retained earnings[1]		**91 237**	92 080	(1)	81 738
Other reserves		**6 387**	4 370	47	5 293
		109 484	108 614	1	93 191
Non-controlling interest – ordinary shares		**4 737**	4 500	5	4 579
Non-controlling interest – preference shares		**4 644**	4 644	—	4 644
Non-controlling interest – Additional Tier 1 capital		**2 741**	1 500	83	—
Total equity		**121 606**	119 258	2	102 414
Total liabilities and equity		**1 288 744**	1 169 595	10	1 103 588

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

Consolidated IFRS statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit-risk reserve Rm
Restated balance at the end of the previous reporting period	832 838	1 666	10 498	92 080[1]	4 370	779
Impact of adopting new accounting standards at 1 January 2018						
IFRS 9	—	—	—	(5 413)	(126)	—
IFRS 15	—	—	—	(44)	—	—
Adjusted balance at the beginning of the reporting period	832 838	1 666	10 498	86 623	4 244	779
Total comprehensive income	—	—	—	13 937	1 879	—
Profit for the period	—	—	—	13 917	—	—
Other comprehensive income	—	—	—	20	1 879	—
Dividends paid during the reporting period	—	—	—	(9 033)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(491)	(66)	—	—
Elimination of the movement in treasury shares held by Group entities	(5 361)	(11)	(293)	—	—	—
Movement in share-based payment reserve	—	—	491	—	40	—
Transfer from share-based payment reserve	—	—	491	—	(491)	—
Value of employee services	—	—	—	—	554	—
Deferred tax	—	—	—	—	(23)	—
Movement in general credit-risk reserve	—	—	—	(44)	44	44
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(1)	1	—
Share of post-tax results of associates and joint ventures	—	—	—	(179)	179	—
Balance at the end of the reporting period	827 477	1 655	10 205	91 237	6 387	823

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

Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – Additional Tier 1 capital Rm	Total equity Rm
445	650	431	6	837	1 222	108 614[1]	4 500	4 644	1 500	119 258[1]
(22)	—	—	—	—	(104)	(5 539)	(230)	—	—	(5 769)
—	—	—	—	—	—	(44)	—	—	—	(44)
423	650	431	6	837	1 118	103 031	4 270	4 644	1 500	113 445
(503)	(247)	2 629	—	—	—	15 816	1 170	351	190	17 527
—	—	—	—	—	—	13 917	801	351	190	15 259
(503)	(247)	2 629	—	—	—	1 899	369	—	—	2 268
—	—	—	—	—	—	(9 033)	(703)	(351)	—	(10 087)
—	—	—	—	—	—	—	—	—	(190)	(190)
—	—	—	—	—	—	—	—	—	1 241	1 241
—	—	—	—	—	—	(557)	—	—	—	(557)
—	—	—	—	—	—	(304)	—	—	—	(304)
—	—	—	—	40	—	531	—	—	—	531
—	—	—	—	(491)	—	—	—	—	—	—
—	—	—	—	554	—	554	—	—	—	554
—	—	—	—	(23)	—	(23)	—	—	—	(23)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	1	—	—	—	—	—	—	—
—	—	—	—	—	179	—	—	—	—	—
(80)	403	3 060	7	877	1 297	109 484	4 737	4 644	2 741	121 606

Consolidated IFRS statement of changes in equity

for the reporting period ended 31 December

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

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

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

[3] As part of the separation, Barclays PLC contributed cash of R1 891m to the independent Absa Empowerment Trust to allow for its subsidiary to purchase 12 716 260 Absa Group shares (1.5% interest) in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. In terms of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital. Refer to note 11.

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

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

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

Consolidated IFRS statement of cash flows

for the reporting period ended 31 December

	Note	2018 Rm	2017 Rm	Change %
Net cash (utilised in)/generated from operating activities		**13 884**	(534)	>(100)
Net cash utilised in investing activities		**(6 577)**	(2 634)	>100
Net cash (utilised in)/generated from financing activities		**(6 521)**	2 593	>(100)
Net (decrease)/increase in cash and cash equivalents		**786**	(575)	<(100)
Cash and cash equivalents at the beginning of the reporting period	1	**17 320**	17 734	(2)
Effect of foreign exchange rate movements on cash and cash equivalents		**388**	161	>100
Cash and cash equivalents at the end of the reporting period	2	**18 494**	17 320	7

Notes to the condensed consolidated statement of cash flows

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

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

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

	2018 Rm	2017 Rm	Change %
Cash, cash balances and balances with central banks[1]	**14 252**	13 518	5
Loans and advances to banks[2]	**4 242**	3 802	12
	18 494	17 320	7

[1] Includes coins and bank notes.

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

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended 31 December

1. Headline earnings and earnings per ordinary share

Headline earnings	2018 Gross Rm	2018 Net Rm	2017 Gross Rm	2017 Net[1] Rm	Net change %
Headline earnings are determined as follows:					
Profit attributable to ordinary equity holders[1]		13 917		13 888	0
Total headline earnings adjustment		225		490	(54)
IFRS 3 – Goodwill impairment	34	34	38	38	(11)
IFRS 5 – (Gain)/loss on disposal of non-current assets held for sale	(142)	(80)	36	39	<(100)
IAS 16 – Loss/(profit) on disposal of property and equipment	5	2	(43)	(34)	<(100)
IAS 21 – Recycled foreign currency translation reserve	—	—	52	52	(100)
IAS 36 – Impairment of property and equipment	398	297	221	159	87
IAS 36 – Impairment of intangible assets	2	1	384	280	(100)
IAS 39 – Release of available-for-sale reserves	—	—	67	49	(100)
IAS 40 – Change in fair value of investment properties	(38)	(29)	(105)	(88)	(67)
IAS 40 – Profit on disposal of investment property	—	—	(5)	(5)	(100)
		14 142		14 378	(2)

Notable adjustments to headline earnings

'Impairment of intangible assets' related to the Barclays.Net application which was utilised by CIB and WIMI as it was decided that the application will be replaced by another solution.

	2018 Rm	2017 Rm	Change value %
Basic earnings per ordinary share			
Basic earnings attributable to ordinary equity holders (Rm)	**13 917**	13 888	0
Weighted average number of ordinary shares in issue (million)	**830.1**	833.7	(3.6)
Issued shares at the beginning of the reporting period (million)	**847.8**	847.8	—
Treasury shares held by Group entities (million)[2]	**(17.7)**	(14.1)	(3.6)
Basic earnings per ordinary share (cents)[1]	**1 676.5**	1 665.7	1
Diluted basic earnings per ordinary share			
Basic earnings attributable to ordinary equity holders (Rm)[1]	**13 917**	13 888	0
Diluted weighted average number of ordinary shares in issue (million)	**831.7**	833.8	(2.1)
Weighted average number of ordinary shares in issue (million)	**830.1**	833.7	(3.6)
Adjustments for share options issued at no value (million)	**1.6**	0.1	1.5
Diluted basic earnings per ordinary share (cents)[1]	**1 673.3**	1 665.5	0
Headline earnings per ordinary share			
Headline earnings attributable to ordinary equity holders (Rm)[1]	**14 142**	14 378	(2)
Weighted average number of ordinary shares in issue (million)	**830.1**	833.7	(3.6)
Headline earnings per ordinary share (cents)[1]	**1 703.7**	1 724.5	(1)
Diluted headline earnings per ordinary share			
Headline earnings attributable to ordinary equity holders (Rm)[1]	**14 142**	14 378	(2)
Diluted weighted average number of ordinary shares in issue (million)	**831.7**	833.8	(2.1)
Diluted headline earnings per ordinary share (cents)[1]	**1 700.4**	1 724.2	(1)

[1] These numbers have been restated, refer to the reporting changes overview on the inside cover page.
[2] Includes 12 716 260 shares issued by Barclays PLC to be used in the furtherance of the Group's objective of establishing a B-BBEE scheme.

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended 31 December

3. Non-interest income

3.5 Gains and losses from banking and trading activities

	2018 Rm	2017 Rm	Change %
Net gains on investments	**341**	227	50
Debt instruments designated at fair value through profit or loss	**220**	190	16
Equity instruments designated at fair value through profit or loss	**112**	104	8
Unwind from reserves for debt instruments at FVOCI	**9**	—	100
Available-for-sale unwind from reserves	**—**	(67)	(100)
Net trading result	**4 971**	4 807	3
Net trading income excluding the impact of hedge accounting	**5 183**	4 855	7
Ineffective portion of hedges	**(212)**	(48)	>100
Cash flow hedges	**(198)**	17	<(100)
Fair value hedges	**(14)**	(65)	(78)
Other gains	**508**	212	>100
	5 820	5 246	11
Segment split[1]			
RBB South Africa	**503**	322	56
Retail Banking South Africa	**483**	302	60
Business Banking South Africa	**20**	20	—
CIB South Africa	**2 551**	2 299	11
Absa Regional Operations	**2 153**	2 055	5
Head Office, Treasury and other operations in South Africa[2]	**63**	496	(87)
Barclays separation effects	**550**	74	>100
	5 820	5 246	11

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

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

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended 31 December

3. Non-interest income *(continued)*

3.7 Other operating income

	2018 Rm	2017 Rm	Change %
Property-related income	**146**	293	(50)
Income from investment properties	**47**	182	(74)
Change in fair value	**38**	105	(64)
Rentals	**9**	77	(88)
Property-related income arising from contracts with customers	**99**	111	(11)
(Loss)/profit on disposal of property and equipment	**(14)**	23	<(100)
Profit on sale of developed properties	**34**	38	(11)
Profit on sale of repossessed properties	**31**	16	94
Rental income	**48**	34	41
Other operating income	**474**	355	34
Foreign exchange differences, including recycle from other comprehensive income	**35**	(87)	<(100)
Income from maintenance contracts	**39**	45	(13)
Sundry income	**400**	397	1
	620	648	(4)
Segment split			
Property-related income	**146**	293	(50)
RBB South Africa	**91**	164	(45)
Retail Banking South Africa	**32**	20	60
Business Banking South Africa	**59**	144	(59)
Absa Regional Operations	**15**	13	15
WIMI	**10**	25	(60)
Head Office, Treasury and other operations in South Africa	**30**	91	(67)
Other operating income	**474**	355	34
RBB South Africa	**162**	324	(50)
Retail Banking South Africa	**158**	358	(56)
Business Banking South Africa	**4**	(34)	<(100)
CIB South Africa	**25**	38	(34)
Absa Regional Operations	**26**	6	>100
WIMI	**292**	(57)	<(100)
Head Office, Treasury and other operations in South Africa	**(6)**	38	<(100)
Barclays separation effects	**(25)**	6	<(100)
	620	648	(4)

Condensed IFRS notes to the consolidated financial statements

for the reporting period ended 31 December

5. Operating expenses

Breakdown of operating expenses	2018 Rm	2017 Rm	Change %
Administration fees[1]	469	499	(6)
Amortisation of intangible assets	846	650	30
Auditors' remuneration	356	277	29
Cash transportation	1 266	1 089	16
Depreciation	2 354	1 988	18
Equipment costs	370	444	(17)
Information technology	3 292	3 188	3
Marketing costs	1 962	1 793	9
Operating lease expenses on properties	1 607	1 606	0
Other[2]	2 779	2 098	32
Printing and stationery	362	367	(1)
Professional fees	2 700	2 311	17
Property costs	1 816	1 753	4
Staff costs	24 761	23 558	5
Bonuses	2 196	2 154	2
Deferred cash and share-based payments	771	829	(7)
Other[3]	984	1 198	(18)
Salaries and current service costs on post-retirement benefit funds	20 384	18 887	8
Training costs	426	490	(13)
Transitional services agreement (TSA) costs[1]	820	650	26
Telephone and postage	1 043	1 033	1
	46 803	43 304	8
Barclays separation effects	3 161	1 901	66
TSA costs	820	650	26
Professional fees	880	612	44
Staff costs	730	419	74
Other[4]	731	220	>100

Total operating cost growth reflects costs incurred in relation to the separation from Barclays PLC of **R3 161m** (2017: R1 901m), an increase of approximately 66%. These costs increase the year-on-year growth rates mainly in TSA costs, professional fees, staff costs, and marketing costs.

1 The TSA costs of R650m were recognised as administration fees in the previous reporting period.
2 Includes net fraud losses, travel and entertainment costs.
3 Includes recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.
4 Includes marketing costs, travel and entertainment costs, information technology costs, property costs, depreciation, amortisation and auditors' remuneration costs.

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Condensed IFRS notes to the consolidated financial statements

for the reporting period ended 31 December

6. Indirect taxation

	2018 Rm	2017 Rm	Change %
Training levy	211	191	10
Value-added tax net of input credits	1 381	1 431	(3)
	1 592	1 622	(2)

7. Taxation expense

	2018 Rm	2017[1] Rm	Change %
Reconciliation between operating profit before income tax and the taxation expense			
Operating profit before income tax	21 541	20 969	3
Share of post-tax results of associates and joint ventures	(179)	(170)	5
	21 362	20 799	3
Tax calculated at a tax rate of 28%	5 981	5 824	3
Effect of different tax rates in other countries	34	25	36
Expenses not deductible for tax purposes[2]	1 024	904	13
Recognition of previously unrecognised deferred tax assets	—	(7)	(100)
Dividend income[3]	(434)	(413)	5
Non-taxable interest[3, 4]	(181)	(193)	(6)
Other income not subject to tax[3]	(124)	(251)	(51)
Other	(56)	(41)	37
Items of a capital nature	38	34	12
	6 282	5 882	7

11. Equity

	2018 Rm	2017 Rm	Change %
Authorised			
880 467 500 (2017: 880 467 500) ordinary shares of R2.00 each	1 761	1 761	—
Issued			
847 750 679 (2017: 847 750 679) ordinary shares of R2.00 each	1 696	1 696	—
20 273 811 (2017: 14 912 864) treasury shares held by Group entities	(41)	(30)	37
	1 655	1 666	(1)
Total issued capital			
Share capital	1 655	1 666	(1)
Share premium	10 205	10 498	(3)
	11 860	12 164	(2)

Number of ordinary shares in issue (after deduction of treasury shares)	2018 Number of shares (million)	2017 Number of shares (million)	Change %
Ordinary shares in issue of R2.00 each	847.8	847.8	—
Treasury shares held by the Group	(20.3)	(15)	35
	827.5	832.8	(1)

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

2 Includes donations, non-deductible levies and non-deductible expenses.

3 In the prior reporting period 'Income not subject to tax' (R857m) has been disaggregated to 'Dividend Income' (R413m), 'Non-taxable interest' (R192m) and 'Income not subject to tax' (R252m).

4 Relates to interest earned from certain governments in Africa regions as well as interest earned on capital instruments, which are exempt from tax.

IFRS segment performance

for the reporting period ended 31 December

	Total Group normalised performance		
	2018	2017[1]	Change %
Statement of comprehensive income (Rm)			
Net interest income	**43 425**	42 319	3
Non-interest income	**32 235**	30 671	5
Total income	**75 660**	72 990	4
Impairment losses	**(6 324)**	(7 022)	(10)
Operating expenses	**(43 642)**	(41 403)	5
Other operating expenses	**(1 653)**	(1 706)	(3)
Operating profit before income tax	**24 041**	22 859	5
Tax expenses	**(6 766)**	(6 290)	8
Profit for the reporting period	**17 275**	16 569	4
Profit attributable to:			
Ordinary equity holders	**15 903**	15 370	3
Non-controlling interest – ordinary shares	**831**	789	5
Non-controlling interest – preference shares	**351**	362	(3)
Non-controlling interest – additional Tier 1	**190**	48	>100
	17 275	16 569	4
Headline earnings	**16 128**	15 623	3
Operating performance (%)			
Net interest margin on average interest-bearing assets[2]	**4.64**	4.83	
Credit loss ratio	**0.73**	0.87	
Non-interest income as % of income	**42.6**	42.0	
Income growth	**4**	1	
Operating expenses growth	**5**	3	
Cost-to-income ratio	**57.7**	56.7	
Statement of financial position (Rm)			
Loans and advances to customers	**841 720**	749 772	12
Loans and advances to banks	**53 140**	55 426	(4)
Investment securities	**135 420**	111 409	22
Other assets	**255 272**	252 076	1
Total assets	**1 285 552**	1 168 683	10
Deposits due to customers	**736 305**	689 867	7
Debt securities in issue	**160 971**	137 948	17
Other liabilities[3]	**275 423**	232 362	19
Total liabilities	**1 172 699**	1 060 177	11
Financial performance (%)			
RoRWA	**2.12**	2.17	
RoA	**1.34**	1.39	

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

[2] Net interest margin has been restated to reflect an update of the Group's policy for classifying assets as interest bearing or non-interest bearing. The updated policy classifies reverse repurchase transactions entered into for regulatory purposes as interest bearing; under the previous policy these transactions were classified as non-interest bearing. Under the previous policy the Group's net interest margin would have been **4.77%** (2017: 5.05%) on IFRS and **4.80%** (2017: 4.95%) on normalised basis.

[3] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loan from Barclays separation segment' in the condensed consolidated normalised statement of financial position (refer to page 20).

Barclays separation effects			IFRS Group		
2018	2017	Change %	**2018**	2017	Change %
330	325	2	**43 755**	42 644	3
525	80	>100	**32 760**	30 751	7
855	405	>100	**76 515**	73 395	4
—	—	—	**(6 324)**	(7 022)	(10)
(3 161)	(1 901)	66	**(46 803)**	(43 304)	8
(194)	(394)	(51)	**(1 847)**	(2 100)	(12)
(2 500)	(1 890)	32	**21 541**	20 969	3
484	408	19	**(6 282)**	(5 882)	7
(2 016)	(1 482)	36	**15 259**	15 087	1
(1 986)	(1 482)	34	**13 917**	7 423	0
(30)	—	100	**801**	361	2
—	—	—	**351**	180	(3)
—	—	—	**190**	—	>100
(2 016)	(1 482)	36	**15 259**	7 964	1
(1 986)	(1 245)	60	**14 142**	7 650	(2)
n/a	n/a		**4.65**	4.83	
n/a	n/a		**0.73**	0.87	
n/a	n/a		**42.8**	41.9	
n/a	n/a		**4**	1	
n/a	n/a		**8**	8	
n/a	n/a		**61.2**	59.0	
—	—	—	**841 720**	749 772	12
—	—	—	**53 140**	55 426	(4)
—	—	—	**135 420**	111 409	22
3 192	912	>100	**258 464**	252 988	2
3 192	912	>100	**1 288 744**	1 169 595	10
—	—	—	**736 305**	689 867	7
—	—	—	**160 971**	137 948	17
(5 561)	(9 840)	(43)	**269 862**	222 522	21
(5 561)	(9 840)	(43)	**1 167 138**	1 050 337	11
n/a	n/a		**1.85**	2.02	
n/a	n/a		**1.17**	1.27	

Barclays PLC separation effects

for the reporting period ended 31 December

Update on programme

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

The transition of 198 services from Barclays PLC to the Group is under way. The services are delivered in terms of the Transitional Services Agreement (TSA) between the Group and Barclays PLC. This allows the Group the opportunity to build or establish the required capabilities internally through the separation projects. To date, 103 of the services that were contracted with Barclays PLC have been terminated and the remaining services schedules are on track for termination in line with plan.

The circa 300 projects in the Programme (which are the vehicles to transition from the services) are classified into four categories (Platinum, Gold, Silver and Bronze) to effectively manage and prioritise the complexity of separation. Circa 100 projects, with the greatest degree of interdependencies and other risk-orientated characteristics, constitute the separation's critical path. Execution of the individual projects is progressing well with 140 separation projects successfully delivered to date, 47 of which were on the critical path. The vast majority of projects scheduled for delivery in the first half of 2019 are also on track.

The removal of 'Member of Barclays' references in South Africa is complete, in line with the Transitional Trade Mark Licence. On 11 July 2018, the new Absa brand was launched which will be rolled out to the Absa Regional Operations (ARO) entities by June 2020. They will continue to be known as Barclays Bank in their home markets until the Absa brand is launched in the ARO countries and their products and services in those markets will not be affected by the name change.

Ongoing engagements with regulators continue to be an important area of focus. Various engagements have occurred throughout the year and include interactions with the South African Reserve Bank, Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) in the UK, the US Federal Reserve and regulators in the ARO countries.

In July 2018, the UK regulators (the PRA and the FCA) granted permission for the Group to be fully deconsolidated from Barclays PLC. This achievement is positive as it releases the Group from a number of regulatory reporting obligations through Barclays PLC. Barclays PLC continues to provide certain services to the Group, which will be replaced over time.

In 2019, the separation Office will transition into a Group Change function that aims to leverage the learnings and capabilities from the separation journey, and make the Group an effective, change-driven organisation. This is fundamental to ensure the Group delivers on its strategy underpinned through a digital drive which will change the way the organisation operates internally and externally.

Group change

The Group is currently delivering a substantial change portfolio spanning both separation and SI (Strategic Investments) change projects (Regulatory, Resilience and Transformation). Achievement of the separation objective by June 2020 cannot be compromised, however a number of strategic imperatives must also be progressed to achieve growth aspirations and meet commitments made to the market. In addition, the Group must remain resilient and comply with regulatory requirements. Given the constrained group-wide change capacity, the overall change portfolio must be prioritised, governed and managed within a central function within a consistent set of principles in order to derive and assist in delivering the key imperatives of the Group's revised strategy.

