# Absa Group Limited

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

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**Absa Group Limited**
**(1986/003934/06)**

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

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

# Directors' approval

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

The following statement, which should be read in conjunction with the auditor's responsibility statement set out on page 18, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditor in relation to the consolidated and separate financial statements of Absa Group Limited and its subsidiaries (the Group).

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

To enable the directors to meet these responsibilities:

- All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statements of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- The Group's internal audit and compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the Group Audit and Compliance Committee (GACC), appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditor is independent.
- The Board approves the Enterprise Risk Management Framework (ERMF) through recommendation by the Group Risk Capital Management Committee (GRCMC).
- The Board, through the GACC which is assisted by the GRCMC in respect of risk matters, reviewed the compliance practices and procedures to enable the Board to discharge their regulatory responsibilities, by overseeing the plan and progress management makes in improving compliance in respect of Know Your Customer, Anti-Money Laundering and Sanctions requirements; and by considering that the Group's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 53.
- The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

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

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

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

It is the responsibility of the independent external auditor to report on the financial statements. Their report to the shareholders of the Group and the Company is set out on pages 13 to 19 of this report.

The directors' report on pages 9 to 12 and the annual financial statements of the Group and the Company were approved by the Board of directors and are signed on their behalf by:

**W E Lucas-Bull**
Group Chairman

**J P Quinn**
Financial Director

Johannesburg
8 March 2019

# Group Audit and Compliance Committee report

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

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

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

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

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

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

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

## Significant matters considered by the Committee included:

| Matter | Committee action, discussions and decisions |
|---|---|
| **1. Control environment** | › Critically assessed and continuously monitored steps taken to remedy material controls identified as requiring remedial action. Inputs considered included the Chief Risk Officer's report, the key risk and combined assurance assessments, as well as risk and control assessments.<br>› Assessed actual, and potential, impacts of the changing business operating model of the Group as a result of the separation from Barclays PLC to ensure that the Group maintains a strong control environment.<br>› Considered reports from Internal Audit on the reallocation of risk, control and governance responsibilities between business and functions as a result of the changed business operating model.<br>› Engaged with Internal Audit on the soundness of risk management, and the robustness of the internal control framework over financial, operational and compliance issues which support the validity, accuracy and completeness of financial information. Where areas of improvement were identified, management has completed corrective actions, or is in the process of implementing corrective action, and progress is tracked by Internal Audit.<br>› Received confirmation from an Internal Audit review that the Board and Board committees apply the King IV principles on the roles and responsibilities of the Group's governance forums.<br>› Confirmed that the finance function meets the King IV requirements to fulfil all financial reporting and control functions. |
| **2. IFRS 9 implementation** | › Considered the impact of the IFRS 9 implementation and its effect on classification and measurement of financial instruments, as well as the changes of credit loss and hedge accounting models.<br>› Approved the IFRS 9 Directive 5 that was submitted to the South African Reserve Bank as well as the transitional disclosures presented to the market in August 2018 detailing the impact of the reporting standard on opening balances and capital adequacy. The Committee also considered and approved the further adjustment made thereafter to the opening balances resulting from an evaluation of the impairment recoveries. Refer to note 1.21.5.<br>› Received regular updates from external auditor and internal auditor on assurance activities relating to IFRS 9 to ensure that management processes, judgements and assumptions are in line with expectations. |
| **3. Combined assurance** | The Committee provided oversight over the design, implementation and sustainability of the Group's combined assurance model, oversight of assurance testing results, as well as management's responses to control risks identified. Emphasis is placed on a strong embedment of first and second line of defence as the foundation of a sound control environment. To improve alignment to the principles and standards of King IV, the Committee continuously reviews the combined assurance model for refinement in conjunction with Internal Audit and External Audit, to ensure that they leverage off each other's insight and intelligence for enhanced efficiency and effectiveness of the risk management systems which the Group has in place. |

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

| Matter | Committee action, discussions and decisions |
|---|---|
| **4. Separation** | The Committee also received regular reports from a separation-specific combined assurance forum which included Internal Audit, External Audit, and the Programme Independent Quality Assurance team from PwC. The updates included details on the implementation of a combined approach towards assurance planning, coordination and execution within the separation programme. The accounting for the separation expenditure including allocation to capitalised assets and expenses reviewed in conjunction with the financial controls was included in the Committee's oversight role. |
| **5. Fraud and cyber risk** | The Committee received confirmation from the Chief Internal Auditor to ensure that Internal Audit monitors internal fraud, including management efforts to raise awareness and address the culture regarding collusion.<br><br>The Committee noted the updated fraud model and the new Engineering Services structure, which better support the new corporate strategy:<br>› Responsibility for operational and customer fraud as well as appropriate data elements is with business units. The business unit chief information officers will report into the Chief Information Officer and the business unit chief executive.<br>› The Chief Security Office (CSO) manages cyber, forensics, resilience, physical security and the fraud centre of excellence.<br>› The Group Chief Data Officer has the overall and coordinated view of data.<br><br>The Committee also received reports to confirm that the CSO and Financial Crime division have strengthened their collaboration by:<br>› Sharing current and emerging threats, through a combined monthly working group;<br>› Coordinating actions to proactively identify and disrupt criminal activity; and<br>› Sharing data descriptors and indicators regarding accounts linked to possible mule activity.<br><br>The Committee also considered a special report on the Group's fraud risk management capability and its adoption of the converged security strategy.<br><br>The Committee in conjunction with the board IT committee reviewed the ongoing development of a platform for preventing and detecting fraud and other irregularities, which will assist in safeguarding the assets of the Group, especially the resilience of core infrastructure to protect against increasingly sophisticated cybercrime. |
| **6. Audit quality** | Following the decision leading to EY being the sole group auditor, the Audit Committee and senior financial management spent considerable time in ensuring that the comprehensive plans and arrangements by EY would provide a high quality audit across the Group, supported by appropriate expertise and experienced local and international engagement professionals.<br><br>A comprehensive effectiveness and quality review of the external auditors was conducted subsequent to the completion of the year-end audit. Specific feedback was presented to the Committee on independence, objectivity, courage to challenge and professional scepticism of the External Audit. No issues have been identified regarding the quality of the audit and the Committee was satisfied with management's assessment of the effectiveness and quality of the external auditors.<br><br>The Committee also considers and evaluates information from external sources (in line with JSE regulations) through an annual accreditation process by considering the Independent Regulatory Board of Auditors (IRBA) inspection reports, EY's internal quality reviews, as well as their committed actions to address any concerns raised.<br><br>The Internal Audit Quality Assurance and Professional Practices unit performs an annual assessment of the Internal Audit function. During 2018, Deloitte performed an External Quality Assurance Review (EQAR) of the Internal Audit function. It was concluded that Internal Audit generally conforms with the Institute of Internal Auditors (IIA) Standards, the International Professional Practices Framework (IPPF), the requirements embodied in the South African Banks Act and King IV, and applies global guidance recommended by Basel guidance on Internal Audit in Banks and requirements of the Committee on Internal Audit Guidance for Financial Services. |

## External audit

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

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

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

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

The Committee confirmed that:

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

## Financial statements and accounting practices

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

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

## Financial statements and accounting practices (continued)

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

## Solvency and liquidity tests

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

## Internal Audit and the internal control environment

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

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

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

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

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

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

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

## Governance, risk management and control effectiveness

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

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

## Quality and integrity of the integrated report

The Committee is responsible for evaluating the integrated report to ensure that it complies in all material respects to laws and regulatory requirements. During the reporting period the Committee:

- Reviewed stakeholder feedback on the Group's 2017 Integrated Report.
- Reviewed the integrated reporting process which includes reporting on sustainability matters, having regard for all factors and risks, including significant legal and tax matters and any other concerns identified which may impact the integrity of the Integrated report or that could have a material impact on the financial statements.

## Regulatory and corporate governance requirements

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

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

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

## Conclusion

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

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

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

On behalf of the Committee

**C Beggs**
Chairman of the Committee

Johannesburg
8 March 2019

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

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

**N R Drutman**
Company Secretary

Johannesburg
8 March 2019

## General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, financial services and wealth management products and services. The Group operates in 12 African countries and employs 40 856 people. The address of the registered office of the Group is the 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

The Group is one of South Africa's largest financial services organisations, serving retail, business and corporate customers and clients in sub-Saharan Africa.

The Group has majority stakes in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, South Africa, Tanzania, Uganda and Zambia. There are also representative offices in London, Namibia and Nigeria as well as bancassurance operations in Botswana, Kenya, Mozambique, South Africa and Zambia.

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

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

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

## Group Audit and Compliance Committee report

Refer to pages 3 to 7 .

## Group results

### Main business and operations

The Group recorded a decrease of 2% in headline earnings to **R14 142m** (2017: R14 378m) for the reporting period. Headline earnings per share (HEPS) decreased by 1% to **1 703.7 cents** (2017: 1 724.5 cents) and diluted HEPS by 2% to **1 700.4 cents** (2017: 1 724.2 cents). Refer to note 43 for the breakdown of headline earnings note per segment.

Some comparative segmental information contained in this set of financial statements has been restated due to business portfolio changes. Refer to note 57 for further details.

## Headline earnings were derived from the following activities:

| | Group | |
|---|---|---|
| | 2018<br>Rm | 2017[1]<br>Rm |
| RBB South Africa | **8 880** | 8 748 |
| Retail Banking South Africa | **6 359** | 6 240 |
| Business Banking South Africa | **2 521** | 2 508 |
| CIB South Africa | **3 367** | 3 411 |
| Absa Regional Operations | **3 218** | 2 954 |
| WIMI | **1 268** | 1 231 |
| Head Office, Treasury and other operations in South Africa | **(605)** | (721) |
| Barclays separation | **(1 986)** | (1 245) |
| **Headline earnings (refer to note 43)** | **14 142** | 14 378 |

[1] Numbers have been restated, refer to notes 1.21 and 57.1.

## Re-election of retiring directors

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

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

Details of the members of the Board:

| Name | Position as director | Current reporting period appointments and resignations |
|---|---|---|
| T Abdool-Samad | Independent non-executive director | Appointed 1 February 2018 |
| C Beggs | Independent non-executive director | |
| Y Z Cuba | Independent non-executive director | |
| A B Darko (Ghanaian) | Independent non-executive director | |
| M P Fandeso | Independent non-executive director | Resigned 19 November 2018 |
| D J Hodge (British) | Non-executive director | |
| D W P Hodnett | Deputy Chief Executive Officer | Resigned 15 May 2018 |
| M J Husain | Lead independent director | |
| W E Lucas-Bull | Independent non-executive director, Chairman | |
| P B Matlare | Deputy Chief Executive Officer | |
| M S Merson (British) | Independent non-executive director | |
| T S Munday | Lead independent director | Retired 15 May 2018 |
| D Naidoo | Independent non-executive director | |
| P S O'Flaherty | Independent non-executive director | Resigned 5 November 2018 |
| F Okomo-Okello (Kenyan) | Independent non-executive director | |
| J P Quinn | Financial Director | |
| M Ramos | Chief Executive Officer | Retired 28 February 2019 |
| R van Wyk[1] | Chief Executive Officer | Appointed 1 March 2019 |

## Shareholder information

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of shares/notes | % holding | Number of shares/notes | % holding |
| **Public and non-public shareholders** | | | | |
| **Ordinary shares** | | | | |
| **Public** | | | | |
| Barclays Bank PLC (UK) | **126 145 303** | **14.88** | 126 145 303 | 14.88 |
| Public Investment Corporation (SA) | **53 330 172** | **6.29** | 55 635 169 | 6.56 |
| Other | **647 704 297** | **76.40** | 650 780 797 | 76.77 |
| **Non-public** | **20 570 907** | **2.43** | 15 189 410 | 1.79 |
| Treasury shares[2] | **20 273 811** | **2.39** | 14 912 864 | 1.76 |
| Directors (refer to note 25.2) | **297 096** | **0.04** | 276 546 | 0.03 |
| **Total** | **847 750 679** | **100** | 847 750 679 | 100 |
| **Additional Tier 1 capital** | | | | |
| **Public[3]** | **2** | **100** | 1 | 100 |

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

[2] **551 983** shares held by Absa Life Limited (2017: 712 984); **1 756 743** (2017: 1 110 723) shares held in trust for shared-based payments; **4 028 035** held by Absa Capital (2017: 2 881 949) and shares held by the Absa Empowerment Trust in pursuance of a future Broad-Based Black Economic Empowerment structure.

[3] 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 and 10 October 2023 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.

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

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

Executive directors are entitled to share awards, the details of which are included in note 66.

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

## Directors' and prescribed officers' emoluments

The emoluments and services of directors and prescribed officers are determined by the Group Remuneration Committee (Remco) as disclosed in note 66.

## Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 49 to the consolidated financial statements.

## Acquisitions and disposals

Refer to notes 7, 11 and 56 for additional information on the acquisitions and disposals of businesses and other significant assets.

## Acquisitions during the current reporting period

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

## Acquisitions during the prior reporting period

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

## Disposals during the current and prior reporting periods

Apart from non-current assets/liabilities held for sale disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was **R1 398m** (2017: R205m).

## Barclays separation

In the current reporting period key spend included investing in technology platforms by setting up and building new systems. The new systems will replace the dependency on and use of Barclays PLC systems. Branding expenditure entailed removing the Members of Barclays emblem across South Africa.

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

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

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

Barclays PLC contributed cash of R1 891m to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 (1.5%) of the Group's shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital. The Absa Empowerment Trust has purchased additional Absa Group Limited shares with the proceeds of dividend income it has received and it currently holds 13 937 050 (1.64%) of the Group's shares.

CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. In 2017 these shares were transferred back to the Group for a nominal consideration of one British Pound (GBP). The shares were recognised at a fair value of R48m. The related credit has was recognised in equity as a shareholder contribution.

## Dividends

- On 1 March 2018, a final dividend of 595 cents per ordinary share was announced to ordinary shareholders registered on 13 April 2018.
- On 6 August 2018, an interim dividend of 490 cents per ordinary share was announced to ordinary shareholders registered on 14 September 2018.
- On 8 March 2019, a final dividend of 620 cents per ordinary share was approved. The dividend was announced on 11 March 2019 to ordinary shareholders registered on 12 April 2019. This dividend is payable on Monday, 15 April 2019.

## Special resolutions

The following special resolutions were passed by the Company's ordinary shareholders at the AGM held on 15 May 2018, in accordance with the Companies Act:

- **Special resolution number 1 – Amendment of the Company's MOI**
  Resolved that the Company's MOI be and is hereby amended by the deletion of the existing clauses 20.8.3 and 20.8.4 in their entirety and replacing them with the new clauses 20.8.3 and 20.8.4.

- **Special resolution number 2 – Approval of name change**
  Resolved that the name of the Company be changed from 'Barclays Africa Group Limited' to 'Absa Group Limited', with effect from the date set out in the amended registration certificate (11 July 2018) issued by the Companies and Intellectual Property Commission as contemplated in section 16(9) of the Companies Act.

- **Special resolution number 3 – Remuneration of non-executive directors**
  Resolved to approve the proposed remuneration to be payable to non-executive directors from 1 May 2018 to and including the last day of the month preceding the date of the next AGM thereafter.

- **Special resolution number 4 – General repurchases**
  Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's MOI, the JSE Listings Requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 months from the date of the resolution, whichever is the earlier, and may be varied by a special resolution at any general meeting of the Company at any time prior to the AGM.

- **Special resolution number 5 – Financial assistance to a related or inter-related company/corporation**
  Resolved to enable the Company, in terms of a general authority contemplated in section 45(3)(a)(ii) of the Companies Act, for a period of two years from the date of this resolution, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and/or to a member of a related or inter-related company/corporation.

## Company Secretary

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

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

Telephone: (+27 11) 350 5347

Email: groupsec@absa.africa

## Auditors

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

## Authorised and issued share capital

### Authorised

The authorised share capital of the Company of **R1 760 935 000** (2017: R1 760 935 000) consists of **880 467 500** (2017: 880 467 500) ordinary shares of R2.00 each.

### Issued

The total issued share capital at the reporting date was made up as follows:

**847 750 679** (2017: 847 750 679) ordinary shares of R2.00 each.

No preference shares are currently in issue by the Company.

# Independent auditor's report to the shareholders of Absa Group Limited

## Independent auditor's report on the consolidated and separate financial statements

### To the shareholders of Absa Group Limited

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

## Opinion

We have audited the consolidated and separate financial statements of Absa Group Limited and its subsidiaries (the group and company) set out on pages 18 to 251 which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies, but excludes the sections marked as 'unaudited' in notes 51, 63.5.2 and Annexure A: Embedded value report of the Life Insurance entities.

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

## Basis for opinion

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

## Key audit matters

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

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

| Level | Key audit matter | How our audit addressed the matter |
|---|---|---|
| Absa Group Limited | **Expected credit losses**<br>The disclosure associated with credit risk is set out in the financial statements in the following notes:<br>› Note 1.2.1 – Approach to credit risk and impairment of loans and advances (page 30)<br>› Note 8 – Impairment losses on loans and advances to customers (page 77)<br>› Note 62.2 – Credit risk (page 169) | |
| | IFRS 9: Financial Instruments was effective 1 January 2018. Absa has applied IFRS 9 using a modified retrospective approach, with an adjustment to retained earnings and other reserves on 1 January 2018. Comparative periods have not been restated.<br><br>The IFRS 9 expected credit losses (ECL) approach is applicable to all financial assets at amortised cost and debt financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model, which excluded loan commitments and financial guarantee contracts.<br><br>ECL represents management's best estimate of the losses expected to be incurred at reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances.<br><br>The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective. The estimation uncertainty is heightened due to the ongoing subdued growth in the South African economy and the uncertainty in the wider African economies. | **Accounting policies**<br>We have evaluated the IFRS 9 accounting policies and assessed the ECL methodologies applied, and compared these to the requirements of IFRS 9: Financial Instruments.<br><br>**Audit procedures**<br>We have performed our audit procedures to assess the amount of the 1 January 2018 adjustment to retained earnings and other reserves on the application of IFRS 9, the 31 December 2018 closing provision and the movement in ECL over the period.<br><br>We have obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant key controls identified within these processes. |
| | **Collective ECL recognition**<br>A significant portion of ECL is calculated on a collective basis, utilising statistical models. The development and execution of these models requires significant management judgement, including the estimation of key inputs such as the probability of default (PD); exposure at default (EAD) and loss given default (LGD). Further judgement is required in incorporating forward looking information into the ECL models and in determining the ECL stage allocation. | **Collective ECL recognition**<br>Where expected credit losses are calculated on a collective modelled basis we have performed the following audit procedures, amongst others, with the assistance of our credit risk quantitative specialists:<br>› Evaluated the control environment supporting the models as well as the governance processes over impairments as a whole.<br>› We considered Internal Audit reports and the findings raised.<br>› Assessed the design and implementation of the ECL models, including assessing the significant assumptions applied and the data used to derive model parameters with reference to the requirements of IFRS 9.<br>› Evaluated the ECL modelling methodology applied by management to determine the PD, LGD, and EAD used to compute portfolio ECL allowances against the requirements of IFRS 9 and the Absa Group's internal policies.<br>› Assessed management's ECL models for mathematical accuracy and alignment to internally approved modelling methodology by reperforming the ECL models.<br>› With assistance from our economics specialist, we have considered the macro-economic forecasts used in the models including benchmarking these against external evidence and economic data.<br>› Performed sensitivity analyses on the forecasts and the assessed impacts on ECL against management's ECL estimate.<br>› Assessed management's post-model adjustments by evaluating the reasonability of the assumptions and judgements applied when making their assessment of the qualitative and quantitative impact of economic, legal and operational events.<br>› We have recalculated post-model adjustments. |

# Independent auditor's report to the shareholders of Absa Group Limited

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>Absa Group Limited</td><td>Individual ECL recognition<br>A significant portion of loans and advances are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Bank portfolios. Significant judgements, estimates and assumptions are applied by management to:<br>› Determine if the financial asset is impaired;<br>› Evaluate the valuation and recoverability of collateral;<br>› Determine the expected future cash flows to be collected; and<br>› Estimate the timing of the future cash flows.</td><td>Individual ECL recognition<br>We have tested management's processes and judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments against Absa Group internal policy and the requirements of IFRS 9.<br><br>Where these assessments are based on uncertain future events, we have considered a range of possible outcomes, formed an independent view of the most likely outcome including the ECL impact and compared our view to management's.<br><br>Where exposures were determined to be credit impaired, our procedures focused on assessing the reasonability of the estimate of the expected future cash flows used in measuring ECL. This included testing the following elements, with the support of our corporate finance valuation specialists for more complex assessments:<br>› Where exposures are collateralised, we tested the Absa Group's legal right to the collateral, as well as the valuation of the collateral. Key considerations included valuation model assumptions, external market data and the historical accuracy of management's valuation estimates.<br>› Where future cash flows are estimated based on the financial prospects of the counterparty to the loan, we have tested these estimates with reference to available market financial and performance information, external valuations, industry performance, historical trends and counterparty specific information.</td></tr>
<tr><td rowspan="2">Absa Group Limited</td><td colspan="2">Valuation of complex financial instruments<br>The disclosure associated with the valuation of complex financial instruments is set out in the financial statements in the following notes:<br>› Note 1.2.3 – Fair value measurement (page 36)<br>› Note 60 – Fair value disclosures (page 158) (consolidated financial statements)</td></tr>
<tr><td>Valuation of financial instruments, such as derivatives and investment securities, requires significant judgement in determining the appropriate valuation techniques to apply.<br><br>Fair value calculations, especially level 3 financial instruments, are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value these financial instruments disclosed in the financial statements.<br><br>Unobservable inputs are frequently used in the valuation of fair value instruments. Limited market data on risk inputs, including volatilities, results in material judgement being exercised. Consequently, this makes it a key area of focus where applying significant judgement in assessing the reasonability of these instruments.<br><br>Fair value measurement of financial instruments significantly affects profit or loss, other comprehensive income and disclosures in the financial statements and is therefore considered to be a key audit matter.</td><td>We performed, amongst others, the following procedures:<br>› We have obtained an understanding of management's processes for ensuring that correct external and internal data is used as inputs into the models and have tested the relevant key controls and governance process in place.<br>› For a sample of financial instruments, and with the assistance of our valuation specialist, we have assessed the valuation models used with reference to the valuation approaches commonly used in the industry.<br>› We have assessed the judgements and estimates applied by management against our understanding of the current market practice and conditions. We have also obtained independently sourced inputs where available, which have been compared against the inputs used by management.<br>› Where valuation inputs are unobservable, we involved our valuation specialists to assist us in assessing the valuation inputs based on supportable and comparable information and compared these to management's valuation inputs.</td></tr>
</table>

| Level | Key audit matter | How our audit addressed the matter |
| --- | --- | --- |
| **Absa Group Limited** | **Valuation of insurance liabilities**<br>The disclosure associated with the valuation of insurance liabilities is set out in the financial statements in the following notes:<br>› Note 1.10 - Classification of insurance and investment contracts (page 53)<br>› Note 23 – Policyholder liabilities under insurance contracts (page 87) | |
| | Uncertainty exists about the recognition and measurement of the liabilities arising from insurance contracts under short-term and long-term insurance operations.<br><br>The valuation of insurance contract liabilities is a key audit matter as it involves making complex and significant judgements about future events, both internal and external to the business, for which small changes can result in a material impact.<br><br>Specific areas of complexity include the insurance reserving assumptions and methodologies used to determine the incurred, but not yet reported claims (IBNR) and insurance policyholder liabilities in Wealth, Investment Management and Insurance.<br><br>Significant judgements, estimates and assumptions are applied by management to determine:<br>› The level of claims provision and provision for unexpired claims;<br>› Assumptions around future mortality, morbidity, discontinuance rates, reasonable expectations of benefits and guaranteed benefits and expenses; and<br>› The rate applied to discount future profits.<br><br>Because of the complexity of the valuation of insurance contract liabilities and the significance of these balances to the consolidated financial statements we consider this to be a key audit matter. | Our audit of the valuation of insurance contract liabilities, inter alia, included the following audit procedures which were executed with the assistance of our actuarial specialists, in areas considered material:<br>› We assessed the valuation methodology and assumptions for compliance with the latest actuarial guidance, legislation and approved company policy;<br>› We assessed the design of the valuation process for the setting and updating of assumptions and the process for model and methodology changes;<br>› We obtained an understanding of management's process over reconciliations that govern the valuation of the insurance liabilities and tested the relevant key controls in place.<br><br>With the support of our insurance actuarial specialists, we have:<br>› Evaluated the inputs and data into models, including the significant assumptions applied by management's actuaries in the valuation of the insurance liabilities against the results of our independent model output and assumptions;<br>› Evaluated the methodology, inputs and assumptions used for a sample of model changes based on our knowledge of the Company, industry standards and regulatory and financial reporting requirements, and assessed the insurance contract liabilities calculated outside the core system against independent reprojections; and<br>› Tested the valuation of selected insurance liabilities by comparing our own modelled results against management's assessment. |

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="2">Absa Group Limited</td><td colspan="2">Separation from Barclays PLC<br>The disclosure associated with the separation from Barclays PLC is set out in the financial statements in the following notes:<br>› Note 38 – Operating expenses (page 102)<br>› Note 14 – Goodwill and intangible assets (page 81)</td></tr>
<tr><td>The separation from Barclays PLC increases the potential for operational risk of the Group, which in turn increases the audit risk.<br><br>The impact of the separation was a significant area of audit focus as a result of the separation affecting a large number of financial and operational processes and outputs, including:<br>› Changes in the control environment and key controls;<br>› Changes of platforms and/or migration to new platforms; and<br>› Changes in outsourcing arrangements and agreements with third parties.<br><br>In addition, the separation from Barclays PLC resulted in significant costs being incurred, some of which were capitalised in accordance with IAS 38. Management applies their judgement in determining the future economic benefits of costs incurred in relation to new systems, and changes to existing systems and processes.<br><br>This is an area of significance to the audit due to the value of costs capitalised and the degree of estimation involved in assessing the future value.</td><td>We performed, amongst others, the following procedures:<br><br>On the impact of changing systems:<br>› We established a specialist audit team to test the impact of Absa Group's separation on the financial statement audit.<br>› We relied on Internal Audit for testing certain separation projects and considered the impact of Absa Group's combined assurance model.<br>› We assessed the design, and tested the operating effectiveness of the controls over key financial statement processes that have changed or have been replaced with a new control that the audit team relied upon.<br>› We continued to test the effectiveness of key controls of legacy systems still in operation during the audit period.<br>› We tested the completeness and accuracy of data migrated from legacy systems to new systems implemented during the audit period.<br>› Our cyber risk specialists performed threat and vulnerability risk assessment, with a focus on the risk to the financial statements.<br>› We obtained an understanding of significant outsourced services, including the nature of the relationship between the entity and the service organisation. We assessed and tested the key controls with an impact on the financial systems.<br><br>On the capitalisation of costs incurred:<br>› We understood management's process and controls in place for identifying costs to be capitalised.<br>› We assessed the accounting policy against the requirements of IAS 38.<br>› We performed analytical procedures and relevant tests of detail over the classification of costs as an expense or capitalised intangible asset.<br>› We considered management's rationale for the capitalisation of significant projects, and considered the potential future economic benefit of these systems.<br>› We tested management's judgements and estimates made in the capitalisation of costs, and assessment of impairment.</td></tr>
</table>

## Other information

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

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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

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

## Report on other legal and regulatory requirements

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

**Ernst & Young Inc.**
Director: E van Rooyen CA(SA)
Registered Auditor

102 Rivonia Road, Sandton
8 March 2019

# Consolidated statement of financial position

as at 31 December

| | Note | Group 2018 Rm | Restated 2017 Rm | Restated 2016 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash, cash balances and balances with central banks | 2 | **46 929** | 48 669 | 50 006 |
| Investment securities | 3 | **135 420** | 111 409 | 114 315 |
| Loans and advances to banks | 4 | **53 140** | 55 426 | 49 789 |
| Trading portfolio assets | 5 | **128 569** | 132 183 | 96 236 |
| Hedging portfolio assets | 5 | **2 411** | 2 673 | 1 745 |
| Other assets[1] | 6 | **30 642** | 24 576 | 28 107 |
| Current tax assets | | **819** | 314 | 894 |
| Non-current assets held for sale | 7 | **239** | 1 308 | 823 |
| Loans and advances to customers | 8 | **841 720** | 749 772 | 720 309 |
| Reinsurance assets | 9 | **618** | 892 | 985 |
| Investments linked to investment contracts | 10 | **18 481** | 18 936 | 18 816 |
| Investments in associates and joint ventures | 11 | **1 310** | 1 235 | 1 065 |
| Investment properties | 12 | **508** | 231 | 478 |
| Property and equipment | 13 | **15 835** | 15 303 | 14 643 |
| Goodwill and intangible assets | 14 | **8 672** | 5 377 | 4 049 |
| Deferred tax assets | 15 | **3 431** | 1 291 | 1 328 |
| **Total assets** | | **1 288 744** | 1 169 595 | 1 103 588 |
| **Liabilities** | | | | |
| Deposits from banks | 16 | **121 421** | 67 390 | 53 192 |
| Trading portfolio liabilities | 17 | **51 632** | 64 047 | 47 429 |
| Hedging portfolio liabilities | 17 | **1 343** | 1 123 | 2 064 |
| Other liabilities[1] | 18 | **36 662** | 35 360 | 30 261 |
| Provisions | 19 | **4 017** | 3 041 | 3 005 |
| Current tax liabilities | | **236** | 57 | 244 |
| Non-current liabilities held for sale | 7 | **124** | 48 | 9 |
| Deposits due to customers | 20 | **736 305** | 689 867 | 674 865 |
| Debt securities in issue | 21 | **160 971** | 137 948 | 139 714 |
| Liabilities under investment contracts | 22 | **29 674** | 30 585 | 29 198 |
| Policyholder liabilities under insurance contracts[2] | 23 | **4 168** | 4 342 | 4 283 |
| Borrowed funds | 24 | **20 225** | 15 895 | 15 673 |
| Deferred tax liabilities[2] | 15 | **360** | 634 | 1 237 |
| **Total liabilities** | | **1 167 138** | 1 050 337 | 1 001 174 |
| **Equity** | | | | |
| **Capital and reserves** | | | | |
| Attributable to ordinary equity holders: | | | | |
| Share capital | 25 | **1 655** | 1 666 | 1 693 |
| Share premium | 25 | **10 205** | 10 498 | 4 467 |
| Retained earnings[2] | | **91 237** | 92 080 | 81 738 |
| Other reserves | 26 | **6 387** | 4 370 | 5 293 |
| | | **109 484** | 108 614 | 93 191 |
| Non-controlling interest – ordinary shares | | **4 737** | 4 500 | 4 579 |
| Non-controlling interest – preference shares | 27.1 | **4 644** | 4 644 | 4 644 |
| Non-controlling interest – Additional Tier 1 capital | 27.2 | **2 741** | 1 500 | — |
| **Total equity** | | **121 606** | 119 258 | 102 414 |
| **Total liabilities and equity** | | **1 288 744** | 1 169 595 | 1 103 588 |

[1] Numbers have been restated, refer to note 1.21.12 for further details.