In this regard, the setup of the Group Change function has commenced with key capabilities identified. Where these capabilities exist within the separation framework, they have been assessed and extended to include the SI change portfolio.

Barclays PLC separation effects

for the reporting period ended 31 December

	Barclays separation effects		
	2018	2017	Change %
Statement of comprehensive income (Rm)			
Net interest income	**330**	325	2
Non-interest income	**525**	80	>100
Total income	**855**	405	>100
Operating expenses	**(3 161)**	(1 901)	66
Other expenses	**(194)**	(394)	(51)
Operating profit before income tax	**(2 500)**	(1 890)	32
Tax expenses	**484**	408	19
Profit for the reporting period	**(2 016)**	(1 482)	36
Profit attributable to:			
Ordinary equity holders	**(1 986)**	(1 482)	34
Non-controlling interest – ordinary shares	**(30)**	—	100
	(2 016)	(1 482)	36
Headline earnings	**(1 986)**	(1 245)	60
Statement of financial position (Rm)			
Intangible assets	**2 689**	786	>100
Property, plant and equipment	**299**	126	>100
Other assets	**204**	—	100
Total assets	**3 192**	912	>100
Other liabilities[1]	**(5 561)**	(9 840)	(43)
Total equity	**8 753**	10 752	(19)
Total equity and liabilities	**3 192**	912	>100

Statement of comprehensive income

Net interest income of **R330m** (2017: R325m) relates to income earned on the contribution received from Barclays PLC to provide additional capital to the Group to allow it to take the steps required to achieve separation.

Non-interest income of **R525m** (2017: R80m) relates to foreign currency revaluation gains on GBP and USD currencies held to settle TSA and other foreign currency denominated costs.

Operating expenses of **R3.2bn** (2017: R1.9bn) primarily include **R820m** (2017: R650m) for payment to Barclays PLC for services rendered for the benefit of Absa and impacted ARO subsidiaries under the TSA and **R2.3bn** (2017: R1.2bn) expensed project execution and programme support costs. The expensed costs relate mainly to professional fees of **R880m** (2017: R612m), staff costs of **R730m** (2017: R419m), marketing costs of **R367m** (2017: R85m) and software costs of **R97m** (R45m). The increase in spend is driven by an increase in number of projects that moved from research into execution phase. Key projects in execution include: Technology projects (building new banking platforms for services previously provided by Barclays PLC and the localisation of contracts), brand projects (removal of 'Member of Barclays' in South Africa and the holding company name change), programme support costs which relate to execution of projects and quality assurance as well as remuneration for internal resources dedicated to separation.

Other operating expenses reflect indirect taxation of **R194m** (2017: R394m). The prior year included the impairment of Barclays.net in Corporate Channels. Excluding this impairment there was an increase in indirect taxation largely attributable to an increase in spend and a 1% increase in the VAT rate.

Total assets

Intangible assets consist of capitalised software, professional fees and staff costs relating to the development/creation of such assets net of accumulated amortisation and accumulated impairment.

Property, plant and equipment mainly consists of hardware relating to separation technology projects.

Total equity and liabilities

Total equity of **R8.8bn** (2017: R10.8bn), mainly consists of the R12.1bn contribution received from Barclays PLC net of separation expenditure incurred to date.

[1] This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'. The amount is presented in 'Loan from Barclays separation segment' in the Condensed consolidated normalised statement of financial position (refer to page 20).

Reporting changes

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Reporting changes

for the reporting period ended 31 December

A. Overview of reporting changes

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

Implementation of new International Financial Reporting Standards (IFRS):

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

Amendments to IFRS:

- Presentation of effective interest income as a separate line item in profit or loss on the face of the statement of comprehensive income.

Amendments to internal accounting policies:

- A change in the valuation method applied to policyholder liabilities under the Group's life insurance contracts; and
- Bifurcation of interest income and interest expense, as presented on the face of the statement of comprehensive income in the prior reporting period, between effective interest component, and other interest.

Correction of prior period error:

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

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

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

  The IFRS 9 requirements for write-off have been one of the most robustly debated topics following the global banking industry's adoption of IFRS 9. Whilst the guidance regarding derecognition under IFRS 9 remains largely unchanged from IAS 39, IFRS 9 does explicitly provide that write-off constitutes a derecognition event. The IASB's intention in drafting IFRS 9, and specifically with regards to the treatment of post write-off recoveries in the calculation of LGD, has been the subject of extensive technical debate across the industry. This matter has not, however, been formally tested through international accounting forums, such as the IFRS-IC and the IFRS 9 Transition Resource Group. In line, however, with evolving IFRS 9 technical interpretation, the Group has reconsidered the approach previously applied to LGD modelling for accounting purposes. The Group believes that under IFRS 9, the write-off assumptions should be consistently applied at both an individual account level and on a collective modelling basis. Accordingly, the Group will adjust the original treatment it applied as at 1 January 2018. The exclusion of post write-off recoveries from LGD, under IFRS 9, has resulted in a significant increase in the allowance for ECL recognised in the statement of financial position, as at 1 January 2018. The restated allowance for ECL is **R29 703m** (including interest in suspense and the ECL provision in respect of off-statement of financial position items), relative to the amount of **R27 767m**, as previously published. This has further resulted in a reduction in the Group's retained income as at 1 January 2018 of **R1 307m** (after taxation adjustment of **R491m** and non-controlling interest of **R138m**). The 1 January 2018 IFRS 9 transition disclosures previously published in the 30 June 2018 report have been restated. The change in valuation methodology did not have a significant impact on the credit losses recognised during the current reporting period, since the impact on both the 1 January 2018 and 31 December 2018 ECL allowances, were of a similar magnitude. Please refer to section 3.6 for further information.

Reporting changes

for the reporting period ended 31 December

A. Overview of reporting changes *(continued)*

- **Interest recoveries on cured stage 3 financial assets:** IFRS 9 requires interest income on stage 3 assets to be calculated based on the net carrying value of the exposure, that is, the gross carrying value less the ECL allowance. In order to practically give effect to this requirement, the Group first suspends the recognition of contractual interest, and second, multiplies the net carrying value by the effective interest rate (EIR). Interest income recognised on stage 3 assets will therefore be less than the contractual interest charged. In some instances, the Group may recover contractual interest which is in excess of that previously recognised under IFRS 9. This prompted extensive industry debate regarding whether such excess should be presented as a credit impairment gain, reflecting a credit recovery event, or as interest income, reflecting recovery of interest in the ordinary course of business. A request for clarification regarding this IFRS 9 requirement was submitted by the banking industry through the South African Institute of Chartered Accountants (SAICA) to the IFRS-IC in August 2018. At the IFRS-IC meeting held in November 2018, the committee observed that any unrecognised interest, which is subsequently recovered, should be presented as a credit impairment gain. Since such clarification was only provided post the Group's 30 June 2018 reporting date, the Group had elected to present an amount of **R292m** as interest income over the reporting period ending 30 June 2018. It was the Group's view that presentation of the recovered interest previously unrecognised as a credit impairment gain would understate, and accordingly distort, the Group's ECL. The Group has, however, amended its accounting treatment following the decision made by the IFRS-IC. The accounting treatment does not impact profit or loss, but it does reduce both the Group's ECL and interest income. As at 31 December 2018, the interest recoveries on cured stage 3 assets amounted to **R608m** and was presented within ECL as a credit impairment gain. This is discussed further in section 3.8.

Other less significant amendments to IFRS became effective during the current reporting period, although these had no impact on the financial results of the Group. These amendments relate to IAS 40 Investment Property, IAS 28 Investment in Associates and Joint Ventures, as well as IFRS 2 Share-based Payment Transactions (IFRS 2). The changes to IFRS 2 were, however, early adopted by the Group in 2016. A new IFRS-IC Interpretation, IFRS-IC 22 Foreign Currency Transactions and Advance Consideration is effective in the current reporting period.

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

	Share capital and share premium Rm	Retained earnings Rm	Other reserves Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – Additional Tier 1 capital Rm	Total equity Rm	Normalised Total equity Rm
Balance reported as at 31 December 2016	6 160	81 604	5 293	93 057	4 579	4 644	—	102 280	102 280
Restatement owing to change in life insurance accounting policy	—	134	—	134	—	—	—	134	134
Restated balance as at 31 December 2016	6 160	81 738	5 293	93 191	4 579	4 644	—	102 414	102 414
Balance reported as at 31 December 2017	12 164	91 882	4 370	108 416	4 500	4 644	1 500	119 060	108 308
Restatement owing to change in life insurance accounting policy	—	198	—	198	—	—	—	198	198
Restated balance as at 31 December 2017	**12 164**	**92 080**	**4 370**	**108 614**	**4 500**	**4 644**	**1 500**	**119 258**	**108 506**
Restated impact of adopting IFRS 9	—	(5 413)	(126)	(5 539)	(230)	—	—	(5 769)	(5 769)
Restated impact of adopting IFRS 9		(4 106)	(95)	(4 201)	(131)	—	—	(4 332)	(4 332)
IFRS 9 LGD restatement[1]		(1 307)	(31)	(1 338)	(99)			(1 437)	(1 437)
Impact of adopting IFRS 15	—	(44)	—	(44)	—	—	—	(44)	(44)
Adjusted balance as at 1 January 2018	**12 164**	**86 623**	**4 244**	**103 031**	**4 270**	**4 644**	**1 500**	**113 445**	**102 693**

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

Reporting changes

for the reporting period ended 31 December

B. Initial adoption of IFRS 9 Financial Instruments)

1. Basis of preparation

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

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

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

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

2. Overview and highlights

2.1. The impact of IFRS 9 on the Group

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

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

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

In accordance with the transition options allowable under IFRS 9, the Group will continue to apply the hedge accounting requirements set out in IAS 39. The Group employs a governed hedging programme to reduce margin volatility associated with structural balances (that is, rate insensitive liabilities as well as the endowment associated with equity). Operational complexity would be introduced by adopting the revised IFRS 9 hedge accounting requirements ahead of the finalisation of the IASB's Dynamic Risk Management project in respect of macro hedging. The Group has accordingly elected not to adopt the revised IFRS 9 hedge requirements.

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

A portfolio of South African consumer price index (CPI) linked investment securities have been reclassified from available-for-sale under IAS 39, to amortised cost under IFRS 9. This aligns the portfolio's classification with the Group's business model of holding the instruments to collect contractual cash flows. Other less significant reclassifications of financial assets were also recorded, although these did not have any impact on equity (refer to section 10). The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVTPL). Gains and losses on such financial liabilities are required to be presented in other comprehensive income (OCI), to the extent that they relate to changes in own credit risk. The Group early adopted this requirement in 2017, and therefore recognised a debit of **R147m** in OCI in that reporting period.

2.3 The impact of adopting a revised ECL methodology

The adoption of IFRS 9 will impact the timing of credit loss recognition, by accelerating the recognition of losses relative to IAS 39, and potentially creating increased volatility through the incorporation of forward looking assumptions. From an economic perspective, total long-run credit losses incurred by the Group will not be impacted by the change in accounting framework. The Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and to correctly reflecting the value of the assets in accordance with applicable accounting principles. The core processes remain the measurement of exposures and concentrations, performance monitoring and tracking of asset quality, and the write-off of assets in accordance with the Group's credit risk policies.

Reporting changes

for the reporting period ended 31 December

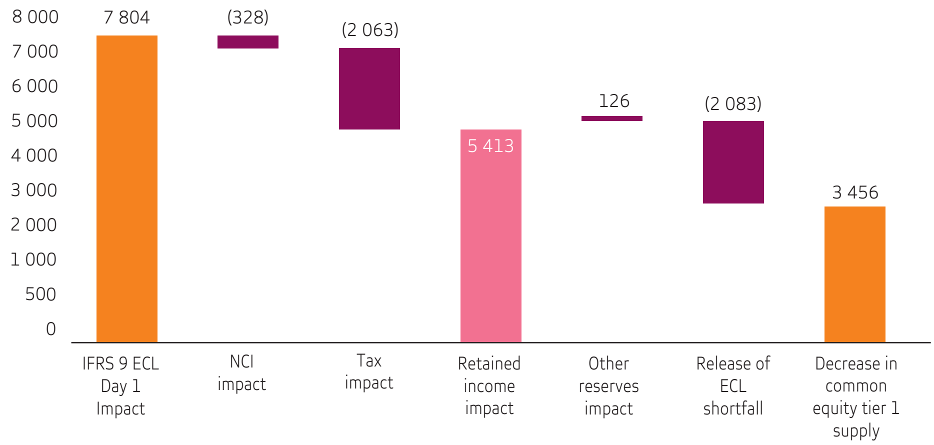
B. Initial adoption of IFRS 9 Financial Instruments (continued)

2. Overview and highlights (continued)

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

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

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



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

Reporting changes

for the reporting period ended 31 December

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

2. Overview and highlights (continued)

2.5 Condensed consolidated statement of financial position for Absa Group Limited

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

		Impact of IFRS 9			
			IFRS 9 ECL[3]		
	31 December 2017 Rm	Classification and measurement[1] Rm	Reported ECL[2] Rm	Exclusion of PWOR from LGD[3] Rm	1 January 2018 Rm
Assets					
Cash, cash balances and balances with central banks[4]	48 669	—	(10)	—	48 659
Investment securities	111 409	(195)	(2)	—	111 212
Loans and advances to banks	55 426	—	(67)	—	55 359
Loans and advances to customers	749 772	(20)	(5 034)	(1 936)	742 782
Investments in associates and joint ventures[5]	1 235	—	(73)	(31)	1 131
Other assets[6]	199 468	55	1 149	530	201 202
Total assets	1 165 979	(160)	(4 037)	(1 437)	1 160 345
Liabilities					
Trading portfolio liabilities	64 047	(20)	—	—	64 027
Provisions[7]	3 041	—	574	—	3 615
Other liabilities[6]	979 831	—	(419)	—	979 412
Total liabilities	1 046 919	(20)	155	—	1 047 054
Equity					
Capital and reserves					
Attributable to ordinary equity holders:					
Share capital	1 666	—	—	—	1 666
Share premium	10 498	—	—	—	10 498
Retained earnings	91 882	—	(4 106)	(1 307)	86 469
Other reserves	4 370	(140)	45	(31)	4 244
Ordinary equity holders	108 416	(140)	(4 061)	(1 338)	102 877
Non-controlling interest – ordinary shares	4 500	—	(131)	(99)	4 270
Non-controlling interest – preference shares	4 644	—	—	—	4 644
Non-controlling interest – Additional Tier 1 capital	1 500	—	—	—	1 500
Total equity	119 060	(140)	(4 192)	(1 437)	113 291
Total liabilities and equity	1 165 979	(160)	(4 037)	(1 437)	1 160 345

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

2 Reflects the IFRS 9 ECL impact as previously presented in this report as at 30 June 2018.

3 Reflects the financial impact of amending the Group's methodology for calculating LGD of loans and advances to customers.

4 Relates predominantly to a central bank within Absa Regional Operations.

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

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

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

Reporting changes

for the reporting period ended 31 December

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

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

3.1 Introduction

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

The stage allocation is required to be performed as follows:

- **Stage 1:** Stage 1 assets comprise exposures which are performing in line with expectations at origination. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1.
- **Stage 2:** Exposures are required to be classified within stage 2 when a significant increase in credit risk has been observed. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These are discussed further in section 4.3.
- **Stage 3:** Credit exposures are classified within stage 3, when they are regarded as being credit impaired, which aligns to the bank's regulatory definition of default. Purchased or originated credit impaired lending facilities are classified on the date of origination within stage 3. This definition is discussed further in section 3.3.

3.2 Definition of a significant increase in credit risk

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

Key drivers of a significant increase in credit risk include:

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

Stage 2 assets are considered to be cured (that is, reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and a defined period of performance has been observed. The definition of high risk is from a credit management perspective central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary.

3.3 Definition of credit impaired assets

Assets classified within stage 3 are considered to be credit impaired, which, as discussed in section 2.1 applies when an exposure is in default. Whilst IAS 39 does not prescribe any alignment between the accounting and regulatory definition default, this has been implemented by the Group as an amendment under IFRS 9. This departure from IAS 39 has resulted in a large increase in the number of exposures which are classified within stage 3, and accordingly within accounting default.

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

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

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

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

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

Reporting changes

for the reporting period ended 31 December

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

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

3.4. Determination of the lifetime of a credit exposure

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

In defining the period over which the entity is typically exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers the results of collective data modelling and the evidence accordingly provided of:

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

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

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

3.5. Write-off

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

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

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

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

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

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

3.6 General IFRS 9 ECL parameters and modelling approach

3.6.1 Introduction

The estimate of ECL is required to reflect an unbiased and probability-weighted estimate of future losses, which should be determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed. The IFRS 9 models make use of three parameters namely PD, LGD and EAD in the calculation of the ECL allowance.

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

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

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

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

3.6 General IFRS 9 ECL parameters and modelling approach

3.6.2 Probability of default (PD)

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

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

3.6.3 Loss given default (LGD)

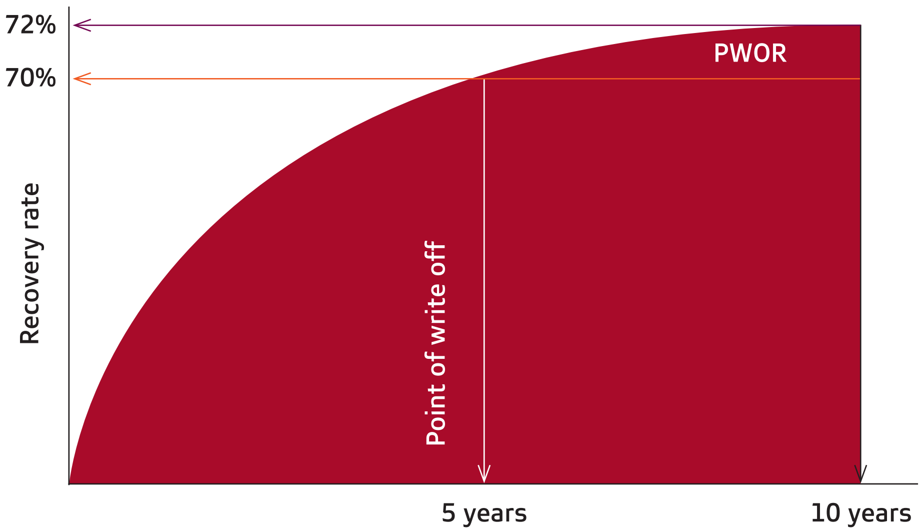
LGD is defined as the percentage loss rate suffered by a lender on a credit exposure if the obligor defaults. In other words, even if the counterparty fails to repay the amount owed, the lender will usually succeed in recovering some percentage of the current amount owed in the process of workout or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

Collective data modelling has historically been considered to more appropriately represent the forecast economic performance of a portfolio of loans, which is influenced by a multitude of factors more accurately observed at a portfolio level, such as prepayment behaviour and cumulative losses incurred over the life of a loan. To illustrate this point, consider the assessment of whether an individual home loan will be prepaid. The entity may observe prepayment behaviour across its home loans portfolio, but might find it difficult to ascribe a probability of prepayment to an individual account. The modelling of loan behaviour and cash recoveries on a collective portfolio basis theoretically creates a risk diversification effect that could cause the inclusion of some recoveries which would technically be defined as post write-off recoveries at an individual account level (that is, recoveries received post the designated point of write-off from an IFRS perspective).

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

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

The financial effect of excluding post-write off recoveries calculated at a portfolio is illustrated through the following simplified example on a hypothetical banking product:



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

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

3.6 General IFRS 9 ECL parameters and modelling approach (continued)

3.6.3 Loss given default (LGD) (continued)

Assume that a bank's write-off point for a hypothetical product results in an average PWOR ratio of 2% being calculated over a five-year time horizon. Whilst empirical data (as illustrated in the above graph), would suggest that some level of recoveries (namely, 2%) should be expected beyond the five-year write-off point, the level is considered to be immaterial. The bank predicts that it would take another five years for the additional 2% to be recovered. As such, the low payment frequency beyond the five-year write-off point, renders it impracticable for the bank to retain the exposures on balance sheet. When write-off is effected to a particular account, any recoveries post that point are recognised as a gain, as and when received. Excluding PWOR, recoveries from the LGD model result in management representing, on average, a cumulative recovery of 70% across the portfolio (and a loss rate of 30%). Economically, however, management is expecting recoveries of 72%.

The regulatory treatment of LGD remains unchanged.