[2] Numbers have been restated, refer to note 1.21.10 for further details.

# Consolidated statement of comprehensive income

for the reporting period ended 31 December

| | Note | Group 2018 Rm | Restated 2017 Rm |
|---|---|---|---|
| Net interest income | | **43 755** | 42 644 |
| Interest and similar income[1] | 28 | **89 236** | 85 929 |
| Effective interest income | | **87 634** | 84 656 |
| Other interest income | | **1 602** | 1 273 |
| Interest expense and similar charges[1] | 29 | **(45 481)** | (43 285) |
| Effective interest expense | | **(45 481)** | (43 285) |
| Non-interest income[2] | | **32 760** | 30 751 |
| Net fee and commission income | | **22 523** | 21 711 |
| Fee and commission income | 30 | **25 675** | 24 724 |
| Fee and commission expense | 30 | **(3 152)** | (3 013) |
| Net insurance premium income | 31 | **7 190** | 6 598 |
| Net claims and benefits incurred on insurance contracts | 32 | **(3 565)** | (3 334) |
| Changes in investment and insurance contract liabilities[2] | 33 | **808** | (2 023) |
| Gains and losses from banking and trading activities | 34 | **5 820** | 5 246 |
| Gains and losses from investment activities | 35 | **(636)** | 1 905 |
| Other operating income | 36 | **620** | 648 |
| **Total income** | | **76 515** | 73 395 |
| Impairment losses | 37 | **(6 324)** | (7 022) |
| **Operating income before operating expenditure** | | **70 191** | 66 373 |
| Operating expenditure | 38 | **(46 803)** | (43 304) |
| Other expenses | | **(2 026)** | (2 270) |
| Other impairments | 39 | **(434)** | (648) |
| Indirect taxation | 40 | **(1 592)** | (1 622) |
| Share of post-tax results of associates and joint ventures | 11.1 | **179** | 170 |
| **Operating profit before income tax** | | **21 541** | 20 969 |
| Taxation expense[2] | 41 | **(6 282)** | (5 882) |
| **Profit for the reporting period** | | **15 259** | 15 087 |
| **Profit attributable to:** | | | |
| Ordinary equity holders[2] | | **13 917** | 13 888 |
| Non-controlling interest – ordinary shares | | **801** | 789 |
| Non-controlling interest – preference shares | | **351** | 362 |
| Non-controlling interest – Additional Tier 1 capital | | **190** | 48 |
| | | **15 259** | 15 087 |
| **Earnings per share:** | | | |
| Basic earnings per share (cents)[2] | 42.1 | **1 676.5** | 1 665.7 |
| Diluted earnings per share (cents)[2] | 42.2 | **1 673.3** | 1 665.5 |

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

[2] Numbers have been restated, refer to note 1.21.10 for further details.

# Consolidated statement of comprehensive income

for the reporting period ended 31 December

| | Note | Group 2018 Rm | Group Restated 2017 Rm |
|---|---|---|---|
| **Profit for the reporting period**[1] | | **15 259** | 15 087 |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | **53** | (179) |
| Movement on equity instruments designated at FVOCI | | **27** | — |
| Fair value gains | | **38** | — |
| Deferred tax | | **(11)** | — |
| Movement on liabilities designated at FVTPL due to changes in own credit risk | | **(13)** | (147) |
| Fair value losses | | **(71)** | (147) |
| Deferred tax | | **58** | — |
| Movement in retirement benefit fund assets and liabilities | | **39** | (32) |
| Decrease in retirement benefit surplus | 44 | **(26)** | (91) |
| Increase in retirement benefit deficit | 44 | **55** | 45 |
| Deferred tax | 15 | **10** | 14 |
| **Items that are or may be subsequently reclassified to profit or loss** | | **2 215** | (1 327) |
| Movement in foreign currency translation reserve | | **3 052** | (2 219) |
| Differences in translation of foreign operations | | **3 052** | (2 271) |
| Release to profit or loss | | **—** | 52 |
| Movement in cash flow hedging reserve | | **(247)** | 794 |
| Fair value gains | | **265** | 1 465 |
| Amounts transferred within other comprehensive income | | **(58)** | — |
| Amount removed from other comprehensive income and recognised in profit or loss | | **(550)** | (365) |
| Deferred tax | 15 | **96** | (306) |
| Movement in fair value of debt instruments measured at FVOCI | | **(590)** | — |
| Fair value losses | | **(750)** | — |
| Release to profit or loss | 34 | **(9)** | — |
| Deferred tax | 15 | **169** | — |
| Movement in available-for-sale reserve | | **—** | 98 |
| Fair value gains | | **—** | 154 |
| Release to profit or loss | | **—** | 67 |
| Deferred tax | | **—** | (123) |
| **Total comprehensive income for the reporting period** | | **17 527** | 13 580 |
| **Total comprehensive income attributable to:** | | | |
| Ordinary equity holders[1] | | **15 816** | 12 654 |
| Non-controlling interest – ordinary shares | | **1 170** | 516 |
| Non-controlling interest – preference shares | | **351** | 362 |
| Non-controlling interest – Additional Tier 1 capital | | **190** | 48 |
| | | **17 527** | 13 580 |

[1] Numbers have been restated, refer to note 1.21.10 for further details.

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# Consolidated 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 | 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 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 |
| Note | 25 | 25 | 25 | | | 26 |

# Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2018

| Fair value through other compre-hensive income reserve Rm | Cash flow hedging reserve Rm | Foreign currency translation reserve Rm | Foreign insurance subsidiary regulatory reserve Rm | Share-based payment reserve Rm | Associates' and joint ventures' reserve Rm | Capital and reserves attributable to ordinary equity holders Rm | Non-controlling interest – ordinary shares Rm | Non-controlling interest – preference shares Rm | Non-controlling interest – Additional Tier 1 capital Rm | Total equity Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| 445 | 650 | 431 | 6 | 837 | 1 222 | 108 614 | 4 500 | 4 644 | 1 500 | 119 258 |
| (22) | — | — | — | — | (104) | (5 539) | (230) | — | — | (5 769) |
| — | — | — | — | — | — | (44) | — | — | — | (44) |
| 423 | 650 | 431 | 6 | 837 | 1 118 | 103 031 | 4 270 | 4 644 | 1 500 | 113 445 |
| (503) | (247) | 2 629 | — | — | — | 15 816 | 1 170 | 351 | 190 | 17 527 |
| — | — | — | — | — | — | 13 917 | 801 | 351 | 190 | 15 259 |
| (503) | (247) | 2 629 | — | — | — | 1 899 | 369 | — | — | 2 268 |
| — | — | — | — | — | — | (9 033) | (703) | (351) | — | (10 087) |
| — | — | — | — | — | — | — | — | — | (190) | (190) |
| — | — | — | — | — | — | — | — | — | 1 241 | 1 241 |
| — | — | — | — | — | — | (557) | — | — | — | (557) |
| — | — | — | — | — | — | (304) | — | — | — | (304) |
| — | — | — | — | 40 | — | 531 | — | — | — | 531 |
| — | — | — | — | (491) | — | — | — | — | — | — |
| — | — | — | — | 554 | — | 554 | — | — | — | 554 |
| — | — | — | — | (23) | — | (23) | — | — | — | (23) |
| — | — | — | — | — | — | — | — | — | — | — |
| — | — | — | 1 | — | — | — | — | — | — | — |
| — | — | — | — | — | 179 | — | — | — | — | — |
| (80) | 403 | 3 060 | 7 | 877 | 1 297 | 109 484 | 4 737 | 4 644 | 2 741 | 121 606 |
| 26 | 26 | 26 | 26 | 26 | 26 | | | 27.1 | 27.2 | |

# Consolidated 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 a change in Life insurance accounting policy | — | — | — | 134 | — | — |
| **Restated balance at the beginning of the reporting period** | 846 675 | 1 693 | 4 467 | 81 738 | 5 293 | 757 |
| Total comprehensive income | — | — | — | 13 714 | 1 060 | — |
| Profit for the period | — | — | — | 13 888 | — | — |
| Other comprehensive income | — | — | — | (174) | 1 060 | — |
| Dividends paid during the reporting period | — | — | — | (8 821) | — | — |
| Distributions paid during the reporting period | — | — | — | — | — | — |
| Issuance of Additional Tier 1 capital | — | — | — | — | — | — |
| Purchase of Group shares in respect of equity-settled share-based payment arrangements | — | — | (741) | 12 | — | — |
| Elimination of 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 and was recognised in equity on the date that the Group became entitled to the contribution.

[3] As part of the separation, Barclays PLC contributed cash of R1 891m to the independent Absa Empowerment Trust to allow for its subsidiary to purchase 12 716 260 Group shares (1.5%) in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. In terms of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital. Refer to note 25.

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

# Consolidated statement of changes in equity

for the reporting period ended 31 December

**Group**

2017

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

# Consolidated statement of cash flows

for the reporting period ended 31 December

| | Note | Group 2018 Rm | Restated 2017 Rm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Interest received | | **86 559** | 82 688 |
| Interest paid | | **(41 410)** | (41 604) |
| Fees and commission received | | **25 685** | 24 724 |
| Fees and commission paid | | **(3 152)** | (3 013) |
| Insurance premiums and claims[1] | | **4 420** | 1 243 |
| Net trading and other income/(expenses) | | **3 009** | (3 036) |
| Cash payments to employees and suppliers | | **(43 882)** | (40 990) |
| Dividends received from banking and trading activities | | **70** | 149 |
| Income taxes paid | | **(6 648)** | (6 371) |
| Cash flow from operating activities before changes in operating assets and liabilities | | **24 651** | 13 790 |
| Net decrease/(increase) in trading and hedging portfolio assets | | **2 484** | (28 457) |
| Net (increase) in loans and advances to customers | | **(90 910)** | (40 191) |
| Net decrease/(increase) in other assets | | **1 023** | (3 977) |
| Net (increase)/decrease in investment securities | | **(21 507)** | 104 |
| Net (decrease)/increase in trading and hedging portfolio liabilities | | **(12 196)** | 1 460 |
| Net (decrease)/increase in insurance and investment contracts[1] | | **(982)** | 15 748 |
| Net increase in amounts due to customers and banks | | **85 396** | 37 858 |
| Net increase in other liabilities[2] | | **25 925** | 3 131 |
| **Net cash (utilised in)/generated from operating activities** | | **13 884** | (534) |
| **Cash flow from investing activities** | | | |
| Proceeds from disposal of non-current assets held for sale | | **1 414** | 1 146 |
| Net (decrease)/increase in investments linked to investment contracts | | **(1 053)** | 695 |
| Dividends received from investments in associates and joint ventures | | **392** | 398 |
| Purchase of investment properties | 12 | **—** | (1) |
| Proceeds from disposal of investment properties | | **—** | 265 |
| Purchase of property and equipment | 13 | **(3 373)** | (3 263) |
| Proceeds from disposal of properties and equipment | | **137** | 598 |
| Purchase of intangible assets | 14 | **(4 161)** | (2 630) |
| Proceeds from disposal of intangible assets | | **97** | 158 |
| Acquisition of businesses and other similar transactions, net of cash | 56 | **(30)** | — |
| **Net cash utilised in investing activities** | | **(6 577)** | (2 634) |
| **Cash flow from financing activities** | | | |
| Purchase of own shares | | **(304)** | (521) |
| Purchase of Group shares in respect of equity-settled share-based payment schemes | | **(557)** | (729) |
| Issue of Additional Tier 1 capital | | **1 241** | 1 500 |
| Barclays PLC contribution | | **—** | 12 105 |
| Proceeds from borrowed funds | | **6 571** | 2 841 |
| Repayment of borrowed funds | | **(3 195)** | (2 805) |
| Distributions paid to Additional Tier 1 capital holders | | **(190)** | (48) |
| Dividends paid | | **(10 087)** | (9 750) |
| **Net cash (utilised in)/generated from financing activities** | | **(6 521)** | 2 593 |
| Net increase/(decrease) in cash and cash equivalents | | **786** | (575) |
| Cash and cash equivalents at the beginning of the reporting period | | **17 320** | 17 734 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | **388** | 161 |
| **Cash and cash equivalents at the end of the reporting period** | 54 | **18 494** | 17 320 |

[1] Numbers have been restated, refer to note 1.21.10 for further details.

[2] Net increase in other liabilities includes Debt Securities in issue.

## 1. Summary of significant accounting policies

### 1.1 Introduction

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

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

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

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

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

Whilst the adoption of a revised classification and measurement framework has had a less material impact on the 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 Financial Instruments: Recognition and Measurement (IAS 39). It has however implemented the amended hedge accounting disclosures, as required by IFRS 7 Financial Instruments: Disclosures (IFRS 7).

The Group has elected to not restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the Group's opening retained earnings on 1 January 2018. Therefore comparative information in the prior period annual financial statements will not be amended for the impact of IFRS 9. Refer to the transitional disclosures set out in note 1.21 for more information and note 1.7 for the accounting policies applicable under IFRS 9. Note 1.2 includes the relevant estimates and judgements made under IFRS 9.

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

IFRS 15 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.

Refer to note 1.21 for the impact of adopting the standard.

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

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

The amendments to the definition:

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

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

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

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

# 1. Summary of significant accounting policies (continued)

## 1.1 Introduction (continued)

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

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

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

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

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

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

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

### 1.1.2 Basis of presentation

The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out as follows. These policies have been consistently applied, except for two internal accounting policy amendments as explained further in note 1.21. The consolidated and separate financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of Rand (Rm), which is the presentation and the functional currency of the Group.

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

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

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

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

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

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

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

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

The key credit parameters used in this process are:

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

Whilst there is a close interaction and clear overlaps between the regulatory expected loss methodology and the accounting credit models there are key departures which impact how the key risk parameters are modelled and applied. These are discussed further in section 1.21.1.5 and 1.21.1.6 internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications.

# 1. Summary of significant accounting policies (continued)

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

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

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

For example, PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months for a particular period in the credit cycle. EAD and LGD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual measures, reflecting behaviour under normal conditions.

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

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

#### 1.2.1.2 Validation of models

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

#### 1.2.1.3 Default grades

The Group uses two types of PDs, namely:

- The Through-the-Cycle Probability of Default (TTC PD), which reflects the Group’s assessment of the borrower’s long-run average propensity to default in the next year; and
- The Point in Time Probability of Default (PIT PD), which is calculated factoring the current economic, industry and borrower circumstances.

Both types of PDs are used extensively in the Group’s decision-making processes. For communication and comparison purposes, the Group’s 21 default grades (DGs), were mapped to external agency rating equivalents as well as the SARB’s 26 grade PD scale used for regulatory reporting purposes. DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

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

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

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

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

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

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

# 1. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

**Identified impairments on financial assets**

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

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

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

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

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

Under IAS 39, assets were only written off once all necessary procedures had been completed and the amount of loss had been determined. Recoveries of amounts previously written off were reversed, on a cash basis, through impairment and accordingly decreased the amount of the reported impairment charge in the statement of comprehensive income. Refer to notes 8 and 62.2.

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

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

The purpose of estimating ECL is neither to estimate a worst-case scenario nor to estimate the best-case scenario. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

# 1. Summary of significant accounting policies (continued)

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

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

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

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

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

- 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.

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

IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the 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 which ensure that post write-off recoveries remain insignificant over the long run. Further, the policies are recalibrated over time, as and when actual recovery experience changes. Whilst the 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 LGDs to be applied at a portfolio level. 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 which are therefore forecast to be received post the point of write-off are excluded from the LGD model. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when cash is received.

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

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

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

**Retail portfolio**

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

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

# 1. Summary of significant accounting policies (continued)

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

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

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

**Wholesale portfolio**

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

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

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

**Definition of a significant increase in credit risk:**

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

Key drivers of a significant increase in credit risk include:

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

**Definition of credit impaired:**

Assets classified within stage 3 are considered to be credit impaired, which applies when an exposure is in default. Important to the Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to a counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation). Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either:

- The 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.

In addition, within the Retail portfolios:

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

# 1. Summary of significant accounting policies (continued)

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

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

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

**Determination of the lifetime of a credit exposure:**

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

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

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

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

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

**Incorporation of forward-looking information into the IFRS 9 modelling:**

The 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. The projections incorporated into the IFRS 9 ECL model as at 31 December 2018 have been prepared within the context of the base and alternative macroeconomic scenarios detailed below. Please refer to 1.21.6 for detail regarding the forward-looking assumptions applied to the ECL models as at 1 January 2018.

Base scenario

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

Mild upside scenario: Stronger near term growth

- **Global:** The global economy grows faster than expected, as global trade and political tensions subside. This boosts global business confidence, trade and investment.
- **South Africa:** South Africa's economy grows faster than expected as political and policy certainty boosts confidence.
- **Africa Regional Operations:** A stronger global economy and higher commodity prices help support growth in African commodity exports and fixed investments. The level of output remains above the baseline scenario.

Mild downside scenario: Moderate recession

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

### 1.2.2 Goodwill impairment

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

# 1. Summary of significant accounting policies (continued)

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

### 1.2.2 Goodwill impairment (continued)

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

The calculation of value in use is based on discounting expected risk adjusted pre-tax cash flows at a risk adjusted pre-tax interest rate appropriate to the operating unit. The estimation of cash flows is sensitive to the periods for which detailed forecasts are available (which is a period that is normally capped at five years), as well as to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Expected cash flows reflect management's best estimate of future performance, but are calibrated against actual performance and external sources of data. Further, assumptions regarding the growth rate are usually capped at inflation growth, notwithstanding the fact that higher growth may be forecasted by the cash-generating unit (CGU). Growth rates in the impairment calculations range from **-3% to 13.5%** (2017: 3% to 10%) and projected cash flow periods approximate **five years** (2017: five years).

The discount rate applied to the forecasted future cash flows in the value in use calculation is based on the Group's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates a number of financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business that is being evaluated. These variables are subject to fluctuations in external market rates and economic conditions which are outside of management's control. As a consequence they may be established through the exercise of significant management judgement. The range of discount rates used in the impairment calculations is **12.65% to 24%** (2017: 12.70% to 17.83%).

Note 14 includes details of the amount recognised by the Group as goodwill.

### 1.2.3 Fair value measurements

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

#### Valuation inputs

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

- **Quoted market prices – Level 1**

  Fair values are classified as Level 1 if they have been determined using unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date. The quoted prices are required to represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

- **Valuation technique using observable inputs – Level 2**

  Inputs classified as Level 2 are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices), but do not constitute quoted prices that are included within Level 1. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

- **Valuation technique using significant unobservable inputs – Level 3**

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

#### Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Traded Risk and Valuation Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the GACC. The Traded Risk and Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

# 1. Summary of significant accounting policies (continued)

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

### 1.2.3 Fair value measurements (continued)

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

#### Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account. Where possible, the fair value of the Group's investment properties is determined through valuations performed by independent external valuators. When the Group's internal valuations are different to that of the independent external valuers, detailed procedures are performed to substantiate the differences, whereby the IVC verifies the procedures performed by front office and considers the appropriateness of any differences to independent external valuations.

#### Judgemental inputs on valuation of principal instruments

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

- **Debt securities and treasury and other eligible bills**

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

- **Equity instruments**

  Equity instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined with reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs. Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price to earnings comparisons. The relevant methodology for each investment is applied consistently over time.

- **Derivatives**

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

- **Loans and advances**

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

- **Deposits, debt securities in issue and borrowed funds**

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

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

#### Fair value adjustments

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

- **Bid-offer valuation adjustments**

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

# 1. Summary of significant accounting policies (continued)

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

### 1.2.3 Fair value measurements (continued)

› **Uncollateralised derivative adjustments**

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

› **Model valuation adjustments**

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

#### Measurement of assets and liabilities at Level 2

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

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

# 1. Summary of significant accounting policies (continued)

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

### 1.2.3 Fair value measurements (continued)

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

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

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

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

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument, refer to note 60.

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

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

# 1. Summary of significant accounting policies (continued)

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

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

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

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

Refer to note 39.

### 1.2.5 Consolidation of structured or sponsored entities

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

#### Definition of a structured entity

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

#### Assessment of agent versus principal

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

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

#### Assessment of sponsored entities

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

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

Refer to notes 49 and 50.

### 1.2.6 Post-retirement benefits

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

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

#### Exposure to actuarial risks

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

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

#### Investment risk

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

# 1. Summary of significant accounting policies (continued)

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

### 1.2.6 Post-retirement benefits (continued)

#### Inflation/pension increase risk

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

#### Longevity risk

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

#### Salary risk

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

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

#### Measurement risk

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

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

#### Regulatory risk

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

Refer to note 44 for the specific assumptions used and carrying amounts of post-retirement benefits.

### 1.2.7 Provisions

In terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37), a provision is recognised when the Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation. Further, a reliable estimate of the amount of the obligation is required to be made. Various assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Group's legal counsel.

Refer to note 19 for details of provisions recognised and refer to note 53 for details of contingencies recognised.

### 1.2.8 Income taxes

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

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

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

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

# 1. Summary of significant accounting policies (continued)

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

### 1.2.9 Share-based payments

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

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

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

Note 55 includes details of the Group's share awards. Refer to note 19 for the carrying amount of liabilities arising from cash-settled arrangements.

### 1.2.10 Liabilities arising from claims made under short-term insurance contracts

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred and has been reported which would give rise to an insured loss;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of an event occurring; and
- uncertainty as to the extent of policy coverage and applicable limits.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks. Further, the cost of a claim will be determined by the actual loss suffered by the policyholder, taking into account whether a reinsurance contract has been entered into by the Group.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under short-term insurance contracts, refer to note 23.

### 1.2.11 Liabilities arising from claims made under life insurance contracts

Insurance risk for any one life insurance contract is the possibility that the insured event occurs. For a portfolio of insurance contracts probability is applied to pricing and provisioning and the principal risk that the Group faces is that the actual exposure to mortality, disability and medical payments in respect of policyholder benefits will exceed prudent expectation of the exposure (i.e. the carrying amount of the insurance liabilities). Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations. The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 23.

### 1.2.12 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 48.

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

## 1.3 Consolidated financial statements of the Group

### 1.3.1 Subsidiaries

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

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

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

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

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

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

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

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

### 1.3.2 Investments in associates and joint ventures

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

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

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

### 1.3.3 Structured entities

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

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

### 1.3.4 Common control

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

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

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

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

# 1. Summary of significant accounting policies (continued)

## 1.4 Segment reporting

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

## 1.5 Foreign currencies

### 1.5.1 Foreign currency translations

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

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

### 1.5.2 Foreign currency transactions

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

At each subsequent reporting date:

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

## 1.6 Earnings per share

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

## 1.7 Financial instruments

The following section sets out the accounting policies that were applied under IAS 39 in the 2017 reporting period, together with those that are applied under IFRS 9 during the 2018 reporting period.

IFRS 9 Financial Instruments (IFRS 9) has been adopted by the Group on 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). As permitted under IFRS 9, the Group has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2017 reporting period has therefore been prepared under the framework for financial instrument accounting within IAS 39. The following section sets out the accounting policies that were applied in the 2017 reporting period, together with those that are applied under IFRS 9. Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as the impairment scope and methodology. Where there have been changes in accounting policies, those applied in 2017 have been clearly distinguished from the current reporting period. In accordance with the transition options allowable under IFRS 9, the Group will continue to apply the hedge accounting requirements set out in IAS 39 but will adopt the revised disclosures set out in the amendments of IFRS 7.

### 1.7.1 Initial recognition

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

### 1.7.2 Day one profits or losses

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

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

# 1. Summary of significant accounting policies (continued)

## 1.7 Financial instruments (continued)

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

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

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

The classification and subsequent measurement of financial assets depends on:

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

#### Business model assessment

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

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

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

#### 1.7.3.1 Debt Instruments

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

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

#### 1.7.3.2 Equity instruments

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

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

## 1.7 Financial instruments (continued)

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

#### 1.7.3.3 Financial liabilities

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

Where a financial liability has not been classified as held for trading or designated at fair value through profit or loss, it is held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the EIR of the liability. Interest expense is recognised as 'Effective interest expense' within the income statement line item 'Interest expense and similar charges.' Terms included in a financial liability contract (the host) which, had it been a standalone contract, would have met the definition of a derivative are either separated from the host and accounted for in the same way as a derivative, or the entire contract is designated at fair value through profit or loss.

#### 1.7.3.4 Derivatives

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

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

#### Financial instruments classified as held for trading

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

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

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

#### Derivatives (except where hedge accounting is applied)

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

#### Available-for-sale financial assets

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

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

#### Loans and receivables

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

# 1. Summary of significant accounting policies (continued)

## 1.7 Financial instruments (continued)

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

#### Embedded derivatives

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

#### Financial liabilities

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

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

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

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

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

#### Three-stage approach to ECL

IFRS 9 requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (hereafter referred to as 12-month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (hereafter referred to as lifetime ECL). In determining the forecast credit losses over the duration of an exposure, recoveries expected to be received post the designated point of write-off are excluded.

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

The stage allocation is required to be performed as follows:

- **Stage 1:** This stage comprises exposures which are performing in line with the Group's credit expectations as at the date of origination. That is to say, the credit exposures which are assigned to stage 1 have not experienced a significant increase in credit risk since the date of initial recognition. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1. Exposures which were previously classified within stage 2 or stage 3, may also cure back to stage 1 in line with the Group's credit risk management cure criteria. Whilst the standard does permit an accounting policy election to classify low credit risk assets within stage 1, such election has not been made by the Group.
- **Stage 2:** Exposures are required to be classified within stage 2 when a significant increase in credit risk is observed, although the exposure is not yet credit impaired. The assessment of whether an exposure should be transferred from stage 1 to stage 2, is a relative measure, where the credit risk at the reporting date is compared to the risk that existed at initial recognition. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These factors have been set out in section 1.2.1.5. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and in accordance with the Group's credit risk management cure criteria. The definition of high risk is, from a credit management perspective, central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary
- **Stage 3:** Credit exposures are classified within stage 3 when they are credit impaired, which is defined in alignment to the bank's regulatory definition of default. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) have been met. In the Retail portfolio, the cure definition applied is quite stringent, and assets will typically only cure from stage 3 to stage 2, but won't move directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1.

# 1. Summary of significant accounting policies (continued)

## 1.7 Financial instruments (continued)

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

#### Expected credit loss calculation

The measurement of ECL must reflect:

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

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

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

#### Lifetime of financial instruments

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

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

#### Forward-looking information

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

#### 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.

# 1. Summary of significant accounting policies (continued)

## 1.7 Financial instruments (continued)

### 1.7.6 Impairment of financial assets (2017)

#### Financial assets held at amortised cost

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

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

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

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

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

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

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

#### Identified impairment

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

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

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

#### Unidentified impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the 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. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been evidenced individually.

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

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

# 1. Summary of significant accounting policies (continued)

## 1.7 Financial instruments (continued)

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

#### Available-for-sale debt instruments

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

#### Available-for-sale equity instruments

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

### 1.7.7 Derecognition of financial assets

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

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

### 1.7.8 Derecognition of financial liabilities

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

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

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

#### 1.7.9.1 Modification of financial assets

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

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

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

#### 1.7.9.2 Modification of financial liabilities

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

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

# 1. Summary of significant accounting policies (continued)

## 1.7 Financial instruments (continued)

### 1.7.10 Offsetting of financial assets and financial liabilities

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

### 1.7.11 Hedge accounting

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

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

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

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

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

#### Fair value hedge accounting

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

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

#### Cash flow hedge accounting

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

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

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

### 1.7.12 Equity instruments

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

### 1.7.13 Compound financial instruments

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

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

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

## 1.7 Financial instruments (continued)

### 1.7.14 Subordinated debt

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

### 1.7.15 Repurchase and reverse repurchase agreements

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

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

### 1.7.16 Loan commitments

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

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

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

### 1.7.17 Financial guarantee contracts

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

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

## 1.8 Share capital

### 1.8.1 Ordinary share capital

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

### 1.8.2 Preference share capital

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

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

## 1.9 Revenue recognition

### 1.9.1 Net interest income

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

# 1. Summary of significant accounting policies (continued)

## 1.9 Revenue recognition (continued)

### 1.9.1 Net interest income (continued)

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

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

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

### 1.9.2 Net trading income

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

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

### 1.9.3 Net fee and commission income

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

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

Fee and commission expenses are expenses which are connected to the generation of fee and commission income.

## 1.10 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. The Group defines significant insurance risk as the possibility of having to pay significant benefits on the occurrence of an insured event compared to those benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

### 1.10.1 Insurance contracts

#### 1.10.1.1 Short-term insurance contracts

**Revenue recognition and measurement**

The Group is involved in short-term underwriting of personal and commercial contracts. For the majority of insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the risk period. The portion of premiums received on in-force contracts that relate to the unexpired risks at the reporting date is reported as the unearned premium liability. The unearned premium liability for the majority of the business is calculated using the 365ths method. This method is appropriate when the risk is spread evenly over the period of insurance. Under this method, the unearned premiums liability is calculated by multiplying the total premiums received by the ratio of the number of days for which the contract will still be active after the reporting date to the total number of days for which the contract was initially written. Premiums are shown before deduction of commission. The change in the liability is taken to profit or loss in order that revenue is recognised over the period of the risk.

**Claims and loss adjustment**

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties affected by the contract holders. They include direct claims settlement costs and arise from events that have occurred up to the reporting date, even if they have been incurred but not reported (IBNR) to the Group. The Group does not discount its liabilities for unpaid claims. Claims and loss adjustment liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses including basic chain ladder and boot strapping actuarial techniques for IBNR.

# 1. Summary of significant accounting policies (continued)

## 1.10 Classification of insurance and investment contracts (continued)

### 1.10.1 Insurance contracts (continued)

#### 1.10.1.1 Short-term insurance contracts (continued)

**Liability adequacy test**

At each reporting date the Group reviews its unexpired risks and undertakes a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums. This is done using the current estimates of future cash flows under its contracts after taking into account the investment return expected to arise on assets relating to the relevant general business provisions.

If these estimates show that the carrying amount of its insurance liabilities (less related acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in profit or loss by setting up a provision in the statement of financial position. Refer to note 62.

**Deferred policy acquisition costs**

Acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts. The deferred acquisition costs represent the portion of acquisition costs incurred.

Deferred acquisition costs are amortised in line with expected future premiums. The amortisation is recognised in profit or loss.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Changes in the expected patterns of consumption of future benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in account estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. Deferred acquisition costs are also considered in the liability adequacy test for each reporting period.

**Deferred reinsurance acquisition revenues**

Acquisition revenues comprise commission directly connected with the acquisition or renewal of short-term reinsurance contracts. The deferred reinsurance acquisition revenues represent the portion of reinsurance acquisition revenue earned which relates to future reinsurance coverage.

Deferred reinsurance acquisition revenues are earned in line with expected future reinsurance premiums.

**Salvage and subrogation reimbursements**

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

The Group allows for salvage recoveries or subrogation reimbursements in the measurement of insurance liabilities for claims.