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

3.6.4 Exposure at default (EAD)

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

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

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

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

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

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

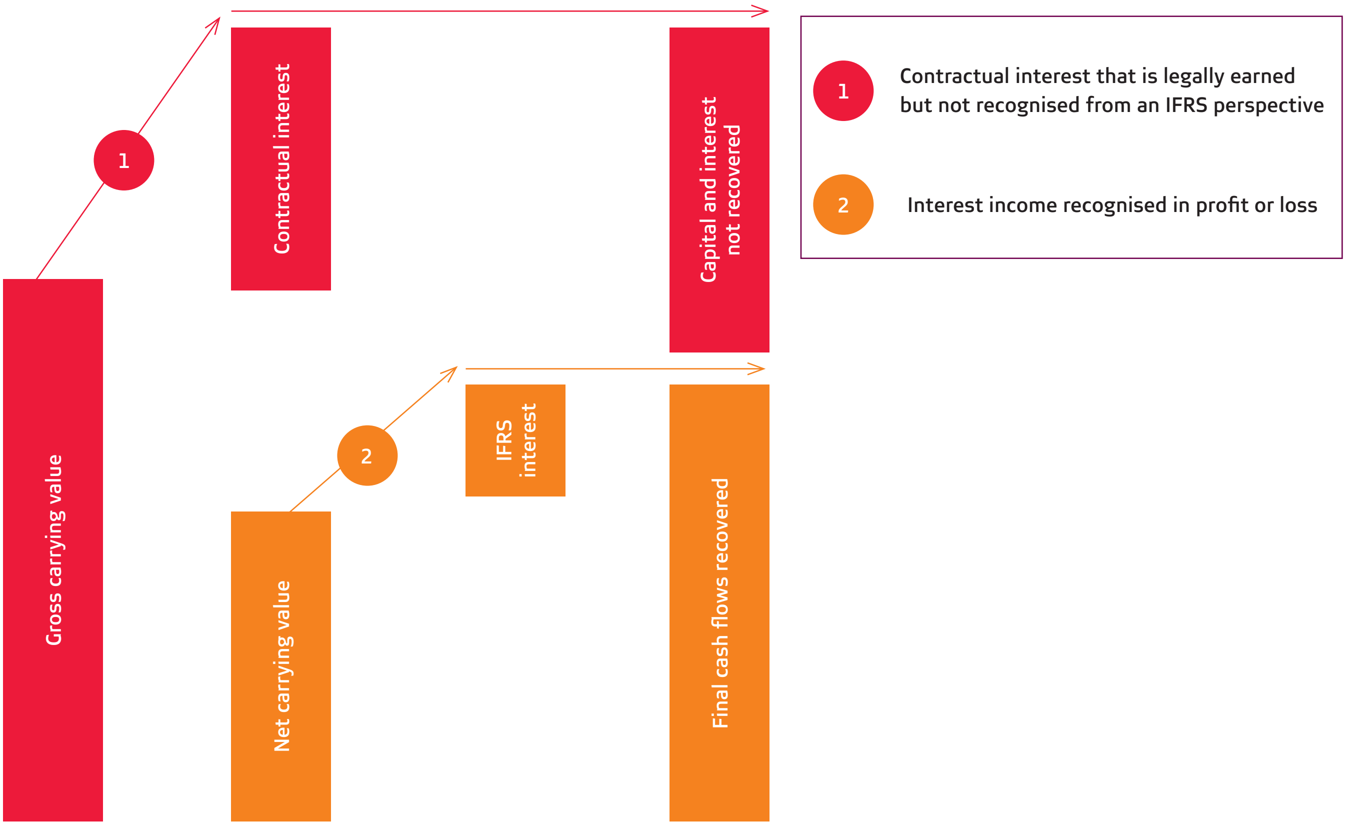
3. Key elements of the revised impairment model under IFRS 9 *(continued)*

3.8 Impact of IFRS 9 on interest recognition

3.8.1 Impact on the statement of comprehensive income

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

The chart below depicts the contrast between contractual interest and interest income required to be recognised on stage 3 assets under IFRS 9:



Stage 3 assets

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

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

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

Reporting changes

for the reporting period ended 31 December

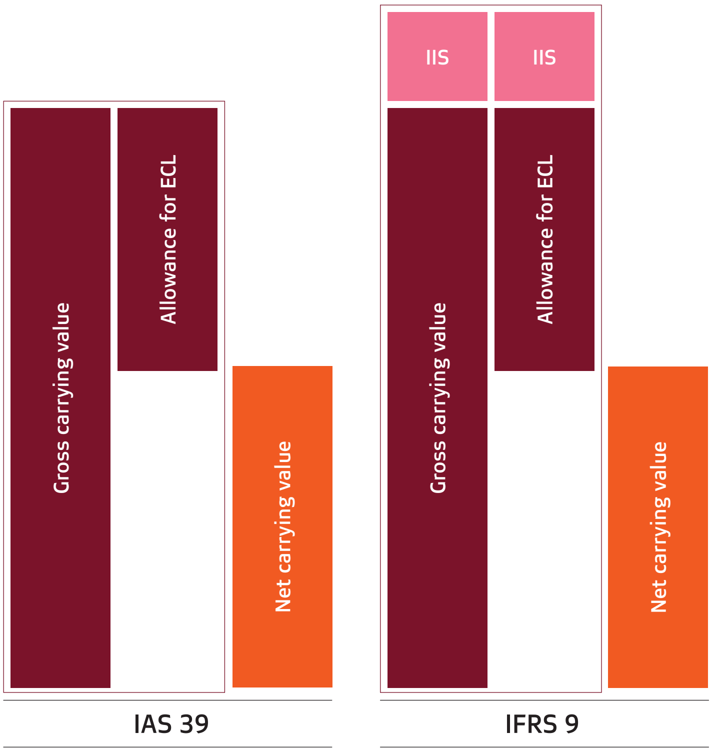
B. Initial adoption of IFRS 9 Financial Instruments (continued)

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

3.8 Impact of IFRS 9 on interest recognition (continued)

3.8.2 Impact on the statement of financial position

Under IFRS 9, IIS is required to be presented as part of both the gross carrying value of the financial instrument and the related ECL allowance. Under IAS 39, cumulative suspended interest was not reflected on the statement of financial position at all. Accordingly, under IFRS 9, both the gross carrying value and the ECL allowance will be larger than it was under IAS 39. However, this amendment will not impact the net carrying value of the exposure. This is illustrated in the chart below.



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

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Reporting changes

for the reporting period ended 31 December

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

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

4.1 Summary of ECL by segment and class of credit exposure

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

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

[1] Relates predominantly to a central bank within Absa Regional Operation.
[2] Relates to ECL on undrawn committed facilities to the extent that it exceeds the gross carrying amount on loans and advances at an account level.
[3] 'IFRS 9 transaction adjustment' is calculated as 'Total IFRS 9 provision (including IIS)' less 'Total IAS 39 (including IIS)'.

Reporting changes

for the reporting period ended 31 December

IFRS 9 – 1 January 2018 (Restated)

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

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Reporting changes

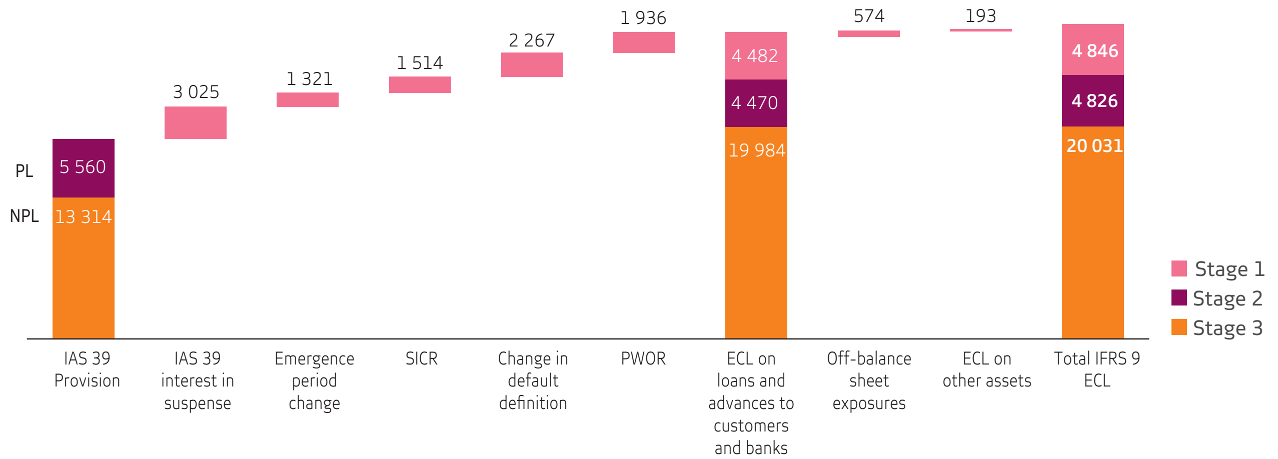
for the reporting period ended 31 December

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

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

4.2 Overall reconciliation shown graphically

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



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

4.2.1 Interest in suspense

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

4.2.2 Removal of post-write off recoveries from LGD

The Group has adopted a revised approach to the collective data modelling of LGD, and has specifically excluded post write-off recoveries from the forecast recoverable cash flows. This is an amendment under IFRS 9, and has resulted in an increase of **R1 936m** in the ECL allowance as at 1 January 2018.

4.2.3 Change in emergence period of stage 1 assets

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

4.2.4 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. This increased the ECL allowance by **R1 514m**.

4.2.5 Change in default definition

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

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

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

4.2 Overall reconciliation shown graphically (continued)

4.2.6 Off-balance sheet exposures

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

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

4.2.7 The calculation of ECL on other assets

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

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

5.1 Reconciliation of credit classifications under IAS 39 and IFRS 9

In order to facilitate credit risk monitoring and reporting, the Group has previously assigned credit risk exposures to one of two categories, namely, performing and non-performing. Pursuant to the adoption of IFRS 9, and the introduction of a stage classification approach to ECL modelling, the Group has elected to cease utilising the previous performing loan (PL), and NPL classifications, and to reassign exposures based on the IFRS 9 stage categories. The Group now classifies exposures as stage 1, stage 2 (significantly deteriorated) or stage 3 (credit impaired), from both a credit and an accounting perspective. The key areas of difference between the classifications under IAS 39 and IFRS 9, at a Retail and Wholesale level, are explained in the sections which follow.

5.1.1 Retail

Under IAS 39, up-to-date exposures were classified as performing loans, against which an unidentified impairment allowance was recognised. Impairment on these accounts was recognised to acknowledge the presence of losses which had already occurred, but were not as yet observed. Under IFRS 9, up-to-date loans will only be classified within stage 1, provided that no signs of a significant deterioration in credit risk exist (for example, where a high risk flag has been triggered). To the extent that such credit deterioration occurs, the exposures should be classified within stage 2. Under IFRS 9, delinquent exposures which are less than 90 days past due will be classified as within stage 2, whereas under IAS 39, such loans may have been classified as performing.

One of the key departures from the NPL definition previously applied is the inclusion of performing forbearance and performing debt counselling/review accounts within stage 3. These would have previously been presented as PL. Forbearance accounts are those in respect of which a concession has been granted whilst the client is in financial difficulty (such as contractual payment, interest and/or term concessions). The Group will only cure forbearance accounts from stage 3 to stage 2, when the customer has performed for 12 consecutive months (and any required regulatory cure definition has been met). The cure period is not specifically a requirement under IFRS 9, but is in line with the Group retail credit policies. Application of this stringent cure rule has resulted in a significant increase in the population of exposures classified within stage 3, relative to those classified as NPL in the prior year.

Reporting changes

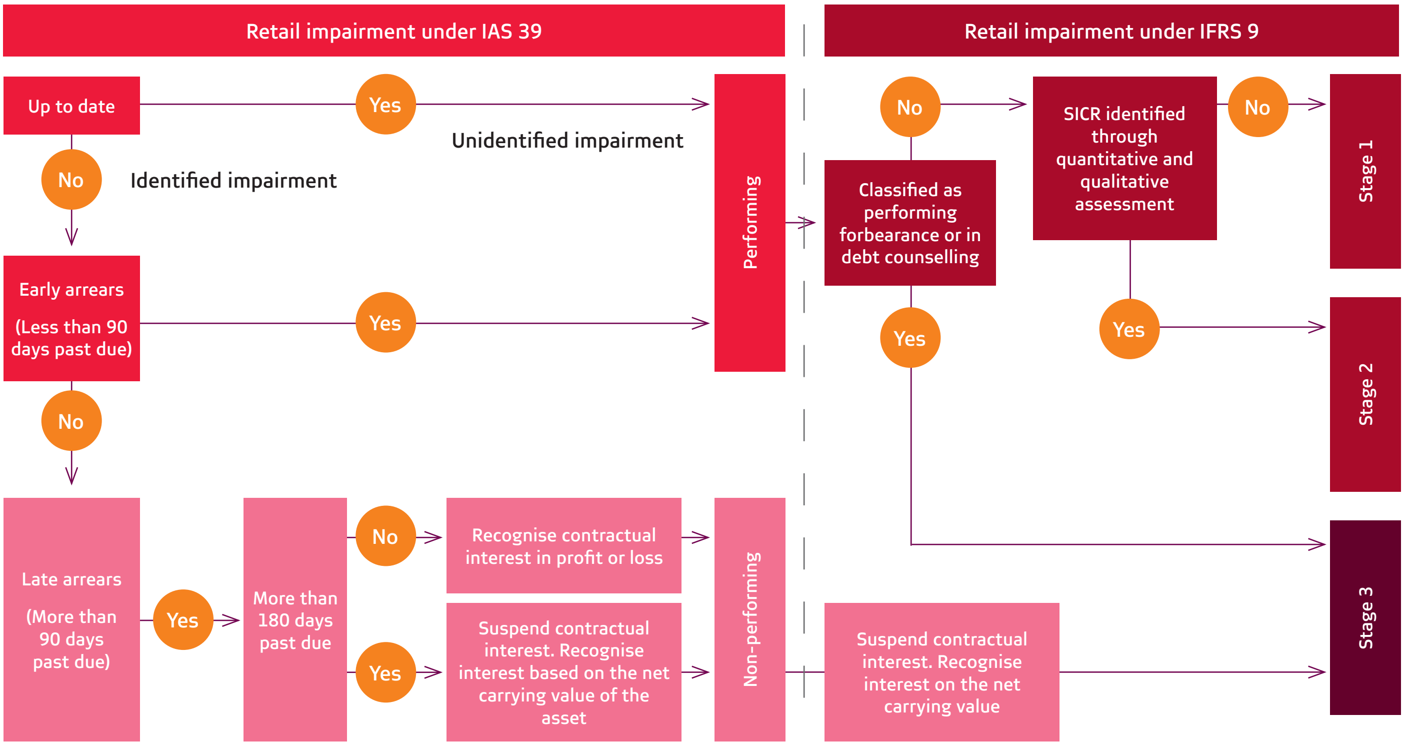
for the reporting period ended 31 December

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

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

5.1 Reconciliation of credit classifications under IAS 39 and IFRS 9 (continued)

5.1.1 Retail (continued)



5.1.2 Wholesale

Under IAS 39, exposures in respect of which there is no identifiable credit deterioration (as per the watch list process) were classified as performing loans. Further, loans in respect of which some form of credit deterioration existed, even if in the absence of objective evidence of impairment, were also classified as performing. Loans were only classified as NPL where there was objective evidence of impairment. With the exception of certain refinements to the watch list process, the definition of stage 3 and NPL are aligned.

5.3 Reconciliation of performing loans under IAS 39 and stage 1 and 2 assets under IFRS 9

As discussed in section 5.1 the Group has assigned certain advances to stage 3, which were previously presented as performing loans, namely performing forbearance and performing debt counselling loans. This has reduced the population of exposures within stage 1 and stage 2 by R11 820m.

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

	IAS 39	PWOR	Emergence period change	SICR	Reclassifications to stage 3	IFRS 9 (stage 1 and stage 2)	Stage 1	Stage 2
Gross carrying value (Rm)	793 160[1]	—	—	—	(11 820)	781 340	697 425	83 915
Impairment allowance/ECL (Rm)	5 559	556	1 321	3 781	(2 267)	8 950	4 480	4 470
Restated impairment allowance/ ECL (Rm)	5 559	556	1 321	3 781	(2 267)	8 950	4 480	4 470
Coverage ratio (%)	0.70	0.07	0.17	0.47	(0.27)	1.15	0.55	5.40

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

Reporting changes

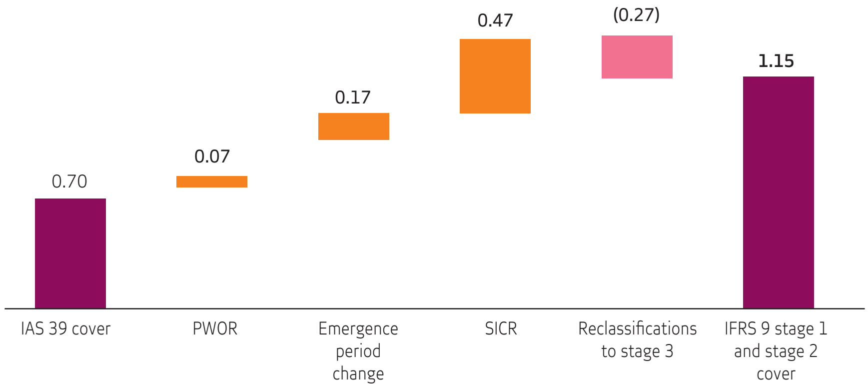
for the reporting period ended 31 December

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

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

5.3 Reconciliation of performing loans under IAS 39 and stage 1 and 2 assets under IFRS 9 (continued)

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



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

- **PWOR** – Exclusive of post write recoveries from LGD. Refer to 4.2.2.
- **Emergence period** – change in ECL as a result of the period on stage 1 assets under IFRS 9 being defined as 12 months or less where the contractual period is less. Refer to 4.2.3.
- **SICR** – change in ECL due to stage 2 financial assets being required to carry a lifetime ECL. Refer to 4.2.4.
- **Reclassification to stage 3** – change in ECL as a result of the change in default definition. Refer to 4.2.5.

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

Under IAS 39, loans and advances in the Retail portfolio were considered to be non-performing when their delinquency reached 90 days in arrears, or in the Wholesale portfolio, when the customer was considered unlikely to pay. For the purposes of bridging the impairment coverage observed under IAS 39 with ECL coverage under IFRS 9, the coverage ratio on stage 3 assets has been reconciled to the NPL coverage ratio under IAS 39. As discussed in section 5.1, there are a number of important differences between the population of NPLs under IAS 39 and those which are within stage 3 under IFRS 9. The financial impact of these difference are explained below:

- **IAS 39 Interest in suspense:** Interest earned on specifically impaired financial assets was previously suspended under IAS 39, although the cumulative balance was not required to be presented as a component of either the gross carrying value or the ECL allowance. Capitalisation of this amount to the gross carrying value has resulted in an increase in the value of stage 3 loans as a percentage of total loans and advances to banks, and to customers (refer to note 4.2.1 for more detail).
- **Exclusion of post write-off recoveries from LGD.**
- **Watch list categories treated as default:** The wholesale definition of NPL was not previously aligned to the regulatory definition of default in all instances. Alignment of the stage 3 and regulatory default definitions has resulted in refinements to the wholesale watch list framework. The regulatory default definition prescribes a wider definition of 'unlikely to pay' than that which was previously applied for NPL purposes. Accordingly, certain customers previously classified as PL have now been reassigned to stage 3.
- **Debt counselling:** Debt counselling and forbearance accounts, which are up to date or in early arrears (that is, less than 90 days past due), were not previously classified as defaulted from an accounting perspective. These were, however, flagged as defaulted from a regulatory perspective. Alignment between the accounting and regulatory definition of default has triggered the reclassification of a number of accounts from PL into stage 3.
- **Retail cure period of 12 months:** The Group has historically elected to apply a stringent regulatory cure period of 12 months to defaulted assets (regardless of the trigger of the default). No cure period was, however, previously applied to NPLs from an accounting perspective. Alignment between the regulatory and accounting definition of default has resulted in a greater population of customers being included within stage 3, since the Group has not as yet observed 12 months of consecutive performance.

Reporting changes

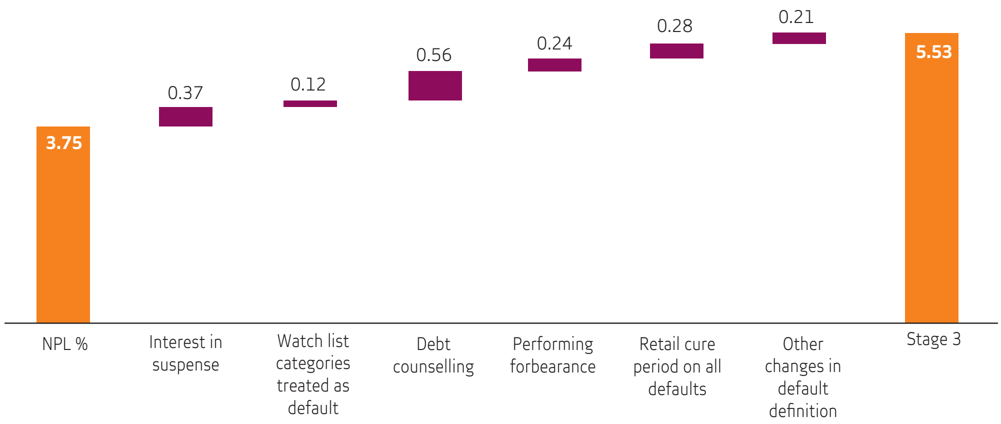
for the reporting period ended 31 December

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

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

5.4 Reconciliation of non-performing loans (NPL) under IAS 39 and stage 3 assets under IFRS 9 (continued)

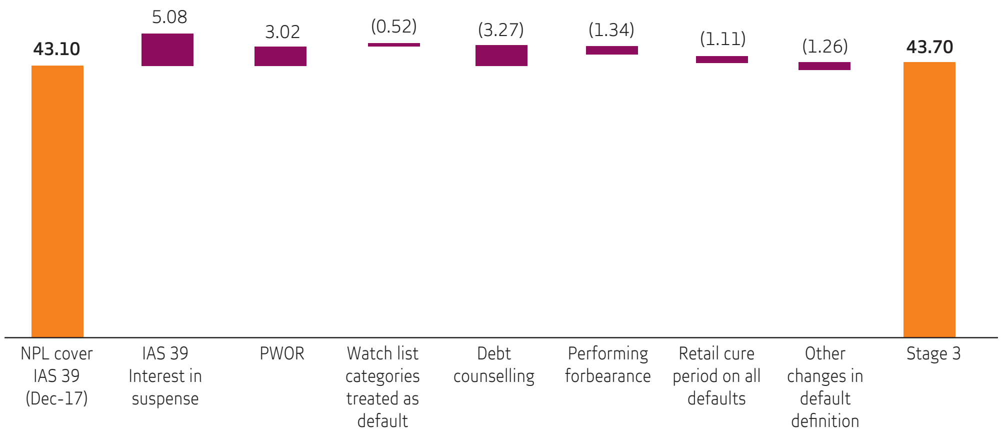
The following graph highlights the difference between IAS 39 NPL ratio and IFRS 9 stage 3 ratio on loans and advances to customers and banks:



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

	NPL cover IAS 39 (Dec 17)	IAS 39 Interest in suspense	PWOR	Watch list categories treated as default	Debt counselling	Performing forbearance	Retail cure period on all defaults	Other changes in default definition	IFRS 9 Stage 3
Exposure (Rm)	30 890	3 025	—	887	4 663	2 025	2 360	1 885	45 735
Impairment allowance/ECL (Rm)	13 314	3 025	1 378	247	931	343	527	219	19 984
Coverage ratio (%)	43.10	5.08	3.02	(0.52)	(3.27)	(1.34)	(1.11)	(1.26)	43.70

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



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

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

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

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

1 January 2018

	Financial assets measurement at FVTPL	Stage 1			Stage 2		
	Gross carrying value Rm	Gross carrying value[1] Rm	Allowance for ECL Rm	ECL coverage %	Gross carrying value Rm	Allowance for ECL Rm	ECL coverage %
RBB South Africa	—	390 374	3 029	0.78	34 888	3 427	9.82
Retail Banking South Africa	—	336 635	2 379	0.71	27 980	3 084	11.02
Credit cards	—	29 329	816	2.78	4 392	1 431	32.59
Instalment credit agreements	—	67 498	686	1.02	5 217	629	12.06
Loans to associates and joint ventures	—	23 037	2	0.01	—	—	—
Mortgages	—	193 979	308	0.16	14 461	257	1.78
Other loans and advances	—	2 453	8	0.33	345	18	5.22
Overdrafts	—	4 360	58	1.34	1 024	160	15.63
Personal and term loans	—	15 979	501	3.14	2 541	589	23.18
Business Banking South Africa	—	53 739	650	1.21	6 908	343	4.97
CIB South Africa	26 899	156 286	482	0.31	35 232	384	1.09
Absa Regional Operations	—	65 662	1 090	1.66	10 732	798	7.44
WIMI	—	4 658	27	0.58	229	6	2.62
Head Office, Treasury and other operations in South Africa	—	187	(188)	—	769	(172)	—
Loans and advances	—	187	8	4.29	769	11	1.43
Reclassification to provisions	—	—	(196)	—	—	(183)	—
Loans and advances to customers	26 899	617 167	4 440	0.72	81 850	4 443	5.43
Loans and advances to banks	17 198	36 163	40	0.11	2 065	27	1.31
Total loans and advances	44 097	653 330	4 480	0.69	83 915	4 470	5.33

[1] Included in stage 1 gross carrying amount on loans and advances to customers and banks is **R43 989m** relating to financial instruments measured at fair value through profit or loss. The fair value measurements for these instruments includes adjustments in respect of their credit quality.

Stage 3 Gross carrying value Rm	Stage 3 Allowance for ECL Rm	Stage 3 ECL coverage %	Net total exposure Rm
37 612	15 279	40.62	441 140
31 942	12 631	39.54	378 463
5 918	4 204	71.04	33 188
4 167	1 599	38.38	73 968
—	—	—	23 035
18 213	4 489	24.65	221 599
11	8	72.73	2 775
416	280	67.31	5 302
3 217	2 051	67.76	18 596
5 670	2 647	46.68	62 677
2 143	955	44.56	218 739
5 650	3 567	63.13	76 589
330	233	70.61	4 951
—	(47)	—	1 363
—	—	—	937
—	(47)	—	426
45 735	19 986	43.70	742 782
—	—	—	55 359
45 735	19 986	43.70	798 141

Reporting changes

for the reporting period ended 31 December

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

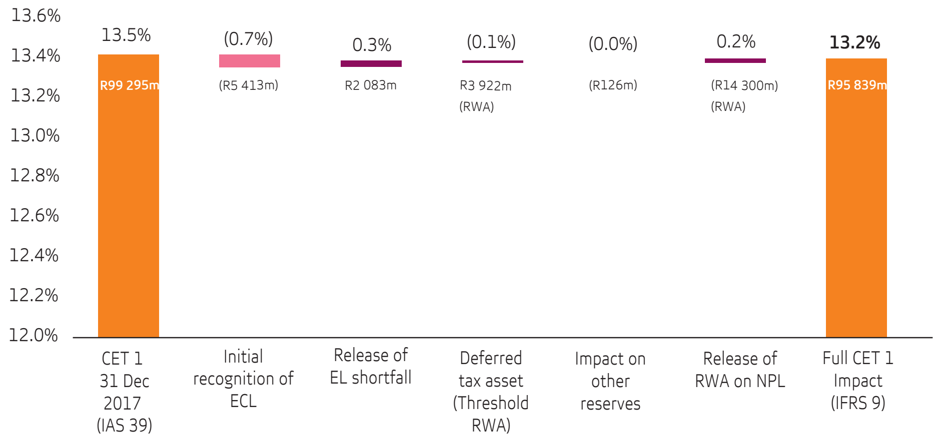
6. The impact of IFRS 9 on regulatory capital

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

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

								1 January 2018	
IFRS (including unappropriated profits)	31 December 2017 IAS 39	Initial recognition of ECL	Release of EL shortfall	Deferred tax (RWA)	Impact on other reserves	Release of RWA on NPLs	Eligible general provisions (Tier 2)	Fully loaded capital position	Transitional capital position
	Note	6.1.1	6.1.2	6.1.3	6.1.4	6.1.5	6.1.6		
Capital supply (Rm)									
Common Equity Tier 1	99 295	(5 413)	2 083		(126)			**95 839**	**98 431**
Tier 1 capital	103 659	(5 413)	2 083		(126)			**100 203**	**102 795**
Total capital	118 916	(5 413)	2 083		(126)		1 795	**117 255**	**118 498**
Risk-weighted assets	736 892			3 922		(14 300)		**726 514**	**734 718**
Capital ratios (%)[1]									
Common Equity Tier 1	13.5	(0.7)	0.3	(0.1)	(0.0)	0.2		**13.2**	**13.4**
Tier 1	14.1	(0.7)	0.3	(0.1)	(0.0)	0.2		**13.8**	**14.0**
Total capital	16.1	(0.7)	0.3	(0.1)	(0.0)	0.2	0.3	**16.1**	**16.1**
Leverage									
Leverage exposure	1 312 889	(7 804)	2 083	1 902	(220)			**1 308 850**	**1 311 880**
Leverage ratio (%)	7.9	(0.4)	0.2					**7.7**	**7.8**

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



[1] The Group's IFRS capital ratios decreased as follows as a result of the adoption of IFRS 9:
- CET 1 ratio decreased by 28 bps on a fully loaded basis and 7 bps after phase-in.
- Tier 1 ratio decreased by 27 bps on a fully loaded basis and 7 bps after phase-in.
- Total capital remained flat.

Reporting changes

for the reporting period ended 31 December

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

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

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

6.1.1 Increase in ECL provision under IFRS 9

The adoption of the revised IFRS 9 ECL model has reduced shareholders equity by **R7 804m** which is offset by the recognition of a net tax credit of **R2 063m**. The tax credit includes current and deferred tax.

6.1.2 Release of ECL shortfall to credit provisions

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

6.1.3 Recognition of a higher deferred tax asset balance

As discussed in point 6.1.1, the carrying value of the Group's deferred tax asset balance has increased, driven by an increase in the ECL provision. The reclassification of investment securities, as discussed below in 6.1.4, resulted in a reversal of a deferred tax liability. The net effect has been an increase in risk-weighted assets (RWA) of **R3 922m**, and accordingly, a decrease in the CET 1 ratio.

6.1.4 Impact on other reserves under IFRS 9

Other reserves decreased by **R126m** (net of deferred tax) primarily as a result of a reclassification from available-for-sale to amortised cost of a small portfolio of South African CPI linked investments so as to reflect the Group's business model of holding the instruments to collect contractual cash flows.

6.1.5 Release of RWA on non-performing loans

The alignment of the definition of default for both accounting and regulatory purposes resulted in a reduction of RWA of **R14 300m** due to specific provisions (stage 3) being raised for an increased population of exposures. The methodology applied in calculating default RWAs 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.

6.1.6 Tier 2 eligible provisions

Under IFRS 9, the total stage 1 and stage 2 ECL provision calculated in respect of the Group's AIRB portfolio exceeds the regulatory EL. The excess is added back to Tier 2 capital, subject to a limit of 0.6% of the AIRB credit RWA. In respect of the Group's standardised portfolio, the IFRS 9 general provision (stage 1 and stage 2) is added back to Tier 2 capital, subject to a limit of 1.25% of the standardised credit RWA. This has resulted in an increase in total capital of **R1 795m**.

6.1.7 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.

Reporting changes

for the reporting period ended 31 December

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

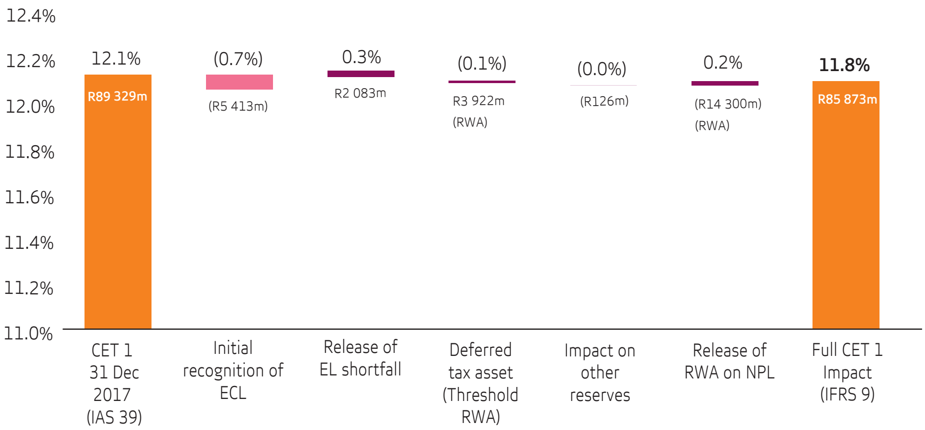
6. The impact of IFRS 9 on regulatory capital (continued)

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

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

								1 January 2018	
Normalised (including unappropriated profits)	31 December 2017 IAS 39	Initial recognition of ECL	Release of EL shortfall	Deferred tax (RWA)	Impact on other reserves	Release of RWA on NPLs	Eligible general provisions (Tier 2)	**Fully loaded capital position**	**Transitional capital position**
	Note	6.1.1	6.1.2	6.1.3	6.1.4	6.1.5	6.1.6		
Capital supply (Rm)									
Common Equity Tier 1	89 329	(5 413)	2 083		(126)			**85 873**	**88 465**
Tier 1 capital	93 958	(5 413)	2 083		(126)			**90 502**	**93 094**
Total capital	109 619	(5 413)	2 083		(126)		1 795	**107 958**	**109 226**
Risk-weighted assets	736 892			3 922		(14 300)		**726 514**	**734 299**
Capital ratios (%)[1]									
Common Equity Tier 1	12.1	(0.7)	0.3	(0.1)	(0.0)	0.2		**11.8**	**12.0**
Tier 1	12.8	(0.7)	0.3	(0.1)	(0.0)	0.2		**12.5**	**12.7**
Total capital	14.9	(0.7)	0.3	(0.1)	(0.0)	0.2	0.3	**14.9**	**14.9**
Leverage									
Leverage exposure	1 312 764	(7 804)	2 083	1 902	(220)	—	—	**1 308 725**	**1 311 754**
Leverage ratio (%)	7.2	(0.4)	0.1					**6.9**	**7.1**

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



[1] The Group's normalised capital ratios decreased as follows as a result of the adoption of IFRS 9:
- CET 1 ratio decreased by 30 bps on a fully loaded basis and 7 bps after phase-in.
- Tier 1 ratio decreased by 29 bps on a fully loaded basis and 7 bps after phase-in.
- Total capital remained flat.

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

7. Drivers of the impairment charge under IFRS 9

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

Differences in the timing of recognition of an impairment charge under IFRS 9 versus IAS 39 are attributed to, inter alia:
- significant increases in credit risk causing a transfer of assets to stage 2 assets;
- significant changes in forward-looking macroeconomic conditions leading to assets moving between stages; and
- the size of new business growth.

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

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

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

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

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

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

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

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

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

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

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

9.1 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 – 2020 but this is not expected to be disruptive to emerging markets.

South Africa

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

Africa Regions

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

9.2 Mild upside scenario: Stronger near-term growth (S1)

Global

The global economy grows faster than expected, and is supported by fiscal stimulus in the 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 boosts business confidence and private sector fixed investment. We assumed a strong rand compared to the base scenario that is driven by the sovereign rating being unchanged and the positive global sentiment toward emerging markets. Inflation moves lower on the back of the stronger rand and continued moderation in food price inflation. Falling inflation and diminished risk at a domestic level gives the South African Reserve Bank room to provide stimulus to the economy by cutting interest rates to support the economy. The cumulative interest rate cuts, higher commodity prices and stronger global growth boost South Africa's GDP growth.

Africa Regions

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

9.3 Mild downside scenario: Moderate recession (S3)

Global

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

South Africa

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

Africa Regions

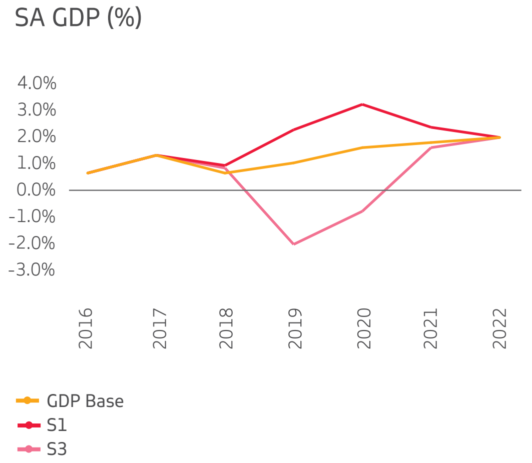
In Sub-Saharan Africa some economies go into recession on the back of lower global growth and commodity prices. Fiscal positions deteriorate further and political risks increase in some markets. Capital outflows and falling exports drive currencies weaker, pushing inflation higher. Central banks intervene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

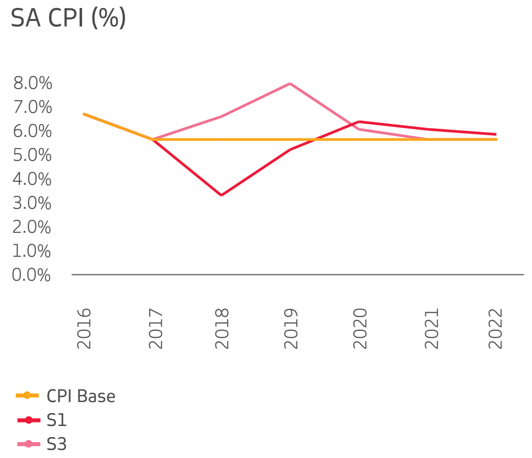
B. Initial adoption of IFRS 9 Financial Instruments (continued)

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

9.4 Macroeconomic assumptions

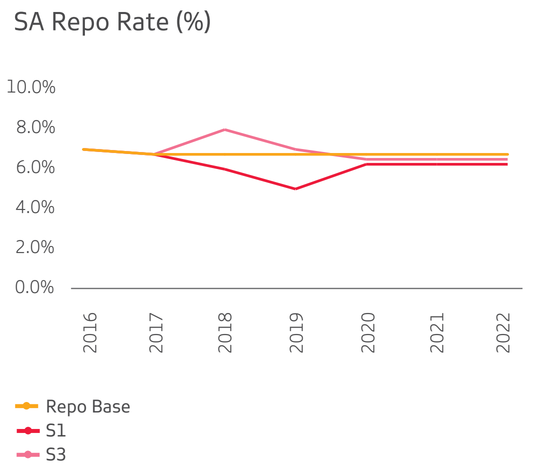
The following graphs show the key historical and forecasted assumptions for the three economic scenarios for South Africa:

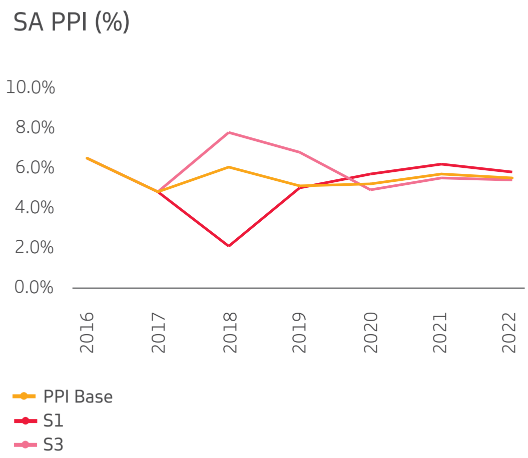




The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at FVPTL. Gains and losses on such financial liabilities are required to be presented in OCI, to the extent that they relate to changes in own credit risk. The Group early adopted this requirement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

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





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

10. The key elements of classification and measurement requirements under IFRS 9

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

- The business model within which financial assets are managed; and
- Their contractual cash flow characteristics, and specifically whether the cash flows represent Solely Payments of Principal and Interest ('SPPI').

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

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

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

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

Classification and measurement impact

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

	IAS 39				IFRS 9	
Assets	Measurement category	Carrying amount Rm	Reclassification Rm	Remeasurement Rm	Measurement category	Carrying amount Rm
Cash, cash balances and balances with central banks	Designated at FVTPL	4 808	(4 808)	—	Designated at FVTPL	—
		—	4 808	—	Mandatorily at FVTPL	4 808
	AFS – designated	952	—	—	FVOCI – debt instruments	952
	Amortised cost – designated	42 909	—	(10)	Held at amortised cost	42 899
		48 669	—	(10)		48 659
Investment securities	Designated at FVTPL	26 335	(14 972)	—	Designated at FVTPL	11 363
		—	14 972	—	Mandatorily at FVTPL	14 972
	AFS – designated	64 657	(7 593)	—	FVOCI – debt instruments	57 064
		—	752	—	FVOCI – equity instruments	752
	AFS – hedged items	20 417	—	—	FVOCI – hedged items	20 417
		—	6 646	(2)	Amortised cost – debt instruments	6 644
		111 409	(195)	(2)		111 212
Loans and advances to banks	Designated at FVTPL	17 198	(15 747)	—	Designated at FVTPL	1 451
			15 747		Mandatorily at FVTPL	15 747
	Amortised cost – designated	38 228	—	(67)	Amortised cost – debt instruments	38 161
		55 426	—	(67)		55 359
Trading portfolio assets	FVTPL – held for trading	130 132	—	—	Mandatorily at FVTPL	130 132
Hedging portfolio assets	FVTPL – hedging Instrument	2 673	—	—	FVTPL – hedging instrument	2 673
Other assets	Designated at FVTPL	4	(4)	—	Designated at FVTPL	—
		—	4	—	Mandatorily at FVTPL	4
	Amortised cost – designated	17 486	—	—	Amortised cost – designated	17 486
		17 490	—	—		17 490

Reporting changes

for the reporting period ended 31 December

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

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

Classification and measurement impact (continued)

	IAS 39				IFRS 9	
Assets	Measurement category	Carrying amount Rm	Reclassification Rm	Remeasurement Rm	Measurement category	Carrying amount Rm
Loans and advances to customers	Designated at FVTPL	**26 811**	(19 378)	—	Designated at FVTPL	**7 433**
			19 358	—	Mandatory at FVTPL	**19 466**
	Amortised cost – designated	**722 915**	—	(6 970)	Amortised cost – designated	**715 837**
	Amortised cost – hedged items	**46**	—	—	Amortised cost – hedged items	**46**
		749 772	(20)	(6 970)		**742 782**
Investments linked to investment contracts	Designated at FVTPL	**18 877**	(18 877)	—	Designated at FVTPL	—
		—	18 877	—	Mandatory at FVTPL	**18 877**
	FVTPL – held for trading	**59**	—	—	FVTPL – held for trading	**59**
		18 936	—	—		**18 936**
Non-current assets held for sale	Amortised cost – designated	**1 118**	—		Amortised cost – designated	**1 118**
Assets outside the scope of IFRS 9		**30 354**	55	1 575	Assets outside the scope of IFRS 9	**31 984**
Total assets		**1 165 979**	(160)	(5 474)		**1 160**

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

- A portfolio of consumer price index (CPI) linked investment securities within Treasury, have been reclassified from available-for-sale under IAS 39, to amortised cost in terms of the Group'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 630m**, and a fair value loss of **R151m** would have been recognised in OCI during the reporting period.
- Certain financial assets, including loans and advances in CIB and investments in WIMI, were designated at FVTPL under IAS 39 as they were managed on a fair value basis. In terms of IFRS 9, these assets are now required to be measured at FVTPL, and noted as mandatory designations.
- Certain debt securities are held by Treasury in a separate portfolio to meet everyday liquidity needs. These were classified as available-for-sale under IAS 39. Treasury seeks to minimise the cost of managing liquidity needs and therefore actively manages the return on the portfolio. The return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The business model may result in sales activity and these instruments have therefore been classified at FVOCI under IFRS 9.
- In a particular jurisdiction within the Africa Regions, a small portfolio of debt securities held by Treasury has been reclassified from available-for-sale to amortised cost as there is limited evidence of an ability to sell these securities, and the portfolio is therefore aligned to a business model with the objective of collecting contractual cash flows.
- Commodity-linked debt instruments within CIB were previously bifurcated and separately recognised as a loan at amortised cost and a derivative. These are now classified as FVTPL as their cash flows do not consist of SPPI.
- Debt securities held by insurance entities within the Africa Regions, have been reclassified from available-for-sale to amortised cost. The objective of the portfolio is to collect contractual cash flows as the securities are neither held within a portfolio whose business model is to manage the securities and evaluate their performance on a fair value basis, nor is it possible to evidence an adequate frequency and volume of sales.
- In October 2017, the IASB issued an amendment to IFRS 9 Prepayment Features with Negative Compensation. Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment clarifies how a company would classify and measure a debt instrument if the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Under the amendments, the sign of the prepayment amount is not relevant. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. This amendment is effective on 1 January 2019 and is not expected to have a significant impact on the Group.