#### 1.10.1.2 Life insurance contracts

**Revenue recognition and measurement**

These contracts insure events associated with human life (i.e. death, disability or survival) over a long-term duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission. Individual life policies, life annuities and single premiums are accounted for in terms of the policy contract.

**Claims and loss adjustment**

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities are valued at each reporting date using the financial soundness valuation (FSV) basis described in Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (ASSA) and the liability is reflected as policyholder liabilities under insurance contracts.

Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.

Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the Group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Benefits are recorded as an expense when they are incurred.

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

## 1.10 Classification of insurance and investment contracts (continued)

### 1.10.1 Insurance contracts (continued)

#### 1.10.1.2 Life insurance contracts (continued)

**Valuation methodology**

Assumptions used for valuing policy liabilities are based on best estimates of future experience, guided by recent past experience and increased by margins prescribed by the ASSA for prudence and further discretionary margins to ensure that profits are released appropriately over the term of each policy.

Policyholders' reasonable expectations are allowed for by valuing all guaranteed benefits. Maturity guarantee liabilities have been valued in accordance with the requirements of Advisory Practice Note (APN) 110 issued by the ASSA. In terms of this guidance, an internationally recognised market-consistent stochastic model is used to perform a range of asset projections from which the maturity guarantee liability is derived. In terms of APN 110 the projections allow for at least a certain minimum level of market volatility. The liability is equal to the discounted shortfall (of stimulated maturity values against minimum guarantees values) across all projections for the policies concerned.

**Liability adequacy test**

Liabilities are calculated in terms of the FSV basis as described in SAP 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the Group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.

#### 1.10.1.3 Reinsurance contracts held

Reinsurance contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

For contracts which do not meet the requirements to be classified as reinsurance, the total asset is recognised under financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance agreement. The Group's reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in profit or loss. For historic amounts, the impairment is calculated as the total amount due from reinsurers for which there is a significant probability that the amounts due would not be recoverable less any offsetting amounts. Liabilities are revalued assuming that no reinsurance is ceded.

**Receivables and payables related to insurance and investment contracts**

Receivables and payables are only recognised when they meet the definitions and recognition criteria of financial assets and/or liabilities. These include amounts due to and from intermediaries and insurance contract holders.

**Philosophy on release of profits on the valuation basis**

The Standard of Actuarial Practice (SAP 104) allows for additional margins if the statutory actuary believes that the compulsory margins are insufficient for prudent reserving and/or to defer the release of profits in line with policy design.

With the exception of certain products where profit is recognised in relation to the initial acquisition costs incurred, it is the Group's policy that profit margins contained in the premium basis should only be released and added to profits once premiums have been received and the risk cover has been provided.

The following additional (discretionary) margins are incorporated in the liability calculations:

- Minimum liability equal to the surrender value of a policy.
- No recognition of future investment charges on linked businesses as the Group's profit recognition policy determines that asset-based fees are more appropriately accounted for as and when they are invoiced.
- Negative liabilities result under life insurance products where the present value of expected benefit payments is lower than the expected discounted value of the contractual premiums to be received. Discretion is applied in the full or partial elimination of negative liabilities in order to appropriately provide for prudent reserving and release of profits. Negative liabilities are set to zero through the use of discretionary margins, except for profitable products where a loss would be recognised in a reporting period solely as a consequence of incurring initial acquisition costs. The negative liabilities attributable to such products may be recognised to the extent of the product's initial acquisition costs incurred, and any excess negative liabilities remain set to zero.
- Additional margins where additional areas of uncertainty have been identified.

#### 1.10.1.4 Value of business acquired

On acquisition of a portfolio of insurance contracts, either directly from another insurer or through the acquisition of a subsidiary company, the Group recognises an intangible asset representing the value of businesses acquired (VOBA).

The VOBA represents the present value of future profits embedded in acquired insurance contracts. The Group amortises the VOBA over the effective life of the acquired contracts. This amortisation is recognised in profit or loss.

# 1. Summary of significant accounting policies (continued)

## 1.10 Classification of insurance and investment contracts (continued)

### 1.10.2 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and are valued at fair value. Acquisition costs directly attributable to investment management contracts are capitalised to a deferred acquisition cost asset and amortised to profit or loss over the term of the contract.

The Group issues investment contracts with fixed and guaranteed terms. Investment contracts with fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the financial assets backing the liabilities. These contracts and the corresponding policyholder liabilities are designated at fair value through profit or loss at inception. Subsequent changes to the fair value are taken to profit or loss.

Valuation techniques are used to establish the fair value at inception and at each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a linked investment contract is determined using the current unit values that reflect that fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the reporting date. The fair value of fixed interest rate products is determined by discounting the maturity value at market rates of interest.

If the investment contract is subject to a put or surrender option held by the customer, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

Withdrawals from, and deposits in investment contracts are excluded from profit or loss.

## 1.11 Commodities

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

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

## 1.12 Intangible assets

### 1.12.1 Goodwill

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

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

(a) the aggregate of:

- the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree, also measured in accordance with IFRS 3; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3.

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

### 1.12.2 Intangible assets other than goodwill

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

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

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

# 1. Summary of significant accounting policies (continued)

## 1.12 Intangible assets (continued)

### 1.12.2 Intangible assets other than goodwill (continued)

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

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

## 1.13 Property and equipment

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

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

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

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

### 1.13.2 Property and equipment subject to lease agreements

#### Finance leases

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

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

#### Operating leases

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

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

### 1.13.3 Investment properties

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

# 1. Summary of significant accounting policies (continued)

## 1.14 Repossessed properties

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

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

## 1.15 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

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

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

## 1.16 Cash and cash equivalents

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

## 1.17 Provisions, contingent liabilities and commitments

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

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

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

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

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

## 1.18 Employee benefits

### 1.18.1 Post-retirement benefits

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

#### Defined contribution schemes

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

# 1. Summary of significant accounting policies (continued)

## 1.18 Employee benefits (continued)

### 1.18.1 Post-retirement benefits (continued)

#### Defined benefit schemes

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

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

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

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

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

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

#### Post-employment medical aid plans

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

### 1.18.2 Staff costs

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

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

### 1.18.3 Share-based payments

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

#### Employee services settled in equity instruments

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

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

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

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

#### Employee services settled in cash

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

## 1.19 Tax

### 1.19.1 Current tax

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

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

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

## 1.19 Tax (continued)

### 1.19.2 Deferred tax

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

### 1.19.3 Dividends withholding tax

The South African tax legislation provides that dividends are taxed at 20% in the hands of certain qualifying shareholders, rather than in the hands of the entity which declares such dividend. As such, where dividends are declared and paid by the Group, the Group does not recognise dividends tax.

### 1.19.4 Value added tax (VAT)

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

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

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

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

## 1.20 Treasury shares

The cost of an entity's own equity instruments that it has reacquired ('treasury shares') is deducted from equity. Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares. Treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received is recognised directly in equity.

## 1.21 Financial impact of reporting changes in 2018

A number of key financial reporting changes were effected during the current reporting period, including the adoption of IFRS 15, IFRS 9, and a consequential amendment to IAS 1. In addition, the Group elected to amend its internal accounting policy governing the valuation of policyholder liabilities under the Group's life insurance contracts. The other IFRS amendments, which were adopted for the first time during the current reporting period, and which are set out in note 1.1.1, had no impact on the financial results of the Group.

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

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

# 1. Summary of significant accounting policies (continued)

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

### 1.21.1 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 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. 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 (i.e. rate insensitive liabilities as well as the endowment associated with equity). Operational complexity would be introduced by adopting the revised IFRS 9 hedge accounting requirements ahead of the finalisation of the IASB's Dynamic Risk Management project in respect of macro hedging. The Group has accordingly elected not to adopt the revised IFRS 9 hedge accounting requirements, but will adopt the revised disclosures set out in the amendments to IFRS 7, which include those relating to hedge accounting.

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

A portfolio of South African consumer price index (CPI) linked investment securities has been reclassified from available-for-sale under IAS 39, to amortised cost. This aligns the portfolio's classification with the 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. The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVTPL). Gains and losses on such financial liabilities are required to be presented in other comprehensive income, to the extent that they relate to changes in own credit risk. The Group early adopted this requirement in 2017.

### 1.21.3 The impact of adopting a revised IFRS 9 ECL methodology

The adoption of IFRS 9 will impact the timing of credit loss recognition, by accelerating the recognition of losses relative to IAS 39, and potentially creating increased volatility through the incorporation of forward-looking assumptions. From an economic perspective, cumulative recoveries, debt collection costs, and the long-run actual credit losses incurred by the Group will not be impacted by the change in accounting framework. The core processes remain the measurement of exposures and concentrations, performance monitoring and tracking of asset quality, and the write-off of assets when the whole or part of a debt is irrecoverable.

# 1. Summary of significant accounting policies (continued)

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

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

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

| | 31 December 2017 Rm | Classification and measurement[1] Rm | IFRS 9 ECL Rm | 1 January 2018 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash, cash balances and balances with central banks[2] | 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) | (6 970) | 742 782 |
| Investments in associates and joint ventures[3] | 1 235 | — | (104) | 1 131 |
| Other assets[4] | 199 468 | 55 | 1 679 | 201 202 |
| **Total assets** | 1 165 979 | (160) | (5 474) | 1 160 345 |
| **Liabilities** | | | | |
| Trading portfolio liabilities | 64 047 | (20) | — | 64 027 |
| Provisions[5] | 3 041 | — | 574 | 3 615 |
| Other liabilities[4] | 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 | — | (5 413) | 86 469 |
| Other reserves | 4 370 | (140) | 14 | 4 244 |
| Ordinary equity holders | 108 416 | (140) | (5 399) | 102 877 |
| Non-controlling interest – ordinary shares | 4 500 | — | (230) | 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) | (5 629) | 113 291 |
| **Total liabilities and equity** | 1 165 979 | (160) | (5 474) | 1 160 345 |

[1] Classification and measurement reclassifications relate to two portfolios:

> Short-term commodity-linked instruments that had embedded derivatives which were previously bifurcated under IAS 39, 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] Relates predominantly to a central bank within Absa Regional Operations.

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

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

[5] 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).

# 1. Summary of significant accounting policies (continued)

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

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

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

| | IAS 39 – 31 December 2017 | | | IFRS 9 – 1 January 2018 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total IAS 39 provision (excl. IIS) Rm | Interest in suspense Rm | Total IAS 39 (incl. IIS) Rm | Stage 1 Rm | Stage 2 Rm | Stage 3 Rm | Total IFRS 9 provision (incl. IIS) Rm | IFRS 9 transition adjustment Rm |
| **Loans and advances to customers** | 18 874 | 3 025 | 21 899 | 4 440 | 4 443 | 19 986 | 28 869 | 6 970 |
| **Loans and advances to banks** | — | — | — | 40 | 27 | — | 67 | 67 |
| **Total loans and advances** | 18 874 | 3 025 | 21 899 | 4 480 | 4 470 | 19 986 | 28 936 | 7 037 |
| **Investment securities** | — | — | — | 65 | 118 | — | 183 | 183 |
| **Cash, cash balances and balances with central banks**[1] | — | — | — | 3 | 7 | — | 10 | 10 |
| **Total ECL allowance: on-statement of financial position** | 18 874 | 3 025 | 21 899 | 4 548 | 4 595 | 19 986 | 29 129 | 7 230 |
| **Off-statement of financial position** | | | | | | | | |
| Undrawn committed facilities[2] | — | — | — | 196 | 183 | 47 | 426 | 426 |
| Financial guarantees | — | — | — | 91 | 48 | — | 139 | 139 |
| Letters of credit | — | — | — | 9 | — | — | 9 | 9 |
| **Total ECL allowance: off-statement of financial position** | — | — | — | 296 | 231 | 47 | 574 | 574 |
| **Total ECL allowance** | 18 874 | 3 025 | 21 899 | 4 844 | 4 826 | 20 033 | 29 703 | 7 804 |

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.

Key drivers of the ECL allowance are as follows:

- **Interest in suspense:** The cumulative interest which was suspended, and therefore not presented as part of the impairment allowance as at 31 December 2017, amounted to **R3 025m**. As at the date of initial adoption this has been included in the opening impairment allowance, with an equivalent increase in the gross carrying value of the financial assets.
- **Removal of post write-off recoveries from LGD:** The Group has adopted a revised approach to the collective data modelling of LGD, and has specifically excluded post write-off recoveries from the forecast recoverable cash flows. This is an amendment required under IFRS 9, and has resulted in an increase in the ECL allowance as at 1 January 2018, compared to what was previously reported in the Group's interim results.
- **Change in emergence period of stage 1 assets:** The emergence period under IAS 39 was calculated as the average time between when a loss event occurred and the impairment event was actually identified, and was typically 12 months or less. An increase in the ECL allowance has been observed and is attributable to the period under IFRS 9 being defined as 12 months (or less if the contractual period is less than 12 months) on stage 1 assets.
- **Significant increase in credit loss for stage 2 classification:** Under IAS 39, stage 2 assets were classified as performing exposures with an impairment allowance being recognised to reflect latent risks, and calculated based on an appropriate emergence period. Under IFRS 9, lending exposures that have experienced a significant increase in credit risk since origination are required to carry a lifetime ECL allowance.

[1] Relates predominately to a central bank within Absa Regional Operations.

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

# 1. Summary of significant accounting policies (continued)

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

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

- **Change in default definition:** The definition of credit impaired is aligned with the regulatory definition of default, which has resulted in a larger population of credit exposures being classified within stage 3 compared to the NPL population under IAS 39. The differences have been discussed further in section 5 and include the application of a 90 day backstop, as well as a widening of the watch list categories included within stage 3, relative to those that were specifically impaired under IAS 39. Further, all debt counselling and performing forbearance accounts are included in stage 3, but were not previously classified as NPL.
- **Off-balance sheet exposures:** The credit risk inherent in the undrawn component of lending facilities are managed and monitored by the Group together with the drawn component as a single exposure. The exposure at default (EAD) on the entire facility is therefore used to calculate the ECL on loans and advances. For this reason, it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the ECL allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision on the face of the statement of financial position. A provision of **R426m** was 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**.
- **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.

### 1.21.6 Summary of ECL coverage per stage

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

**1 January 2018**

| | Financial assets measured at FVTPL | Stage 1 | | | Stage 2 | | | Stage 3 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value Rm | Gross carrying value Rm | Allowance for ECL Rm | ECL coverage % | Gross carrying value Rm | Allowance for ECL Rm | ECL coverage % | Gross carrying value Rm | Allowance for ECL Rm | ECL coverage % | Net total exposure Rm |
| Loans and advances to customers | 26 899 | 617 167 | 4 440 | 0.72 | 81 850 | 4 443 | 5.43 | 45 735 | 19 986 | 43.70 | 742 782 |
| Loans and advances to banks | 17 198 | 36 163 | 40 | 0.11 | 2 065 | 27 | 1.31 | — | — | — | 55 359 |
| Total loans and advances | 44 097 | 653 330 | 4 480 | 0.69 | 83 915 | 4 470 | 5.33 | 45 735 | 19 986 | 43.70 | 798 141 |

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

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

#### Base scenario

- **Global:** Global expansion is expected to remain broad-based across sectors and synchronised in developed economies. The outlook on emerging market growth remains solid on the back of better growth in developed economies and rising commodity prices. Developed market central banks continue tightening their monetary policies at a gradual pace in 2018 to 2020 but this is not expected to be disruptive to emerging markets.
- **South Africa:** The economy recovered from 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.

# 1. Summary of significant accounting policies (continued)

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

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

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

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

#### Mild downside scenario: Moderate recession

- **Global:** The US economy slows relative to baseline due to delays in implementing the stimulus package promised before the elections. Business and consumer confidence fall in the US, followed by stock market indices. It is assumed Brexit negotiations take longer than expected, increasing uncertainty on financial markets, weighing on business and consumer confidence. As a result, eurozone growth slows compared to baseline, contributing to economic and financial stress faced by some of the heavily indebted countries in the region. Furthermore, slower growth in key markets affects China's exports and results in its GDP growth slowing. Commodity prices fall on the back of weaker global growth.
- **South Africa:** South Africa goes into recession on the back of weaker global growth environment and falling commodity prices. As a result, government revenue comes under pressure and the finances of state-owned enterprises deteriorate. Rating agencies downgrade South Africa's sovereign rating further, resulting in capital outflow and Rand weakness. The weakening of the Rand drives inflation above the SARB's 3% to 6% target range in 2018 to 2019, resulting in the SARB hiking the repurchase rate. The yield curve moves higher in line with the selling of South African bonds and higher short-term rates. Economic performance recovers slowly from 2020 as the weaker exchange rate builds some export competitiveness aiding in arresting some of the Rand's decline, and spending power returns slowly to consumers as inflation abates in the middle of 2020.
- **Africa Regions:** In Sub-Saharan Africa some economies go into recession on the back of lower global growth and commodity prices. Fiscal positions deteriorate further and political risks increase in some markets. Capital outflows and falling exports drive currencies weaker, pushing inflation higher. Central banks intervene by hiking interest rates to help stem the flight of capital and protect currencies.

# 1. Summary of significant accounting policies (continued)

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

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

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

| | IAS 39 | | | | IFRS 9 | |
|---|---|---|---|---|---|---|
| Assets | Measurement category | Carrying amount Rm | Reclassification Rm | Re-measurement 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 |
| Loans and advances to customers | Designated at FVTPL | 26 811 | (19 378) | — | Designated at FVTPL | 7 433 |
| | | | 19 466 | — | Mandatory at FVTPL | 19 466 |
| | Amortised cost – designated | 722 915 | (108) | (6 970) | Amortised cost – designated | 715 837 |
| | Amortised cost – hedged items | 46 | — | — | Amortised cost – hedged items | 46 |
| | | 749 772 | (20) | (6 970) | | 742 782 |
| Investments linked to 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 asset held for sale | Amortised cost – designated | 1 118 | — | | Amortised cost – designated | 1 118 |
| Assets outside the scope of IFRS 9 | | 30 354 | 55 | 1 575 | Assets outside the scope of IFRS 9 | 31 984 |
| Total assets | | 1 165 979 | (160) | (5 474) | | 1 160 345 |

# 1. Summary of significant accounting policies (continued)

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

### 1.21.8 Impact of revised classification and measurement framework under IFRS 9 (continued)

Adoption of the new classification and measurement rules will require a limited number of reclassifications to be effected as at 1 January 2018, but will not require a significant adjustment to the gross carrying values of the 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 cost, the fair value of the instruments as at 31 December 2018 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 Regional Operations, a small portfolio of debt securities held by Treasury have been reclassified from available-for-sale to amortised cost as there is limited evidence of an ability to sell these securities, and the portfolio is therefore aligned to a business model with the objective of collecting contractual cash flows.
- Commodity-linked debt instruments within CIB were previously bifurcated and separately recognised as a loan at amortised cost and a derivative. These are now classified as FVTPL as their cash flows do not consist of SPPI.
- Debt securities held by insurance entities within the Africa Regional Operation 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.

### 1.21.9 Impact of the adoption of 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 include interest, dividends, leases, and insurance contracts. The adoption of IFRS 15 has resulted in a change in the accounting treatment of a loyalty programme which resulted in a reduction in retained earnings of **R44m**, net of tax.

### 1.21.10 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.

# 1. Summary of significant accounting policies (continued)

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

### 1.21.10 The accounting treatment of policyholder liabilities under life insurance contracts (continued)

The extent to which this change has impacted 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 | Change in accounting policy Rm | Restated 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 |

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

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

#### 1.21.10 The accounting treatment of policyholder liabilities under life insurance contracts (continued)

The extent to which this change has impacted the Group's condensed statement of financial position as at 31 December 2016 is set out in the following table:

| | As previously reported 31 December 2016 Rm | Change in accounting policy Rm | Restated 31 December 2016 Rm |
|---|---|---|---|
| **Assets** | | | |
| **Total assets** | 1 101 023 | — | 1 101 023 |
| **Liabilities** | | | |
| Policyholder liabilities under 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 extent to which this change has impacted the Group's condensed statement of comprehensive income for the reporting period ended 31 December 2017 is set out in the following table:

| | As previously reported 31 December 2017 Rm | Change in accounting policy Rm | Restated 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 |

# 1. Summary of significant accounting policies (continued)

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

### 1.21.10 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 |

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

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

### 1.21.12 Correction of prior period error

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

## 1.22 New standards and interpretations not yet adopted

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

### 1.22.1 IFRS 16 Leases

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

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

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

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

The effective date of IFRS 16 is 1 January 2019. The 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 CET 1. 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**).

# 1. Summary of significant accounting policies (continued)

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

### 1.22.2 IFRS 17 Insurance Contracts

In 2017, the IASB issued IFRS 17 Insurance Contracts, which will replace the current insurance contracts accounting standard, IFRS 4. A more prescriptive approach applies to the determination of policyholder assets and liabilities under IFRS 17, which will lead to significant changes in the accounting for insurance contracts and will provide a new perspective for analysts and users. Key changes include:

- Where the premium allocation approach, being a simplified measurement model, may not be elected and applied to a group of insurance contracts, the entity is required to apply the general measurement model which introduces explicit Risk Adjustment and Contractual Service Margin (CSM) measurement components. The Risk Adjustment component is an entity specific measure of the uncertainty associated with non-financial risk. The CSM represents unearned profit and will be recognised by an entity as it provides insurance services over the coverage period. In such instances premium volumes and cash received will no longer drive insurance revenue, and profit emergence under IFRS 17 will be different to that under IFRS 4. This change is expected to be less severe for short-term insurance products as many such products are expected to qualify to apply the simplified premium allocation approach.
- Acquisition costs will indirectly be deferred and recognised over the insurance coverage period as a result of the revised measurement methodology applicable to insurance contracts. Alternatively, where the coverage period of each contract within a group does not exceed one year, acquisition costs may be expensed as incurred.
- The methodology of grouping insurance contracts limits the cross-subsidisation between profitable and loss-making contracts. Furthermore, losses associated with contracts that are onerous at inception are required to be recognised in profit or loss immediately on initial recognition of such contracts.
- Distinct investment and service components in an insurance contract will be required to be unbundled and accounted for separately under IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers respectively.

At a Board meeting held on 14 November 2018, the IASB tentatively decided to propose amending the IFRS 17 effective date to 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. The standard is required to be applied retrospectively unless it is impracticable to do so. Where it is impracticable to apply IFRS 17 retrospectively to a group of insurance contracts, a choice exists to either apply a modified retrospective approach or a fair value approach to that group of insurance contracts.

A joint insurance programme incorporating finance, actuarial, data and IT was incepted 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.

#### Recognition and measurement

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 CSM. This model in combination with the disclosures required by IFRS 17 provides users of financial statements 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 does not allow any gains to be recognised at inception of an insurance contract; however losses are immediately recognised for contracts where fulfilment cash flows are a net outflow on initial recognition. The fulfilment cash flows represent the risk-adjusted present value of the entity's rights and obligations to the policyholders represented by the following components:

- The best estimate future cash flows
- Discounting of these cash flows
- A risk adjustment for non-financial risk

Where the fulfilment cash flows for a group of insurance contracts is a net inflow, the net inflow is recognised as the CSM (a component of the policyholder asset or liability) resulting in no upfront profit recognition.

After initial recognition, the liability of a group of insurance contracts comprises the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid). The fulfilment cash flows are remeasured at each reporting period and any changes between the previous and current estimates that relate to past and current services are recognised in profit or loss. The CSM component is adjusted where these changes relate to future services, provided that for insurance contracts issued the CSM does not become negative. For insurance contracts issued where the CSM is insufficient to absorb a full increase in fulfilment cash flows, the excess by which such an increase in fulfilment cash flows exceeds the carrying amount of the CSM is recognised as an expense within profit or loss.

IFRS 17 requires the liability for incurred claims to be discounted unless the liability is measured using the premium allocation approach and the cash flows are expected to be paid or received in one year or less from the date the claims are incurred. This will be a change in practice for the short-term business. The premium allocation approach is a simplified measurement model that may be applied on condition that at the inception of the group of insurance contracts the coverage period of each contract in the Group is one year or less, or the entity reasonably expects that applying the PAA will approximate having applied the general measurement model.

# 1. Summary of significant accounting policies (continued)

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

### 1.22.2 IFRS 17 Insurance Contracts (continued)

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. Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortisation of acquisition cash flows, minus the amount recognised as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

The general measurement model also has specific modifications applicable to accounting for reinsurance contracts, direct participating contracts and investment contracts with discretionary participation features. In estimating the present value of future expected cash flows for reinsurance contracts held, an entity must use assumptions that are consistent with those used for the related direct insurance contracts and such estimates include the risk of the reinsurer's non-performance. Furthermore, reinsurance contracts can have a positive or negative CSM measurement component. When applying the requirements to direct participating contracts, the entity's share of the fair value changes of the underlying items is included in the CSM, thereby recognising such fair value changes over the remaining life of the contract rather than in the period in which they occur.

#### Presentation and disclosure

IFRS 17 requires separate presentation of the insurance service result and insurance finance income or expense. An entity may further elect to disaggregate insurance finance income or expense between profit or loss and other comprehensive income for the effect of changes in discount rates. This choice is likely to reflect how related financial assets are accounted for under IFRS 9. Insurance revenue will be derived from changes in the liability for remaining coverage relating to services provided in the period for which the entity expects to receive consideration. Furthermore, insurance revenue and insurance service expenses exclude any embedded investment components.

IFRS 17 is a complex standard posing many challenges, particularly in relation to the need for new data and updated systems and processes. However, at the same time the standard brings opportunity to streamline insurance operations and address legacy systems that are still in use. Some items like tax implications are yet to be determined pending activity from the tax authorities. The transition approach to be applied will also largely depend on the availability of the required data.

The Group expects to incrementally provide more disclosures to facilitate an understanding of the changes and the impact that such changes have on the Group as the implementation programme progresses. At implementation, extensive disclosures will be provided to explain the transition approach followed; the calculation basis for the fulfilment cash flow components; as well as key differences when compared to regulatory capital calculations. IFRS 17 requires considerable additional disclosures including the nature and extent of risks arising from insurance contracts; detailed reconciliations for the liability for incurred claims and each measurement component of the liability for remaining coverage; as well as significant judgements made in applying the standard.

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

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

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

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

### 1.22.5 Amendments resulting from Annual Improvements 2015–2017 Cycle

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

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

# 1. Summary of significant accounting policies (continued)

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

### 1.22.6 IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

### 1.22.8 Revised Conceptual Framework for Financial Reporting

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **2. Cash, cash balances and balances with central banks** | | |
| Balances with other central banks | **11 381** | 10 281 |
| Balances with the SARB | **13 108** | 19 109 |
| Coins and bank notes | **14 252** | 13 519 |
| Money market assets | **8 198** | 5 760 |
| Gross cash, cash balances and balances with central banks | **46 939** | 48 669 |
| Impairment losses | **(10)** | — |
| | **46 929** | 48 669 |

Included above are money market assets of **R 1 985m** (2017: R1 898m) which are linked to investment contracts (refer to note 22.1).

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **3. Investment securities** | | |
| Government bonds | **43 699** | 34 321 |
| Listed equity instruments | **2 404** | 2 859 |
| Money market assets | **1** | 5 |
| Other debt securities | **47 411** | 35 123 |
| Treasury bills | **39 461** | 36 812 |
| Unlisted equity and hybrid instruments | **2 447** | 2 289 |
| Gross investment securities | **135 423** | 111 409 |
| Impairment losses | **(3)** | — |
| | **135 420** | 111 409 |

Government bonds valued at **R10 152m** (2017: R12 922m) have been pledged with the SARB and other central banks.

**R10 152m** (2017: R 12 922m) of this amount relates to repurchase agreements.

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

**R167m** has been recognised as expected credit losses on investment securities measured at fair value through other comprehensive income.

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **4. Loans and advances to banks** | | |
| Gross loans and advances to banks | **53 163** | 55 426 |
| Impairment losses | **(23)** | — |
| | **53 140** | 55 426 |

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **5. Trading and hedging portfolio assets** | | |
| Commodities | 1 304 | 2 051 |
| Debt instruments | 52 758 | 34 978 |
| Derivative assets (refer to note 58.3) | 44 534 | 56 853 |
| Commodity derivatives | 1 480 | 1 105 |
| Credit derivatives | 173 | 165 |
| Equity derivatives | 5 389 | 2 544 |
| Foreign exchange derivatives | 8 833 | 15 886 |
| Interest rate derivatives | 28 659 | 37 153 |
| Equity instruments | 15 848 | 23 662 |
| Money market assets | 14 125 | 14 639 |
| Total trading portfolio assets | 128 569 | 132 183 |
| Hedging portfolio assets (refer to note 58.3) | 2 411 | 2 673 |
| | 130 980 | 134 856 |

Trading portfolio assets with carrying values of **R42 794m** (2017: R7 571m) and **R3 434m** (2017: R6 278m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

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

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **6. Other assets** | | |
| Accounts receivable and prepayments | 12 995 | 13 932 |
| Deferred costs | 217 | 483 |
| Deferred acquisition costs (refer to note 6.1) | 47 | 316 |
| Other deferred costs | 170 | 167 |
| Inventories | 290 | 409 |
| Cost | 291 | 415 |
| Write-down | (1) | (6) |
| Retirement benefit fund surplus (refer to note 44) | 468 | 474 |
| Settlement accounts[1] | 16 726 | 9 278 |
| Gross other assets | 30 696 | 24 576 |
| Impairment losses | (54) | — |
| **Net other assets** | 30 642 | 24 576 |

## 6.1 Deferred acquisition costs

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | 316 | 430 |
| Additions | 291 | 261 |
| Disposals/releases/amortisation charge | (568) | (370) |
| Foreign exchange movement | 8 | (5) |
| **Balance at the end of the reporting period** | 47 | 316 |

Deferred acquisition costs relate to the Group's insurance and investment businesses.

[1] Numbers have been restated, refer to note 1.21.12 for further details.

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **7. Non-current assets and non-current liabilities held for sale** | | |
| **Non-current assets held for sale** | | |
| **Balance at the beginning of the reporting period** | **1 308** | 823 |
| Disposals | **(1 274)** | (1 315) |
| Transfer from cash, cash balances and balances with central banks | **—** | 61 |
| Transfer from loans and advances to customers | **—** | 1 118 |
| Transfer from loans and advances to banks | **22** | 49 |
| Transfer from other assets | **27** | 24 |
| Transfer from goodwill and intangibles assets (refer to note 14) | **—** | 26 |
| Transfer from investment securities | **8** | 547 |
| Transfer from reinsurance assets | **73** | — |
| Transfer from property and equipment (refer to note 13) | **64** | 4 |
| Transfer from deferred tax assets | **11** | — |
| Fair value adjustments on investment securities | **—** | (80) |
| Fair value adjustments on investment properties | **—** | 51 |
| **Balance at the end of the reporting period** | **239** | 1 308 |
| **Non-current liabilities held for sale** | | |
| **Balance at the beginning of the reporting period** | **48** | 9 |
| Disposals | **(48)** | (26) |
| Transfer to policyholder liabilities under insurance contracts | **92** | — |
| Transfer from other liabilities | **32** | 65 |
| **Balance at the end of the reporting period** | **124** | 48 |

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

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

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

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **8. Loans and advances to customers** | | |
| Corporate overdrafts and specialised finance loans | **12 770** | 10 107 |
| Credit cards | **41 511** | 40 339 |
| Foreign currency loans | **36 949** | 27 914 |
| Instalment credit agreements (refer to note 8.1)[1] | **86 757** | 77 465 |
| Loans to associates and joint ventures (refer to note 49.5) | **28 259** | 26 054 |
| Micro loans | **3 970** | 4 938 |
| Mortgages | **295 953** | 278 126 |
| Other advances[1] | **11 631** | 23 125 |
| Overdrafts[1] | **57 112** | 50 909 |
| Overnight finance | **19 832** | 20 547 |
| Personal and term loans | **128 278** | 90 987 |
| Preference shares | **20 440** | 17 813 |
| Reverse repurchase agreements (Carries) | **29 414** | 19 316 |
| Wholesale overdrafts[1] | **99 011** | 81 006 |
| Gross loans and advances to customers | **871 887** | 768 646 |
| Impairment losses | **(30 167)** | (18 874) |
| | **841 720** | 749 772 |

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R3 277m** (2017: R4 152m). Included above are collateralised loans of **R1 031m** (2017: R253m) relating to securities borrowed.

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

Other advances include working capital solutions, collateralised loans and specialised products in Absa Regional Operations.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R4 928m**. This represents a change in presentation of interest in suspense as a result of the adoption of IFRS 9. Refer to note 1.21.

| | Group 2018 | | | Group 2017 | | |
|---|---|---|---|---|---|---|
| | Gross advances Rm | Unearned finance charges Rm | Net advances Rm | Gross advances Rm | Unearned finance charges Rm | Net advances Rm |
| **8.1 Instalment credit agreements** | | | | | | |
| **Maturity analysis** | | | | | | |
| Less than one year[1] | **33 120** | **(8 181)** | **24 939** | 27 193 | (7 292) | 19 901 |
| Between one and five years | **71 121** | **(13 125)** | **57 996** | 65 483 | (11 537) | 53 946 |
| More than five years | **4 095** | **( 273)** | **3 822** | 3 802 | (184) | 3 618 |
| Gross carrying value | **108 336** | **(21 579)** | **86 757** | 96 478 | (19 013) | 77 465 |

The Group enters into instalment credit agreements in respect of motor vehicles, equipment and medical equipment.

The majority of these agreements are denominated in South African Rand and the average term entered into is five years.

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

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

Included in the allowance for impairments at the reporting date is **R3 398m** (2017[1]: R1 805m) which relates to finance lease receivables.

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **9. Reinsurance assets** | | |
| Insurance contracts (refer to note 23) | **618** | 892 |
| Life insurance contracts | **88** | 114 |
| Short-term insurance contracts | **530** | 778 |
| | **618** | 892 |

Included as part of the 'Accounts receivable and prepayments' line in the 'Other assets' note (refer to note 6) is **R54m** (2017: R624m), relating to amounts receivable from reinsurers for claims made against them.

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **10. Investments linked to investment contracts** | | |
| Debt instruments | **615** | 557 |
| Derivative instruments (refer to note 58.3) | **43** | 59 |
| Listed equity instruments | **15 430** | 16 152 |
| Money market instruments | **2 201** | 2 168 |
| Unlisted equity and hybrid instruments | **192** | — |
| | **18 481** | 18 936 |

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **11. Investments in associates and joint ventures** | | |
| Unlisted investments | **1 310** | 1 235 |

## 11.1 Movement in carrying value of associates and joint ventures accounted for under the equity method

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | **1 235** | 1 065 |
| Change in the Group's share of net assets due to adoption of IFRS 9 | **(104)** | — |
| Share of current reporting period post-tax results | **179** | 170 |
| Share of current reporting period results before taxation | **250** | 222 |
| Taxation on reporting period results | **(71)** | (52) |
| **Balance at the end of the reporting period** | **1 310** | 1 235 |

## 11.2 Associates and joint ventures

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

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

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |

# 11. Investments in associates and joint ventures (continued)

## 11.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method

| | 2018 Rm | 2017 Rm |
|---|---|---|
| **Unlisted investments** | | |
| Shares at cost | 100 | 100 |
| Share of post-acquisition reserves | 1 210 | 1 135 |
| | 1 310 | 1 235 |

## 11.4 Carrying value of associates and joint ventures

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Associates Rm | Joint ventures Rm | Total Rm | Associates Rm | Joint ventures Rm | Total Rm |
| Equity accounted | 233 | 1 077 | 1 310 | 208 | 1 027 | 1 235 |
| Designated at fair value through profit or loss | 21 | 298 | 319 | 20 | 444 | 464 |
| | 254 | 1 375 | 1 629 | 228 | 1 471 | 1 699 |

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

Refer to note 49.5 for additional disclosure of the Group's investments in associates and joint ventures.

# 12. Investment properties

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **Balance at the beginning of the reporting period** | 231 | 478 |
| Additions | 165 | 1 |
| Change in fair value | 38 | 54 |
| Disposals/transfers | — | (260) |
| Foreign exchange movements | 33 | (42) |
| Transfer from property, plant and equipment (refer to note 13) | 41 | — |
| **Balance at the end of the reporting period** | 508 | 231 |

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Cost Rm | Accumulated depreciation and/or impairments Rm | Carrying value Rm | Cost Rm | Accumulated depreciation and/or impairments Rm | Carrying value Rm |
| **13. Property and equipment** | | | | | | |
| Computer equipment | 9 100 | (5 411) | 3 689 | 8 279 | (4 514) | 3 765 |
| Freehold property | 7 141 | (944) | 6 197 | 6 601 | (541) | 6 060 |
| Furniture and other equipment | 11 496 | (5 812) | 5 684 | 9 835 | (4 874) | 4 961 |
| Leasehold property | 753 | (531) | 222 | 1 146 | (697) | 449 |
| Motor vehicles | 119 | (76) | 43 | 123 | (55) | 68 |
| | 28 609 | (12 774) | 15 835 | 25 984 | (10 681) | 15 303 |

| | Group | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | | | | |
| Reconciliation of property and equipment | Opening balance Rm | Additions Rm | Disposals Rm | Transfer (to)/from investment properties Rm | Transfers[1] Rm | Transfer (to/from intangible assets Rm | Transfer to non-current assets held for sale Rm | Foreign exchange movements Rm | Depreciation Rm | Impairments charge Rm | Closing balance Rm |
| Computer equipment | 3 765 | 1 240 | (113) | (44) | 27 | 2 | — | 82 | (1 183) | (87) | 3 689 |
| Freehold property | 6 060 | 1 661 | (20) | 3 | (1 519) | (16) | (25) | 316 | (81) | (182) | 6 197 |
| Furniture and other equipment | 4 961 | 435 | (31) | — | 1 492 | — | (31) | 30 | (1 043) | (129) | 5 684 |
| Leasehold property | 449 | 23 | (9) | — | — | — | (8) | (203) | (30) | — | 222 |
| Motor vehicles | 68 | 14 | (5) | — | — | — | — | (17) | (17) | — | 43 |
| | 15 303 | 3 373 | (178) | (41) | — | (14) | (64) | 208 | (2 354) | (398) | 15 835 |
| Note | | | | 12 | | 14 | 7 | | 38 | 39 | |

[1] An amount of **R1 519m** of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R27m** and 'Furniture and other equipment' **R1 492m** in accordance with the nature of these assets.

## 13. Property and equipment (continued)

| Reconciliation of property and equipment | Opening balance Rm | Additions Rm | Disposals Rm | Transfer (to)/from investment properties Rm | Transfers[1] Rm | Transfer (to)/from intangible assets Rm | Transfer (to)/from non-current assets held for sale Rm | Foreign exchange movements Rm | Depreciation Rm | Impairments charge Rm | Closing balance Rm |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Group 2017 | | | | | | | | | | |
| Computer equipment | 3 558 | 929 | (18) | — | 244 | — | (1) | (19) | (928) | — | 3 765 |
| Freehold property | 6 371 | 1 804 | (53) | — | (2 001) | — | (3) | (1) | (52) | (5) | 6 060 |
| Furniture and other equipment | 4 019 | 441 | (367) | — | 1 757 | — | — | 289 | (962) | (216) | 4 961 |
| Leasehold property | 627 | 73 | (104) | — | — | — | — | (123) | (24) | — | 449 |
| Motor vehicles | 68 | 16 | (13) | — | — | — | — | 19 | (22) | — | 68 |
| | 14 643 | 3 263 | (555) | — | — | — | (4) | 165 | (1 988) | (221) | 15 303 |
| Note | | | | 12 | | 14 | 7 | | 38 | 39 | |

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

**R1 519m** (2017: R2 001m) of assets under construction relating to furniture and other equipment was brought into use during the reporting period. **R340m** (2017: R402m) of assets under construction relating to freehold property was brought into use during the reporting period.

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

**R41m** (2017: Rnil) of certain property and equipment was transferred to investment property and **R64m** (2017: R4m) was transferred to non-current assets held for sale due to a change in the use of the assets.

## 14. Goodwill and intangible assets

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **Cost Rm** | **Accumulated amortisation and/or impairments Rm** | **Carrying value Rm** | Cost Rm | Accumulated amortisation and/or impairments Rm | Carrying value Rm |
| Computer software development costs | **13 193** | **(5 542)** | **7 651** | 8 934 | (4 587) | 4 347 |
| Customer lists and relationships | **667** | **(623)** | **44** | 667 | (614) | 53 |
| Goodwill | **1 088** | **(233)** | **855** | 1 016 | (187) | 829 |
| Other | **253** | **(131)** | **122** | 258 | (110) | 148 |
| | **15 201** | **(6 529)** | **8 672** | 10 875 | (5 498) | 5 377 |

[1] An amount of R2 001m of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' R244m and 'Furniture and other equipment' R1 757m in accordance with the nature of these assets.

## 14. Goodwill and intangible assets (continued)

| | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | | |
| **Reconciliation of goodwill and intangible assets** | **Opening balance Rm** | **Additions Rm** | **Additions through business combinations Rm** | **Disposals Rm** | **Foreign exchange movements Rm** | **Amor-tisation Rm** | **Impairment charge Rm** | **Transfers Rm** | **Closing balance Rm** |
| Computer software development costs | **4 347** | **4 161** | **—** | **(97)** | **34** | **(818)** | **(2)** | **26** | **7 651** |
| Customer lists and relationships | **53** | **—** | **—** | **—** | **—** | **(9)** | **—** | **—** | **44** |
| Goodwill | **829** | **—** | **34** | **—** | **26** | **—** | **(34)** | **—** | **855** |
| Other | **148** | **—** | **—** | **—** | **2** | **(19)** | **—** | **(9)** | **122** |
| | **5 377** | **4 161** | **34** | **(97)** | **62** | **(846)** | **(36)** | **17** | **8 672** |
| Note | | | 56.1 | | | 38 | 39 | | |

| | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Reconciliation of goodwill and intangible assets** | Opening balance Rm | Additions Rm | Additions through business combinations Rm | Disposals Rm | Foreign exchange movements Rm | Amor-tisation Rm | Impairment charge Rm | Transfers Rm | Closing balance Rm |
| Computer software development costs | 2 895 | 2 630 | — | (157) | (17) | (616) | (384) | (5) | 4 347 |
| Customer lists and relationships | 63 | — | — | — | — | (10) | — | — | 53 |
| Goodwill | 916 | — | — | — | (28) | — | (38) | (21) | 829 |
| Other | 175 | — | — | — | (2) | (24) | — | — | 148 |
| | 4 049 | 2 630 | — | (157) | (47) | (650) | (422) | (26) | 5 377 |
| Note | | | 56.2 | | | 38 | 39 | | |

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R5 871m** (2017: R3 110m) relating to assets under construction.

**R1 038m** of assets under construction relating to computer software was brought into use during the reporting period.

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

The impairment incurred during the prior reporting period mainly relates to internally generated software, Barclays.Net which was fully impaired as it was no longer in use.

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

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| **Composition of goodwill** | | |
| Absa Vehicle and Management Solutions Proprietary Limited | **112** | 112 |
| Absa Asset Management Proprietary Limited | **30** | 30 |
| Barclays Bank of Mauritius Limited | **39** | 38 |
| Barclays Bank of Ghana Limited | **65** | 65 |
| Global Alliance Seguros S.A. | **24** | 24 |
| Nile Bank Limited | **102** | 89 |
| First Assurance Company Limited | **99** | 87 |
| Woolworths Financial Services Proprietary Limited | **364** | 364 |
| Absa Instant Life Proprietary Limited | **20** | 20 |
| | **855** | 829 |

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

# 15. Deferred tax

## 15.1 Reconciliation of net deferred tax liability/(asset)

| | Group 2018 Rm | Group 2017[1] Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | **(657)** | (91) |
| Effects of adopting IFRS 9 | **(2 022)** | — |
| Deferred tax on amounts charged directly to other comprehensive income | **(299)** | 383 |
| Credit to the profit and loss component (refer to note 41) | **(15)** | (882) |
| Tax effect of translation and other differences | **(78)** | (67) |
| **Balance at the end of the reporting period** | **(3 071)** | (657) |

## 15.2 Deferred tax liability/(asset)

Tax effects of temporary differences between tax and book value for:

| | Group 2018 Rm | Group 2017[1] Rm |
|---|---|---|
| **Deferred tax liability** | **360** | 634 |
| Prepayments, accruals and other provisions | **162** | 162 |
| Capital allowances | **(32)** | 1 193 |
| Cash flow hedge and available-for-sale reserve | **—** | 391 |
| Cash flow hedge and financial assets at fair value through other comprehensive income | **(45)** | — |
| Fair value adjustments on financial instruments | **464** | (77) |
| Impairment of loans and advances | **5** | (839) |
| Lease and rental debtor allowances | **—** | (231) |
| Property allowances | **—** | 168 |
| Retirement benefit asset and liabilities | **(45)** | 174 |
| Share-based payments | **(149)** | (307) |
| **Deferred tax asset** | **(3 431)** | (1 291) |
| Assessed losses | **(172)** | (341) |
| Fair value adjustments on financial instruments | **110** | (12) |
| Cash flow hedge and financial assets at fair value through other comprehensive income | **180** | — |
| Impairment of loans and advances | **(2 868)** | (360) |
| Lease and rental debtor allowances | **(244)** | 8 |
| Prepayments, accruals and other provisions[2] | **(1 463)** | (582) |
| Financial liabilities designated at fair value through profit and loss | **(58)** | — |
| Capital allowances | **1 187** | — |
| Property allowances | **292** | — |
| Retirement benefit assets | **45** | — |
| Share-based payments | **(440)** | (4) |
| **Net deferred tax asset** | **(3 071)** | (657) |

## 15.3 Future tax relief

The Group has estimated tax losses of **R1 223m** (2017: R1 939m) which are available for set-off against future taxable income. Deferred tax assets of **R172m** (2017: R338m) relating to tax losses carried forward were recognised. The assessed losses in Barclays Bank of Mozambique expire after four years of origination. The Group has actual losses that have not been recognised of **R608m** (2017: R734m).

[1] Numbers have been restated, refer to note 1.21.10 for further details.

[2] In the prior reporting period the deferred tax on 'other provisions' and 'other differences' amounting to R447m and R135m respectively were disclosed separately. These amounts have been presented in 'Prepayments, accruals and other provisions' in the current year and the comparatives have been restated accordingly.

## 16. Deposits from banks

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Call deposits | 7 179 | 9 592 |
| Fixed deposits | 16 343 | 15 722 |
| Foreign currency deposits | 23 751 | 9 675 |
| Notice deposits | 2 452 | 1 031 |
| Other | 7 465 | 6 179 |
| Repurchase agreements | 64 231 | 25 191 |
| | 121 421 | 67 390 |

## 17. Trading and hedging portfolio liabilities

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Derivative liabilities (refer to note 58.3) | 36 118 | 52 101 |
| Commodity derivatives | 1 482 | 1 293 |
| Credit derivatives | 180 | 158 |
| Equity derivatives | 3 093 | 2 396 |
| Foreign exchange derivatives | 9 337 | 14 878 |
| Interest rate derivatives | 22 026 | 33 376 |
| Short positions | 15 514 | 11 946 |
| Total trading portfolio liabilities | 51 632 | 64 047 |
| Hedging portfolio liabilities (refer to note 58.3) | 1 343 | 1 123 |
| | 52 975 | 65 170 |

## 18. Other liabilities

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Accruals | 2 804 | 2 643 |
| Audit fee accrual | 82 | 70 |
| Creditors | 12 194 | 13 326 |
| Deferred income | 458 | 469 |
| Liabilities under finance leases | 28 | — |
| Retirement benefit funds and post-retirement medical plan obligations (refer to note 44) | 317 | 401 |
| Settlement balances[1] | 20 439 | 18 128 |
| Cash-settled share-based payment liability (refer to note 55) | 340 | 323 |
| | 36 662 | 35 360 |

[1] Numbers have been restated, refer to note 1.21.12 for further details.

## 19. Provisions

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | Staff bonuses and incentive provisions Rm | Sundry provisions Rm | Total Rm |
| **Balance at the beginning of the reporting period** | 2 054 | 987 | 3 041 |
| Additions | 2 069 | 417 | 2 486 |
| Amounts used | (1 904) | (260) | (2 164) |
| Reversals | (5) | (9) | (14) |
| Total provisions before impairment provision | 2 214 | 1 135 | 3 349 |
| Impairment losses on financial guarantees, undrawn committed facilities and letters of credit | — | — | 668 |
| **Balance at the end of the reporting period** | 2 214 | 1 135 | 4 017 |

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

Refer to note 53 for the gross financial guarantees, undrawn committed facilities and letters of credit and refer to note 62 for detailed reconciliations of these expected credit losses.

Provisions expected to be recovered or settled within no more than 12 months after the reporting date were **R2 125m** (2017: R2 514m). Sundry provisions include amounts with respect to fraud cases, litigation and claims.

## 20. Deposits due to customers

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| Call deposits | 80 007 | 81 076 |
| Cheque account deposits | 199 528 | 191 325 |
| Credit card deposits | 1 904 | 1 921 |
| Fixed deposits | 180 341 | 163 813 |
| Foreign currency deposits | 35 597 | 28 418 |
| Notice deposits | 58 367 | 58 460 |
| Other deposits | 3 447 | 2 756 |
| Repurchase agreements | 12 793 | 5 000 |
| Savings and transmission deposits | 164 321 | 157 098 |
| | 736 305 | 689 867 |

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

## 21. Debt securities in issue

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| Commercial paper | 1 436 | 227 |
| Credit linked notes | 9 049 | 8 375 |
| Floating rate notes | 64 181 | 63 125 |
| Negotiable certificates of deposit | 53 809 | 37 137 |
| Other | 696 | 1 132 |
| Promissory notes | 1 257 | 783 |
| Senior notes | 30 442 | 26 912 |
| Structured notes and bonds | 101 | 257 |
| | 160 971 | 137 948 |

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |

## 22. Liabilities under investment contracts

| | 2018 Rm | 2017 Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | **30 585** | 29 198 |
| Change in investment contracts (refer to note 33) | **(632)** | 1 976 |
| Inflows on investment contracts | **3 049** | 2 435 |
| Policyholder benefits on investment contracts | **(3 452)** | (3 098) |
| Other | **124** | 74 |
| **Balance at the end of the reporting period** | **29 674** | 30 585 |

### 22.1 Assets and liabilities backing the investment contracts

| | Group 2018 | | |
|---|---|---|---|
| | Total assets/ (liabilities) backing the investment contracts Rm | Intercompany eliminations[1] Rm | Net assets/ (liabilities) attributable to external policyholders Rm |
| Deferred taxation (refer to note 15.2)[2] | **111** | **—** | **111** |
| Money market assets (refer to note 2) | **2 067** | **(82)** | **1 985** |
| Investments linked to investment contracts (refer to note 10) | **27 675** | **(9 194)** | **18 481** |
| Other assets | **30** | **(28)** | **2** |
| Other liabilities | **(123)** | **92** | **(31)** |
| Reinsurance asset (refer to note 9) | **3** | **(3)** | **—** |
| | **29 763** | **(9 215)** | **20 548** |

| | 2017 | | |
|---|---|---|---|
| | Total assets/ (liabilities) backing the investment contracts Rm | Intercompany eliminations[1] Rm | Net assets/ (liabilities) attributable to external policyholders Rm |
| Deferred taxation (refer to note 15.2)[2] | 222 | — | 222 |
| Money market assets (refer to note 2) | 1 898 | — | 1 898 |
| Investments linked to investment contracts (refer to note 10) | 28 527 | (9 591) | 18 936 |
| Other assets | 3 | — | 3 |
| Other liabilities | (6) | — | (6) |
| | 30 644 | (9 591) | 21 053 |

[1] Intercompany eliminations relate to investments held in products of the Group.

[2] This amount relates to the deferred tax asset recognised on investment contracts. This amount **R111m** (2017: R222m) is included as part of the overall deferred tax asset balance per note 15.2.

## 23. Policyholder liabilities under insurance contracts

| | Group 2018 Gross Rm | Group 2018 Reinsurance Rm | Group 2018 Net Rm |
|---|---|---|---|
| Short-term insurance contracts: | | | |
| Claims outstanding (refer to note 23.1) | 1 033 | (310) | 723 |
| Claims reported and loss adjustment expense | 819 | (267) | 552 |
| Claims incurred but not reported | 214 | (43) | 171 |
| Unearned premiums at the end of the reporting period | 947 | (220) | 727 |
| Balance at the beginning of the reporting period | 895 | (177) | 718 |
| Foreign exchange movement | 80 | (51) | 29 |
| Increase during the reporting period | 1 144 | (8) | 1 136 |
| Release during the reporting period | (1 172) | 16 | (1 156) |
| | 1 980 | (530) | 1 450 |
| Long-term insurance contracts (refer to note 23.2) | 2 188 | (88) | 2 100 |
| | 4 168 | (618) | 3 550 |

| | 2017 Gross Rm | 2017 Reinsurance Rm | 2017 Net Rm |
|---|---|---|---|
| Short-term insurance contracts: | | | |
| Claims outstanding (refer to note 23.1) | 1 163 | (601) | 562 |
| Claims reported and loss adjustment expense | 860 | (562) | 298 |
| Claims incurred but not reported | 303 | (39) | 264 |
| Unearned premiums at the end of the reporting period | 895 | (177) | 718 |
| Balance at the beginning of the reporting period | 986 | (213) | 773 |
| Foreign exchange movement | (29) | 6 | (23) |
| Increase during the reporting period | 953 | (38) | 915 |
| Release during the reporting period | (1 015) | 68 | (947) |
| | 2 058 | (778) | 1 280 |
| Long-term insurance contracts (refer to note 23.2)[1] | 2 284 | (114) | 2170 |
| | 4 342 | (892) | 3 450 |

| | Group 2018 Rm | Group 2017[1] Rm |
|---|---|---|
| **Comprising:** | | |
| Unit-linked insurance contracts | 1 482 | 1 434 |
| Gross | 1 684 | 1 466 |
| Reinsurance (refer to note 9) | (202) | (32) |
| Non-unit-linked insurance contracts | 2 068 | 2 016 |
| Gross | 2 484 | 2 876 |
| Reinsurance (refer to note 9) | (416) | (860) |
| | 3 550 | 3 450 |

[1] Numbers have been restated, refer to note 1.21.10 for further details.

## 23. Policyholder liabilities under insurance contracts (continued)

### 23.1 Reconciliation of claims outstanding, including claims incurred but not reported

| | Group 2018 Gross Rm | Group 2018 Reinsurance Rm | Group 2018 Net Rm |
|---|---|---|---|
| **Balance at the beginning of the reporting period** | 1 163 | (601) | 562 |
| Foreign exchange movements | 7 | (25) | (18) |
| Cash paid for claims settled during the reporting period | (1 710) | 508 | (1 202) |
| Increase in claims arising from the current reporting period's claims outstanding | 623 | (107) | 516 |
| Increase in claims arising from the previous reporting period's claims outstanding | 950 | (85) | 865 |
| **Balance at the end of the reporting period (refer to note 23)** | 1 033 | (310) | 723 |

| | 2017 Gross Rm | 2017 Reinsurance Rm | 2017 Net Rm |
|---|---|---|---|
| **Balance at the beginning of the reporting period** | 1 077 | (679) | 398 |
| Foreign exchange movements | (35) | 10 | (25) |
| Cash paid for claims settled during the reporting period | (2 159) | 209 | (1 950) |
| Increase in claims arising from the current reporting period's claims outstanding | 1 278 | (76) | 1 202 |
| Increase in claims arising from the previous reporting period's claims outstanding | 1 002 | (65) | 937 |
| **Balance at the end of the reporting period (refer to note 23)** | 1 163 | (601) | 562 |

### 23.2 Reconciliation of gross long-term insurance contracts

| | Group 2018 Rm | Group 2017[1] Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | 2 284 | 2 221 |
| Change in insurance liabilities that are reinsured | — | 21 |
| Foreign exchange movements | 119 | (4) |
| Movement on expected claims experience | (39) | (1) |
| Change in insurance contract liabilities (refer to note 33) | (176) | 47 |
| Change in economic assumptions | (5) | (9) |
| Change in methodology | 77 | (69) |
| Changes in non-economic assumptions | (32) | 4 |
| Expected cash flow | 1 044 | 1 366 |
| Expected release of margins | (1 184) | (1 173) |
| Experience variances | 27 | (161) |
| Change in liabilities valued on a retrospective basis | (247) | — |
| New business | 35 | 76 |
| Transfer of policies | 1 | — |
| Unwind of discount rate | 108 | 13 |
| **Balance at the end of the reporting period (refer to note 23)** | 2 188 | 2 284 |
| Recoverable from reinsurers (refer to note 9) | 88 | 114 |
| Net liabilities | 2 100 | 2 170 |
| Unit-linked liabilities | 1 184 | 1 434 |
| Non-linked liabilities | 916 | 736 |
| | 2 188 | 2 284 |

[1] Numbers have been restated, refer to note 1.21.10 for further details.

## 24. Borrowed funds

| | | | Group 2018 Rm | Group 2017 Rm |
|---|---|---|---|---|
| **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** | **Note** | | |
| 8.295% | 21 November 2023 | i | — | 1 188 |
| Three-month JIBAR + 2.05% | 21 November 2023 | ii | — | 2 007 |
| Consumer Price Index linked notes fixed at 5.50% | 7 December 2028 | iii | **1 500** | 1 500 |
| **Subordinated callable notes issued by Absa Group Limited** | | | | |
| 10.05% | 5 February 2025 | iv | **807** | 807 |
| 10.835% | 19 November 2024 | v | **130** | 130 |
| 11.365% | 4 September 2025 | vi | **508** | 508 |
| 11.40% | 29 September 2025 | vii | **288** | 288 |
| 11.74% | 20 August 2026 | viii | **140** | 140 |
| 11.81% | 3 September 2027 | ix | **737** | 737 |
| 12.43% | 5 May 2026 | x | **200** | 200 |
| Three-month Johannesburg Interbank Agreed Rate (JIBAR) | | | | |
| Three-month JIBAR + 2.45% | 29 November 2023 | xi | **1 500** | — |
| Three-month JIBAR + 3.30% | 19 November 2024 | xii | **370** | 370 |
| Three-month JIBAR + 3.50% | 5 February 2025 | xiii | **1 693** | 1 693 |
| Three-month JIBAR + 3.50% | 4 September 2025 | xiv | **437** | 437 |
| Three-month JIBAR + 3.60% | 3 September 2027 | xv | **30** | 30 |
| Three-month JIBAR + 4.00% | 5 May 2026 | xvi | **31** | 31 |
| Three-month JIBAR + 4.00% | 20 August 2026 | xvii | **1 510** | 1 510 |
| Three-month JIBAR + 4.00% | 3 November 2026 | xviii | **500** | 500 |
| Three-month JIBAR + 3.78% | 17 March 2027 | xix | **642** | 642 |
| Three-month JIBAR + 3.85% | 25 May 2027 | xx | **500** | 500 |
| Three-month JIBAR + 3.85% | 14 August 2029 | xxi | **390** | 390 |
| Three-month JIBAR + 3.15% | 30 September 2027 | xxii | **295** | 295 |
| Three-month JIBAR + 3.45% | 29 September 2029 | xxiii | **1 014** | 1 014 |
| USD 6.25% | 25 April 2028 | xxiv | **4 932** | — |
| **Subordinated callable notes issued by other subsidiaries** | | | | |
| National Bank of Commerce 16.44% fixed rate note | 29 January 2024 | xxv | **34** | 29 |
| Barclays Bank of Botswana Limited, bank rate +2.25% | 14 November 2023 | xxvi | **139** | — |
| Accrued interest | | | **1 222** | 918 |
| Fair value adjustments on total subordinated debt instruments | | | **63** | 31 |
| Foreign exchange movement | | | **613** | — |
| | | | **20 225** | 15 895 |

Included in interest paid on the statement of cash flows is **R1 646m** (2017: R1 574m) which relates to interest on borrowed funds.

i The 8.295% fixed rate notes were redeemed in full at the option of Absa Bank Limited on 21 November 2018. Interest was paid semi-annually in arrears on 21 May and 21 November of each year.

ii. The three-month JIBAR plus 2.05% floating rate notes were redeemed in full at the option of Absa Bank Limited on 21 November 2018. Interest is paid quarterly on 21 February, 21 May, 21 August and 21 November of each year.

iii. The 5.50% CPI linked notes may be redeemed in full at the option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrears on 7 June and 7 December of each year, provided that the last day of payment shall be 7 December 2028. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points (bps) shall apply.

iv. The 10.05% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Absa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

## 24. Borrowed funds (continued)

v. The 10.835% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Absa Group Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Absa Group Limited does not exercise the redemption option.

vi. The 11.365% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Absa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vii. The 11.40% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Absa Group Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

viii. The 11.74% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Group Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ix. The 11.81% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

x. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xi. The three-month JIBAR plus 2.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 November 2023. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xii. The three-month JIBAR plus 3.30% floating rate notes may be redeemed in full at the option of Absa Group Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiii. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiv. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option Absa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xv. The three-month JIBAR plus 3.60% floating rate notes may be redeemed in full at the option of Absa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvi. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvii. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xviii. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

## 24. Borrowed funds (continued)

xix. The three-month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xx. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xxi. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xxii. The three-month JIBAR plus 3.15% floating rate notes may be redeemed in full at the option of Absa Group Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September and 30 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 30 September 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xxiii. The three-month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xxiv. The 6.25% fixed rate reset callable USD notes with the value USD400m may be redeemed in full at the option of Absa Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on the reset determination date, 27 April 2023. The reset margin is 3.523% per annum.

xxv. The 16.44% fixed rate notes issued by National Bank of Commerce, with the value of TZS5 000m may be redeemed in full on 29 January 2019. The notes bear fixed interest at a rate of 16.44%. Interest is paid semi-annually in arrears on 29 July and 29 January.

xxvi. The Botswana Bank repo rate + 2.25% floating rate notes issued by Barclays Bank of Botswana Limited, with the value of BWP100m may be redeemed in full on 14 February 2019. The interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November.