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

11. Governance

11.1 Implementation of IFRS 9

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

11.2 Ongoing governance of IFRS 9

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

C. Adoption of IFRS 15 Revenue from Contracts with Customers (IFRS 15)

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

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D. Accounting policy amendments

D.1 The accounting treatment of policyholder liabilities under life insurance contracts

During the current reporting period, the Group amended its accounting policy with respect to the measurement of policyholder liabilities, and specifically, with regards to the calculation of discretionary margins held within policyholder reserves. This change impacts life insurance products where the present value of expected benefit payments, plus the future expected administration expenses under a life insurance contract, is lower than the expected discounted value of the contractual premiums to be received. Prior to the change, the Group's policy was to eliminate all negative liabilities. The policy has been changed to allow for discretion to be applied in full or partial elimination of negative liabilities in order to more appropriately provide for prudent reserving and release of profits. This policy change will address scenarios where a loss is recognised in a reporting period solely as a consequence of incurring initial acquisition costs despite the contract being expected to be profitable over its duration. In accordance with the revised policy, negative liabilities will still be eliminated, to avoid the premature recognition of profits. However, such elimination is only applied to the excess remaining after adjusting for the product's initial acquisition costs. The change in accounting policy has been applied retrospectively to the extent practicable, and comparatives restated accordingly.

The effects of the retrospective application are not determinable prior to 2014 and the change in accounting policy has been applied from the start of the 2014 financial year.

The impact of this change on the Group's condensed statement of financial position as at 31 December 2017 is set out in the following table:

	As previously reported 31 December 2017 Rm	Restated	
		Change in accounting policy Rm	31 December 2017 Rm
Assets			
Total assets	1 165 979	—	1 165 979
Liabilities			
Policyholder liabilities under insurance contracts	4 617	(275)	4 342
Deferred tax liabilities	557	77	634
Other liabilities	1 041 745	—	1 041 745
Liabilities	1 046 919	(198)	1 046 721
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	1 666	—	1 666
Share premium	10 498	—	10 498
Retained earnings	91 882	198	92 080
Other reserves	4 370	—	4 370
Ordinary equity holders	108 416	198	108 614
Non-controlling interest – ordinary shares	4 500	—	4 500
Non-controlling interest – preference shares	4 644	—	4 644
Non-controlling interest – Additional Tier 1 capital	1 500	—	1 500
Total equity	119 060	198	119 258
Total liabilities and equity	1 165 979	—	1 165 979

Reporting changes

for the reporting period ended 31 December

D. Accounting policy amendments (continued)

D.1 The accounting treatment of policyholder liabilities under life insurance contracts (continued)

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

	As previously reported 31 December 2016 Rm	Restated Change in accounting policy Rm	31 December 2016 Rm
Assets			
Total assets	1 101 023	—	1 101 023
Liabilities			
Policyholder under liabilities insurance contracts	4 469	(186)	4 283
Deferred tax liabilities	1 185	52	1 237
Other liabilities	993 089	—	993 089
Liabilities	998 743	(134)	998 609
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	1 693	—	1 693
Share premium	4 467	—	4 467
Retained earnings	81 604	134	81 738
Other reserves	5 293	—	5 293
Ordinary equity holders	93 057	134	93 191
Non-controlling interest – ordinary shares	4 579	—	4 579
Non-controlling interest – Additional Tier 1 capital	4 644	—	4 644
Total equity	102 280	134	102 414
Total liabilities and equity	1 101 023	—	1 101 023

The impact of the change on the Group's condensed statement of comprehensive income for the reporting period ended 31 December 2017 is disclosed in the following table:

	As previously reported 31 December 2017 Rm	Restated Change in accounting policy Rm	31 December 2017 Rm
Net interest income	42 644	—	42 644
Non-interest income	30 661	90	30 751
Changes in investment and insurance contract liabilities	(2 113)	90	(2 023)
Other non-interest income	32 774	—	32 774
Operating income before operating expenses	73 305	90	73 395
Operating expenses	(52 596)	—	(52 596)
Share of post-tax results of associates and joint ventures	170	—	170
Operating profit before income tax	20 879	90	20 969
Taxation expense	(5 857)	(25)	(5 882)
Profit for the reporting period	15 022	65	15 087
Ordinary equity holders	13 823	65	13 888
Non-controlling interest	1 199	—	1 199
	15 022	65	15 087

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D. Accounting policy amendments (continued)

D.1 The accounting treatment of policyholder liabilities under life insurance contracts (continued)

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

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

D.2 The presentation of net interest income

As a consequence of IFRS 9, an amendment was made to IAS 1 Presentation of Financial Statements, which is effective from 1 January 2018. The amendment requires interest revenue, which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. This only includes interest earned on financial assets measured at amortised cost or at FVOCI, subject to the effects of applying hedge accounting to derivatives in designated hedge relationships. In compliance with this amendment the Group has separately presented its effective interest income within profit or loss, but elect to present all interest which fall outside the afore-mentioned scope as a sub-component of 'Interest and similar income'. The Group has elected to apply the same approach in presenting 'Interest expense and similar charges' to achieve consistency in the presentation of 'Net interest income'. The revised presentation has been applied on a retrospective basis, to ensure comparability between reporting periods.

E. Correction of prior period error

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

F. Changes to reportable segments and business portfolios

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

- The Group refined its treasury allocation methodology, resulting in the restatement of net interest income, gains and losses from banking and trading activities, cash and cash equivalents and investment securities between and within segments.
- The Group continued refining its cost allocation methodology, resulting in the restatement of operating expenses between and within segments.
- 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 (SA) and CIB (SA) in aggregate) has been removed in the Group's segmental disclosures to align with how the banking operations are now managed.

Risk management

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Risk management overview

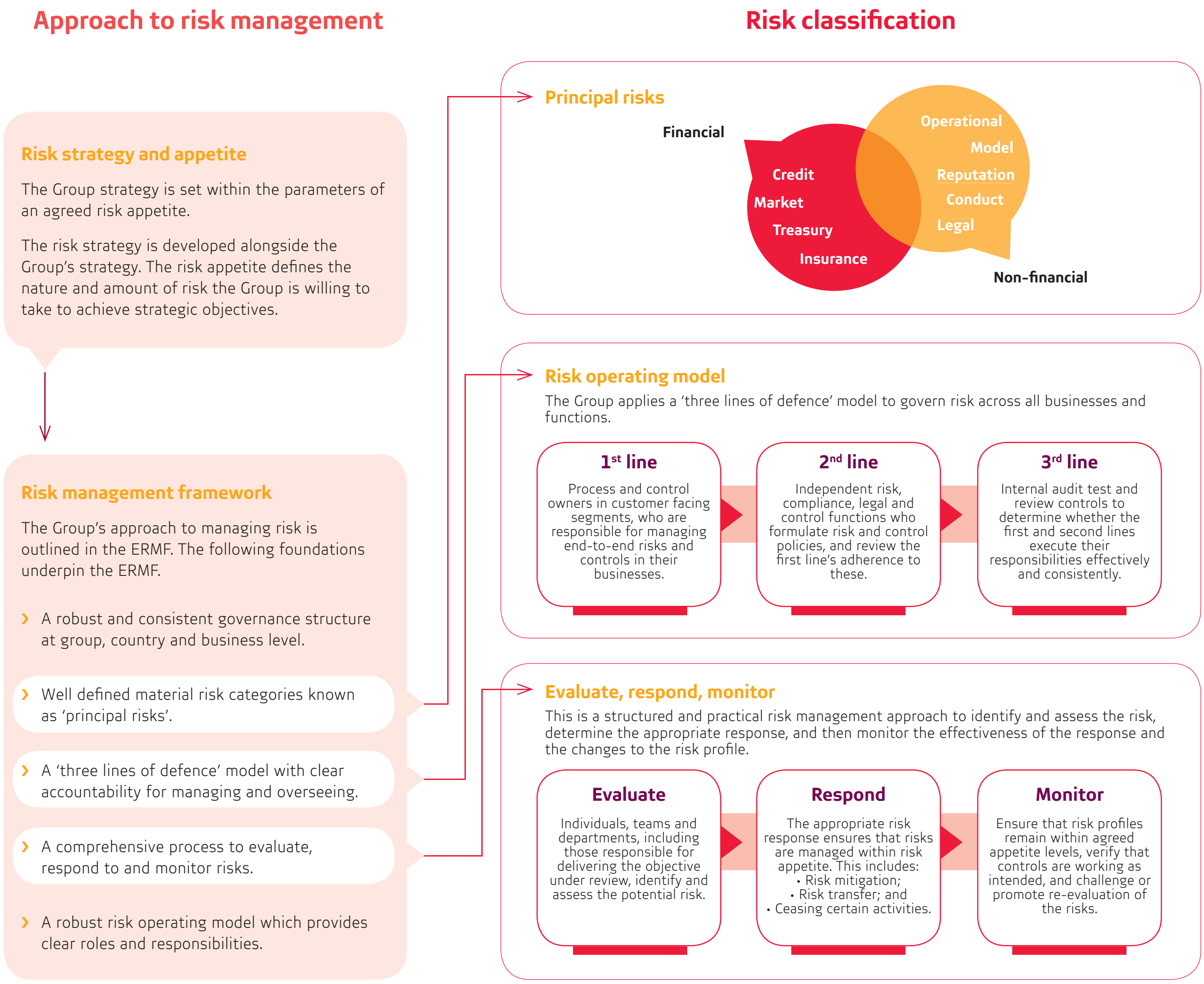
for the reporting period ended 31 December

Enterprise Risk Management Framework

The Group maintains an active approach towards managing both current and emerging risks through the continued operating effectiveness of its Board approved Enterprise Risk Management Framework (ERMF). This approach is underpinned by:

- A robust and aligned governance structure at group, country and business level.
- Well defined material risk categories known as principal risks.
- A 'three lines of defence' model, with clear accountability for managing, overseeing and independently assuring risks.
- Comprehensive processes to evaluate, respond to, and monitor risks.
- A sound architecture that sets out the appropriate risk practices, tools, techniques and organisational arrangements.

Below is a depiction of the ERMF design.



Risk management overview

for the reporting period ended 31 December

Current and emerging risks

The Group identifies and assesses both external and internal risks, determines the appropriate response, and monitors the effectiveness of the implemented response. The following table outlines the existing and potential risks to the Group's strategic ambitions, and reflects its response to these risks.

Current and emerging risks	Responses
Strategic, execution and business risks arising from external and internal drivers	
› Global uncertainty arising from international trade discussions and Brexit result in increased pressure on emerging markets. › Disruption through Fintechs and new digitally-led competitor banks impacting customer relevance. › Ongoing separation from Barclays PLC combined with strategic organisational change increases business risk, reputational risk (specifically brand risk) and people risk.	› Monitor and manage risk strategy and appetite based on the ongoing evaluation of the global and African developments to identify and mitigate risks as they arise, while enabling business to pursue opportunities. › Build and embed a winning brand with a focus on innovative business processes and products including diversification into new markets and customer segments. › Deliver scalable digital solutions that focus on core customer needs. › Closely monitor and actively manage risks arising from the separation and organisational change.
Economies in the Group's presence countries continue to exhibit subdued growth amid global and domestic uncertainties	
› Subdued economic growth, high unemployment, increased inequality and low business and consumer confidence impacting South African markets. › Unfavourable macroeconomic performance with increasing debt burdens, rate hikes and revenue shortfalls seen in presence countries. › Increasing cost and scarcity of capital, funding and liquidity across global markets. › Policy uncertainty in South Africa is a barrier to investment. Key risks include the mining charter, potential land expropriation, state owned entity uncertainty and economic disparities. › Political risk arising from elections and policy uncertainty has affected the economies in a number of presence countries resulting in social unrest.	› Monitor leading indicators to ensure economic risks are effectively managed including: ○ hedging of interest rate risk and foreign exchange risks as appropriate, ○ proactively managing credit portfolio risks, ○ strengthening the Group's position in the presence countries that are growth markets while seeking opportunities to diversify into new markets. › Analyse specific scenarios to assess the impact of a South African sovereign downgrade. › Engage with communities and support initiatives as part of the Group's commitment to shared growth. › Participate in industry advocacy groups to provide thought leadership to develop new and innovative ways to solve social challenges.
Technology and the pace of change impact competitiveness and operational risk	
› Ever increasing sophistication of cybercrime, fraud risk and financial crime requires continuous improvement of monitoring and prevention to protect customers and the Group. › Threat detection and prevention of security breaches, disruptions and data mismanagement to protect customers.	› Artificial intelligence solutions development using global data to strengthen security measures and crime prevention. › Continue investment in technology platforms, processes and controls to maintain and develop IT systems through monitoring, enhancements and prioritisation of key issues.

Risk management overview

for the reporting period ended 31 December

Current and emerging risks (continued)

Current and emerging risks	Responses
New and emerging regulations and oversight	
› Increasing pace and evolving complexity of regulatory and statutory requirements across the Group's markets (e.g. National Credit Amendment Bill, Financial Sector Laws Amendment Bill, Financial Intelligence Centre Amendment Act, Financial Matters Amendment Bill, Conduct of Financial Institutions Act) requires ongoing coordinated approaches to address.	› Maintain a coordinated, comprehensive and forward looking approach to evaluate, respond to and monitor regulatory change, through ongoing improvement of the people, processes and systems across the Group. › Participate in regulatory and statutory advocacy groups across all presence countries.
Environmental risks impact on the Group's clients, organisation and operating environment	
› Adverse weather conditions resulting in extreme environmental events (e.g. drought, floods and fires) impacting community sustainability with credit and insurance risk implications. › Increased global stakeholder focus on sustainability of the investments and customers associated with corporates. › Scarcity of data available to accurately model the implications of climate change.	› Continuously assess the suitability and strategic alignment of products and customer value propositions against changing environmental factors and the impact on the Group's risk profile. › Develop and enhance preventative and reactive credit and insurance risk models.

Risk management overview

for the reporting period ended 31 December

Risk and capital performance

Key metrics

Capital adequacy ratio	
IFRS[1]	Normalised
16.1%	15.4%
2017: 16.1%	2017: 14.9%
Common equity tier 1 ratio	
IFRS[1]	Normalised
12.8%	12.0%
2017: 13.5%	2017: 12.1%
Economic capital (EC) coverage	
IFRS[1]	Normalised
1.6	1.5
2017: 1.4	2017: 1.3
Leverage ratio	
IFRS[1]	Normalised
7.4%	7.0%
2017: 7.9%	2017: 7.2%
Liquidity coverage ratio (LCR)[2]	
116.7%	
2017: 107.5%	
Net stable funding ratio (NSFR)[3]	
110.1%	
2017: N/A	
Credit loss ratio (CLR)	
0.73%	
2017: 0.87%	
Stage 3 ratio on gross loans and advances (%)	
5.1%	
2017: 5.6%	
Stage 1 and stage 2 coverage ratio	
1.0%	
2017: 1.1%	
Stage 3 coverage ratio	
45.1%	
2017: 43.7%	
Operational risk losses	
R535m	
2017: R240m[4]	

Review of current reporting period

- The Group maintained a strong capital adequacy position with capital buffers sufficient to withstand stressed conditions.
- The liquidity position remained healthy within liquidity risk appetite.
- The Group continued to invest in infrastructure, process engineering, people and technology in order to deliver improved operational resilience.
- Overall growth in loans and advances to customers of 12.3% is a reflection of positive momentum during the year.
- Loan growth was achieved without a material change in risk appetite, which together with the prolonged period of a low interest rate environment, resulted in an improved credit loss rate.
- The year-on-year increase in Stage 3 coverage was a function of material single name impairments in the wholesale portfolio and the performance regression in Vehicle and Asset Finance (VAF).

Priorities

The Group's operating environment is expected to remain challenging and risk management will remain a priority, including:

- Ongoing alignment of risk objectives with the Group's strategy to create shared growth for clients and communities in an efficient, responsible and sustainable way.
- Tight control and management of separation and execution risks by delivering a structured programme of work supported by ongoing monitoring of risks and independent quality assurance.
- Continued improvement of control, efficiency and operational resilience across critical processes including collections, cybersecurity and fraud, data management, disaster recovery and financial crime.
- Strengthened the employee value proposition to ensure the continued availability of risk professionals to enable the Group's strategy.
- Continued embedment of Risk Adjusted Performance Measurement approaches to ensure appropriate focus on achieving adequate levels of return in light of risks taken by the Group.
- Further enhancement of risk data aggregation and reporting capabilities at all levels of the organisation.
- Continued engagement with regulatory authorities and other stakeholders on upcoming regulatory changes.

[1] IFRS basis results includes the impact of the contribution amounts received as part of the Barclays PLC separation. All numbers include unappropriated profits.

[2] The Group LCR reflects an aggregation of the Absa Bank LCR and the LCR of the Absa Regional Operations. For this purpose, a simple average of the relevant three month-end data points is used in respect of the Absa Regional Operations. In respect of Absa Bank, the December 2017 LCR was determined using a simple average of the relevant three month-end data points. As at 31 December 2018, the Absa Bank LCR is calculated as a simple average of 90 calendar-day LCR observations.

[3] The net stable funding ratio, which became effective on 1 January 2018 (minimum regulatory requirement of 100%), was reported publicly with effect from 30 June 2018, therefore no comparatives are disclosed.

[4] The operational risk losses for 2017 was offset by a significant recovery on a payment related loss incurred in 2015.

Risk management overview

for the reporting period ended 31 December

Credit risk

The risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.

Key risk metrics[1]	2018	2017
Growth in gross loans and advances to customers (%)	**12.3**	3.9
Credit loss ratio (CLR) (%)	**0.73**	0.87
Stage 3 ratio on gross loans and advances (%)[2]	**5.1**	5.6
Stage 3 coverage ratio (%)[2]	**45.1**	43.7
Stage 1 and stage 2 coverage ratio (%)[2]	**1.0**	1.1
Total coverage ratio (%)	**3.3**	2.3
Weighted average probability of default (PD) (%)[3]	**2.3**	2.3
Weighted average loss-given-default (LGD) (%)[3]	**30.6**	30.6
Total credit risk-weighted assets (RWA) (Rbn)	**605.0**	566.0
Credit RWA excluding counterparty credit risk (CCR) (Rbn)	**583.3**	527.9
CCR RWA[4] (Rbn)	**21.7**	38.1
Credit RWA as a percentage of EAD (%)	**42.2**	45.3

Review of current reporting period

- Overall growth of gross loans and advances to customers of **12.3%** was a reflection of positive momentum in the Group's core markets supported primarily by strong growth in South Africa as production improved and market share stabilised.
- IFRS 9 adoption was effective from 1 January 2018. Refer to the reporting changes section on pages 148 to 178.
- **Stage 3 ratio on gross loans and advances:** NPLs improved largely due to portfolio growth and lower defaults, offset by VAF performance related issues. Delinquencies in Absa Regional Operations were also down overall, benefiting from an investment in collection capabilities and proactive policy changes.
- **Stage 3 coverage:** The year-on-year increase in coverage reflects material single name impairments in the wholesale portfolio and impairments of the VAF portfolio.
- **Credit loss ratio:** Loan growth was achieved without a material change in risk appetite, which together with the prolonged period of a low interest rate environment, resulted in an improved credit loss rate of **73 bps** (2017: 87 bps). Key contributors to portfolio performance were Home Loans, the Store Card book and lower defaults in the Absa Regional Operations. This was offset by a higher VAF charge and large single name impairments in Corporate and Investment Banking.
- **Credit risk consumption of risk-weighted assets:** The increase in credit risk RWA of R55.4bn is due to exposure growth and model updates in the South African portfolios, as well as weakening of the rand against foreign currencies and balance sheet growth in the Absa Regional Operations.
- **Counterparty credit risk consumption of risk weighted assets:** The decrease of R16.4bn is due to a refined maturity calculation methodology in addition to market volatility.

Priorities

- Closely monitor changes in the macro-economic, political and regulatory environment to identify and manage risks at an early stage, with a focus on potential tail risk events.
- Maintain a credit portfolio that is diversified in terms of key concentration dimensions such as individual counterparties, geographies, industries, products and collateral, and ensure that concentration levels are in line with the Group's strategy and risk appetite.
- Maintain and further develop a team of qualified credit professionals.
- Retain focus on regulatory changes, including a proposed rollout of a Standardised Counterparty Credit Risk Capital Approach, new regulatory large exposure rules and Basel III (Finalising post crisis reforms in terms of the BCBS Standard) capital rules for credit risk.

[1] Unless otherwise indicated, the numbers reported are on an IFRS basis of reporting.
[2] Current year figures have been prepared in accordance with IFRS 9 reporting standards. December 2017 numbers are rebased to reflect the impact of IFRS 9.
[3] The percentages include only portfolios subject to the internal ratings-based (IRB) approaches.
[4] CCR RWA includes credit valuation adjustment (CVA).

Risk management overview

for the reporting period ended 31 December

Market risk

Market risk is the risk of loss to the Group arising from potential adverse changes in the value of the firm's assets and liabilities held in the trading book from fluctuations in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities or asset correlations.[1]

Key risk metrics[2]	2018	2017
Average traded market risk – 95% daily value at risk (DVaR) (Rm)	**28.3**	26.5
Traded market risk RWA (Rbn)	**37.0**	24.8

Review of current reporting period

- The increase in average DVaR was principally due to a combination of increased volatility feeding into the time series and higher levels of inventory held to facilitate client trades primarily in the offshore interest rate and equity franchise.
- The increase of R12.2bn in RWA was primarily as a result of increased inventory held in support of the Absa Regional Operations growth strategy resulting in higher Standardised Approach RWAs, as well as increased market volatility.

Priorities

- Continue to manage traded market risk within risk appetite under volatile and event driven conditions.
- Implement the operating model and infrastructure to support the requirements of the Fundamental Review of the Trading Book standard (FRTB).

Treasury risk

Comprises liquidity risk, capital risk and interest rate risk in the banking book.

Liquidity risk

The risk that the Group is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Key risk metrics[2]	2018	2017
Sources of liquidity (Rbn)	**217.7**	213.0
Net stable funding ratio (NSFR) (%)[3]	**110.1**	n/a
Liquidity coverage ratio (LCR) (%)[4]	**116.7**	107.5
Loan-to-deposit ratio (%)	**93.8**	90.6
Loans and advances to customers	**841.7**	749.8
South Africa	**744.5**	671.9
Absa Regional Operations	**97.2**	77.9
Deposits from customers and debt securities	**897.3**	827.8
South Africa	**762.3**	718.8
Absa Regional Operations	**135.0**	109.0

1 Refer to the interest rate risk in the banking book section 7.3 under treasury risk for non-traded market risk.

2 Unless otherwise indicated, the numbers reported are on an IFRS basis of reporting.

3 NSFR which became effective on 1 January 2018 (minimum regulatory requirement of 100%) was reported publicly with effect from 30 June 2018, therefore no comparatives are disclosed.

4 The Group LCR reflects an aggregation of the Absa Bank LCR and the LCR of the Absa Regional Operations. For this purpose, a simple average of the relevant three month-end data points is used in respect of the Absa Regional Operations. In respect of Absa Bank, the December 2017 LCR was determined using a simple average of the relevant three month-end data points. As at 31 December 2018, the Absa Bank LCR was calculated as a simple average of 90 calendar-day LCR observations.

Risk management overview

for the reporting period ended 31 December

Treasury (Liquidity) *(continued)*

Review of current reporting period

- **Liquidity risk position:** The liquidity position of the Group remained strong, in line with risk appetite, and above the minimum regulatory requirements, with sources of liquidity of **R217.7bn** (2017: R213.0bn), amounting to 29.6% (2017: 30.9%) of deposits due to customers, demonstrating the strength of the Group's liquidity resources.
- Each geographic entity is required to be self-sufficient from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local liquidity risk appetite (LRA), regulatory limits and reporting requirements.
- **Long-term balance sheet structure:**
  - The NSFR became effective 1 January 2018. Both the Group and Absa Bank were above the regulatory minimum requirement of 100% during the reporting period.
  - Long-term funding is raised with appropriate tenor to support the growth in long-term assets, through a combination of funding instruments and capital market issuances.
- **Short-term balance sheet structure and liquidity buffers**
  - The Group targets an LCR above the minimum regulatory requirement, and consistently maintained a buffer in excess of the regulatory minimum requirement of 90% during 2018. The Group's average high quality liquid assets (HQLA) of R190bn include a committed liquidity facility (CLF) from the South African Reserve Bank (SARB).
  - The Group has an internal LRA framework, which is used to determine the amount of HQLA the Group is required to hold in order to meet internally defined stress requirements.
- **Diversification:** The Group has a well-diversified deposit base and concentration risk is managed within appropriate guidelines. Sources of funding are managed in order to maintain a wide diversity of depositor, product, tenor and currency.

Priorities

- Manage the funding and HQLA position in line with the Board-approved LRA framework and ensure compliance with the regulatory requirements.
- Build and maintain adequate liquidity buffers to ensure the Group continues to remain compliant with the LCR while managing the phase-out of the committed liquidity facility.
- Continue to grow and diversify the funding base to support asset growth and other strategic initiatives while optimising funding cost and complying with the NSFR.
- Continue to focus on the growth of core Retail, Business Bank, Corporate and Public Sector deposits.
- Continue to work with regulatory authorities and other stakeholders on resolution planning and the introduction of a Deposit Insurance Scheme in South Africa.

Risk management overview

for the reporting period ended 31 December

Treasury (Capital) *(continued)*

Capital risk

The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

Key risk metrics[1]	2018	2017
Total RWA (Rbn)	**818.6**	736.9
CET 1 capital adequacy ratio (%)[2, 3]	**12.0**	12.1
Return on average RWA (RoRWA)[3] (%)	**2.1**	2.2
EC coverage[3]	**1.5**	1.3
Return on average EC[3] (%)	**19.2**	18.4
Return on equity (RoE)[3] (%)	**16.8**	16.5
Cost of equity (CoE)[4] (%)	**14.00**	13.75

Review of current reporting period

- The Group's capital position was above minimum regulatory requirements as at 31 December 2018, with capital buffers sufficient to withstand stressed conditions.
- The CET1 ratio decreased marginally year-on-year due to RWA growth.
- A final dividend of 620 cents per share was declared, representing an increase of 3.7% on the full year dividend.
- The Group issued R1.2bn new style Basel III Additional Tier 1 capital instruments, which qualify as regulatory capital at an Absa Group and Absa Bank level.
- The Group issued USD400m of Basel III compliant Tier 2 capital in the international capital markets in its inaugural issuance of this nature as well as R1.5bn of Basel III compliant Tier 2 capital in the local markets, strengthening the capital position of the Group.
- RWAs increased by 11.1% year-on-year due to an increase in exposure growth, in line with balance sheet growth in the South African portfolios. Absa Regional Operations contributed to the increase due to the weakening of the Rand against the Absa Regional Operations currencies and balance sheet growth.

Priorities

- Maintain an optimal mix of high quality capital while continuing to generate sufficient capital to support profitable growth and a sustainable dividend.
- Continue to manage the capital position of the Group and its subsidiaries, throughout the period of the separation from Barclays PLC.
- Continuously monitor and assess regulatory developments that may affect the capital position, such as the standard entitled 'Basel III: Finalising post-crisis reforms' published by the Basel Committee on Banking Supervision in December 2017; and the proposed amendments to the Regulations relating to Banks.
- Contribute at an industry level to the development of a financial conglomerate supervisory framework in South Africa, which outlines the requirements for the establishment of a resolution framework in South Africa.

[1] Unless otherwise indicated, the numbers reported are on an IFRS basis of reporting.
[2] Includes unappropriated profits.
[3] Reported on a normalised basis.
[4] The CoE is based on the capital asset pricing model. The increase in December 2018 was driven by higher inflation forecasts in a number of countries.

Risk management overview

for the reporting period ended 31 December

Treasury (IRRBB) *(continued)*

Interest rate risk in the banking book (IRRBB)

The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

Key risk metrics[1]	2018	2017
Banking book net interest income (NII) sensitivity for a 2% downward shock in interest rates (Rm)	**(2 755)**	(1 934)

Review of current reporting period

- The banking book NII sensitivity increased year-on-year, remaining within risk appetite. The increase in NII was due to balance sheet growth combined with a change in the underlying mix. The Group remained positively exposed to increases in interest rates after the impact of hedging.

Priorities

- Retain focus on regulatory changes, specifically preparing for the adoption of the BCBS standard on IRRBB.
- Continue to manage margin volatility through risk management processes, such as the structural hedge programme in South Africa, and through appropriate asset and liability management processes in Absa Regional Operations.

Operational risk

The risk of loss to the Group as a result of inadequate or failed processes or systems, human factors or due to external events.

Key risk metrics[1]	2018	2017
Total losses as a percentage of gross income (%)	**0.7**	0.3
Total operational risk losses (Rm)	**535**	240
Operational RWA (Rbn)	**112.7**	105.7

Review of current reporting period

- **Total operational risk losses** increased by R295m (122%) to **R535m** mainly due to increased litigation reserves for historic cases recently concluded. Plastic and digital fraud losses remain as the major contributor to operational risk losses.
- **Operational risk RWA** increased by R7.0bn or 6,6% from increased operating income translating to an increased capital requirement under the standardised approach (TSA) in the Absa Regional Operations, and the application of the TSA floor in the advanced measurement approach (AMA) entities.
- **Key achievements** in the period include improvements in the:
  - Resilience capability, which includes migration to a new data centre.
  - Technology disaster recovery capability.
  - Cybersecurity through execution of the converged security strategy.
  - Infrastructure, capability and control processes over key datasets, in line with the Group's data standards.
  - Privacy controls, including requirements of the draft Protection of Personal Information Act (PoPIA).
  - Toolset used in the management of operational risk with the rollout of a new platform.

Priorities

- **Continue to focus on the Group's:**
  - Cyber strategy, specifically implementing core security infrastructure.
  - Rollout of the infrastructure, capability and control processes over key datasets, in line with the Group's data standards.
  - Privacy controls, including requirements of the draft PoPIA.
  - Change book-of-work to ensure that business as usual, separation and strategic and organisational transition initiatives continue to be delivered in a safe and controlled manner.
  - Strengthening of fraud capabilities, in particular over digital channels.
  - Further enhancements to the toolset and processes used in the management of operational risk.

[1] Unless otherwise indicated, the numbers reported are on an IFRS basis of reporting.

Risk management overview

for the reporting period ended 31 December

Insurance risk

The risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and product pricing.

Review of current reporting period

- Solvency Assessment Management (SAM) came into effect on 1 July 2018. Quantitative risk appetite and capital target levels were aligned to SAM capital as part of the planning process.
- Model Risk Governance for insurance entities was embedded and a Model Governance Control Forum is held quarterly.
- The Own Risk and Solvency Assessment (ORSA) is embedded into management's decision making.
- Improvements continued to be made in stress and scenario testing.
- The International Financial Reporting Standards (IFRS) 17[1] project was progressed with design choices being assessed.

Priorities

- Continue improvements to the methodology and processes for capital management, stress and scenario testing and risk appetite setting, including qualitative insurance risk appetite statements.
- Update Insurance frameworks and policies to better align with Governance and Operational Standards for Insurance Groups requirements, including board engagement and approvals as required by regulation.
- Continue delivery on the IFRS 17 program.

Model risk

The risk of potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.

Review of current reporting period

- Model development initiatives, completed in 2017, were implemented in early 2018, namely new IFRS 9 credit impairment models and three regulatory models.
- Significant progress made in the design and implementation of the strategic model implementation platform and migration to this platform has been initiated.

Priorities

- Continue to focus on the enhancement of the current model suites that support the Group risk appetite assessment.
- Complete migration of existing models to the new platform by 2020.

Conduct risk

The risk of detriment to customers, clients, market integrity, and effective competition from the inappropriate supply of financial services, including instances of wilful/negligent misconduct and the failure to meet regulatory requirements.

Review of current reporting period

- Thematic inherent risks were identified through the application of the Conduct Risk Framework, relating to:
  - The execution of separation activities from Barclays PLC where there are material dependencies on PLC that may impact customers.
  - Ongoing management of customer data, retention and retrieval to ensure security and protection.
  - Impact of IT stability and functionality, cybercrime and fraud on customers.
  - Oversight of third party activities (suppliers and intermediaries) that impact our ability to service customers.

Priorities

- Complete separation from Barclays PLC.
- Continue to focus on cultural change across the Group in line with the strategy as a key driver of conduct.
- Assess and implement market conduct related regulation.
- Increase use of data analytics to enhance risk management relating to treating customers fairly and market integrity.
- Implement the risk based approach for Financial Crime management in line with the amended Financial Intelligence Centre Act of 2017.

[1] New profit reporting standard for insurance contracts replacing IFRS 4.

Risk management overview

for the reporting period ended 31 December

Reputation risk

Reputation risk is the risk of damage to the Absa brand arising from any association, action, transaction, investment or event which is, or is perceived by stakeholders (eg customers, clients, colleagues, shareholders, regulators, opinion formers) to be inappropriate or unethical.

Review of current reporting period

- The top reputation issues managed during the period were:
  - Execution of the Barclays PLC divestment and Absa rebranding in South Africa. A refreshed Absa brand was successfully launched in July 2018 with no negative impact on the Group's reputation.
  - The increase of cybercrime and fraud which is an industry issue in South Africa where fraudsters are becoming increasingly sophisticated in targeting banking customers.
  - The outcomes of the state capture inquiry and implications for banking relationships.
  - The impact on banks as a result of the proposed land reform amendments in South Africa.

Priorities

- Effectively embed the reputation risk framework to inform key decision making processes.
- Focus on organisational culture in line with strategy to ensure that employee conduct is aligned to organisational values.
- Implement the rebranding across Absa Regional Operations businesses.
- Embed the Group's new operating model with a view to restore market leadership in core business areas.
- Fulfil the Group's regulatory commitments.

Legal risk

The risk of loss or imposition of penalties, damages or fines from the failure of the Group to meet its legal obligations including regulatory or contractual requirements.

Review of current reporting period

- Participated in industry initiatives in relation to the new Legal Practice Act.
- Impact assessments and preparation for the implementation of new, upcoming pieces of legislation including:
  - Conduct of Financial Institutions Bill;
  - Financial Sector Laws Amendment Bill;
  - National Credit Amendment Bill; and
  - Financial Matters Amendment Bill.

Priorities

- Use innovation and stakeholder collaboration to improve the delivery of legal advice and legal risk management.
- Support supplier development through strategic initiatives undertaken with black owned and black women owned law firms.

Capital management and RWA

for the reporting period ended 31 December

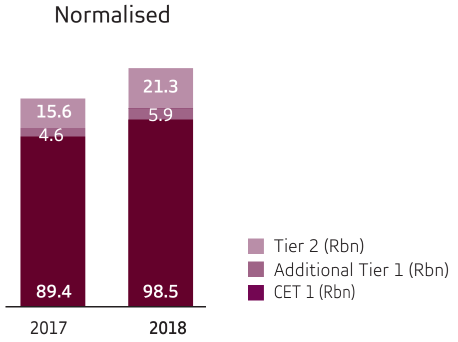
Capital management

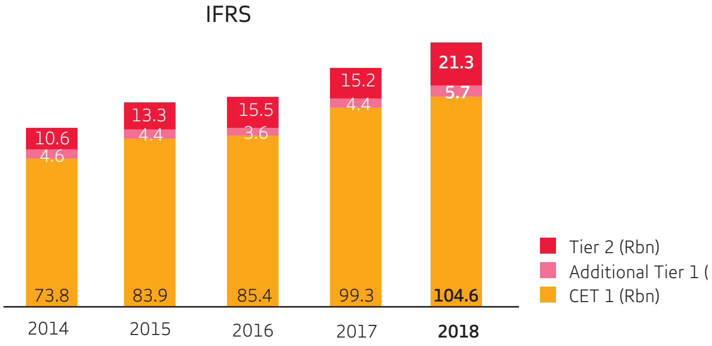
The Group's capital management strategy, which supports and aligns with the Group's strategy, is to create sustainable value for shareholders within approved risk appetite through effective balance sheet management.

Capital adequacy

Group	Board target ranges[1] %	Minimum regulatory capital requirements[2] %	Normalised Group performance 2018	Normalised Group performance 2017	IFRS Group performance 2018	IFRS Group performance 2017
Statutory capital ratios (includes unappropriated profits) (%)						
CET 1	10.00 – 11.50		**12.0**	12.1	**12.8**	13.5
Tier 1	11.75 – 13.25		**12.8**	12.8	**13.5**	14.1
Total capital adequacy requirement (CAR)	14.25 – 15.75		**15.4**	14.9	**16.1**	16.1
Regulatory capital ratios (excludes unappropriated profits) (%)						
CET 1		7.4	—	—	**11.3**	12.4
Tier 1		8.9	—	—	**12.0**	13.0
Total CAR		11.1	—	—	**14.6**	15.0

Group qualifying capital (including unappropriated profits)





Normalised 2017	Normalised 2018		IFRS 2014	IFRS 2015	IFRS 2016	IFRS 2017	IFRS 2018
12.1	**12.0**	CET 1 ratio (%)	11.9	11.9	12.1	13.5	**12.8**
14.9	**15.4**	Total capital adequacy ratio (%)	14.4	14.5	14.8	16.1	**16.1**

[1] Normalised capital ratios (including unappropriated profits) are managed against Board capital target ranges.

[2] The 2018 minimum regulatory capital requirements of 11.13% (2017: 10.75%) include the capital conservation buffer, which is being phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the domestic systematically important bank (D-SIB) add-on.

Capital management and RWA

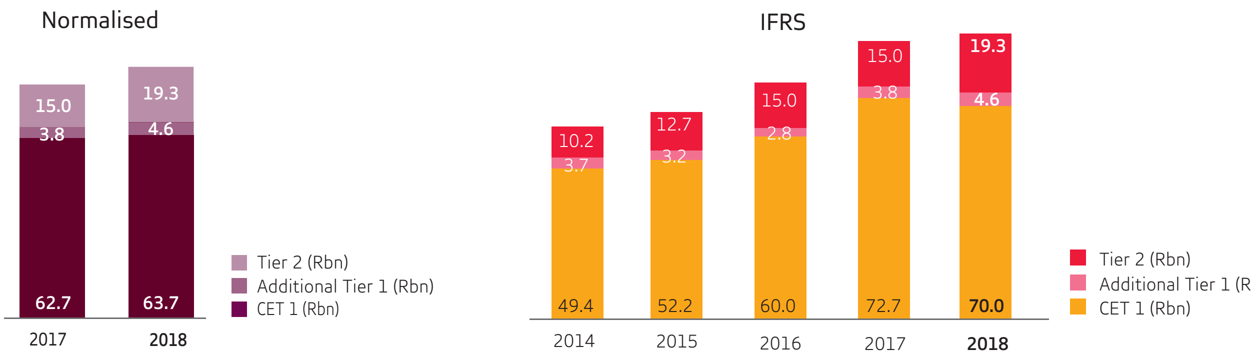
for the reporting period ended 31 December

Capital adequacy (continued)

Absa Bank Limited capital adequacy

Absa Bank Limited[1]	Board target ranges[2] %	Minimum regulatory capital requirements[3] %	Normalised Group performance 2018	Normalised Group performance 2017	IFRS Group performance 2018	IFRS Group performance 2017
Statutory capital ratios (includes unappropriated profits) (%)						
CET 1	10.00 – 11.50		**11.2**	11.6	**12.3**	13.4
Tier 1	11.75 – 13.25		**12.0**	12.3	**13.1**	14.1
Total CAR	14.25 – 15.75		**15.4**	15.0	**16.5**	16.9
Regulatory capital ratios (excludes unappropriated profits) (%)						
CET 1		7.4	—	—	**11.4**	12.6
Tier 1		8.9	—	—	**12.2**	13.3
Total CAR		11.1	—	—	**15.6**	16.1

Absa Bank qualifying capital (including unappropriated profits)



Normalised 2017	Normalised 2018		IFRS 2014	IFRS 2015	IFRS 2016	IFRS 2017	IFRS 2018
11.6	**11.2**	CET 1 ratio (%)	10.8	10.5	11.6	13.4	**12.3**
15.0	**15.4**	Total capital adequacy ratio (%)	13.9	13.8	15.1	16.9	**16.5**

[1] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
[2] Normalised capital ratios (including unappropriated profits) are managed against Board capital target ranges.
[3] The 2018 minimum regulatory capital requirements of 11.13% (2017: 10.75%) include the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

Capital management and RWA

for the reporting period ended 31 December

Overview of RWA

The following table provides the RWAs per risk type and the associated minimum capital requirements on an IFRS basis.