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

Note xxiv is listed on the London Stock Exchange.

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **25. Share capital and premium** | | |
| **25.1 Ordinary share capital** | | |
| **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) |
| | **1 655** | 1 666 |
| **Total issued capital** | | |
| Share capital | **1 655** | 1 666 |
| Share premium | **10 205** | 10 498 |
| | **11 860** | 12 164 |

### Authorised shares

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

### Unissued shares

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

The Group has a share incentive trust in terms of which shares are issued and share awards are granted. As required by IFRS, Absa Group Limited Share Incentive Trust has been consolidated into the Group's annual financial statements.

### Shares issued during the year under review

There were no shares issued during the current reporting period.

### Shares issued during the prior year

There were no shares issued during the previous reporting period.

### Treasury shares

In the prior year, Barclays PLC contributed cash of R1 891m as part of the separation to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 (1.5%) of the Group's shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital. Refer to note 49.6.

# 25. Share capital and premium (continued)

## 25.2 Directors' interests in the Group's ordinary shares of R2.00 each

| | Direct number of shares | | Indirect number of shares | | Total direct and indirect number of shares | |
|---|---|---|---|---|---|---|
| | | Beneficial | | Beneficial | | Beneficial |
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Present directors** | | | | | | |
| C Beggs | **2 000** | 2 000 | **—** | — | **2 000** | 2 000 |
| Y Z Cuba | **1 000** | 1 000 | **—** | — | **1 000** | 1 000 |
| MP Fandeso[1] | **—** | 250 | **—** | — | **—** | 250 |
| D W P Hodnett[2] | **—** | 60 662 | **—** | — | **—** | 60 662 |
| M J Husain | **1 000** | 1 000 | **—** | — | **1 000** | 1 000 |
| W E Lucas-Bull | **1 000** | 1 000 | **4 625** | 4 625 | **5 625** | 5 625 |
| PB Matlare | **10 404** | 2 887 | **—** | — | **10 404** | 2 887 |
| T S Munday[3] | **—** | 1 000 | **—** | 2 000 | **—** | 3 000 |
| J P Quinn | **28 788** | 11 436 | **—** | — | **28 788** | 11 436 |
| M Ramos[4] | **248 279** | 188 686 | **—** | — | **248 279** | 188 686 |
| | **292 471** | 269 921 | **4 625** | 6 625 | **297 096** | 276 546 |

There was no movement in shareholding between the reporting date and the date of approval of the financial statements.

No directors hold any non-beneficial interests in the Group's ordinary shares.

# 26. Other reserves

## 26.1 General credit risk reserve

The general credit risk reserve consists of the following:

Total impairments, calculated in terms of IFRS 9 (2017: IAS 39) should exceed the provisions calculated for regulatory purposes. For some African subsidiaries, the IFRS 9 (2017: IAS 39) impairment provision is less than the regulatory provision which results in a shortfall. An additional general credit risk reserve has been created and maintained through a transfer of distributable reserves to non-distributable reserves, which eliminates the shortfall.

## 26.2 Fair value through other comprehensive income reserve (available-for-sale reserve)

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

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

## 26.3 Cash flow hedging reserve

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

[1] Resigned 15 May 2018.
[2] Resigned 19 November 2018.
[3] Retired 15 May 2018.
[4] Retired 28 February 2019.

## 26. Other reserves (continued)

### 26.4 Foreign currency translation reserve

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

### 26.5 Foreign insurance subsidiary regulatory reserve

The foreign insurance subsidiary regulatory reserve is calculated on the basis of the following minimum percentages of profits recorded in each reporting period for that subsidiary:

- 20% until the value of the reserves represents half of the minimum capital required under the foreign insurance subsidiary's legislation.
- 10% from the time the amount specified in the preceding paragraph has been attained.

### 26.6 Share-based payment reserve

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

### 26.7 Associates' and joint ventures' reserve

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

### 26.8 Retained earnings

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

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

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **27. Non-controlling interest** | | |
| **27.1 Preference shares** | | |
| **Authorised** | | |
| **30 000 000** (2017: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each | 1 | 1 |
| **Issued** | | |
| **4 944 839** (2017: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each | 1 | 1 |
| **Total issued capital** | | |
| Share capital | 1 | 1 |
| Share premium | 4 643 | 4 643 |
| | 4 644 | 4 644 |

The only subsidiary that gives rise to a significant non-controlling interest is Absa Bank Limited. Whilst Absa Group Limited holds 100% of the voting rights in Absa Bank Limited, Absa Bank Limited has preference shares in issue that are disclosed as non-controlling interests.

The preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of the preference shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or if a resolution is proposed by Absa Bank Limited which directly affects the rights attached to the preference shares or the interest of the shareholders. Payment of dividends and principal is at the discretion of the Group. The shareholders only have rights to the share capital and share premium linked to the shares, in the event of insolvency, and to any dividend that is declared, but unpaid.

As at the reporting date, there were no preference dividends that have been declared but remain unpaid. Refer to the consolidated financial statements of Absa Bank Limited for detailed information regarding the financial position and financial performance of Absa Bank Limited.

| | | Group 2018 Rm | Group 2017 Rm |
|---|---|---|---|
| **27.2 Additional Tier 1 capital** | | | |
| **Subordinated callable notes issued by Absa Group Limited** | | | |
| **Interest rate** | **Date of issue** | | |
| Three-month JIBAR + 5.65% | 11 September 2017 | 1 500 | 1 500 |
| Three-month JIBAR + 4.75% | 9 October 2018 | 1 241 | — |
| | | 2 741 | 1 500 |

The Additional Tier 1 capital notes issued on 11 September 2017 and 9 October 2018 represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited on 12 September 2022 and 10 October 2023 respectively 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.

| | Group | |
|---|---|---|
| | 2018 Total Rm | 2017 Total Rm |
| **28. Interest and similar income** | | |
| **Interest and similar income is earned from:** | | |
| Cash, cash balances and balances with central banks | 19 | 17 |
| Interest on hedging instruments | 201 | 428 |
| Investment securities | 9 993 | 9 270 |
| Loans and advances to banks | 1 581 | 1 928 |
| Loans and advances to customers | 77 442 | 74 285 |
| Corporate overdrafts and specialised finance loans | 939 | 756 |
| Credit cards | 5 762 | 6 331 |
| Foreign currency loans | 1 400 | 1 075 |
| Instalment credit agreements[1] | 8 481 | 8 085 |
| Interest on impaired financial assets (2017) | — | 713 |
| Loans to associates and joint ventures | 1 894 | 1 800 |
| Microloans | 600 | 1 102 |
| Mortgages | 25 324 | 25 756 |
| Other advances[1] | 768 | 1 292 |
| Overdrafts | 4 814 | 4 381 |
| Overnight finance | 2 134 | 2 230 |
| Personal and term loans | 15 693 | 12 184 |
| Preference shares | 1 386 | 1 313 |
| Wholesale overdrafts | 8 247 | 7 267 |
| | 89 236 | 85 929 |
| **Classification of interest and similar income** | | |
| Interest on hedging instruments | 201 | 428 |
| Cash flow hedges (refer to note 58.7) | 545 | 264 |
| Economic hedges | — | 270 |
| Fair value hedging instruments (refer to note 58.8) | (344) | (106) |
| Interest on financial assets held at amortised cost | 80 852 | 78 727 |
| Interest on financial assets held at FVOCI | 6 580 | — |
| Interest on financial assets held as available-for-sale (2017)[2] | — | 5 543 |
| Interest on financial assets measured at fair value through profit or loss | 1 603 | 1 231 |
| Cash, cash balances and balances with central banks | 13 | 11 |
| Investment securities | 353 | 644 |
| Loans and advances to customers | 1 237 | 576 |
| | 89 236 | 85 929 |

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

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

[1] In line with the detail provided in note 8.1, product level interest allocations have been restated to better reflect the commercial nature of products. The restatement increased interest income allocated to other advances (R170m) and decreased interest income allocated to instalment credit agreements (R170m).

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

| | Group | |
|---|---|---|
| | 2018 Total Rm | 2017 Total Rm |
| **29. Interest expense and similar charges** | | |
| **Interest expense and similar charges are paid on:** | | |
| Borrowed funds | 1 982 | 1 762 |
| Debt securities in issue | 11 544 | 10 650 |
| Deposits due to customers | 30 909 | 29 835 |
| Call deposits | 5 263 | 5 422 |
| Cheque account deposits | 3 379 | 3 311 |
| Credit card deposits | 9 | 9 |
| Fixed deposits | 10 072 | 9 457 |
| Foreign currency deposits | 224 | 184 |
| Notice deposits | 4 247 | 4 268 |
| Other deposits due to customers | 1 111 | 977 |
| Savings and transmission deposits | 6 604 | 6 207 |
| Deposits from banks | 1 224 | 1 170 |
| Call deposits | 443 | 627 |
| Fixed deposits | 535 | 431 |
| Other | 246 | 112 |
| Interest on hedging instruments | (179) | (132) |
| | 45 480 | 43 285 |
| **Classification of interest expense and similar charges** | | |
| Interest on hedging instruments | (178) | (132) |
| Cash flow hedges (refer to note 58.7) | (89) | (70) |
| Economic hedges | — | (22) |
| Fair value hedges (refer to note 58.7) | (89) | (40) |
| Interest on financial liabilities designated at fair value through profit or loss | — | 90 |
| Borrowed funds | — | 90 |
| Interest on financial liabilities held at amortised cost | 45 658 | 43 327 |
| | 45 480 | 43 285 |

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **30. Net fee and commission income** | | |
| Asset management and other related fees | 218 | 140 |
| Consulting and administration fees | 480 | 708 |
| Credit-related fees and commissions | 19 755 | 18 462 |
| Cheque accounts | 5 401 | 4 943 |
| Credit cards | 2 770 | 2 624 |
| Electronic banking | 5 335 | 5 185 |
| Other | 4 170 | 3 648 |
| Savings accounts | 2 079 | 2 062 |
| Insurance commission received | 830 | 966 |
| Investment, markets execution and investment banking fees | 477 | 568 |
| Merchant income | 2 066 | 1 890 |
| Other fee and commission income | 423 | 557 |
| Trust and other fiduciary services | 1 426 | 1 433 |
| Portfolio and other management fees | 1 103 | 1 121 |
| Trust and estate income | 323 | 312 |
| **Fee and commission income** | 25 675 | 24 724 |
| **Fee and commission expense** | (3 152) | (3 013) |
| Brokerage fees | (108) | (99) |
| Cheque processing fees | (120) | (125) |
| Clearing and settlement charges | (730) | (645) |
| Notification fees | (180) | (198) |
| Insurance commission paid | (1 113) | (1 065) |
| Other | (826) | (806) |
| Valuation fees | (75) | (75) |
| | 22 523 | 21 711 |

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

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **30.1 Included above are net fees and commissions linked to financial instruments not at fair value** | | |
| Cheque accounts | 5 401 | 4 943 |
| Credit cards | 2 770 | 2 624 |
| Electronic banking | 5 335 | 5 185 |
| Other | 4 170 | 3 648 |
| Savings accounts | 2 079 | 2 062 |
| **Fee and commission income** | 19 755 | 18 462 |
| **Fee and commission expense** | (1 781) | (1 690) |
| | 17 974 | 16 772 |

Credit cards include acquiring and issuing fees.

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

| | Group | |
|---|---|---|
| | 2018<br>Rm | 2017<br>Rm |
| **31. Net insurance premium income** | | |
| Gross insurance premiums | 8 266 | 7 560 |
| Life insurance contracts | 4 522 | 4 048 |
| Short-term insurance contracts | 3 744 | 3 512 |
| Premiums ceded to reinsurers | (1 076) | (962) |
| Reinsurance on life insurance contracts | (545) | (419) |
| Reinsurance on short-term insurance contracts | (531) | (543) |
| | 7 190 | 6 598 |
| **Comprising (net of reinsurance)** | | |
| Life | 3 977 | 3 629 |
| Credit life | 1 716 | 1 612 |
| Funeral business | 941 | 792 |
| Home mortgage protection | 587 | 634 |
| Group life | 39 | — |
| Bank embedded cover | 21 | — |
| Other | 673 | 591 |
| Short-term | 3 213 | 2 969 |
| Commercial business | (2) | 86 |
| Personal business | 3 215 | 2 883 |
| | 7 190 | 6 598 |

| | Group | |
|---|---|---|
| | 2018<br>Rm | 2017<br>Rm |
| **32. Net claims and benefits incurred on insurance contracts** | | |
| Gross claims and benefits incurred on insurance contracts | 4 045 | 3 994 |
| Life insurance claims and benefits | 1 718 | 1 445 |
| Short-term insurance claims and benefits | 2 327 | 2 549 |
| Reinsurance recoveries | (480) | (660) |
| Reinsurance recoveries on life insurance contracts | (336) | (239) |
| Reinsurance recoveries on short-term insurance contracts | (144) | (421) |
| | 3 565 | 3 334 |
| **Comprising (net of reinsurance)** | | |
| Life | 1 382 | 1 206 |
| Credit life | 408 | 277 |
| Funeral business | 221 | 213 |
| Home mortgage protection | 402 | 442 |
| Group life | 33 | — |
| Bank embedded cover | 3 | — |
| Other | 315 | 274 |
| Short-term | 2 183 | 2 128 |
| Commercial business | 88 | 139 |
| Personal business | 2 095 | 1 989 |
| | 3 565 | 3 334 |

## 33. Changes in investment and insurance contract liabilities

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Change in insurance contract liabilities (refer to note 23.2)[1] | (176) | 47 |
| Change in investment contract liabilities (refer to note 22)[2] | (632) | 1 976 |
| | (808) | 2 023 |

## 34. Gains and losses from banking and trading activities

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Net gains on investments | 341 | 228 |
| Debt instruments designated at FVTPL | 220 | 191 |
| Equity instruments mandatorily held at FVTPL | 112 | 104 |
| Unwind from reserves for debt instruments at FVOCI | 9 | — |
| Available for sale unwind from reserves | — | (67) |
| Net trading result | 4 971 | 4 807 |
| Net trading income excluding the impact of hedge accounting | 5 183 | 4 855 |
| Ineffective portion of hedges | (212) | (48) |
| Cash flow hedges (refer to note 58.7.2) | (198) | 17 |
| Fair value hedges (refer to note 58.7.1) | (14) | (65) |
| Other gains | 508 | 211 |
| | 5 820 | 5 246 |

### Net trading result and other gains on financial instruments

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Net trading income excluding the impact of hedge accounting | 5 183 | 4 855 |
| Losses on financial instruments designated at FVTPL | (1 992) | (2 559) |
| Net gains/(losses) on financial assets designated at FVTPL | 1 384 | (33) |
| Net losses on financial liabilities designated at FVTPL | (3 376) | (2 526) |
| Gains on financial instruments mandatorily held at FVTPL | 7 175 | 7 414 |
| Other gains | 508 | 211 |
| (Losses)/gains on financial instruments designated at FVTPL | (91) | 9 |
| Gains on financial instruments mandatorily held at FVTPL | 599 | 202 |

[1] Numbers have been restated, refer to note 1.21.10 for further details.

[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. 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'.

## 35. Gains and losses from investment activities

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Net (losses)/gains on investment activities | (580) | 1 863 |
| Policyholder insurance contracts | 47 | 293 |
| Policyholder investment contracts[1] | (1 027) | 1 144 |
| Shareholder funds | 400 | 426 |
| Other (losses)/gains | (56) | 42 |
| | (636) | 1 905 |
| Classification of (losses)/gains from investment activities | | |
| (Losses)/gains on financial instruments designated at fair value through profit or loss | (581) | 1 878 |
| Other | 1 | (15) |
| | (580) | 1 863 |

## 36. Other operating income

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Foreign exchange differences, including amounts recycled from other comprehensive income | 35 | (88) |
| Income from investment properties | 47 | 182 |
| Change in fair value (refer to note 7 and 12) | 38 | 105 |
| Rentals | 9 | 77 |
| Revenue arising from contracts with customers | 90 | 122 |
| Income from maintenance contracts | 39 | 45 |
| Profit on sale of investment property | — | 5 |
| (Loss)/profit on sale of property and equipment | (14) | 18 |
| Profit on disposal of developed properties | 34 | 38 |
| Gross sales | 142 | 70 |
| Cost of sales | (108) | (32) |
| Profit on sale of repossessed properties | 31 | 16 |
| Gross sales | 57 | 98 |
| Cost of sales | (26) | (82) |
| Rental income | 48 | 33 |
| Sundry income[2] | 400 | 399 |
| | 620 | 648 |

## 37. Impairment losses

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Impairment losses raised during the reporting period | 7 250 | — |
| Stage 1 expected losses | (4 346) | — |
| Stage 2 expected losses | 7 451 | — |
| Stage 3 expected losses | 4 145 | — |
| Impairments raised during the previous reporting period on loans and advances to customers | — | 7 985 |
| Identified impairments | — | 8 113 |
| Unidentified impairments | — | (128) |
| Losses/(gains) on modifications | 22 | — |
| Recoveries of loans and advances previously written off | (948) | (963) |
| | 6 324 | 7 022 |

[1] 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'.

[2] Sundry income includes profit on disposal of non-core assets.

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **38. Operating expenses** | | |
| Administration fees | 469 | 499[1] |
| Amortisation of intangible assets (refer to note 14) | 846 | 650 |
| Auditors' remuneration | 356 | 277 |
| Audit fees – current reporting period | 280 | 250 |
| Audit fees – underprovision | 6 | 5 |
| Audit-related fees | 18 | 19 |
| Other services | 52 | 3 |
| Cash transportation | 1 266 | 1 089 |
| Depreciation (refer to note 13) | 2 354 | 1 988 |
| Equipment costs | 370 | 444 |
| Rentals | 104 | 113 |
| Maintenance | 266 | 331 |
| Information technology | 3 292 | 3 188 |
| Marketing costs | 1 962 | 1 793 |
| Operating lease expenses on properties | 1 607 | 1 606 |
| Other | 2 779 | 2 098 |
| Printing and stationery | 362 | 367 |
| Professional fees | 2 700 | 2 311 |
| Property costs | 1 816 | 1 753 |
| Staff costs | 24 761 | 23 558 |
| Bonuses | 2 196 | 2 154 |
| Other | 984 | 1 198 |
| Salaries and current service costs on post-retirement benefit funds | 20 384 | 18 887 |
| Deferred cash and share-based payments (refer to note 55) | 771 | 829 |
| Training costs | 426 | 490 |
| TSA direct costs | 820 | 650[1] |
| Telephone and postage | 1 043 | 1 033 |
| | 46 803 | 43 304 |

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies.

Professional fees include research and development costs totalling **R270m** (2017: R468m).

Other operating expenses include fraud losses as well as travel and entertainment costs.

Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **39. Other impairments** | | |
| Impairment raised on financial instruments[2] | — | 5 |
| Other | 434 | 643 |
| Goodwill (refer to note 14) | 34 | 38 |
| Intangible assets (refer to note 14) | 2 | 384 |
| Property and equipment (refer to note 13) | 398 | 221 |
| | 434 | 648 |

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

[2] With the adoption of IFRS 9 the impairment on other financial instruments has been included as part of impairment losses, refer to note 37.

## 40. Indirect taxation

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Training levy | 211 | 191 |
| VAT net of input credits | 1 381 | 1 431 |
| | 1 592 | 1 622 |

## 41. Taxation expense

| | Group 2018 Rm | Group 2017[1] Rm |
|---|---|---|
| **Current** | | |
| Foreign taxation | 385 | 321 |
| Current tax | 5 785 | 6 311 |
| Current tax – previous reporting period | 127 | 132 |
| | 6 297 | 6 764 |
| **Deferred** | | |
| Deferred tax (refer to note 15.1) | (15) | (882) |
| Capital allowances | (112) | 135 |
| Impairment gains/(losses) | 474 | (101) |
| Provisions | (194) | (23) |
| Movements in prepayments, acruals and other provisions | 50 | (430) |
| Assessed losses | 8 | 62 |
| Fair value and similar adjustments through profit and loss | (239) | (266) |
| Fair value and similar adjustments in relation to prior year | — | (255) |
| Share-based payments | (144) | 16 |
| Recognition of previously unrecognised tax losses | — | (7) |
| Retirement benefit fund liability | 142 | (13) |
| | 6 282 | 5 882 |
| **Reconciliation between operating profit before income tax and the taxation expense** | | |
| Operating profit before income tax | 21 541 | 20 969 |
| Share of post-tax results of associates and joint ventures (refer to note 11) | (179) | (170) |
| | 21 362 | 20 799 |
| Tax calculated at a tax rate of 28% | 5 981 | 5 824 |
| Effect of different tax rates in other countries | 34 | 25 |
| Expenses not deductible for tax purposes[2] | 1 024 | 904 |
| Recognition of previously unrecognised deferred tax assets | — | (7) |
| Dividend income[3] | (434) | (413) |
| Non-taxable interest[3,4] | (181) | (192) |
| Other income not subject to tax[4] | (124) | (252) |
| Other | (56) | (41) |
| Items of capital in nature | 38 | 34 |
| | 6 282 | 5 882 |

[1] Numbers have been restated, refer to note 1.21.10 for further details.

[2] This includes donations, non-deductible expenses.

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

[4] This relates to interest earned from certain governments in Africa Regions as well as interest earned on certain capital instruments, which is exempt from tax.

| | Group | |
|---|---|---|
| | 2018 Rm | 2017[1] Rm |

# 42. Earnings per share

## 42.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period.

| | 2018 Rm | 2017[1] Rm |
|---|---|---|
| **Basic earnings attributable to ordinary equity holders** | **13 917** | 13 888 |
| Weighted average number of ordinary shares in issue (millions) | **830.1** | 833.7 |
| Issued shares at the beginning and end of the reporting period | **847.8** | 847.8 |
| Treasury shares held by Group entities (weighted) | **(17.7)** | (14.1) |
| **Basic earnings per share (cents)** | **1 676.5** | 1 665.7 |

## 42.2 Diluted earnings per share

Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares.

| | 2018 Rm | 2017[1] Rm |
|---|---|---|
| **Diluted earnings attributable to ordinary equity holders** | **13 917** | 13 888 |
| Diluted weighted average number of ordinary shares in issue (millions) | **831.7** | 833.8 |
| Weighted average number of ordinary shares in issue | **830.1** | 833.7 |
| Adjustments for share options issued at no value | **1.6** | 0.1 |
| **Diluted earnings per share (cents)** | **1 673.3** | 1 665.5 |

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert the options into ordinary shares. This includes options issued in respect of Absa Group Limited's Share Incentive Trust.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. The Group has one category of potential dilutive ordinary shares, namely share options. The number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) for the share options outstanding are calculated based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as per the above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference between the number of shares that could have been acquired at fair value and the number of shares that would have been issued assuming the exercise of the share options, are shares that would be obtained at no value.

Shares that are issued contingent on the happening of an event, are only included as potential dilutive ordinary shares when all of the conditions of the contingent event are deemed to have been met, based on the information available at the reporting date.

In calculating the diluted earnings per share in respect of share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

[1] Numbers have been restated, refer to note 1.21.10 for further details

## 43. Headline earnings

| | Group 2018 Gross Rm | Group 2018 Net Rm | Group 2017 Gross Rm | Group 2017 Net Rm |
|---|---|---|---|---|
| Headline earnings are determined as follows: | | | | |
| Profit attributable to ordinary equity holders of the Group[1] | | 13 917 | | 13 888 |
| Total headline earnings adjustment: | | 225 | | 490 |
| IAS 36 – Goodwill impairment (refer to note 39) | 34 | 34 | 38 | 38 |
| IFRS 5 – (Profit)/loss on disposal of non-current assets held for sale | (142) | (80) | 36 | 39 |
| IAS 16 – Loss/(profit) on disposal of property and equipment | 5 | 2 | (43) | (34) |
| IAS 21 – Recycled foreign currency translation reserve | — | — | 52 | 52 |
| IAS 36 – Impairment of property and equipment (refer to note 39) | 398 | 297 | 221 | 159 |
| IAS 36 – Impairment of intangible assets (refer to note 39) | 2 | 1 | 384 | 280 |
| IAS 39 – Release of available-for-sale reserves (2017) (refer to note 34) | — | — | 67 | 49 |
| IAS 40 – Change in fair value of investment properties | (38) | (29) | (105) | (88) |
| IAS 40 – Profit on sale of investment property | — | — | (5) | (5) |
| **Headline earnings/diluted headline earnings[1]** | | **14 142** | | 14 378 |
| **Headline earnings per share (cents)[1]** | | **1 703.7** | | 1 724.5 |
| **Diluted headline earnings per share (cents)[1]** | | **1 700.4** | | 1 724.2 |

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

## 44. Retirement benefit fund obligations

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **Surplus disclosed in 'Other assets'** | | |
| Absa Pension Fund defined benefit plan (refer to notes 6 and 44.1.1) | 466 | 466 |
| Other defined benefit plans of subsidiaries (refer to notes 6 and 44.2.1) | 2 | 8 |
| | **468** | 474 |
| **Obligations disclosed in 'Other liabilities'** | | |
| Subsidiaries' post-retirement medical aid plans (refer to notes 18 and 44.3) | 194 | 169 |
| Other defined benefit plans of subsidiaries (refer to notes 18 and 44.2.1) | 123 | 232 |
| | **317** | 401 |
| **Statement of comprehensive income charge included in staff costs** | | |
| Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6) | (23) | (9) |
| Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6) | 37 | 29 |
| Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6) | 4 | (7) |
| Subsidiaries' post-retirement medical aid plans | 38 | 34 |
| | **56** | 47 |
| **Recognised in other comprehensive income** | | |
| Absa Pension Fund defined benefit plan in a surplus position (refer to note 44.1.6) | 24 | 10 |
| Other defined benefit plans of subsidiaries in a deficit position (refer to note 44.2.6) | (40) | (19) |
| Other defined benefit plans of subsidiaries in a surplus position (refer to note 44.2.6) | 3 | 81 |
| Subsidiaries' post-retirement medical aid plans | (16) | (26) |
| | **(29)** | 46 |

[1] Numbers have been restated, refer note 1.21.10 for further details.

## 44. Retirement benefit fund obligations (continued)

The Group operates a number of pension fund schemes (defined benefit schemes and defined contribution schemes) and post-retirement medical aid plans. The most significant schemes operated by the Group are the Absa Pension Fund and the Barclays Bank Kenya Pension Fund. Apart from these, the Group operates a number of smaller pension and post-retirement medical aid plans. The benefits provided under these schemes, the approach to funding, and the legal basis of the plans reflect their local environments.

### 44.1 The Absa Pension Fund

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

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

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

Members who joined the Fund before 1 July 2015 have the choice to receive either a conventional annuity or a living annuity from the Fund or to purchase a pension from a registered insurer. Members who joined the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

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

| | Group Absa Pension Fund | |
|---|---|---|
| | **2018** | 2017 |
| **Categories of the Fund** | | |
| Defined benefit active members | **17** | 18 |
| Defined benefit deferred pensioners | **2** | 2 |
| Defined benefit pensioners | **8 303** | 8 401 |
| Defined contribution active members | **23 884** | 26 044 |
| Defined contribution pensioners | **2 839** | 2 779 |
| Duration of the scheme – defined benefit (years) | **8.9** | 9.3 |
| Duration of the scheme – defined contribution (years) | **21.3** | 22.3 |
| Duration of the scheme – defined contribution option (years) | **15.2** | 15.2 |
| Expected contributions to the Fund for the next 12 months (Rm) | **1 438.6** | 1 463.2 |

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

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

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

The Fund investments are managed on a Liability Driven Investment (LDI) mandate. The primary objective of the portfolio managed for the defined benefit section of the Fund to achieve is a net real return of 4.5% per annum, measured over rolling 36-month periods.