Group	2018 RWA Rm	2017 RWA Rm	Minimum capital requirements[1] Rm
Credit risk[2]	**604 964**	566 052	**67 302**
Equity positions in banking book under market-based approach	**11 161**	9 707	**1 242**
Market risk	**37 007**	24 761	**4 117**
Operational risk	**112 746**	105 730	**12 543**
Non-customer assets	**25 511**	25 297	**2 837**
Threshold items	**16 483**	5 345	**1 834**
IFRS 9 transitional adjustment	**10 720**	—	**1 193**
Total	**818 592**	736 892	**91 068**

Key drivers of year-on-year change in RWA consumption were as follows:

- **Credit risk:** Increase in credit risk RWA of R38.9bn was due to exposure growth and model updates in the South African portfolios, as well as weakening of the rand against foreign currencies and balance sheet growth in the Absa Regional Operations. This was partially offset by a reduction in CCR due to a refined maturity calculation methodology in addition to market volatility.
- **Equity risk:** The increase of R1.5bn is due to enhancements to the classification of equity investments.
- **Market risk:** The increase of R12.2bn is primarily as a result of increased inventory held in South Africa and in the respective African country in support of the Absa Regional Operations growth strategy resulting in higher Standardised Approach RWAs, as well as increased market volatility.
- **Operational risk:** The increase of R7.0bn is due to increased operating income translating to an increased capital requirement under TSA in the Absa Regional Operations and the application of the TSA floor in AMA entities.
- **Threshold items:** The increase of R11.1bn is due to the phased in implementation of IFRS 9, resulting in additional deferred tax assets.
- **IFRS 9 transitional adjustment:** The adjustment of R10.7bn represents the portion of release of RWA on non-performing loans. This will be phased in over the transition period of three years.

Absa Bank Limited[3]	2018 RWA Rm	2017 RWA Rm	Minimum capital requirements[1] Rm
Credit risk[2]	**426 438**	423 360	**47 442**
Equity positions in banking book under market-based approach	**2 122**	2 707	**236**
Market risk	**29 187**	20 633	**3 247**
Operational risk	**76 994**	75 221	**8 565**
Non-customer assets	**19 147**	19 757	**2 130**
Threshold items	**4 287**	521	**477**
IFRS 9 transitional adjustment	**11 328**	—	**1 260**
Total	**569 503**	542 199	**63 357**

Key drivers of year-on-year change in RWA consumption were as follows:

- **Credit risk:** Increase in credit risk RWA of R3.1bn was due to balance sheet growth as well as model enhancements.
- **Market risk:** The increase of R8.6bn is primarily as a result of increased inventory held in South Africa in support of the Absa Regional Operations growth strategy resulting in a higher Standardised Approach RWAs, as well as increased market volatility.
- **Operational risk:** The increase of R1.8bn is driven by higher operating income from entities, resulting in higher AMA capital requirement.
- **Threshold items:** The increase of R3.8bn is due to the phased in implementation of IFRS9, resulting in additional deferred tax assets.
- **IFRS 9 transitional adjustment:** The adjustment of R11.3bn represents the portion of release of RWA on non-performing loans. This will be phased in over the transition period of three years.

[1] The 2018 minimum regulatory capital requirement is calculated at 11.13%, which includes the capital conservation buffer but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

[2] Credit risk includes CCR and CVA.

[3] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.

Capital management and RWA

for the reporting period ended 31 December

Capital supply

Breakdown of qualifying capital

Group	2018 Rm	2018 %[2]	2017 Rm	2017 %[2]
Common Equity Tier 1	**92 829**	**11.3**	91 297	12.4
Additional Tier 1 capital	**5 718**	**0.7**	4 364	0.6
Tier 1 capital	**98 547**	**12.0**	95 661	13.0
Tier 2 capital	**21 288**	**2.6**	15 213	2.0
Total qualifying capital (excluding unappropriated profits)	**119 835**	**14.6**	110 874	15.0
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**110 308**	**13.5**	103 686	14.1
CET 1 (excluding unappropriated profits)	**92 829**	**11.3**	91 297	12.4
Unappropriated profits	**11 761**	**1.5**	8 025	1.1
Additional Tier 1	**5 718**	**0.7**	4 364	0.6
Tier 2 capital	**21 288**	**2.6**	15 213	2.0
Total qualifying capital (including unappropriated profits)	**131 596**	**16.1**	118 899	16.1
Normalised qualifying capital (including unappropriated profits)	**125 718**	**15.4**	109 602	14.9

Leverage

Group	2018	2017
Leverage ratio (excluding unappropriated profits) (%)	**6.6**	7.3
Leverage ratio (including unappropriated profits) (%)	**7.4**	7.9
Normalised leverage ratio (including unappropriated profits) (%)	**7.0**	7.2
Board target leverage ratio (%)	**≥4.5**	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0

Absa Bank Limited[1]	2018 Rm	2018 %[2]	2017 Rm	2017 %[2]
Common Equity Tier 1	**64 827**	**11.4**	68 194	12.6
Additional Tier 1 capital	**4 599**	**0.8**	3 812	0.7
Tier 1 capital	**69 426**	**12.2**	72 006	13.3
Tier 2 capital	**19 284**	**3.4**	15 024	2.8
Total qualifying capital (excluding unappropriated profits)	**88 710**	**15.6**	87 030	16.1
Qualifying capital (including unappropriated profits)				
Tier 1 capital	**74 558**	**13.1**	76 454	14.1
CET 1 (excluding unappropriated profits)	**64 827**	**11.4**	68 194	12.6
Unappropriated profits	**5 132**	**0.9**	4 448	0.8
Additional Tier 1	**4 599**	**0.8**	3 812	0.7
Tier 2 capital	**19 284**	**3.4**	15 024	2.8
Total qualifying capital (including unappropriated profits)	**93 842**	**16.5**	91 478	16.9
Normalised qualifying capital (including unappropriated profits)	**87 541**	**15.4**	81 513	15.0

Leverage

Absa Bank Limited[1]	2018	2017
Leverage ratio (excluding unappropriated profits) (%)	**5.4**	6.2
Leverage ratio (including unappropriated profits) (%)	**5.8**	6.6
Normalised leverage ratio (including unappropriated profits) (%)	**5.3**	5.8
Board target leverage ratio (%)	**≥4.5**	≥4.5
Minimum required leverage ratio (%)	**4.0**	4.0

[1] Absa Bank Limited includes subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings.
[2] Percentage of capital to RWAs.

Capital management and RWA

for the reporting period ended 31 December

Economic capital adequacy

EC provides a common basis on which to aggregate and compare different risks using a forward-looking, single measure of risk. It is a critical input into the internal capital adequacy assessment process and in capital allocation decisions, which supports shareholder value creation. EC considers risk types, which not only lead to potential operating losses but can also result in lower than expected earnings.

In the table below, EC demand is presented at a 99.9% confidence level. EC demand is compared to the available financial resources (AFR), which is also referred to as EC supply, to evaluate the total EC surplus. The Group ensures that there are sufficient AFR in order to meet this minimum demand requirement under severe yet plausible stress conditions.

EC demand	2018[1] Rm	2017[1] Rm
Credit risk[2]	**53 231**	50 254
Equity positions in banking book	**1 236**	1 548
Market risk	**3 139**	2 732
Operational risk	**6 658**	6 140
Property and equipment risk	**3 229**	8 730
Interest rate risk in the banking book	**5 876**	5 397
Business risk	**5 595**	5 364
Insurance risk	**3 028**	3 104
Total EC requirement	**81 992**	83 269
IFRS total EC AFR	**127 914**	117 129[3]
IFRS total EC surplus	**45 922**	33 860
IFRS EC coverage ratio	**1.6**	1.4
Normalised total EC AFR	**121 850**	107 292[3]
Normalised total EC surplus	**39 858**	24 023
Normalised EC coverage ratio	**1.5**	1.3

1 EC demand and AFR reported on a spot basis.
2 Credit risk includes CCR and CVA.
3 2017 IFRS and normalised total EC AFR was restated post the release of the 2017 year-end financial results, due to the enhancement of the EC framework.

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Segment report per market segment

for the reporting period ended 31 December

	RBB			CIB			WIMI		
	2018	2017[1]	Change %	2018	2017[1]	Change %	2018	2017[1]	Change %
Statement of comprehensive income (Rm)									
Net interest income	**32 505**	32 168	1	**11 226**	10 455	7	**317**	362	(12)
Non-interest income	**20 834**	19 736	6	**6 951**	6 569	6	**5 514**	5 218	6
Total income	**53 339**	51 904	3	**18 177**	17 024	7	**5 831**	5 580	4
Impairment losses	**(5 375)**	(5 988)	(10)	**(1 030)**	(906)	14	**35**	(120)	<(100)
Operating expenses	**(32 684)**	(31 205)	5	**(8 907)**	(7 950)	12	**(3 578)**	(3 617)	(1)
Other operating expenses	**(384)**	(307)	25	**(67)**	(207)	(68)	**(162)**	(219)	(26)
Operating profit before income tax	**14 896**	14 404	3	**8 173**	7 961	3	**2 126**	1 624	31
Tax expense	**(4 315)**	(4 244)	2	**(1 834)**	(1 744)	5	**(740)**	(453)	63
Profit for the reporting period	**10 581**	10 160	4	**6 339**	6 217	2	**1 386**	1 171	18
Profit attributable to:									
Ordinary equity holders	**9 677**	9 429	3	**5 875**	5 759	2	**1 381**	1 162	19
Non-controlling interest – ordinary shares	**573**	472	21	**258**	311	(17)	**1**	5	(80)
Non-controlling interest – preference shares	**214**	229	(7)	**134**	129	4	**3**	4	(25)
Non-controlling interest – additional Tier 1	**117**	30	>100	**72**	18	>100	**1**	—	100
	10 581	10 160	4	**6 339**	6 217	2	**1 386**	1 171	18
Headline earnings	**9 724**	9 418	3	**5 875**	5 759	2	**1 268**	1 231	3
Statement of financial position (Rm)									
Loans and advances to customers	**514 150**	485 521	6	**321 155**	258 302	24	**5 734**	5 004	15
Loans and advances to banks	**11 217**	7 894	42	**38 908**	33 139	17	**2 520**	1 847	36
Investment securities	**45 194**	43 111	5	**39 813**	31 719	26	**4 218**	4 765	(11)
Other assets	**315 735**	291 378	8	**211 726**	241 384	(12)	**37 976**	39 081	(3)
Total assets	**886 296**	827 904	7	**611 602**	564 544	8	**50 448**	50 697	(0)
Deposits due to customers	**405 504**	360 100	13	**232 352**	224 876	3	**5 097**	5 150	(1)
Debt securities in issue	**32**	428	(93)	**11 565**	12 532	(8)	**—**	—	—
Other liabilities	**473 769**	455 459	4	**359 811**	318 861	13	**39 850**	40 493	(2)
Total liabilities	**879 305**	815 987	8	**603 728**	556 269	9	**44 947**	45 643	(2)

Key Absa Africa Regions closing exchange rates in ZAR terms		2018	2017	Change %
Botswana	ZAR/BWP	**1.34**	1.26	7
Ghana	ZAR/GHS	**2.91**	2.73	7
Kenya	ZAR/KES	**0.14**	0.12	18
Mauritius Onshore	ZAR/MUR	**0.42**	0.37	14
Mauritius Offshore	ZAR/USD	**14.38**	12.36	16
Mozambique	ZAR/MZN	**0.23**	0.21	11
Namibia	ZAR/NAD	**1.00**	1.00	0
Seychelles	ZAR/SCR	**1.05**	0.92	14
Tanzania	ZAR/TZS	**0.01**	0.01	0
Uganda	ZAR/UGX	**—**	—	—
Zambia	ZAR/ZMW	**1.21**	1.24	(3)

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

Head Office, Treasury and other operations			Total Group normalised performance			Barclays separation effects			Group		
2018	2017[1]	Change %	2018	2017[1]	Change %	2018	2017	Change %	2018 Rm	2017[1]	Change %
(623)	(666)	(6)	43 425	42 319	3	330	325	2	43 755	42 644	3
(1 064)	(852)	25	32 235	30 671	5	525	80	>100	32 760	30 751	7
(1 687)	(1 518)	11	75 660	72 990	4	855	405	>100	76 515	73 395	4
46	(8)	<(100)	(6 324)	(7 022)	(10)	—	—	—	(6 324)	(7 022)	(10)
1 527	1 369	12	(43 642)	(41 403)	5	(3 161)	(1 901)	66	(46 803)	(43 304)	8
(1 040)	(973)	7	(1 653)	(1 706)	(3)	(194)	(394)	(51)	(1 847)	(2 100)	(12)
(1 154)	(1 130)	2	24 041	22 859	5	(2 500)	(1 890)	32	21 541	20 969	3
123	151	(19)	(6 766)	(6 290)	8	484	408	19	(6 282)	(5 882)	7
(1 031)	(979)	5	17 275	16 569	4	(2 016)	(1 482)	36	15 259	15 087	1
(1 030)	(980)	5	15 903	15 370	3	(1 986)	(1 482)	34	13 917	13 888	0
(1)	1	<(100)	831	789	5	(30)	—	100	801	789	2
—	—	—	351	362	(3)	—	—	—	351	362	(3)
—	—	—	190	48	>100	—	—	—	190	48	>100
(1 031)	(979)	5	17 275	16 569	4	(2 016)	(1 482)	36	15 259	15 087	1
(739)	(785)	(6)	16 128	15 623	3	(1 986)	(1 245)	60	14 142	14 378	(2)
681	945	(28)	841 720	749 772	12	—	—	—	841 720	749 772	12
495	12 546	(96)	53 140	55 426	(4)	—	—	—	53 140	55 426	(4)
46 195	31 814	45	135 420	111 409	22	—	—	—	135 420	111 409	22
(310 165)	(319 767)	(3)	255 272	252 076	1	3 192	912	>100	258 464	252 988	2
(262 794)	(274 462)	(4)	1 285 552	1 168 683	10	3 192	912	>100	1 288 744	1 169 595	10
93 352	99 741	(6)	736 305	689 867	7	—	—	—	736 305	689 867	7
149 374	124 988	20	160 971	137 948	17	—	—	—	160 971	137 948	17
(598 007)	(582 451)	3	275 423	232 362	19	(5 561)	(9 840)	(43)	269 862	222 522	21
(355 281)	(357 722)	(1)	1 172 699	1 060 177	11	(5 561)	(9 840)	(43)	1 167 138	1 050 337	11

RBB

for the reporting period ended 31 December

	RBB South Africa		
	2018	2017[1]	Change %
Statement of comprehensive income (Rm)			
Net interest income	**25 508**	25 421	0
Non-interest income	**18 083**	17 186	5
Total income	**43 591**	42 607	2
Impairment losses on loans and advances	**(4 555)**	(5 038)	(10)
Operating expenses	**(25 770)**	(24 476)	5
Other operating expenses	**(202)**	(160)	26
Operating profit before income tax	**13 064**	12 933	1
Tax expenses	**(3 633)**	(3 664)	(1)
Profit for the reporting period	**9 431**	9 269	2
Profit attributable to:			
Ordinary equity holders	**8 814**	8 741	1
Non-controlling interest – ordinary shares	**286**	269	6
Non-controlling interest – preference shares	**214**	229	(7)
Non-controlling interest – additional Tier 1	**117**	30	>100
	9 431	9 269	2
Headline earnings	**8 880**	8 748	2
Statement of financial position (Rm)			
Loans and advances to customers	**465 921**	446 894	4
Loans and advances to banks	**11 214**	7 893	42
Investment securities	**45 190**	43 100	5
Other assets	**281 660**	255 962	10
Total assets	**803 985**	753 849	7
Deposits due to customers	**333 061**	300 725	11
Debt securities in issue	**—**	400	(100)
Other liabilities	**462 611**	440 425	5
Total liabilities	**795 672**	741 550	7

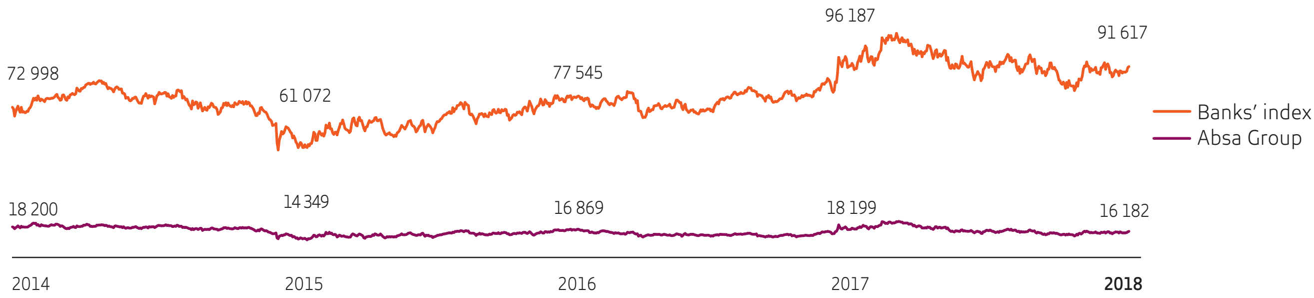
[1] These numbers have been restated, refer to the reporting changes overview on the inside front cover.

RBB Absa Regional Operations			Total RBB		
2018	2017[1]	Change %	2018	2017[1]	Change %
6 997	6 747	4	32 505	32 168	1
2 751	2 550	8	20 834	19 736	6
9 748	9 297	5	53 339	51 904	3
(820)	(950)	(14)	(5 375)	(5 988)	(10)
(6 914)	(6 729)	3	(32 684)	(31 205)	5
(182)	(147)	24	(384)	(307)	25
1 832	1 471	25	14 896	14 404	3
(682)	(580)	18	(4 315)	(4 244)	2
1 150	891	29	10 581	10 160	4
863	688	25	9 677	9 429	3
287	203	41	573	472	21
—	—	—	214	229	(7)
—	—	—	117	30	>100
1 150	891	29	10 581	10 160	4
844	670	26	9 724	9 418	3
48 229	38 627	25	514 150	485 521	6
3	1	>100	11 217	7 894	42
4	11	(64)	45 194	43 111	5
34 075	35 416	(4)	315 735	291 378	8
82 311	74 055	11	886 296	827 904	7
72 443	59 375	22	405 504	360 100	13
32	28	14	32	428	(93)
11 158	15 034	(26)	473 769	455 459	4
83 633	74 437	12	879 305	815 987	8

Share performance

for the reporting period ended 31 December

Share performance (cents)



Share performance on the JSE	2018	2017	Change %
Number of shares in issue, which includes 7 557 551 (2017: 2 196 604) treasury shares	**847 750 679**	847 750 679	—
Market prices (cents per share):			
closing	**16 182**	18 199	(11)
high	**20 700**	18 199	14
low	**14 050**	17 650	(20)
average	**16 842**	15 006	12
Closing price/Normalised NAV per share (excluding preference shares) (%)	**1.35**	1.58	(15)
Normalised price-to-earnings ratio (closing price/HEPS) (%)	**8.5**	9.9	(15)
Volumes of shares traded (million)	**807.0**	1 072.0	(25)
Value of shares traded (Rm)	**136 758.5**	160 223.5	(15)
Market capitalisation (Rm)	**137 183.0**	154 282.1	(11)
Annual total return (%)	**(5.1%)**	14.1	<(100)

Shareholder information and diary

Major ordinary shareholders (%)

14.88 (14.88) Barclays Bank PLC (UK)[1]
6.29 (6.56) Public Investment Corporation (SA)
4.32 (4.16) Deutsche Securities (SA)
4.07 (4.47) Old Mutual PLC (SA)
3.68 (3.06) Black Rock Incorporated (US)
3.95 (2.95) Prudential Investment Managers (SA)

2.99 (3.01) Citigroup Global Markets (SA)
3.20 (2.89) The Vanguard Group Incorporated (US, AU)
2.51 (0.73) Investec Asset Management (SA)
2.58 (2.39) Dimensional Fund Advisors (US, UK)
51.53 (54.90) Other

Major shareholding by geography (%)

23.58 (27.27) United Kingdom
43.10 (40.68) South Africa
20.46 (16.58) United States and Canada
12.86 (15.22) Other countries

Shareholder diary

Annual general meeting[1]	04 June 2019
Announcement of the 2019 interim results[1]	05 August 2019
Financial year-end	31 December 2019

Dividend	Declaration date	Last day to trade	Ex-dividend date	Record date	Payment date
Final	11 March 2019	09 April 2019	10 April 2019	12 April 2019	15 April 2019
Interim[1]	05 August 2019	10 September 2019	11 September 2019	13 September 2019	16 September 2019

[1] Subject to change.

Glossary

Amounts written off
The amounts written off comprise the gross carrying amount of financial assets that have been directly reduced since the entity has no reasonable expectation of recovery. A write off constitutes a derecognition event for accounting purposes. Write-offs will occur when, and to the extent that, the debt is considered irrecoverable. A write-off policy based on an age-driven concept drives the timing and extent of write-offs. A write-off can also be triggered by a specific event, such as the conclusion of insolvency proceedings or other formal recovery actions, making it possible to quantify the extent of the advance that is beyond a realistic prospect of recovery. Assets are only written off once all necessary procedures have been completed and the amount of loss has been determined. Recoveries of amounts previously written off, are reversed and accordingly decrease the amount of the reported impairment charge in the statement of comprehensive income.

Approaches (FIRB, AIRB, AMA and IMA)
Methods available to banks to calculate their regulatory capital requirements, based on their own risk estimates. These include the foundation internal ratings-based (FIRB) and advanced internal ratings-based (AIRB) approaches for credit risk, the advanced measurement approach (AMA) for operational risk and the internal models approach (IMA) for market risk.

Average interest-bearing assets
Average interest-bearing assets consist of all accounts that are not impaired and thus attract interest within the asset categories of cash, cash balances and balances with central banks, loans and advances to banks and customers and investment securities (including cash and short-term assets, money market assets and capital market assets).

Balance sheet
The term 'balance sheet' is used in the same context as the 'statement of financial position'.

Bank
Absa Bank Limited, together with its subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Bank' or 'Absa Bank' in this report.

Banking average assets
Banking average assets consist of all average assets related to the banking activities of the Group. Banking average assets exclude 'Other assets', 'Current tax assets', 'Non-current assets held for sale', 'Reinsurance assets', 'Goodwill and intangible assets', 'Property and equipment' and 'Deferred tax assets', and includes 'Trading portfolio liabilities'.

Banking book annual earnings at risk
A measure of the sensitivity of net interest income over a one-year horizon due to a change in the level of interest rates. Calculated as the difference between the estimated income using the current yield curve, and the lowest estimated income following an increase or decrease in interest rates. As per regulatory requirement, a 200 bps downward shock is applied.

Banking income yield
Income as a proportion of banking average assets.

Banking interest yield
Net interest income after credit losses, as a proportion of banking average assets.

Banking non-interest yield
Non-interest income as a proportion of banking average assets.

Banks Act
This means the Banks Act, No 94 of 1990 and its accompanying regulations relating to banks published in the Government Gazette on 12 December 2012.

Barclays
Barclays PLC, registered in England under registration number 1026167.

Basel Capital Accord (II, II.5 and III)
The Basel Capital Accord of the Bank for International Settlements is an improved capital adequacy framework aimed at closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.

Borrowed funds
Subordinated callable notes qualifying as long-term Tier 2 capital in terms of section 1 of the Banks Act, No 94 of 1990.

Capital adequacy ratio
The capital adequacy of South African banks is measured in terms of the requirements of the SARB. The ratio is calculated by the aggregate amount of qualifying capital and reserve funds dividend by RWA. The base minimum South African total capital adequacy ratio for banks is 10% of RWA. Non-South African banks in the Group have similar capital adequacy methodology requirements.

Glossary

Capital – Common Equity Tier 1

Common Equity Tier 1 capital consists of the sum of the following elements:

- Common shares issued by Absa Bank Limited that meet the criteria for classification as common shares for regulatory purposes (or the equivalent for non-joint stock companies);
- Stock surplus (share premium) resulting from the issue of instruments including CET 1;
- Retained earnings;
- Accumulated other comprehensive income and other disclosed reserves;
- Common shares issued by consolidated subsidiaries of Absa Bank Limited and held by third parties (i.e., non-controlling interest) that meet the criteria for inclusion in CET 1; and
- Regulatory adjustments applied in the calculation of CET 1.

Capital – Additional Tier 1 capital

Additional Tier 1 capital consists of the sum of the following elements:

- Instruments issued by Absa Bank Limited that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in CET 1);
- Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital;
- Instrument issued by consolidated subsidiaries of Absa Bank Limited and held by third parties that meet the criteria for inclusion in Additional Tier 1 capital and are not included in Common Equity Tier 1. See section 4 for the relevant criteria; and
- Regulatory adjustments applied in the calculation of additional Tier 1 capital.

Capital – Common Equity Tier 1 capital adequacy ratio

A measurement of a bank's core equity capital compared with its total risk-weighted assets. This is the measure of a bank's financial strength. The Common Equity Tier 1 excludes any preference shares or non-controlling interests when determining the calculation.

Capital – Tier 2 capital

Tier 2 capital consists of the sum of the following elements:

- Instruments issued by Absa Bank Limited that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital); stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;
- Instruments issued by consolidated subsidiaries of Absa Bank Limited and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital;
- Certain loan loss provisions such as general provisions/general loan-loss reserve; and regulatory adjustments applied in the calculation of Tier 2 capital.

Capital – Tier 2 ratio

A component of regulatory capital, comprising qualifying subordinated loan capital, related minority interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties.

Claims ratio

Net insurance claims and benefits paid as a percentage of net premium income.

Combined ratio

Insurance losses incurred and expenses as a percentage of insurance premiums earned.

Conduct risk

Conduct risk is the detriment caused to the Group's customers and clients, counterparties or Absa Bank Limited as a result of inappropriate execution of the business activities.

Constant currency

The selected line items from the condensed consolidated statement of comprehensive income and condensed consolidated statement of financial position for the ARO market segment disclosed on pages 98 and 99 are derived by translating the statement of comprehensive income and statement of financial position from the respective individual entities' local currencies to rand.

The current reporting period's results are translated at the current reporting period's average rates for the statement of comprehensive income, while the closing rate is used for the statement of financial position in terms of IFRS.

The percentage change based on CCY has been presented to provide information on the impact of foreign currency movements on the local currency earnings. This is calculated for the statement of comprehensive income and statement of financial position, by translating the previous and current reporting periods' results at the exchange rate as at the prior reporting date and comparing the two outcomes.

The percentage change based on CCY is provided for illustrative purposes only and may not fairly present the Group's financial position and/or the results of its operations. The directors are responsible for the preparation of the CCY information.

Glossary

Cost-efficiency ratio

'Operating expenses' as a percentage of income. Income consists of net interest income and non-interest income, net of reinsurance, unearned premiums, net insurance claims and benefits paid, changes in investment and insurance contract liabilities and acquisition costs.

Cost of equity

An estimate of the return that the market demands in exchange for the risk of ownership of equity.

Cost-to-income ratio

'Operating expenses' as a percentage of income. Income consists of net interest income and non-interest income.

Coverage ratio

Impairment losses on loans and advances as a proportion of gross loans and advances.

Credit loss ratio

Impairment losses on loans and advances for the reporting period, divided by total average advances (calculated on a daily weighted average basis).

Debt securities in issue

Short to medium-term instruments issued by the Group, including promissory notes, bonds and negotiable certificates of deposits.

Diluted headline earnings per share

Headline earnings for the reporting period that is attributable to ordinary equity holders, as a proportion of the weighted average number of ordinary shares in issue adjusted for the effect of all potential dilutive ordinary shares.

Distribution force

Number of active advisers.

Dividend cover

Headline earnings per share divided by dividend per share.

Dividend per ordinary share relating to income for the reporting period

Dividend per ordinary share for the reporting period is the actual interim dividends paid and the final dividends declared for the reporting period under consideration, expressed as cents per share.

Special dividend per ordinary share is a payment made by the Group that is considered separate from the typical recurring dividend cycle, expressed as cents per share.

Earnings per share

Basic earnings per share

This constitutes the net profit for the reporting period, less earnings attributable to non-controlling interest, divided by the weighted average number of ordinary shares in issue during the reporting period.

Diluted basic earnings per share

The amount of profit for the reporting period that is attributable to ordinary equity holders, divided by the weighted average number of ordinary shares in issue during the reporting period, both adjusted for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Economic capital

Economic capital is an estimate of the maximum downward deviation from expectation in shareholder value, measured on an economic basis over a one-year time horizon and at a 99.95% confidence level. This sets the internal capital requirement deemed necessary by the Group to support the risk which is exposed.

Embedded value

The embedded value of the covered business is the discounted value of the future after-tax shareholder profits (net of the opportunity cost of the required capital) arising from covered business in force at the valuation date, together with the adjusted net worth of the covered business. Covered business is taken to be all long-term insurance business written under the Group's licence.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets at market value and liabilities on the statutory valuation method, adjusted to add back inadmissible assets. The required capital is taken to be two times the statutory capital adequacy requirement, in line with the results of internal capital models and the Group's dividend policy.

Glossary

Exchange differences

Differences resulting from the translation of a given number of units of one currency into another currency at different exchange rates.

Expected credit loss (ECL) coverage ratio

ECL allowance as a proportion of gross loans and advances to customers and banks.

Financial Markets Act

This means the Financial Markets Act No 19 of 2012 and its regulations. This Act is the primary legislation governing the regulation of financial markets, market infrastructure and securities services in South Africa. It focuses primarily on the licensing and regulation of exchanges, central securities depositories, clearing houses, trade repositories and market infrastructure. The Act also strengthens measures already in place aimed at prohibiting insider trading and other market abuses.

Foreign currency translation

Foreign currency accounts of the Group's subsidiaries translated to the reporting currency, with the foreign adjusted currency translation included in a foreign currency translation reserve as equity capital.

Gains and losses from banking and trading activities

Banking and trading portfolios include:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries within the banking portfolios;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gains and losses from investment activities

Insurance and strategic investment portfolios including:

- realised gains and losses on financial instruments held at amortised cost, held-to-maturity or available-for-sale;
- realised gains and losses on the disposal of associates, joint ventures and subsidiaries;
- realised and unrealised gains and losses on financial instruments designated at fair value through profit or loss; and
- interest, dividends and fair value movements on certain financial instruments held for trading or designated at fair value through profit or loss.

Gross credit extended

Loans advanced to customers and banks, as well as off-balance sheet exposures.

Group

Absa Group Limited, together with its subsidiary undertakings, special-purpose entities, joint ventures, associates and offshore holdings. It is also referred to as 'the Group' or 'Absa Group' in this report.

Headline earnings

Headline earnings reflects the operating performance separated from remeasurements (an amount recognised in the statement of comprehensive income relating to any change (realised or unrealised) in the carrying amount of an asset/liability that arose after the initial recognition of such asset or liability) as well as non-controlling interest of preference shares or ordinary shares, where relevant.

Headline earnings per share

Profit attributable to ordinary equity holders after adjusting for separately identifiable remeasurements, net of tax and non-controlling interest, divided by the weighted average number of ordinary shares in issue. A remeasurement is an amount recognised in profit or loss relating to any change in the carrying amount of an asset or liability that arose after the initial recognition of such asset or liability.

Diluted headline earnings per share

Diluted headline earnings per share is calculated by adjusting both the headline earnings and the weighted average number of ordinary shares outstanding for the effects of all potential dilutive ordinary shares, assuming they had been in issue for the reporting period.

Impairments raised – Identified

Impaired loans with key indicators of default being:

- the borrower is unlikely to pay its credit obligation in full, without recourse by the Group to actions such as realising security held; and/or
- the borrower is overdue.

A retail identified impairment is triggered when a contractual payment is missed and is raised on a collective basis. Future cash flows for a group of financial assets, which are collectively evaluated for impaired purposes, are estimated based on the contractual cash flows of the assets in the Group and the historical loss experienced for assets with similar credit risk characteristics to those in the Group.

In the wholesale portfolio, an identified impairment is raised on an individual basis and is the difference between the outstanding capital and the present value of future cash flows.

Glossary

Impairments raised – Unidentified
Allowances are raised when observable data indicates a measurable decrease in the estimated future cash flows from a group of financial assets since their original recognition, even though the decrease cannot yet be linked to individual assets in the Group. The unidentified impairment calculation is based on the asset's probability of moving from the performing portfolio to the defaulted portfolio as a result of a risk condition that has already occurred, but will only be identifiable at a borrower level at a future date.

Income statement
The term 'Income statement' is used in the same context as the 'Statement of comprehensive income'.

Indirect taxation
Indirect taxes are the taxes that are levied on transitions rather than on persons (whether individuals or corporate). These taxes include unclaimed value-added taxes, stamp duties on deposits and Regional Services Council levies.

Jaws
A measure used to demonstrate the extent to which the Group's income from operations growth rate exceeds operating expenses growth rate. Income from operations consists of net interest income and non-interest income.

Leverage
Average assets as a proportion of average equity.

Life new business margin
Embedded value of new business attained in the Life Insurance key business area of WIMI, as a proportion of the discounted value of the associated future premiums.

Loans-to-deposits and debt securities ratio
Loans and advances to customers as a percentage of deposits due to customers and debt securities in issue.

Long-term funding ratio
Funding with a term in excess of six months.

Market capitalisation
The Group's closing share price, times the number of shares in issue at the reporting date.

Merchant income
Income generated from the provision of point-of-sale facilities to the Group's merchant network customers. This income includes both rental income for the supply of point-of-sale units as well as transactional income for the transactions processed on the supplied terminals.

Net asset value per share
Total equity attributable to ordinary equity holders divided by the number of shares in issue. The net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.

Net income
Net income consists of net interest income and non-interest income, net of impairment losses on loans and advances.

Net insurance premium income
The amount of insurance premiums received or receivable on insurance assets net of insurance claims and benefits paid on insurance liabilities.

Net interest income
The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin on average interest-bearing assets
Net interest income for the reporting period, divided by average interest-bearing assets (calculated on a daily weighted average basis), expressed as a percentage of average interest-bearing assets.

Net present value unwind on non-performing book
A net present value adjustment representing time value of money of expected cash flows within the impairment allowance. Such time value of money reduces as the point of cash flow is approached. The time-based reduction in time value of money is recognised in the statement of comprehensive income as interest received on impaired assets.

Glossary

Net trading result

Net trading result includes the profits and losses on CIB's trading desks arising from both the purchase and sale of trading instruments and the revaluation to market value, as well as CIB's hedge ineffectiveness. This includes the interest income and interest expense from these instruments and related funding cost. It also includes similar activities from the African operations.

Non-interest income

Non-interest income consists of the following statement of comprehensive income line items: 'net fee and commission income', 'net insurance premium income', 'net insurance claims and benefits paid', 'changes in investment contracts and insurance contract liabilities', 'gains and losses from banking and trading activities', 'gains and losses from investment activities as well as other operating income'.

Non-interest income as a percentage of income

Non-interest income as a percentage of income from operations. Income consists of net interest income and non-interest income.

Non-performing loans

A loan is typically considered non-performing once its delinquency reaches a trigger point. This is typically when interest is suspended (in accordance with Group policy) or if the loan is moved to the legal environment for recovery. As a consequence, a loan that has defaulted is not necessarily non-performing (unless certain criteria are met).

NPL coverage ratio

Net exposure, being the outstanding NPL balance, less expected recoveries and fair value of collateral, as a percentage of the total outstanding NPL balance.

NPL ratio on loans and advances to customers and banks

NPLs as a percentage of gross loans and advances to customers and banks.

Pre-provision profit

Total income less operating expenses.

Price-to-earnings ratio

The closing price of ordinary shares, divided by headline earnings per ordinary share for the reporting period.

Probability of default

The probability that a debtor will default within a one-year time horizon.

Regulatory capital

The capital that the Group holds, determined in accordance with the requirements of the Banks Act and regulations relating to banks.

Return on average assets

Annualised headline earnings as a proportion of total average assets.

Return on average equity

Annualised headline earnings as a proportion of average equity.

Return on average regulatory capital

Measure of efficient use, by segment, of regulatory capital.

Return on average risk-weighted assets

Annualised headline earnings as a proportion of average risk-weighted assets.

Income/total income

Income consists of net interest income and non-interest income.

Risk-weighted assets

Calculated by assigning a degree of risk, expressed as a percentage (risk weight) to an exposure, in accordance with the applicable standardised or internal ratings-based approaches rules. RWA are determined by applying the:

- AIRB approach for wholesale and retail credit; AMA for operational risk;
- Internal ratings-based market-based simple risk-weight approach for equity investment risk in the banking book; and
- Standardised approach for all African entities (both credit and operational risk).

Glossary

Solvency margin
The amount by which assets, at fair value, exceed liabilities and other comparable commitments.

Stage 1
Assets comprise exposures that are performing in line with expectations at origination. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1.

Stage 2
Exposures are required to be classified within stage 2 when a significant increase in credit risk has been observed. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices.

Stage 3
Credit exposures are classified within stage 3, when they are regarded as being credit impaired, which aligns to the bank's regulatory definition of default.

Stage 3 loans ratio on gross loans and advances
Stage 3 loans and advances as a percentage of gross loans and advances.

Tangible net asset value per share
Total equity attributable to ordinary equity holders less goodwill and intangible assets, divided by the number of shares in issue. The tangible net asset value per share figure excludes the non-cumulative, non-redeemable preference shares issued.

Underwriting margin
Net insurance premium income remaining after losses have been paid and administrative expenses have been deducted.

Value-at-risk model
A technique that measures the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Value of new business
The discounted value, at the date of sale, of the projected after-tax shareholder profits from new covered business, net of the opportunity cost of the required capital for new business. New covered business is defined as long-term insurance contracts written by the Group during the reporting period and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Weighted average number of shares
The number of shares in issue at the beginning of the reporting period increased by shares issued during the reporting period, weighted on a time basis for the period during which they participated in the income, less treasury shares held by entities, weighted on a time basis for the period during which the entities held these shares.

Abbreviations and acronyms

A

AEaR	annual earnings at risk
AFR	available financial resources
AFS	annual financial statements
AGL	Absa Group Limited
AIRB	advanced internal ratings-based approach
AMA	advanced measurement approach
ATC	Africa Treasury Committee
ATM	automated teller machine

B

Basel	Basel Capital Accord
BERC	BAGL Executive Risk Committee
BBBEE	Broad-based black economic empowerment
BIA	Basic Indicator Approach
BPS	basis points
BU	business unit

C

CAR	capital adequacy requirement
CAGR	compound annual growth rate
CCF	credit conversion factor
CCP	central counterparty
CCR	counterparty credit risk
CEM	current exposure method
CET1	Common Equity Tier 1
CFP	contingency funding plan
CIB	Corporate and Investment Bank
CLF	committed liquidity facility
CLGD	country loss given default
CMRA	conduct material risk assessments
CoRC	Concentration Risk Committee
CPF	Commercial Property Finance
CPRF	Conduct Principal Risk Framework
CR	credit risk
CRC	Control Review Committee
CRCC	Country Risk and Control Review Committee
CRM	credit risk mitigation
CRRC	Conduct and Reputational Risk Committee
CSA(s)	collateral support annexure(s)
CVA	credit valuation adjustment

D

DGS	Deposit Guarantee Scheme
D-SIBs	domestic-systemically important banks
DVaR	daily value at risk

E

EAD	exposure at default
EC	economic capital
ECA	economic capital adequacy
Edcon	Edcon Store Card portfolio
EL	expected loss
ERMF	Enterprise Risk Management Framework
EVE	economic value of equity

F

FRTB	Fundamental Review of the Trading Book
FX	Forex

G

GAC	Group Actuarial Committee
GACC	Group Audit and Compliance Committee
GCC	Group Credit Committee
GCCO	Group Chief Credit Officer
GCE	Group Chief Executive
GCRO	Group Chief Risk Officer
GMRA	Global Master Repurchase Agreement
GMRC	Group Market Risk Committee
GMRP	Group Model Risk Policy
GMSLA	Global Master Securities Lending
GRCMC	Group Risk and Capital Management Committee
Group	Absa Group Limited
GWWR	general wrong way risk

H

HQLA	high-quality liquid assets
HR	high risk

I

IAA	internal assessment approach
IAS	International Accounting Standard(s)
IAS 28	IAS 28 Investments in Associates
IAS 39	IAS 39 Financial Instruments: Recognition and Measurement
ICAAP	internal capital adequacy assessment process
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standard(s)
IFRS 9	Financial Instruments
IFRS 11	Joint Arrangements
IMA	internal models approach
IMM	interest models method
IRB	interest ratings-based
IRRBB	interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
IT	information technology
IVC	Independent Valuation Committee
ISLA	International Securities Lending Association
IT	information technology
IVC	Independent Valuation Committee

J

JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange

K

KCI	key control indicator
KI	key indicator
KPI	key performance indicator
KRI	key risk indicator
KRO	Key Risk Officer
KRS	Key Risk Scenarios

Abbreviations and acronyms

M

MC	BAGL Model Committee
MR	market risk

N

NCWO	no-credit-worse-off
NII	net interest income
NPL(s)	non-performing loan(s)
NSFR	net stable funding ratio

O

OR&CC	Operational Risk and Control Committee
ORMF	Operational Risk Management Framework
ORSA	Own Risk and Solvency Assessment
ORX	operational risk data exchange
OTC	over-the-counter

R

RBA	ratings-based approach
RBB	Retail and Business Banking
RC	regulatory capital
RDARR	risk data aggregation and risk reporting
RoE	return on average equity
RoRWA	return on average risk-weighted assets
RRP	recovery and resolution plan
RSU	Risk Sanctioning Unit
RW	risk-weight
RWA	risk-weighted assets
RWR	right way risk

S

SA	standardised approach
SA-CCR	standardised approach for counterparty credit risk
SAM	Solvency Assessment and Management
SARB	South African Reserve Bank
SEC	securitisations
SFA	supervisory formula approach
SL	specialised lending
SME	small and medium-sized enterprises
SSFA	simplified supervisory formula approach
sVAR	stressed value at risk
SWWR	specific wrong way risk

T

TLAC	total loss absorbing capacity
TRC	Trading Risk Committee
TSA	The standard approach
TTC	through-the-cycle

V

VAF	Vehicle and Asset Finance
VaR	value at risk

W

WIMI	Wealth, Investment Management and Insurance
WL	watch list

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