## 44. Retirement benefit fund obligations (continued)

### 44.1 Absa Pension Fund (continued)

#### 44.1.1 Reconciliation of the net defined benefit plan surplus

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

#### 44.1.2 Reconciliation of movement in the funded obligation

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | (27 265) | (25 037) |
| Defined benefit portion | (7 335) | (7 491) |
| Defined contribution portion | (19 930) | (17 546) |
| **Reconciling items – defined benefit portion** | 280 | 156 |
| Actuarial (losses)/gains – financial | 543 | 582 |
| Actuarial (losses)/gains – experience adjustments | (15) | (85) |
| Benefits paid | 716 | 674 |
| Current service costs | (22) | (32) |
| Interest expense | (704) | (666) |
| Defined contribution member transfers | (238) | (317) |
| **Reconciling items – defined contribution portion** | 456 | (2 384) |
| Increase in obligation linked to plan assets return | 127 | (3 228) |
| Employer contributions | (884) | (882) |
| Employee contributions | (586) | (597) |
| Disbursements and member transfers | 1 799 | 2 323 |
| **Balance at the end of the reporting period** | (26 529) | (27 265) |

#### 44.1.3 Reconciliation of movement in the plan assets

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **Balance at the beginning of the reporting period** | 29 766 | 27 102 |
| Defined benefit portion | 9 836 | 9 556 |
| Defined contribution portion | 19 930 | 17 546 |
| **Reconciling items – defined benefit portion** | (709) | 280 |
| Benefits paid | (716) | (674) |
| Employer contributions | 1 | 1 |
| Interest income | 951 | 854 |
| Return on plan assets in excess of interest | (1 183) | (218) |
| Defined contribution member transfers | 238 | 317 |
| **Reconciling items – defined contribution portion** | (456) | 2 384 |
| Return on plan assets | (127) | 3 228 |
| Employer contributions | 884 | 882 |
| Employee contributions | 586 | 597 |
| Disbursements and member transfers | (1 799) | (2 323) |
| **Balance at the end of the reporting period** | 28 601 | 29 766 |

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **44. Retirement benefit fund obligations** (continued) | | |
| **44.1 Absa Pension Fund** (continued) | | |
| **44.1.4 Reconciliation of movement in the irrecoverable surplus** | | |
| **Balance at the beginning of the reporting period** | **(2 035)** | (1 599) |
| Interest on irrecoverable surplus | **(202)** | (146) |
| Changes in the irrecoverable surplus in excess of interest | **631** | (290) |
| **Balance at the end of the reporting period** | **(1 606)** | (2 035) |

| | Group 2018 Fair value of plan assets Debt instruments Rm | Equity instruments Rm | Other instruments Rm | Total Rm |
|---|---|---|---|---|
| **44.1.5 Nature of the pension fund assets** | | | | |
| Plan assets relating to the defined benefit plan | | | | |
| **Defined benefit portion** | **3 924** | **4 953** | **252** | **9 129** |
| Quoted fair value | **3 884** | **4 953** | **125** | **8 962** |
| Unquoted fair value | **6** | **—** | **(29)** | **(23)** |
| Own transferable financial instruments | **34** | **—** | **—** | **34** |
| Investments in listed property entities/funds | **—** | **—** | **156** | **156** |
| **Defined contribution portion** | **2 990** | **12 426** | **4 058** | **19 474** |
| Quoted fair value | **2 601** | **12 418** | **2 150** | **17 169** |
| Unquoted fair value | **145** | **1** | **1 012** | **1 158** |
| Own transferable financial instruments | **244** | **7** | **—** | **251** |
| Investments in listed property entities/funds | **—** | **—** | **896** | **896** |
| | **6 914** | **17 379** | **4 310** | **28 603** |

| | Group 2017 Fair value of plan assets Debt instruments Rm | Equity instruments Rm | Other instruments Rm | Total Rm |
|---|---|---|---|---|
| **Defined benefit portion** | 4 137 | 5 109 | 592 | 9 838 |
| Quoted fair value | 3 999 | 5 050 | 315 | 9 364 |
| Unquoted fair value | 7 | — | 70 | 77 |
| Own transferable financial instruments | 131 | 59 | 8 | 198 |
| Investments in listed property entities/funds | — | — | 199 | 199 |
| **Defined contribution portion** | 2 909 | 12 309 | 4 710 | 19 928 |
| Quoted fair value | 2 299 | 12 157 | 2 478 | 16 934 |
| Unquoted fair value | 218 | — | 912 | 1 130 |
| Own transferable financial instruments | 392 | 152 | 17 | 561 |
| Investments in listed property entities/funds | — | — | 1 303 | 1 303 |
| | 7 046 | 17 418 | 5 302 | 29 766 |

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|

# 44. Retirement benefit fund obligations (continued)

## 44.1 Absa Pension Fund (continued)

### 44.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income

| | 2018 Rm | 2017 Rm |
|---|---|---|
| **Recognised in profit or loss:** | | |
| Net interest income | **(45)** | (41) |
| Current service cost | **22** | 32 |
| | **(23)** | (9) |
| **Recognised in other comprehensive income:** | | |
| Actuarial (gains)/losses – financial | **(543)** | (582) |
| Actuarial adjustments (gains)/losses – experience | **15** | 85 |
| Return on plan assets in excess of interest | **1 183** | 217 |
| Changes in the irrecoverable surplus in excess of interest | **(631)** | 290 |
| | **24** | 10 |

### 44.1.7 Actuarial assumptions used:

| | 2018 | 2017 |
|---|---|---|
| Discount rate (%) p.a. | **10.1** | 9.9 |
| Inflation rate (%) p.a. | **6.4** | 6.8 |
| Expected rate on the plan assets (%) p.a. | **10.2** | 10.6 |
| Future salary increases (%) p.a. | **7.4** | 7.8 |
| Average life expectancy in years of pensioner retiring at 60 – male | **21.5** | 21.4 |
| Average life expectancy in years of pensioner retiring at 60 – female | **26.4** | 26.3 |

### 44.1.8 Sensitivity analysis of the significant actuarial assumptions

| Group 2018 | Reasonable possible change Rm | Increase/ (decrease) on defined benefit obligation Rm |
|---|---|---|
| Increase in discount rate (%) | **0.5** | **(416)** |
| Increase in inflation (%) | **0.5** | **449** |
| Increase in life expectancy (years) | **1** | **282** |

| 2017 | Reasonable possible change Rm | Increase/ (decrease) on defined benefit obligation Rm |
|---|---|---|
| Increase in discount rate (%) | 0.5 | (440) |
| Increase in inflation (%) | 0.5 | 479 |
| Increase in life expectancy (years) | 1 | 301 |

### 44.1.9 Sensitivity analysis of the significant assumptions

**Sensitivity analysis**

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R7 055m** (2017: R7 335m).

The sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth. In presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period. The defined contribution obligation of **R19 474m** (2017: R19 930m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

# 44. Retirement benefit fund obligations (continued)

## 44.2 Other subsidiaries plans

### Defined benefit structure

The benefits provided by the defined benefit structures are based on a formula, taking into account years of membership and remuneration levels. For funds where a minimum pension increase of the lower of CPI or a fixed percentage (which varies by fund) is guaranteed, additional discretionary pension increases may be granted at the discretion of the Group. For funds where a minimum increase is not guaranteed, the trustees may decide on increases in pensions subject to affordability.

The majority of the defined benefit liability relates to deferred pensioners and pensioners. There is not a significant number of active members accruing additional defined benefit liabilities.

Liabilities in respect of the defined benefit structures are calculated based on assumptions in respect of expected death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances and administration costs based on past experience.

### Defined contribution structure

The benefits provided by the defined contribution structures are determined by accumulated retirement funding contributions and the return on investments.

The defined contribution information has not been included in the defined benefit disclosures; this presentation is different to that of the Absa Pension Fund due to the different plan rules of the Absa Pension Fund.

The nature of the plan rules governing the Africa regions pension funds is such that any optionality is not considered significant and is therefore not included in the valuation or disclosure of the defined benefit obligations.

The funds are governed by legislation applicable in the various countries in which the funds are based. The funds are operated on a pre-funded basis. That is, assets are accumulated on a monthly basis with the aim that sufficient funding exists to meet the benefits payable under all modes of exit. Actuarial funding valuations are performed every three years regardless whether or not these are required by legislation. The most recent actuarial valuations of the funds were carried out as at 31 March 2018. Contributions are generally determined by the employer in consultation with the actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R201m** (2017: R115m). Surpluses and deficits are dealt with in a manner which is consistent with the funds' rules and applicable legislation. Minimum funding requirements are limited to the deficits of the funds.

The Pension Fund plans across Africa Regional Operations are administered by separate funds that are legally separated from the individual companies. The boards of trustees of the funds are responsible for the overall management of the funds.

Statutory valuations are carried out on the defined benefit funds every three years. Based on the results of the valuation, a contribution rate is recommended by the actuary. The power of deciding what the final applicable contribution rate should be rests with the employer on advice from the actuary, in some cases with the agreement of the trustees. Where pension increases are granted in excess of that which can be afforded by the Fund, the employer must agree to such an increase and will make an additional contribution to fund this. In addition, should the valuation disclose a deficit and regulations require special additional contributions to be made to the funds, the employer will need to make such contributions in line with a funding plan approved by the relevant country's regulator.

Within the Africa Regional Operations funds, the asset allocation is determined taking into account legislative constraints, the available opportunity set of securities in the country across the different asset classes, fund manager offerings in the country, diversification across different asset classes and region (where applicable) and the nature and term of the liabilities. The asset investment strategy is set to target a return which is based on the actuarial assumptions used in the Fund valuation, over a five to seven year term.

# 44. Retirement benefit fund obligations (continued)

## 44.2 Other subsidiaries plans (continued)

The retirement liabilities shown relate to employees and pensioners who are members of various funds, details of which are shown in the following table:

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| | Barclays Bank of Botswana | Barclays Bank of Kenya | Kenya First Assurance | Barclays Bank of Zambia | Barclays Bank of Seychelles | Barclays Bank of Mauritius | Barclays Bank of Mozambique |
| **Membership** | | | | | | | |
| Defined benefit active members | — | 6 | 76 | — | 8 | 221 | — |
| Defined benefit deferred pensioners | — | 895 | 25 | 11 | 6 | 72 | 632 |
| Defined benefit pensioners | 187 | 1 503 | 8 | 404 | 3 | 278 | 1 001 |
| Defined contribution active members | 1 165 | 2 098 | 2 098 | 883 | 214 | 574 | 836 |
| Duration of the scheme (years) | 11 | 7 | 13 | 3 | 15 | 17 | 10 |
| Expected contributions to the plan for the next 12 months (Rm) | — | 4.6 | 2.9 | 5.2 | 0.2 | 15.8 | — |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Barclays Bank of Botswana | Barclays Bank of Kenya | Kenya First Assurance | Barclays Bank of Zambia | Barclays Bank of Seychelles | Barclays Bank of Mauritius | Barclays Bank of Mozambique |
| **Membership** | | | | | | | |
| Defined benefit active members | — | 6 | 76 | — | 8 | 221 | — |
| Defined benefit deferred pensioners | — | 895 | 25 | 11 | 6 | 72 | 632 |
| Defined benefit pensioners | 187 | 1 503 | 8 | 404 | 3 | 278 | 1 001 |
| Defined contribution active members | 1 162 | 2 271 | 2 271 | 908 | 214 | 574 | 876 |
| Duration of the scheme (years) | 11 | 7 | 13 | 3 | 15 | 17 | 10 |
| Expected contributions to the plan for the next 12 months (Rm) | — | 3.8 | 1.1 | 5.0 | 0.3 | 12.5 | — |

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **44.2.1 Defined benefit plan reconciliations** | | |
| Present value of funded defined benefit obligations | (2 540) | (2 251) |
| Fair value of the defined benefit plan assets | 2 551 | 2 137 |
| **Funded defined benefit plan status** | 11 | (114) |
| **Irrecoverable surplus (effect of asset ceiling)** | (132) | (110) |
| **Net deficit arising from defined benefit obligation** | (121) | (224) |
| **44.2.2 Reconciliation of movement in the defined benefit obligation** | | |
| **Balance at the beginning of the reporting period** | (2 251) | (2 202) |
| Actuarial losses | 156 | (35) |
| Actuarial gains/(losses) – changes in financial assumptions | 56 | (48) |
| Actuarial gains/(losses) – experience adjustments | 100 | 13 |
| Benefits paid | 193 | 190 |
| Current service costs | (29) | (28) |
| Interest expense | (331) | (234) |
| Past service costs including curtailments | (0) | 17 |
| Foreign exchange differences | (278) | 41 |
| **Balance at the end of the reporting period** | (2 540) | (2 251) |

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **44. Retirement benefit fund obligations** (continued) | | |
| **44.2 Other subsidiaries plans** (continued) | | |
| **44.2.3 Reconciliation of movement in the plan assets** | | |
| **Balance at the beginning of the reporting period** | **2 137** | 2 089 |
| Benefits paid | **(193)** | (190) |
| Employer contributions | **131** | 30 |
| Interest income on plan assets | **343** | 244 |
| Remeasurement – return on plan assets in excess of interest | **(129)** | 19 |
| Acquisition in a business combination | **1** | 1 |
| Foreign exchange differences | **261** | (56) |
| **Balance at the end of the reporting period** | **2 551** | 2 137 |
| **44.2.4 Reconciliation of movement in the irrecoverable surplus** | | |
| **Balance at the beginning of the reporting period** | **(110)** | (44) |
| Interest on irrecoverable surplus | **(24)** | (11) |
| Changes in the irrecoverable surplus in excess of interest | **10** | (46) |
| Foreign exchange differences | **(8)** | (9) |
| **Balance at the end of the reporting period** | **(132)** | (110) |

Group

| 2018 | Fair value of plan assets: Debt instruments Rm | Equity instruments Rm | Other instruments Rm | Total Rm |
|---|---|---|---|---|
| **44.2.5 Nature of the defined benefit plan assets** | | | | |
| Quoted fair value | **270** | **501** | **505** | **1 276** |
| Unquoted fair value | **536** | **17** | **633** | **1 186** |
| Own transferable financial instruments | **—** | **3** | **—** | **3** |
| Own occupied or used property | **—** | **—** | **86** | **86** |
| | **806** | **521** | **1 224** | **2 551** |

| 2017 | Fair value of plan assets: Debt instruments Rm | Equity instruments Rm | Other instruments Rm | Total Rm |
|---|---|---|---|---|
| Quoted fair value | 244 | 471 | 354 | 1 069 |
| Unquoted fair value | 397 | 40 | 513 | 950 |
| Own transferable financial instruments | — | 3 | — | 3 |
| Own occupied or used property | — | — | 115 | 115 |
| | 641 | 514 | 982 | 2 137 |

The 'Other instruments' category of plan assets for the Africa Regional Operations comprises both cash and property investments.

# 44. Retirement benefit fund obligations (continued)

## 44.2 Other subsidiaries plans (continued)

### 44.2.6 Movements in the defined benefit plan presented in the statement of comprehensive income

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **Recognised in profit or loss:** | | |
| Net interest expense | 12 | 10 |
| Current service cost | 29 | 29 |
| Past service cost including curtailments | — | (17) |
| | 41 | 22 |
| **Recognised in other comprehensive income:** | | |
| Actuarial (gains)/losses – changes in financial assumptions | (56) | 48 |
| Actuarial gains – experience adjustments | (100) | (13) |
| Remeasurement – return on plan assets in excess of interest | 129 | (19) |
| Changes in the irrecoverable surplus in excess of interest | (10) | 46 |
| | (37) | 62 |

### 44.2.7 The actuarial assumptions (weighted averages) include:

| | Group 2018 | Group 2017 |
|---|---|---|
| Discount rate (%) | 11.8 | 14.0 |
| Inflation (%) | 7.9 | 10.0 |
| Future pension increases (%) | 5.8 | 8.3 |
| Future salary increases (%) | 5.9 | 11.1 |
| Average life expectancy in years of pensioner retiring at 60 – male | 18.0 | 18.0 |
| Average life expectancy in years of pensioner retiring at 60 – female | 21.7 | 21.7 |

### 44.2.8 Sensitivity analysis of significant assumptions (weighted averages)

| Group 2018 | Reasonable possible change | Increase/(decrease) on defined benefit obligation Rm |
|---|---|---|
| **Significant actuarial assumption** | | |
| Increase in discount rate (%) | 0.5 | (120) |
| Increase in inflation (%) | 0.5 | 66 |
| Increase in life expectancy (years) | 1 | 64 |

| Group 2017 | Reasonable possible change | Increase/(decrease) on defined benefit obligation Rm |
|---|---|---|
| **Significant actuarial assumption** | | |
| Increase in discount rate (%) | 0.5 | (110) |
| Increase in inflation (%) | 0.5 | 57 |
| Increase in life expectancy (years) | 1 | 58 |

# 44. Retirement benefit fund obligations (continued)

## 44.2 Other subsidiaries plans (continued)

### 44.2.9 Sensitivity analysis

The sensitivity analysis presented in this note may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth.

## 44.3 Post-retirement medical aid plans

Certain of the Group's subsidiaries subsidise either medical aid contributions or actual incurred medical costs after retirement. The accrued and future liabilities in respect of these post-retirement medical costs are valued either annually, or every three years, on the reporting date, and projected thereafter. These liabilities were actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions, as well as appropriate medical inflation and discount rates.

The present value of the post-retirement medical aid plan liabilities is **R194m** (2017: R169m) and the fair value of related plan assets is **R3m** (2017: R3m).

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **45. Dividends per share** | | |
| **Dividends declared to ordinary equity holders** | | |
| Interim dividend **(6 August 2018: 490 cents)** (28 July 2017: 475 cents) | 4 154 | 4 027 |
| Final dividend **(11 March 2019: 620 cents)** (1 March 2018: 595 cents) | 5 256 | 5 044 |
| | 9 410 | 9 071 |
| **Dividends declared to ordinary equity holders (net of treasury shares)** | | |
| Interim dividend **(6 August 2018: 490 cents)** (28 July 2017: 475 cents) | 4 076 | 4 024 |
| Final dividend **(11 March 2019: 620 cents)** (1 March 2018: 595 cents) | 5 130 | 4 955 |
| | 9 206 | 8 979 |
| **Dividends declared to non-controlling preference equity holders** | | |
| Interim dividend **(6 August 2018: 3 542.67 cents)** (28 July 2017: 3 685.06849 cents) | 175 | 182 |
| Final dividend **(11 March 2019: 3 518.6986 cents)** (1 March 2018: 3 558.01 cents) | 174 | 176 |
| | 349 | 358 |
| **Distributions declared to Additional Tier 1 capital note holders** | | |
| Distribution **(12 December 2018: 31 620.63 Rands) (12 September 2018: 31 675.726 Rands) (12 June 2018: 32 200 Rands) (12 March 2018: 31 500 Rands)** (12 December 2017: 31 990.79 Rands) | 190 | 48 |
| | 190 | 48 |
| **Dividends paid to ordinary equity holders (net of treasury shares)[1]** | | |
| Final dividend **(16 April 2018: 595 cents)** (10 April 2017: 570 cents) | 4 962 | 4 832 |
| Interim dividend **(17 September 2018: 490 cents)** (11 September 2017: 475 cents) | 4 071 | 3 989 |
| | 9 033 | 8 821 |
| **Dividends paid to non-controlling preference equity holders** | | |
| Final dividend **(16 April 2018: 3 558.01 cents)** (10 April 2017: 3 644.7952 cents) | 176 | 180 |
| Interim dividend **(17 September 2018: 3 542.67 cents)** (11 September 2017: 3 685.06849 cents) | 175 | 182 |
| | 351 | 362 |
| **Distributions paid to Additional Tier 1 capital note holders** | | |
| Distribution **(12 December 2018: 31 620.63 Rands) (12 September 2018: 31 675.726 Rands) (12 June 2018: 32 200 Rands) (12 March 2018: 31 500 Rands)** (12 December 2017: 31 990.79 Rands) | 190 | 48 |
| | 190 | 48 |

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

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

## 46.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R77 469m** (2017: R45 234m) of which **R46 354m** (2017[1]: R24 742m) have been sold or repledged.

## 46.2 Repurchase agreements and securities lent

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

| | Group | | | | |
|---|---|---|---|---|---|
| | **2018** | | | | |
| | **Carrying amount of transferred assets Rm** | **Carrying amount of associated liabilities Rm** | **Fair value of transferred assets Rm** | **Fair value of associated liabilities Rm** | **Net fair value Rm** |
| Debt instruments | **52 946** | **(51 415)** | **52 946** | **(51 415)** | **1 531** |
| Equity instruments | **3 434** | **(1 085)** | **3 434** | **(1 085)** | **2 349** |
| | 2017 | | | | |
| | Carrying amount of transferred assets Rm | Carrying amount of associated liabilities Rm | Fair value of transferred assets Rm | Fair value of associated liabilities Rm | Net fair value Rm |
| Debt instruments | 20 493 | (20 091) | 20 493 | (20 091) | 402 |
| Equity instruments | 6 278 | (1 309) | 6 278 | (1 309) | 4 970 |

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

# 47. Transfer of financial assets

## Transfer of financial assets involving structured entities

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

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

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

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

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

[1] The fair value of securities that have been repledged or sold has been restated to take into account the selling of borrowed securities (i.e. short positions) which was previously erroneously excluded. This has resulted in an increase of R11 946m from R12 796m previously reported.

# 47. Transfer of financial assets (continued)

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

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

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

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

# 48. Offsetting financial assets and financial liabilities

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

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

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

Group

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Amounts subject to enforceable netting arrangements | | | | | | | |
| | Effects of netting on statement of financial position | | | Related amounts not set off | | | | |
| | Gross amounts Rm | Amounts set off Rm | Net amounts reported on the statement of financial position[1] Rm | Offsetting financial instruments Rm | Financial collateral[2] Rm | Net amount Rm | Amounts not subject to enforceable netting arrangements[3] Rm | Total per statement of financial position[4] Rm |
| Derivative financial assets | 50 684 | (6 322) | 44 362 | (33 074) | (4 422) | 6 866 | 2 626 | 46 988 |
| Reverse repurchase agreements and other similar secured lending | 48 291 | — | 48 291 | — | (48 291) | — | — | 48 291 |
| **Total assets** | 98 975 | (6 322) | 92 653 | (33 074) | (52 713) | 6 866 | 2 626 | 95 279 |
| Derivative financial liabilities | (42 398) | 7 415 | (34 983) | 33 074 | — | (1 909) | (2 477) | (37 460) |
| Repurchase agreements and other similar secured borrowings | (79 651) | — | (79 651) | — | 79 651 | — | (85) | (79 736) |
| **Total liabilities** | (122 049) | 7 415 | (114 634) | 33 074 | 79 651 | (1 909) | (2 562) | (117 196) |

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

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

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

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

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

Group

2017

| | Amounts subject to enforceable netting arrangements | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Effects of netting on statement of financial position | | | Related amounts not set off | | | | |
| | Gross amounts Rm | Amounts set off Rm | Net amounts reported on the statement of financial position[1] Rm | Offsetting financial instruments Rm | Financial collateral[2] Rm | Net amount Rm | Amounts not subject to enforceable netting arrangements[3] Rm | Total per statement of financial position[4] Rm |
| Derivative financial assets | 53 199 | (5 785) | 47 413 | (30 082) | (2 009) | 15 323 | 12 172 | 59 585 |
| Reverse repurchase agreements and other similar secured lending | 35 378 | — | 35 378 | — | (35 378) | — | — | 35 378 |
| **Total assets** | 88 577 | (5 785) | 82 792 | (30 082) | (37 387) | 15 323 | 12 172 | 94 963 |
| Derivative financial liabilities | (44 993) | 6 045 | (38 947) | 30 096 | — | (8 852) | (14 276) | (53 224) |
| Repurchase agreements and other similar secured borrowings | (31 827) | — | (31 827) | — | 31 827 | — | — | (31 827) |
| **Total liabilities** | (76 819) | 6 045 | (70 774) | 30 096 | 31 827 | (8 852) | (14 276) | (85 051) |

## Offsetting and collateral arrangements

### Derivative assets and liabilities

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

### Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the credit risk mitigation, collateral and other credit enhancements section of note 62.

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

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

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

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

## 49. Related parties

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

### Related parties – 2017

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

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

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

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

### 49.1 Transactions with key management personnel

IAS 24 Related Party Disclosures (IAS 24) requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee (Exco), including those acting in the capacity of decision makers even when not formerly appointed to the Exco. A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related-party transactions conducted during the reporting period are as follows:

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **Key management personnel compensation** | | |
| **Directors** | | |
| Deferred cash payments | 9 | 5 |
| Non-deferred cash payments | — | 10 |
| Post-employment benefit contributions | 1 | 1 |
| Salaries and other short-term benefits | 58 | 64 |
| Share-based payments | 33 | 46 |
| | 101 | 126 |
| **Other key management personnel** | | |
| Deferred cash payments | 18 | 8 |
| Non-deferred cash payments | — | 9 |
| Post-employment benefit contributions | 2 | 1 |
| Salaries and other short-term benefits | 57 | 48 |
| Share-based payments | 75 | 57 |
| | 152 | 123 |

## 49. Related parties (continued)

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

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Transactions with key management Rm | Transactions with entities controlled by key management Rm | Transactions with key management Rm | Transactions with entities controlled by key management Rm |
| **Loans** | | | | |
| **Balance at the beginning of the reporting period** | 20 | 15 | 49 | 9 |
| (Discontinuance)/inception of related-party relationships[1] | 25 | — | (29) | — |
| Loans issued and interest earned | 82 | (10) | 50 | 9 |
| Loans repaid | (40) | 6 | (50) | (3) |
| **Balance at the end of the reporting period** | 87 | 11 | 20 | 15 |
| **Interest income** | (6) | (1) | (2) | (1) |
| **Deposits** | | | | |
| **Balance at the beginning of the reporting period** | 28 | 7 | 18 | 4 |
| (Discontinuance)/inception of related-party relationships[1] | (9) | — | (2) | — |
| Deposits received | 190 | 17 | 205 | 7 |
| Deposits repaid and interest paid | (182) | (18) | (193) | (4) |
| **Balance at the end of the reporting period** | 27 | 6 | 28 | 7 |
| **Interest expense** | 1 | 0 | 1 | 0 |
| **Guarantees** | 109 | 24 | 41 | 24 |
| **Other investments** | | | | |
| **Balance at the beginning of the reporting period** | 121 | 48 | 105 | 39 |
| (Discontinuance)/inception of related-party relationships[1] | (33) | — | (12) | — |
| Value of new investments/contributions | 27 | 2 | 85 | 9 |
| Value of withdrawals/disinvestments | (15) | (4) | (59) | (2) |
| Fees and charges | — | — | (1) | — |
| Investment returns | 34 | (2) | 3 | 2 |
| **Balance at the end of the reporting period** | 134 | 44 | 121 | 48 |

#### Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R1.3m** (2017: R0.75m) and received claims of **R0m** (2017: R0.16m).

### 49.2 Balances and transactions with Barclays PLC, fellow subsidiaries, and associates and joint ventures of Barclays

| | 2017 | |
|---|---|---|
| | Parent company[2] Rm | Fellow subsidiaries and associates and joint ventures of the parent company Rm |
| **Transactions** | | |
| Interest and similar income | (34) | (11) |
| Interest expense and similar charges | 12 | 1 |
| Net fee and commission expenses/(income) | (3) | 3 |
| Gains and losses from banking and trading activities | 9 | — |
| Other operating income | 4 | — |
| Operating expenditure/(recovered expenses) | 45 | (284) |
| Dividends paid | — | — |

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

[1] Includes balances relating to key management personnel who were appointed/resigned during the reporting period.

[2] Barclays PLC was a majority shareholder and parent company of the Group until June 2017.

# 49. Related parties (continued)

## 49.3 Subsidiaries and consolidated structured entities

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

| | | | Group | |
|---|---|---|---|---|
| Name | Nature of business | Country of incorporation | 2018 % holding | 2017 % holding |
| **Absa Group Limited and its subsidiaries** | | | | |
| Absa Capital Securities Proprietary Limited | Stockbrokers. | South Africa | **100** | 100 |
| Absa Development Company Holdings Proprietary Limited | Specialises in township development and sale of residential, commercial and industrial land. | South Africa | **100** | 100 |
| Absa Manx Insurance Company Limited | Captive insurance company for the Group and responsible for investment in insurances markets. | South Africa | **100** | 100 |
| Absa Stockbrokers and Portfolio Management Proprietary Limited | Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds. | South Africa | **100** | 100 |
| Absa Trading and Investments Solutions Holdings Proprietary Limited | Holding company for ATIS Group. | South Africa | **100** | 100 |
| Barclays Bank of Ghana Limited | Provides retail and corporate banking. | Ghana | **100** | 100 |
| Barclays Bank of Kenya Limited | Provides retail and corporate banking. | Kenya | **69** | 69 |
| Barclays Bank Mozambique S.A. (BBM) | Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs. | Mozambique | **99** | 98 |
| Barclays Bank of Botswana Limited | Provides retail and corporate banking. | Botswana | **68** | 68 |
| Barclays Bank Mauritius Limited | Provides retail and corporate banking. | Mauritius | **100** | 100 |
| Barclays Bank Seychelles Limited | Provides retail and corporate banking. | Seychelles | **100** | 100 |
| Barclays Bank Tanzania Limited | Provides retail and corporate banking. | Tanzania | **100** | 100 |
| Barclays Bank Uganda Limited | Provides retail and corporate banking. | Uganda | **100** | 100 |
| Barclays Bank of Zambia PLC | Provides retail and corporate banking. | Zambia | **100** | 100 |
| Diluculo Investments Proprietary Limited | Investment holding and management company, providing project and management services to property funds and trading projects. | South Africa | **100** | 100 |
| National Bank of Commerce Limited (NBC) | Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs. | Tanzania | **55** | 55 |
| Woolworths Financial Services Proprietary Limited | Provides credit cards, in-store cards and personal loans. | South Africa | **50** | 50 |
| **Absa Bank Limited and its subsidiaries** | Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients. | South Africa | **100** | 100 |
| Absa Capital Representative Office Nigeria Limited | Representative office to facilitate trade and obtain market share in Nigeria. | Nigeria | **100** | 100 |
| Absa Vehicle and Management Solutions Proprietary Limited | Operates as a fleet manager providing financial, leasing, maintenance and management services. | South Africa | **100** | 100 |
| Alberton Industrial Properties Proprietary Limited | Obtains loans from Absa Bank to finance Devco subsidiaries. | South Africa | **100** | 100 |
| Home Obligor Mortgages Enhanced Securities Proprietary Limited | Securitisation vehicle for Absa Home Loans division. | South Africa | **n/a** | n/a |
| United Towers Proprietary Limited | Investment in and issuance of preference shares. | South Africa | **100** | 100 |

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

## 49. Related parties (continued)

### 49.3 Subsidiaries and consolidated structured entities (continued)

| Name | Nature of business | Country of incorporation | Group 2018 % holding | Group 2017 % holding |
|---|---|---|---|---|
| **Absa Financial Services and its subsidiaries** | Holding company of financial service-related entities. | South Africa | 100 | 100 |
| Absa Financial Services Africa Holdings Proprietary Limited | Holding company of African financial service-related entities. | South Africa | 100 | 100 |
| Absa Fund Managers Limited | Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally. | South Africa | 100 | 100 |
| Absa Insurance Company Limited | Short-term insurance provider to house and vehicle owners. | South Africa | 100 | 100 |
| Absa Insurance Risk Management Services Limited | Provides short-term insurance and other related insurance products. | South Africa | 100 | 100 |
| Barclays Life Botswana Proprietary Limited | Provides life assurance products focusing on risk and investment products that Absa is offering to various market segments in Botswana. | Botswana | 100 | 100 |
| Absa Life Limited | Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments. | South Africa | 100 | 100 |
| Absa Trust Limited | Trust administrative services. | South Africa | 100 | 100 |
| Barclays Life Zambia Limited | Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia. | Zambia | 100 | 100 |
| Global Alliance Seguros S.A. | Provides non-life insurance in Mozambique. | Mozambique | 100 | 100 |
| First Assurance Holdings Limited | Provides short-term insurance and other related insurance products. | | 100 | 100 |
| Instant Life (Pty) Ltd | Provides life assurance products through cell arrangements. | South Africa | 75 | 75 |
| **Share trusts** | | | | |
| Barclays Africa Group Incentive Trust | Share purchase and option scheme available to senior staff. | South Africa | n/a | n/a |
| Absa Empowerment Trust | To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme. | South Africa | n/a | n/a |
| Newshelf 1405 (RF) Proprietary Limited | To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme. | South Africa | n/a | n/a |
| **Structured entities** | | | | |
| Absa Foundation Trust | Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects. | South Africa | n/a | n/a |
| Impumelelo CP Note Programme 1 (RF) Limited | Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed commercial paper and medium-term notes. | South Africa | n/a | n/a |

A full list of subsidiaries and consolidated SEs is available, on request, at the registered address of the Group.

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Subsidiaries' aggregate profits or losses after taxation | 12 139 | 11 495 |

# 49. Related parties (continued)

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

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

### Regulatory requirements

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

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

The minimum amount of RC required to be maintained by the Group was **R91bn** (2017: R79.2bn).

### Contractual requirements

Certain of the Group's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Group has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2018 was **R13.5bn** and **R9.9bn** respectively (2017: R11.6bn and R5.5bn respectively).

### Protective rights of non-controlling interests

Absa Bank Limited has issued equity preference shares in issue, which are non-controlling interests of the Group. Under the terms of these instruments, the preference shareholders will not be entitled to vote at any meeting of Absa Bank Limited, unless the preference dividend is declared, but remains in arrear and unpaid after six months from the due date. Alternatively, voting rights will be granted if a resolution of Absa Bank Limited is proposed which directly affects the rights attached to the Absa Bank Limited preferences shares, which shall include any resolutions for the winding up of the Absa Bank Limited or for the reduction of its share capital or share premium accounts.

The particulars of these instruments are shown in note 27.

## 49.5 Associates, joint ventures and retirement benefit fund

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

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

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | Associates and joint ventures Rm | Retirement benefit fund Rm | Total Rm |
| Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group | — | 7 055 | 7 055 |
| Value of Absa defined contribution pension fund investments managed by the Group | — | 19 474 | 19 474 |
| Value of Absa Group Limited shares held by defined benefit pension fund | — | — | — |
| Value of other Absa Group Limited securities held by defined benefit pension fund | — | 34 | 34 |
| **Statement of financial position** | | | |
| Other assets | — | 468 | 468 |
| Loans and advances to customers (refer to note 8) | 28 259 | — | 28 259 |
| Other liabilities | — | 317 | 317 |
| **Statement of comprehensive income** | | | |
| Interest income from joint ventures and associates and on pension plan assets | 2 094 | 1 294 | 3 388 |
| Interest expense on defined benefit obligation | — | (1 035) | (1 035) |
| Fee and commission income | 154 | — | 154 |
| Fee and commission expense | (107) | — | (107) |
| Current service costs (refer to note 44) | — | (51) | (51) |
| Past service curtailments | — | (0) | (0) |
| Operating expenses | (1 185) | — | (1 185) |

## 49. Related parties (continued)
### 49.5 Associates, joint ventures and retirement benefit fund (continued)

| | 2017 | | |
|---|---|---|---|
| | Associates and joint ventures Rm | Retirement benefit fund Rm | Total Rm |
| Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group | — | 11 974 | 11 974 |
| Value of Absa defined contribution pension fund investments managed by the Group | — | 19 930 | 19 930 |
| Value of Absa Group Limited shares held by defined benefit pension fund | — | 59 | 59 |
| Value of other Absa Group Limited securities held by defined benefit pension fund | — | 131 | 131 |
| **Statement of financial position** | | | |
| Other assets | — | 474 | 474 |
| Loans and advances to customers (refer to note 8) | 26 054 | — | 26 054 |
| Other liabilities | — | 400 | 400 |
| **Statement of comprehensive income** | | | |
| Interest income from joint ventures and associates and on pension plan assets | 1 800 | 1 098 | 2 898 |
| Interest expense on defined benefit obligations | — | (1 058) | (1 058) |
| Fee and commission income | 148 | — | 148 |
| Fee and commission expense | (114) | — | (114) |
| Current service costs (refer to note 44) | — | (60) | (60) |
| Past service curtailments | — | 17 | 17 |
| Operating expenses | 956 | — | 956 |

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

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

All associates and joint ventures are incorporated in South Africa.

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

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

## 49.6 Related parties (continued)

### 49.6 Absa Empowerment Trust

During the prior reporting period Barclays PLC contributed cash of R1 891m to the independent Absa Empowerment Trust to allow for it to purchase 12 716 260 of the Group's shares (1.5%), in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure. These shares are held in a special purpose vehicle owned by the independent Absa Empowerment Trust, which is consolidated by the Group in line with the requirements of IFRS 10.

The contribution of cash by Barclays PLC did not result in an adjustment to the net asset value of the Group and is accounted for as an increase in equity of R1 891m. The shares held by the Group are however eliminated as treasury shares with the nominal value per share going against share capital. This renders the transaction equity neutral.

## 50. Structured entities

### Exchange-traded funds

Exchange Traded Funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a market maker to ensure that liquidity is always maintained, and in many instances, the Group will act in this capacity. The Group may therefore hold a direct interest in the funds, but the magnitude of such interest will vary with sufficient regularity. Whether the Group consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the funds, either directly or indirectly. The Group, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Group earns management fee income from its involvement in the funds. To the extent that the Group holds participatory units in the funds, the Group will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof. ETFs are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act, No 45 of 2002.

### Securitisation vehicles

The Group has used SEs in order to securitise loans that were originated by the Group. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Group transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Group purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Group, the Group will not have power over the relevant activities of the vehicle. The Group earns interest income on the notes issued by the vehicles, together with management fees from the Group's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Group in profit or loss.

### Fund management

The Group manages a number of unit trust funds, ranging from lower risk fixed income funds to higher risk specialist equity funds, which are either managed solely by the Group or form part of the Group's multi-management offering. Unit trusts are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act. The Group's interest is generally restricted to fund service and asset management fees, which are based on assets under management. The Group may hold direct interests in a number of the funds; however, the magnitude of such interest varies with sufficient regularity. Whether the Group consolidates any of these funds through its direct interest depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group earns management fee income from its involvement in the funds, as well as unrealised gains and losses as a result of revaluations of the units held directly in the funds.

### Structured investment vehicles

The Group holds investments in a number of vehicles which were established and are managed by third-party fund managers. These vehicles are generally not consolidated by the Group on the basis that the relevant activities of the vehicles are directed by the fund manager, and no substantive kick-out rights exist. The investments held in the vehicles are measured at fair value with changes therein being recognised in profit or loss. Distributions made by the vehicles will be recognised as investment income in profit or loss. The vehicles are funded through the commitment and provision of capital by investors.

### Preference share funding vehicles

The Group provides financing to a number of SEs, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Group recognises interest income from its investments. Often the Group subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Group does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated. An entity which forms part of the same group of companies as the preference share funding vehicle, most commonly the parent company, writes the Group a financial guarantee or a put option, so as to provide security in the event of default.

### Funding vehicles

The Group provides funding in the form of loans to bankruptcy remote SEs to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same group of companies. The Group earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

# 50. Structured entities (continued)

## 50.1 Consolidated structured entities

During the reporting period the Group provided financial or other support to the following consolidated SEs despite not being contractually obliged to do so:

| Name | Nature of support | Reason for providing support | Group 2018 Rm | Group 2017 Rm |
|---|---|---|---|---|
| The Absa Foundation Trust | Donation | The Trust was constituted to fund community upliftment and social welfare programmes. | 78 | 79 |
| Various ETF portfolios | Expense subsidy | Subsidising the fixed cost incurred by the new ETF funds as the funds cannot yet cover their own costs due to low levels of market capitalisation. | 4 | 9 |

The Group has consolidated The Absa Foundation Trust since 2006 and new ETFs since 2017.

The Group intends to provide financial support to the Absa Foundation Trust and any new ETFs in 2019.

## 50.2 Unconsolidated structured entities

The level of risk that the Group is exposed to is determined by the nature and purpose of it holding an interest in the entity.

Owing to the large number of SEs in which the Group holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

| | Group 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Preference funding vehicles Rm | Fund management Rm | Structured investment vehicles Rm | Securitisation vehicles Rm | Exchange traded funds Rm | Funding vehicles Rm | Total Rm |
| **Assets** | | | | | | | |
| Trading portfolio assets | — | — | — | — | — | — | — |
| Investment securities | — | 163 | 503 | — | 497 | — | 1 163 |
| Debt securities | — | — | 503 | — | — | — | 503 |
| Equity securities | — | 163 | — | — | 497 | — | 660 |
| Loans and advances to customers | 18 127 | — | — | 2 541 | — | 68 | 20 736 |
| Derivatives held for trading | — | — | — | 3 | — | — | 3 |
| Interest rate derivatives (carrying value) | — | — | — | 3 | — | — | 3 |
| Interest rate derivatives (notional value) | — | — | — | 280 | — | — | 280 |
| Undrawn liquidity facilities and financial guarantees (notional value)[1] | — | — | — | 350 | — | — | 350 |
| Other assets | — | — | — | — | — | — | — |
| | 18 127 | 163 | 503 | 2 894 | 497 | 68 | 22 252 |
| **Liabilities** | | | | | | | |
| Derivatives held for trading | — | — | — | 10 | — | — | 10 |
| Interest rate derivatives (carrying value) | — | — | — | 10 | — | — | 10 |
| Interest rate derivatives (notional value) | — | — | — | 703 | — | — | 703 |
| Deposits due to customers | — | — | — | 1 118 | — | — | 1 118 |
| | — | — | — | 1 128 | — | — | 1 128 |
| **Maximum exposure to loss**[2] | 18 127 | 163 | 503 | 2 894 | 497 | 68 | 22 252 |
| **Total size of entities**[3] | 89 587 | 101 189 | 503 | 4 139 | 19 257 | 68 | 214 743 |

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

[2] The Group's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

# 50. Structured entities (continued)

## 50.2 Unconsolidated structured entities (continued)

| | Group 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Preference funding vehicles Rm | Fund management Rm | Structured investment vehicles Rm | Securitisation vehicles Rm | Exchange traded funds Rm | Funding vehicles Rm | Total Rm |
| **Assets** | | | | | | | |
| Trading portfolio assets | — | — | — | — | — | — | — |
| Investment securities | — | 8 | 477 | 926 | 545 | — | 1 956 |
| Debt securities | — | — | 477 | 926 | — | — | 1 403 |
| Equity securities | — | 8 | — | — | 545 | — | 553 |
| Loans and advances to customers | 12 272[4] | — | — | 2 016 | — | 61 | 14 350 |
| Derivatives held for trading | — | — | — | 21 | — | — | 21 |
| Interest rate derivatives (carrying value) | — | — | — | 21 | — | — | 21 |
| Interest rate derivatives (notional value) | — | — | — | 280 | — | — | 280 |
| Undrawn liquidity facilities and financial guarantees (notional value)[1] | — | — | — | 288 | — | — | 288 |
| Other assets | — | 65 | — | — | — | — | 65 |
| | 12 272 | 73 | 477 | 3 251 | 545 | 61 | 16 679 |
| **Liabilities** | | | | | | | |
| Derivatives held for trading | — | — | — | 11 | — | — | 11 |
| Interest rate derivatives (carrying value) | — | — | — | 11 | — | — | 11 |
| Interest rate derivatives (notional value)[1] | — | — | — | 848 | — | — | 848 |
| Deposits due to customers | — | — | — | 1 143 | — | — | 1 143 |
| | — | — | — | 1 154 | — | — | 1 154 |
| **Maximum exposure to loss**[2] | 12 272[4] | 73 | 477 | 3 251 | 545 | 61 | 16 680 |
| **Total size of entities**[3] | 61 360[4] | 77 414[5] | 477 | 6 071 | 28 589 | 61 | 173 971 |

The Group did not incur losses related to the Group's interests in unconsolidated structured entities in the current financial reporting period (2017: Rnil).

### Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current financial reporting period (2017: Rnil) to unconsolidated structured entities.

## 50.3 Sponsored entities

The Group did not earn material income from its involvement in the unconsolidated SEs which it sponsors.

### Assets transferred to unconsolidated sponsored structured entities

The Group did not transfer assets during the current financial reporting year (2017: Rnil) to its unconsolidated sponsored structured entities.

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

[2] The Group's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

[4] Certain unconsolidated preference funding vehicles were erroneously excluded from this disclosure in the prior year. As a result, the maximum exposure to loss has been restated and increased by R4.3bn, and the total size of entities has been restated and increased by R20.3bn. The maximum exposure was however appropriately reflected in the 2017 statement of financial position.

[5] In 2017, the total size of the entities relating to fund management included funds which the Group consolidates. Consolidated entities should be excluded from unconsolidated structured entities disclosure. This amount has therefore been restated and reduced by R58.2bn.

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| | Group (unaudited) 2018 Rm | (unaudited) 2017 Rm |
|---|---|---|
| **51. Assets under management and administration** | | |
| Alternative asset management and exchange-traded funds | **78 025** | 94 368 |
| Deceased estates | **2 874** | 2 669 |
| Other | **24 282** | 26 795 |
| Portfolio management | **21 840** | 28 924 |
| Trusts | **4 024** | 4 055 |
| Unit trusts | **206 006** | 177 802 |
| | **337 051** | 334 613 |

## 52. Commitments

| | Group 2018 Rm | 2017 Rm |
|---|---|---|
| **Authorised capital expenditure** | | |
| Contracted but not provided for | **1 337** | 270 |

The Group has capital commitments in respect of computer equipment, software and property development.

Management is confident that future net revenues and funding will be sufficient to cover these commitments.

| | Group 2018 Rm | 2017 Rm |
|---|---|---|
| **Operating lease payments due** | | |
| No later than one year | **1 408** | 1 365 |
| Later than one year and no later than five years | **3 905** | 3 056 |
| Later than five years | **707** | 948 |
| | **6 020** | 5 369 |

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Group.

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

## 53. Contingencies

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

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

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

Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

An impairment provision of **R123m** has been raised on financial guarantees, **R48m** has been raised for letters of credit and R497m on irrevocable debt facilities. Refer to note 19.

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

## 53. Contingencies (continued)

### Legal matters

The Group has been party to proceedings against it during the reporting period. As at reporting date the material cases are disclosed below:

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

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

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

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

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

### Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis has resulted in a significant tightening of regulation and changes to regulatory structures globally and locally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. 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, 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.

## 53. Contingencies (continued)

### Income taxes

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

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

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **54. Cash and cash equivalents** | | |
| Cash, cash balances and balances with central banks[1] | 14 252 | 13 518 |
| Loans and advances to banks[2] | 4 242 | 3 802 |
| | 18 494 | 17 320 |

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **55. Deferred cash and share-based payments** | | |
| Share-based payments expense | 577 | 595 |
| Equity-settled arrangements: | | |
| Absa Group Limited Long-Term Incentive Plan (LTIP) | 123 | 145 |
| Absa Group Limited Joiners Share Value Plan (JSVP) | 37 | 41 |
| Absa Group Limited Share Value Plan (SVP) | 272 | 213 |
| Absa Group Limited Share Incentive Awards (SIA) | (14) | 80 |
| Absa Group Limited Retention Share Value Plan (SVP Cliff) | 3 | 36 |
| Absa Group Limited Restricted Share Value Plan (RSVP) | 112 | 15 |
| Cash-settled arrangements: | | |
| Absa Group Limited Long-Term Incentive Plan (LTIP) | 7 | 16 |
| Absa Group Limited Phantom Joiners Share Award Plan (JSAP) | — | 1 |
| Absa Group Limited Joiners Share Value Plan (JSVP) | 9 | 6 |
| Absa Group Limited Share Value Plan (SVP) | 11 | 17 |
| Absa Group Limited Retention Share Value Plan (SVP Cliff) | — | 4 |
| Absa Group Limited Role Based Pay (RBP) | (1) | 3 |
| Absa Group Limited Restricted Share Value Plan (RSVP) | 18 | 18 |
| Deferred cash expense | | |
| Absa Group Limited cash value plan (CVP) | 194 | 234 |
| **Total deferred cash and share-based payments (refer to note 38)** | 771 | 829 |
| **Total carrying amount of liabilities for cash-settled arrangements (refer to note 18)** | 340 | 323 |
| **Total carrying amount of the equity-settled share-based payment (refer to the statement of changes in equity)** | 877 | 837 |

[1] Includes coins and bank notes.

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

## 55. Deferred cash and share-based payments (continued)

Following regulatory deconsolidation from Barclays PLC in July 2018, the Group is no longer required to comply with the UK Prudential Regulatory Authority Remuneration Rulebook which required material risk takers to have a deferral period of five years. The Group has subsequently reassessed the vesting periods for incentive awards and has reduced the vesting period for affected populations to three years, which is aligned with local market practice. This modification in the vesting period resulted in an increase in the share-based payment expense for the current year of **R38m.**

During the prior reporting period, two of the Group's cash value plans (CVP) share plans were converted into equity-settled share-based payment schemes. In addition, the vesting periods of certain tranches were changed from being a period of two or three years to a period ranging between two and five years. The reclassification, coupled with the modification in vesting period, resulted in a reduction in the share-based payment expense for the prior year of R23.5m.

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

### Absa Group Limited Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) is an equity-settled share-based payment arrangement. Qualifying participants will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The award will be issued by the employing entity or subsidiary in the Group. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions. Dividends accumulate and are reinvested over the period.

### Absa Group Limited Phantom Joiners Share Award Plan

The Phantom Joiners Share Award Plan (JSAP) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accrue to the participant over the vesting period, which can be over one to seven years.

### Absa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan (JSVP) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to seven years.

### Absa Group Limited Share Value Plan

The Share Value Plan (SVP) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one to five years. The Group retains the obligation to settle in cash certain SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

### Absa Group Limited Restricted Share Value Plan

The Restricted Share Value Plan (RSVP) awards (and any associated notional dividends) are awarded at no cost to the participants. Vesting periods range from two to five years, with each tranche subject to its own independent non-market-related performance condition on vesting. The Group retains the obligation to settle in cash certain RSVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

### Absa Group Limited Share Incentive Awards

The Share Incentive Awards (SIA) is a scheme for certain employees previously identified as Code Staff for Barclays PLC. The award, which is 50% of the participant's non-deferred annual incentive, will vest up to 12 months from the date on which it is granted.

### Absa Limited Retention Share Value Plan

The Retention Share Value Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years or in equal tranches over three years, subject to their own independent non-market-related performance condition on vesting. The Group retains the obligation to settle, in cash, certain historic SVP Cliff awards that were not converted to equity awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

## 55. Deferred cash and share-based payments (continued)

### Absa Group Limited Role Base Pay

The Role Based Pay (RBP) is a cash-settled share scheme for Code staff. It limits the maximum level of variable compensation that may be paid to certain employees to 1x fixed pay, or 2x fixed pay with shareholder approval. The cash element will be paid at the same time as the salaries and the share element will be delivered quarterly, with the shares subject to a holding period. Dividends accumulate and are reinvested over the vesting period.

| | Number of awards '000 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2017 | | | | | |
| | Opening balance | Granted | Forfeited | Exercised | Closing balance | Opening balance | Effect of conversion | Granted | Forfeited | Exercised | Closing balance |
| Equity-settled: | | | | | | | | | | | |
| LTIP | 8 783 | — | (581) | (5) | 8 197 | 5 693 | — | 3 411 | (18) | (303) | 8 783 |
| JSAP | — | — | — | — | — | 2 | — | — | — | (2) | — |
| JSVP | 358 | 288 | (24) | (224) | 398 | 357 | — | 334 | (19) | (314) | 358 |
| SVP | 2 842 | 1 676 | (151) | (1 376) | 2 991 | 2 937 | (21) | 1 483 | (186) | (1 371) | 2 842 |
| SIA | 502 | — | (131) | (297) | 74 | 509 | — | 432 | — | (439) | 502 |
| RSVP[1] | 2 016 | — | (79) | (589) | 1 348 | — | 2 016 | — | — | — | 2 016 |
| SVP Cliff | 541 | — | (27) | (492) | 22 | 2 511 | (6) | 16 | (111) | (1 869) | 541 |
| Cash-settled: | | | | | | | | | | | |
| LTIP | 755 | — | (54) | — | 701 | | — | 755 | — | — | 755 |
| JSVP | 12 | 21 | — | (6) | 27 | 8 | — | 9 | — | (5) | 12 |
| SVP | 58 | 15 | — | (20) | 53 | 133 | 21 | 19 | (13) | (102) | 58 |
| SIA | — | 10 | — | (10) | — | — | — | — | — | — | — |
| RSVP[1] | 305 | — | — | (73) | 232 | — | 305 | — | — | — | 305 |
| SVP Cliff | 30 | — | — | (30) | — | 418 | 6 | — | — | (394) | 30 |
| RBP | 67 | — | — | (53) | 14 | 76 | — | 11 | — | (20) | 67 |

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

| | Weighted average share price at the exercise date (Rands) | | Weighted average contractual life of awards outstanding (years) | | Weighted average fair value of options granted during the period (Rands) | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Equity-settled: | | | | | | |
| LTIP | 144.69 | 138.87 | 1.58 | 2.58 | — | 144.69 |
| JSAP | — | 134.03 | — | — | — | — |
| JSVP | 163.70 | 166.60 | 1.60 | 1.73 | 158.40 | 152.05 |
| SVP | 161.00 | 161.53 | 1.56 | 1.91 | 194.43 | 157.91 |
| SIA | 198.50 | 157.91 | 0.16 | 0.67 | 198.50 | 157.91 |
| RSVP[1] | 153.00 | — | 1.10 | 2.55 | — | 146.01 |
| SVP Cliff | 181.57 | 174.80 | 1.65 | 0.65 | — | 145.37 |
| Cash-settled: | | | | | | |
| LTIP | — | — | 1.58 | 2.58 | — | 144.69 |
| JSVP | 161.68 | 151.76 | 2.22 | 1.63 | 178.67 | 147.81 |
| SVP | 198.50 | 151.79 | 1.45 | 1.47 | 198.45 | 157.91 |
| SIA | 154.00 | — | — | — | 198.50 | — |
| RSVP[1] | 152.41 | — | 1.13 | 2.38 | — | 142.79 |
| SVP Cliff | 198.50 | 155.25 | — | 0.16 | — | — |
| RBP | 162.08 | 157.89 | 1.82 | 2.39 | — | 151.38 |

[1] The converted shares relate to the conversion of some of the cash value plan (CVP) schemes, issued in the prior year, into restricted share value plan (RSVP) equity-settled schemes and cash-settled scheme in the prior year.

# 55. Deferred cash and share-based payments (continued)

## Future cash flow effects associated with equity-settled share based payments

| | Group 2018 | | | |
|---|---|---|---|---|
| | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Total Rm |
| Estimate of amount expected to be transferred to tax authorities | 215 | 455 | — | 670 |

| | 2017 | | | |
|---|---|---|---|---|
| | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Total Rm |
| Estimate of amount expected to be transferred to tax authorities | 219 | 665 | — | 884 |

The estimates provided above indicate the amounts which are expected to be transferred to tax authorities relating to the employees' tax obligations on equity schemes which have been granted but which vest in future periods. The amounts were estimated based on the number of awards expected to vest, the share price as at year-end and an estimate of the average applicable employee effective tax rate.

## Deferred cash

### Absa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash-settled payment arrangement. The award will vest in equal tranches over a period of three to five years, subject to the rules which includes a 10% service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2018 is **10%** (2017: 10%) of the initial value of the award that vests.

# 56. Acquisitions and disposals of businesses and other similar transactions

## 56.1 Acquisitions of businesses during the reporting period

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

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

# 56. Acquisitions and disposals of businesses and other similar transactions (continued)

## 56.1 Acquisitions of businesses during the current reporting period (continued)

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

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| Summary of net cash outflow due to acquisitions | 30 | — |

### 56.1.1 Acquisitions of businesses during the current reporting period

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

### 56.1.2 Disposals of businesses during the current reporting period

Apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was **R1 398m**.

### 56.2.1 Acquisitions of businesses during the previous reporting period

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

### 56.2.2 Disposals of businesses during the previous reporting period

Apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the previous reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was R205m.

# 57. Segment report

## 57.1 Summary of segments

The Group has identified its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity. The identified reportable segments are in a manner in which the Group's businesses are managed and reported to the Chief Operating Decision Maker (CODM). Rest of Africa (RoA) Banking was renamed to Absa Regional Operations (ARO) in order to align to the new Absa Group brand.

The following summary describes the operations in each of the Group's key divisions:

- Retail and Business Banking South Africa (RBB SA): offers retail and business banking products within South Africa.
- Corporate and Investment Banking South Africa (CIB SA): offers corporate and investment banking solutions in South Africa.
- Absa Regional Operations (ARO): offers a range of banking products to businesses, as well as individual customers on the African continent, outside of South Africa.
- WIMI: offers wealth management services, various insurance products, financial advisory services, drafting and safe custody of wills, comprehensive administration, actuarial and consulting services as well as a variety of investment products.
- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- Barclay's separation: Barclays PLC contributed R12.1 billion to the Group in June 2017, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time. The separation process will increase the capital base of the Group in the near term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclay's separation effects' in its segment results.

# 57. Segment report (continued)

## 57.1 Summary of segments (continued)

The divisions identified are broken down into smaller components to provide additional information of each. Discrete financial information is available for the following:

**Reportable segments**

- **RBB SA**
  - Retail SA: offers various products and services to customers through the following divisions:
    - Home Loans: offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.
    - Vehicle and Asset Finance (VAF): offers a comprehensive range of funding solutions for assets such as vehicles, aviation, marine, agricultural equipment, commercial, plant and office equipment as well as vehicle fleet and fleet card management. These solutions are provided to both individual and business customers through the branch network, approved dealerships, preferred suppliers and specialist sales force. VAF's joint ventures with Ford Financial Services and Man Financial Services are an extension of the business and reinforce the strategic intent of establishing and harnessing relationships with dealers and customers.
    - Card and Payments: offers credit cards and merchant acquiring solutions via a mix of Absa-branded and co-branded offerings including British Airways, Avios and Virgin Money. Included in this portfolio are partnerships with Edcon, which offers in-store cards and Woolworths Financial Services, which offers in-store cards, credit cards, personal loans and short-term insurance products.
    - Personal Loans: offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
    - Transactional and Deposits: offers a full range of transactional banking, savings and investment products, rewards programme and services through a variety of channels. These include the branch network, digital channels, ATMs, priority suites, call centres as well as through a third-party retailer PEP (part of the PEPKOR Group).
    - Other: includes distribution channel costs not recovered from product houses, strategic initiative expenditure and funding costs held centrally for Retail Banking South Africa.
  - Business Banking SA: offers debt, deposit and transactional products to enterprise and commercial customers. Customers within the enterprise segment, with an annual turnover of up to R20m, are serviced using a direct coverage model with a mainly branch-based interface. Customers in the commercial segment, with an annual turnover of between R20m and R500m, are serviced using a relationship-based model, where dedicated sales and service teams provide customised solutions. The relationship-based model includes a sector overlay focusing primarily on agriculture, public sector, wholesale, retail and franchising. Business Banking also includes an equity portfolio which is being reduced in an orderly manner.
- **CIB SA:** offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. CIB SA includes the following sub-divisions:
  - Corporate SA: offers corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions. These services are provided across our African institutional and corporate client base.
  - Investment Banking SA:
    - Markets – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
    - Banking – structures innovative solutions delivering to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
    - Commercial Property Finance – specialises in financing commercial, industrial, retail and residential development property (with a focus on affordable housing) across our African footprint as well as cross-border financing in other jurisdictions; and
    - Infrastructure Investments and Private Equity – Infrastructure Investments acts as a principal by investing in equity to entities focused on infrastructure development in sub-Saharan Africa. Private Equity traditionally acted as a principal by investing in unlisted equity exposures. This portfolio continues to be reduced in line with the Group's strategy to exit non-core businesses.
- **Absa Regional Operations (previously Rest of Africa Banking):**
  - RBB ARO: offers a comprehensive suite of retail and business banking products and services to individual and commercial customers on the African continent outside of South Africa.
  - CIB ARO: offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. CIB ARO includes the following sub-divisions:
    - Investment Bank comprising:
      - Markets – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
      - Banking – structures innovative solutions to meet clients' strategic advisory, financing and risk management requirements across various sectors.
    - Corporate – provides corporate banking solutions spanning financing and transactional banking requirements, trade and working capital, and a full suite of cash management solutions, including payments and liquidity products. These services are provided across our combined pan-African institutional and corporate client base, including public sector.

## 57. Segment report (continued)

### 57.1 Summary of segments (continued)

- **WIMI:** is the integrated non-banking financial services provider of the Group and other partners across the continent, including life insurance, short-term insurance, investment management, retirement 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. Offers various products and services to customers through the following divisions:
  - 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 investments 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, trust services and employee benefit businesses. The employee benefit business offers individual retirement fund administration, health care consulting and actuarial 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 reconciling stripes**

- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities.
- Barclays separation effects: Barclays PLC contributed R12.1 billion to the Group in June 2017, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time. The separation process will increase the capital base of the Group in the near term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclay's separation effects' in its segment results.

**Reportable segment changes**

- The South Africa Banking segment (which consisted of RBB South Africa and CIB South Africa) has been removed in the Group's segmental disclosures to align with how the banking operations are now managed.

**Business portfolio changes**

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

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

**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. The change resulted in an increase in non-interest income of R90m, increase in tax expense of R25m and decrease in other liabilities of R198m. Refer to 1.21.9 for additional information.

## 57. Segment report (continued)

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | South Africa and other international operations Rm | Africa Regions Rm | Total Rm |
| **57.2 Segment report per geographical segment** | | | |
| Net interest income – external | **32 559** | **11 196** | **43 755** |
| Non-interest income – external | **27 212** | **5 548** | **32 760** |
| Total assets | **1 093 320** | **195 424** | **1 288 744** |

| | 2017 | | |
|---|---|---|---|
| | South Africa and other international operations Rm | Africa Regions Rm | Total Rm |
| **Segment report per geographical segment** | | | |
| Net interest income – external | 31 843 | 10 801 | 42 644 |
| Non-interest income – external[1] | 25 483 | 5 267 | 30 750 |
| Total assets | 1 004 581 | 165 014 | 1 169 595 |

[1] Numbers have been restated, refer to note 57.1.

## 57. Segment report (continued)

| | RBB South Africa | | CIB South Africa | | Absa Regional Operations (previously Rest of Africa Banking) | |
|---|---|---|---|---|---|---|
| | 2018 | 2017[1] | 2018 | 2017[1] | 2018 | 2017[1] |
| **Statement of comprehensive income (Rm)** | | | | | | |
| Net interest income | 25 508 | 25 421 | 7 006 | 6 434 | 11 166 | 10 764 |
| Non-interest income | 18 083 | 17 186 | 4 589 | 4 272 | 5 157 | 4 853 |
| **Total income** | 43 591 | 42 607 | 11 595 | 10 706 | 16 323 | 15 617 |
| Impairment losses | (4 555) | (5 038) | (998) | (567) | (794) | (1 289) |
| Operating expenses | (25 770) | (24 476) | (6 304) | (5 644) | (9 535) | (9 000) |
| Depreciation and amortisation | (458) | (408) | (1) | (5) | (516) | (507) |
| Other operating expenses | (25 312) | (24 068) | (6 303) | (5 639) | (9 019) | (8 493) |
| Other | (352) | (313) | (46) | (183) | (201) | (177) |
| Other impairments | (59) | — | — | — | — | (5) |
| Indirect taxation | (293) | (313) | (46) | (183) | (201) | (172) |
| Share of post-tax results of associates and joint ventures | 150 | 153 | 14 | 5 | — | — |
| **Operating profit before income tax** | 13 064 | 12 933 | 4 261 | 4 317 | 5 793 | 5 151 |
| Tax expenses | (3 633) | (3 664) | (688) | (759) | (2 011) | (1 665) |
| **Profit for the reporting period** | 9 431 | 9 269 | 3 573 | 3 558 | 3 782 | 3 486 |
| **Profit attributable to:** | | | | | | |
| Ordinary equity holders | 8 814 | 8 741 | 3 367 | 3 411 | 3 237 | 2 972 |
| Non-controlling interest – ordinary shares | 286 | 269 | — | — | 545 | 514 |
| Non-controlling interest – preference shares | 214 | 229 | 134 | 129 | — | — |
| Non-controlling interest – additional Tier 1 | 117 | 30 | 72 | 18 | — | — |
| | 9 431 | 9 269 | 3 573 | 3 558 | 3 782 | 3 486 |
| **Headline earnings** | 8 880 | 8 748 | 3 367 | 3 411 | 3 218 | 2 954 |
| **Statement of financial position (Rm)** | | | | | | |
| Loans and advances to customers | 465 921 | 446 894 | 272 139 | 219 065 | 97 244 | 77 863 |
| Loans and advances to banks | 11 214 | 7 893 | 38 027 | 31 728 | 11 278 | 11 892 |
| Investment securities | 45 190 | 43 100 | 39 391 | 31 277 | 36 043 | 28 824 |
| Other assets | 281 660 | 255 962 | 182 282 | 213 655 | 48 395 | 44 141 |
| **Total assets** | 803 985 | 753 849 | 531 839 | 495 725 | 192 960 | 162 720 |
| Deposits due to customers | 333 061 | 300 725 | 173 832 | 177 254 | 133 656 | 108 636 |
| Debt securities in issue | — | 400 | 11 565 | 12 532 | 1 363 | 379 |
| Other liabilities | 462 611 | 440 425 | 339 364 | 299 140 | 35 052 | 33 379 |
| **Total liabilities** | 795 672 | 741 550 | 524 761 | 488 926 | 170 071 | 142 394 |

[1] Numbers have been restated, refer to note 57.1.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

| | WIMI | | Head Office, Treasury and other operations in South Africa | | Total before Barclays separation effects | | Barclays separation effects | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017[1] | 2018 | 2017[1] | 2018 | 2017[1] | 2018 | 2017 | 2018 | 2017[1] |
| | 317 | 362 | (572) | (662) | 43 425 | 42 319 | 330 | 325 | 43 755 | 42 644 |
| | 5 514 | 5 218 | (1 108) | (858) | 32 235 | 30 671 | 525 | 80 | 32 760 | 30 751 |
| | 5 831 | 5 580 | (1 680) | (1 520) | 75 660 | 72 990 | 855 | 405 | 76 515 | 73 395 |
| | 35 | (120) | (12) | (8) | (6 324) | (7 022) | — | — | (6 324) | (7 022) |
| | (3 578) | (3 617) | 1 545 | 1 334 | (43 642) | (41 403) | (3 161) | (1 901) | (46 803) | (43 304) |
| | (83) | (90) | (2 077) | (1 624) | (3 135) | (2 634) | ( 65) | (4) | (3 200) | (2 638) |
| | (3 495) | (3 527) | 3 622 | 2 958 | (40 507) | (38 769) | (3 096) | (1 897) | (43 603) | (40 666) |
| | (162) | (219) | (1 071) | (984) | (1 832) | (1 876) | (194) | (394) | (2 026) | (2 270) |
| | (1) | (101) | (374) | (216) | ( 434) | ( 322) | — | (326) | ( 434) | (648) |
| | (160) | (118) | (698) | (768) | (1 398) | (1 554) | (194) | (68) | (1 592) | (1 622) |
| | — | — | 15 | 12 | 179 | 170 | — | — | 179 | 170 |
| | 2 126 | 1 624 | (1 203) | (1 166) | 24 041 | 22 859 | (2 500) | (1 890) | 21 541 | 20 969 |
| | (740) | (453) | 306 | 251 | (6 766) | (6 290) | 484 | 408 | (6 282) | (5 882) |
| | 1 386 | 1 171 | (897) | (915) | 17 275 | 16 569 | (2 016) | (1 482) | 15 259 | 15 087 |
| | 1 381 | 1 162 | (896) | (916) | 15 903 | 15 370 | (1 986) | (1 482) | 13 917 | 13 888 |
| | 1 | 5 | (1) | 1 | 831 | 789 | (30) | — | 801 | 789 |
| | 3 | 4 | — | 0 | 351 | 362 | — | — | 351 | 362 |
| | 1 | 0 | — | (0) | 190 | 48 | — | — | 190 | 48 |
| | 1 386 | 1 171 | (897) | (915) | 17 275 | 16 569 | (2 016) | (1 482) | 15 259 | 15 087 |
| | 1 268 | 1 231 | (605) | (721) | 16 128 | 15 623 | (1 986) | (1 245) | 14 142 | 14 378 |
| | 5 734 | 5 004 | 682 | 946 | 841 720 | 749 772 | — | — | 841 720 | 749 772 |
| | 2 520 | 1 847 | (9 899) | 2 066 | 53 140 | 55 426 | — | — | 53 140 | 55 426 |
| | 4 218 | 4 765 | 10 578 | 3 443 | 135 420 | 111 409 | — | — | 135 420 | 111 409 |
| | 37 976 | 39 081 | (295 041) | (300 763) | 255 272 | 252 076 | 3 192 | 912 | 258 464 | 252 988 |
| | 50 448 | 50 697 | (293 680) | (294 308) | 1 285 552 | 1 168 683 | 3 192 | 912 | 1 288 744 | 1 169 595 |
| | 5 097 | 5 150 | 90 659 | 98 102 | 736 305 | 689 867 | — | — | 736 305 | 689 867 |
| | — | — | 148 043 | 124 637 | 160 971 | 137 948 | — | — | 160 971 | 137 948 |
| | 39 850 | 40 493 | (601 454) | (581 075) | 275 423 | 232 362 | (5 561) | (9 840) | 269 862 | 222 522 |
| | 44 947 | 45 643 | (362 752) | (358 336) | 1 172 699 | 1 060 177 | (5 561) | (9 840) | 1 167 138 | 1 050 337 |

## 57. Segment report (continued)

| | Retail Banking South Africa | | Business Banking South Africa | | Retail and Business Banking South Africa | |
|---|---|---|---|---|---|---|
| | 2018 Rm | 2017[1] Rm | 2018 Rm | 2017[1] Rm | 2018 Rm | 2017[1] Rm |
| **Statement of comprehensive income (Rm)** | | | | | | |
| Net interest income | 19 239 | 19 379 | 6 269 | 6 042 | 25 508 | 25 421 |
| Non-interest income | 14 352 | 13 511 | 3 731 | 3 675 | 18 083 | 17 186 |
| **Total income** | 33 591 | 32 890 | 10 000 | 9 717 | 43 591 | 42 607 |
| Impairment losses on loans and advances | (4 313) | (4 764) | (242) | (274) | (4 555) | (5 038) |
| Operating expenses | (19 703) | (18 679) | (6 067) | (5 797) | (25 770) | (24 476) |
| Depreciation and amortisation | (398) | (361) | (60) | (47) | (458) | (408) |
| Other operating expenses | (19 305) | (18 318) | (6 007) | (5 750) | (25 312) | (24 068) |
| Other | (291) | (285) | (61) | (28) | (352) | (313) |
| Other impairments | (25) | — | (34) | — | (59) | — |
| Indirect taxation | (265) | (285) | (28) | (28) | (293) | (313) |
| Share of post-tax results of associates and joint ventures | 150 | 153 | — | — | 150 | 153 |
| **Operating profit before income tax** | 9 434 | 9 315 | 3 630 | 3 618 | 13 064 | 12 933 |
| Tax expenses | (2 600) | (2 610) | (1 033) | (1 054) | (3 633) | (3 664) |
| **Profit for the reporting period** | 6 834 | 6 705 | 2 597 | 2 564 | 9 431 | 9 269 |
| **Profit attributable to:** | | | | | | |
| Ordinary equity holders | 6 300 | 6 243 | 2 514 | 2 498 | 8 814 | 8 741 |
| Non-controlling interest – ordinary shares | 286 | 268 | — | 1 | 286 | 269 |
| Non-controlling interest – preference shares | 160 | 171 | 54 | 58 | 214 | 229 |
| Non-controlling interest – additional Tier 1 | 88 | 23 | 29 | 7 | 117 | 30 |
| | 6 834 | 6 705 | 2 597 | 2 564 | 9 431 | 9 269 |
| **Headline earnings** | 6 359 | 6 240 | 2 521 | 2 508 | 8 880 | 8 748 |
| **Statement of financial position (Rm)** | | | | | | |
| Loans and advances to customers | 396 805 | 383 495 | 69 116 | 63 399 | 465 921 | 446 894 |
| Loans and advances to banks | 11 108 | 7 809 | 106 | 84 | 11 214 | 7 893 |
| Investment securities | 34 826 | 32 962 | 10 364 | 10 138 | 45 190 | 43 100 |
| Other assets | 231 149 | 209 909 | 50 511 | 46 053 | 281 660 | 255 962 |
| **Total assets** | 673 888 | 634 175 | 130 097 | 119 674 | 803 985 | 753 849 |
| Deposits due to customers | 207 696 | 186 855 | 125 365 | 113 870 | 333 061 | 300 725 |
| Debt securities in issue | — | 400 | — | — | — | 400 |
| Other liabilities | 460 035 | 437 265 | 2 576 | 3 160 | 462 611 | 440 425 |
| **Total liabilities** | 667 731 | 624 520 | 127 941 | 117 030 | 795 672 | 741 550 |

[1] Numbers have been restated, refer to note 57.1.

## 57. Segment report (continued)

### 57.3 Disaggregation of non-interest income

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

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| | RBB SA Rm | CIB SA Rm | Absa Regional Operations Rm | WIMI Rm | Head Office, Treasury and other operations in SA Rm | Barclays separation effects Rm | Total Rm |
| Fee and commission income from contracts with customers | 18 065 | 2 341 | 3 174 | 3 262 | (1 167) | — | 25 675 |
| Consulting and administration fees | 236 | 99 | 57 | 87 | 1 | — | 480 |
| Transactional fees and commissions | 15 318 | 1 576 | 2 756 | 107 | (2) | — | 19 755 |
| Cheque accounts | 5 216 | 115 | 16 | 54 | — | — | 5 401 |
| Credit cards | 2 608 | — | 162 | — | — | — | 2 770 |
| Electronic banking | 4 144 | 1 082 | 91 | 17 | 1 | — | 5 335 |
| Other[1] | 1 287 | 378 | 2 473 | 35 | (3) | — | 4 170 |
| Savings accounts | 2 063 | 1 | 14 | 1 | — | — | 2 079 |
| Merchant income | 1 902 | — | 164 | — | — | — | 2 066 |
| Asset management | 22 | 1 | 5 | 1 308 | (15) | — | 1 321 |
| Other fees and commissions | 27 | 230 | 104 | 608 | (223) | — | 746 |
| Insurance commissions received | 560 | — | 86 | 1 111 | (927) | — | 830 |
| Investment banking fees | — | 435 | 2 | 41 | (1) | — | 477 |
| Other income from contracts with customers | 68 | — | 15 | — | 7 | — | 90 |
| Other non-interest income, net of expenses | (50) | 2 248 | 1 968 | 2 252 | 52 | 525 | 6 995 |
| **Total non-interest income** | 18 083 | 4 589 | 5 157 | 5 514 | (1 108) | 525 | 32 760 |

## 58. Derivatives

### 58.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

The Group trades the following derivative instruments:

#### Foreign exchange derivatives

The Group's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

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

# 58. Derivatives (continued)

## 58.1 Derivative financial instruments (continued)

### Interest rate derivatives

The Group's principal interest rate-related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

### Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

### Equity derivatives

The Group's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options which include mutual funds, hedge funds, indices and multi-asset portfolios as underlying.

### Commodity derivatives

The Group's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

## 58.2 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Group's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Group's net exposure to, or position in any of the markets that the Group trades in.

## 58.3 Derivative financial instruments

The Group's total derivative asset and liability position as reported on the statement of financial position is as follows:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Assets Rm | Liabilities Rm | Notional contract amount Rm | Assets Rm | Liabilities Rm | Notional contract amount Rm |
| Derivatives held for trading (refer to notes 5 and 17) | 44 534 | (36 118) | 6 569 930 | 56 853 | (52 101) | 5 124 474 |
| Derivatives designated as hedging instruments | 2 411 | (1 343) | 229 662 | 2 673 | (1 123) | 220 647 |
| Other | 43 | — | 838 | 59 | — | 838 |
| **Total derivatives** | **46 988** | **(37 461)** | **6 800 430** | 59 585 | (53 224) | 5 345 959 |

# 58. Derivatives (continued)

## 58.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Group related to the various markets and instrument types the Group trades in are as follows:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | **Assets Rm** | **Liabilities Rm** | **Notional contract amount Rm** | Assets Rm | Liabilities Rm | Notional contract amount Rm |
| **Foreign exchange derivatives** | 8 833 | (9 337) | 648 979 | 15 886 | (14 878) | 532 991 |
| Forwards | 1 183 | (1 744) | 55 723 | 2 118 | (1 571) | 55 768 |
| Futures | 0 | — | 9 673 | 0 | — | 137 353 |
| Swaps | 7 081 | (7 014) | 472 983 | 12 822 | (12 250) | 294 351 |
| Options | 569 | (579) | 110 600 | 946 | (1 057) | 45 519 |
| **Interest rate derivatives** | 28 659 | (22 026) | 5 594 558 | 37 153 | (33 376) | 4 429 665 |
| Forwards | 1 038 | (862) | 3 353 759 | 1 754 | (1 750) | 2 887 692 |
| Futures | 0 | — | 767 999 | 0 | — | 34 329 |
| Swaps | 27 530 | (21 138) | 1 461 503 | 35 351 | (31 505) | 1 465 086 |
| Options | 91 | (26) | 11 297 | 48 | (121) | 42 558 |
| **Equity derivatives** | 5 389 | (3 093) | 287 988 | 2 544 | (2 396) | 118 039 |
| Forwards | 734 | (101) | 10 486 | 532 | (214) | 9 140 |
| Futures | — | 0 | 94 905 | — | — | 26 158 |
| Swaps | 2 050 | (1 903) | 22 910 | 1 052 | (813) | 22 126 |
| Options | 2 605 | (1 089) | 39 387 | 788 | (1 369) | 29 222 |
| Options – exchange traded | | 0 | 93 652 | 0 | — | 23 858 |
| Other – OTC | 0 | — | 26 648 | 172 | — | 7 535 |
| **Commodity derivatives** | 1 480 | (1 482) | 29 200 | 1 105 | (1 293) | 34 378 |
| Forwards | 152 | (162) | 8 132 | 142 | (357) | 8 777 |
| Swaps | 14 | (18) | 203 | 116 | (66) | 312 |
| Options | 1 314 | (1 302) | 20 865 | 847 | (870) | 25 289 |
| Default swaps | 173 | (180) | 9 205 | 165 | (158) | 9 401 |
| **Derivatives held for trading** | 44 534 | (36 118) | 6 569 930 | 56 853 | (52 101) | 5 124 474 |
| Note | 5 | 17 | | 5 | 17 | |

Forwards, swaps and options in the table above have been traded on a bilateral OTC basis, unless specified otherwise. Futures in the table above have been traded on authorised exchanges.

## 58.5 Derivative held for investment purposes

Derivatives held for Investment purposes for the 2018 period had a notional value of **R838m** (2017: R838m) and an asset value of **R43m** (2017: R59m).

## 58.6 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R44 362m** (2017: R47 413m). Additionally, the Group held **R4 422m** (2017: R2 009m) of collateral against the net derivative asset exposure.

OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association ('ISDA') Master Agreement is used by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

# 58. Derivatives (continued)

## 58.7 Hedge accounting (2018)

### Risk management strategy

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged. The assessment of the effectiveness of hedge relationships are performed on a cumulative life to date basis.

In order to hedge the risks to which the Group is exposed, the hedging instruments employed are interest rate swaps, inflation swaps, cross-currency swaps and forward foreign exchange contracts. The economic relationship between the hedge instrument and the hedged items is aligned since all hedging instruments are exposed to the same risks as the hedged items, being interest rate risk, inflation risk and/or foreign currency risk.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate borrowed funds or debt securities held and highly probable forecast investment transactions.

Foreign exchange derivatives, designated as cash flow hedge primarily hedge the exposure to highly probable forecast foreign denominated expenditure.

Foreign exchange derivatives, designated as net investment hedge, primarily hedge the foreign currency exposure to a net investment in a foreign operation.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

In certain circumstances, items that are designated for hedge accounting purposes are different from the economic hedge owing to the existence of restrictions on the ability to apply hedge accounting to the economic hedge. Specifically, the Group employs a governed interest rate risk management strategy (hedging programme) through the interest rate cycle to reduce volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity).

The hedge ratio between the hedged item and the hedging instruments is typically determined with reference to the sensitivity of the hedged item, on designation, to the risk factor, compared to the hedging instrument. In many cases the hedge ratio is directly proportional to the hedged item.

In some hedging relationships, the Group would designate risk components of hedged items as follows:

(i) Benchmark interest rate risk;
(ii) Inflation risk as a contractually specified component of a debt instrument;
(iii) Spot exchange rate risk for foreign currency denominated financial assets or financial liabilities;
(iv) Spot or forward exchange rate risk for highly probable forecast foreign denominated expenditure or a net investment in a foreign operation;
(v) Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

Sources of ineffectiveness which may affect the Group's designated hedge relationships are as follows:

(i) Mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences between the hedged risk and the risk exposure of the hedging instrument;
(ii) Changes in credit risk of the hedging instruments;
(iii) If a hedge accounting relationship becomes overhedged. This might occur in hedges of net investments if the net asset value designated at the start of the period falls below the amount of the hedging instrument.

No other source of ineffectiveness has arisen during the period.

## 58. Derivatives (continued)

### 58.7 Hedge accounting (2018) (continued)

### 58.7.1 Fair value hedge accounting

Fair value hedges are used by the Group to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include investment securities, loans and advances to customers, debt securities and borrowed funds. The profile and timing of hedging instruments designated in fair value hedge relationships based on the notional amounts are as follows:

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| | Less than 1 year Rm | 1 – 2 years Rm | 2 – 3 years Rm | 3 – 4 years Rm | 4 – 5 years Rm | More than 5 years Rm | Total Rm |
| **Interest rate risk – interest rate swaps** | 303 | 4 158 | 421 | 2 721 | 6 658 | 28 198 | 42 459 |
| Hedge of investment securities at FVOCI | — | — | — | — | 143 | 22 872 | 23 015 |
| Hedge of loans and advances to customers | 173 | 167 | 230 | 637 | 282 | 710 | 2 199 |
| Hedge of debt securities in issue | — | 2 715 | 50 | 1 719 | 125 | 4 616 | 9 225 |
| Hedge of borrowed funds | 130 | 1 276 | 141 | 365 | 6 108 | — | 8 020 |
| **Inflation risk – interest rate swaps** | — | 200 | 60 | 736 | 600 | 634 | 2 230 |
| Hedge of investment securities at FVOCI | — | 200 | 60 | 736 | 600 | 634 | 2 230 |

The average rates or prices set out below relate to the hedging instruments designated in fair value hedging relationships:

| | Group |
|---|---|
| | 2018 Average price or rate % |
| **Interest rate risk** | |
| Interest rate swaps | |
| Average fixed interest rate | 8% |
| **Inflation risk** | |
| Interest rate swaps | |
| Average fixed interest rate | 3% |

In respect of many of the Group's hedge accounting relationships, the hedged item and hedging instrument change frequently due to the dynamic nature of the risk management and hedge accounting strategy. Detail regarding these dynamic hedges has been excluded from the above tables.

The Group applies hedge accounting to dynamic scenarios, predominantly in relation to interest rate risk, with a combination of hedged items (some hedged items are designated by proxy) in order for its financial statements to reflect as closely as possible the economic risk management undertaken.

# 58. Derivatives (continued)

## 58.7 Hedge accounting (2018) (continued)

### 58.7.1 Fair value hedge accounting (continued)

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Notional amount Rm | Assets Rm | Liabilities Rm | Change in fair value used for calculating hedge ineffectiveness for 2018 Rm | Ineffectiveness recognised in profit and loss Rm | Presentation of ineffectiveness in profit or loss Rm |
| **Total** | 44 689 | 1 248 | (963) | 515 | (14) | Gains and losses from banking and trading activities |
| **Interest rate risk** | 42 459 | 1 231 | (627) | 517 | (53) | Gains and losses from banking and trading activities |
| Interest rate swaps – hedge of investment securities at FVOCI | 23 015 | 988 | (500) | 522 | (58) | Gains and losses from banking and trading activities |
| Interest rate swaps – hedge of loans and advances to customers | 2 199 | 16 | (60) | 35 | 2 | Gains and losses from banking and trading activities |
| Interest rate swaps – hedge of borrowed funds | 8 020 | 87 | (4) | 30 | (3) | Gains and losses from banking and trading activities |
| Interest rate swaps - hedge of debt securities in issue | 9 225 | 140 | (63) | (70) | 6 | Gains and losses from banking and trading activities |
| **Inflation risk** | 2 230 | 17 | (336) | (2) | 39 | Gains and losses from banking and trading activities |
| Inflation linked swaps – hedge of investment securities classified as FVOCI | 2 230 | 17 | (336) | (2) | 39 | Gains and losses from banking and trading activities |

The hedging instruments of the Group are presented within and hedging portfolio assets on the statement of financial position.

# 58. Derivatives (continued)

## 58.7 Hedge accounting (2018) (continued)

### 58.7.1 Fair value hedge accounting (continued)

The following amounts relate to items that were designated as hedged items in fair value hedge relationships:

| Hedged item statement of financial position classification and risk category | Group 2018 Carrying value Rm | Accumulated fair value adjustment included in the carrying amount of the hedged item Total Rm | Portion related to items no longer in a hedge relationship Rm | Change in value used for calculating hedge ineffectiveness Rm |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Investment securities classified as FVOCI | 26 647 | 622 | (3) | (541) |
| Interest rate risk | 22 803 | 439 | (3) | (575) |
| Inflation risk | 3 844 | 183 | — | 34 |
| Loans and advances to customers | 2 637 | 37 | — | (33) |
| Interest rate risk | 2 637 | 37 | — | (33) |
| **Financial liabilities** | | | | |
| Debt securities in issue | | | | |
| Interest rate risk | (9 722) | (24) | — | 76 |
| Borrowed funds | | | | |
| Interest rate risk | (8 681) | (63) | — | (33) |

### 58.7.2 Cash flow hedge accounting

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from the Group exposure to interest rate and foreign currency risk. The financial instruments designated as hedged items include loans and advances to customers, and highly probable forecast foreign denominated expenditure.

The profile and timing of hedging instruments designated in cash flow hedge relationships based on notional amounts are as follows:

| | Group 2018 Less than 1 year Rm | 1 – 2 years Rm | 2 – 3 years Rm | 3 – 4 years Rm | 4 – 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **Interest rate risk – interest rate swaps** | 92 605 | 20 830 | 23 020 | 17 551 | 22 912 | 6 826 | 183 744 |
| Hedge of loans and advances to customers | 92 605 | 20 830 | 23 020 | 17 551 | 22 912 | 6 826 | 183 744 |
| **Foreign currency risk – forwards** | 1 177 | 53 | — | — | — | — | 1 230 |
| Hedge of highly probable forecast expenditure | 1 177 | 53 | — | — | — | — | 1 230 |

# 58. Derivatives (continued)

## 58.7 Hedge accounting (2018) (continued)

### 58.7.2 Cash flow hedge accounting (continued)

The average rates or prices set out below relate to the hedging instruments designated in cash flow hedging relationships:

| | Group 2018 Average price or rate % |
|---|---|
| **Interest rate risk** | |
| Interest rate swaps | |
| Average fixed interest rate | 8% |
| **Foreign currency risk** | |
| Average ZAR – EUR exchange rates | 15.85 |
| Average ZAR – GBP exchange rates | 18.94 |
| Average ZAR – USD exchange rates | 12.97 |
| Average ZAR – CZK exchange rates | 1.48 |

In respect of many of the Group's hedge accounting relationships, the hedged item and hedging instrument change frequently due to the dynamic nature of the risk management and hedge accounting strategy. Detail regarding these dynamic hedges has been excluded from the above table.

The Group applies hedge accounting to dynamic scenarios, predominantly in relation to interest rate risk, with a combination of hedged items (some hedged items are designated by proxy) in order for its financial statements to reflect as closely as possible the economic risk management undertaken.

If the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

The following amounts relate to items designated as hedging instruments in cash flow hedge relationships:

| | Group 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amount Rm | Assets Rm | Liabilities Rm | Change in fair value used for calculating hedge ineffectiveness for 2018 Rm | Hedging gains or losses recognised in OCI Rm | Hedge ineffective-ness recognissed in profit or loss Rm | Presentation of ineffective-ness in profit or loss Rm |
| **Interest rate risk** | | | | | | | |
| Interest rate swaps – hedge of loans and advances to customers | 183 744 | 1 079 | (354) | (828) | 112 | (234) | Gains and losses from banking and trading activities |
| **Foreign currency risk** | | | | | | | |
| Forwards – hedge of forecast expenditure | 1 230 | 84 | (26) | 93 | 94 | 36 | Gains and losses from banking and trading activities |

The hedging instruments of the Group are presented within hedging portfolio assets/liabilities, on the statement of financial position.

Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred.

# 58. Derivatives (continued)

## 58.7 Hedge accounting (2018) (continued)

### 58.7.2 Cash flow hedge accounting (continued)

Impact on the income statement and OCI of recycling amounts in respect of cash flow hedges during the period:

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | Amount recycled from OCI to profit or loss due to continuing hedges Rm | Amount recycled from OCI to profit or loss due to discontinued hedges Rm | Total Rm |
| **Cash flow hedge of interest rate risk** | 646 | (12) | 634 |
| Recycled to interest income | 555 | (10) | 545 |
| Recycled to interest expense | 91 | (2) | 89 |
| **Cash flow hedge of currency risk** | (51) | (33) | (84) |
| Recycled to operating expenses | (51) | (33) | (84) |
| **Total** | 595 | (45) | 550 |

The following amounts relate to items designated as hedged items in cash flow hedges:

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | Change in value used for calculating hedge ineffectivness Rm | Cash flow hedge reserve in respect of continued hedges Rm | Cash flow hedge reserve in respect of discontinued hedges Rm |
| **Loans and advances to customers** | | | |
| Interest rate risk | 433 | 514 | 10 |
| **Highly probable forecast transactions** | | | |
| Foreign currency risk | (96) | 54 | (20) |

## 58. Derivatives (continued)

### 58.7 Hedge accounting (2018) (continued)

#### 58.7.3 Hedges of net investments in foreign operations

Net investment hedges are used by the Group to protect against the potential risk arising from the Group's exposure to foreign currency risk in relation to its investment in foreign operations.

At 31 December 2018, the Group held the following foreign currency forward exchange contracts as hedging instruments in a net investment hedge.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| | Notional amount Rm | Assets Rm | Liabilities Rm | Change in fair value used to calculate hedge ineffectiveness Rm | Hedging gains or losses recognised in OCI Rm | Hedge ineffectiveness recognised in profit or loss Rm | Presentation of hedge ineffectiveness in profit or loss Rm |
| **Foreign currency risk** | | | | | | | |
| Forwards | —[1] | — | — | 58 | 58 | — | — |

The hedging instruments of the Group are presented within hedging portfolio assets/liabilities on the statement of financial position.

Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred.

Impact on the profit or loss and OCI of recycling amounts in respect of net investment hedges during the period:

#### 58.7.4 Reconciliation of equity

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (before tax) resulting from hedge accounting:

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | Cash flow hedge reserve Rm | Net investment hedge reserve Rm | Foreign currency translation reserve Rm |
| **Balance on 1 January** | 902 | — | — |
| Foreign currency translation movements | | | |
| Hedging gains/losses for the reporting period | 206 | — | — |
| Interest rate risk | 112 | — | — |
| Foreign currency risk | 94 | 58 | — |
| Amounts reclassified to profit or loss | — | — | — |
| In relation to cash flows affecting profit or loss | (550) | — | — |
| Amounts not expected to be recovered | (550) | — | — |
| Amounts transferred within OCI | — | (58) | 58 |
| **Balance on 31 December** | 558 | — | 58 |

[1] As at 31 December 2018 all net investment hedges have expired. The nominal value of items designated as hedging instrument that have expired during the financial year is R257m.

# 58. Derivatives (continued)

## 58.8 Hedge accounting (2017)

### 58.8.1 Derivatives designated as hedging instruments – detail by market and instrument type

| | Group | | |
|---|---|---|---|
| | 2017 | | |
| | Assets Rm | Liabilities Rm | Notional contract amount Rm |
| Interest rate derivatives | 2 673 | (998) | 219 889 |
| Swaps – cash flow hedges | 1 767 | (99) | 170 655 |
| Swaps – fair value hedges | 906 | (899) | 49 234 |
| Foreign exchange derivatives | | | |
| Forward rate agreements – cash flow hedges | — | (125) | 758 |
| Derivatives designated as hedging instruments | 2 673 | (1 123) | 220 647 |
| Note | 5 | 18 | |

### 58.8.2 Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations

Cash flow hedges for interest rate risk are used by the Group to protect against the potential cash flow variability that results from the Group's exposure to various floating rate instruments including certain loans and advances, available-for-sale financial assets and issued debt.

The Group's cash flow hedging instruments for interest rate risk principally consist of interest rate swaps that are used to fix floating future cash flows.

The Group's cash flow hedging instruments for foreign currency risk consist of foreign exchange contracts to protect the Group against the potential cash flow variability that results from exposure to mainly IT-related transactions in foreign currency.

Net gains/(losses) on cash flow hedges were recycled from other comprehensive income to profit or loss:

| | Group |
|---|---|
| | 2017 Rm |
| **Interest and similar income** | |
| Interest rate risk (refer to note 29) | 264 |
| **Other operating income** | |
| Hedges of net investments in foreign operations | — |
| **Interest expense and similar charges** | |
| Interest rate risk (refer to note 30) | 70 |
| **Gains and losses from banking and trading activities** | |
| Interest rate risk | 66 |
| **Operating expenditure** | |
| Foreign currency risk | (52) |

# 58. Derivatives (continued)

## 58.8 Hedge accounting (2017) (continued)

### 58.8.2 Derivatives designated as cash flow hedging instruments and hedges of net investment in foreign operations (continued)

The fair value movement recognised in profit or loss in relation to ineffectiveness (including fair value movements previously deferred to equity which subsequently exceeded the IAS 39 reserve limit) is:

| | Group<br>2017<br>Rm |
|---|---|
| **Gains and losses from banking and trading activities (refer to note 33)** | |
| Interest rate risk | 18 |
| Foreign currency risk | (1) |
| | 17 |

The Group has hedged forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the statement of comprehensive income in future financial periods as shown in the following table. The cash flows were projected using forward rates prevailing at year-end. The cash flows are presented on an undiscounted basis, before taxation and exclude any potential hedge accounting adjustments:

| | Group 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 year Rm | 1 – 2 years Rm | 2 – 3 years Rm | 3 – 4 years Rm | 4 – 5 years Rm | More than 5 years Rm | Total Rm |
| **Forecast receivable cash flow** | | | | | | | |
| Interest rate risk | 576 | 453 | 213 | 53 | 13 | 1 | 1 309 |
| **Forecast payable cash flow** | (474) | (303) | (137) | (74) | (70) | (26) | (1 084) |
| Interest rate risk | (57) | (7) | (35) | (56) | (51) | (8) | (214) |
| Foreign currency risk | (417) | (296) | (102) | (18) | (19) | (18) | (870) |

### 58.8.3 Derivatives designated as fair value hedging instruments to protect against interest rate and exchange rate risk

Fair value hedges are used by the Group to protect against changes in the fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale assets, debt securities and borrowed funds.

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in market interest rates.

Gains and (losses) on hedging instruments and hedged items:

| | Group<br>2017<br>Rm |
|---|---|
| **Financial assets – fair value hedges** | |
| Gains on hedged items (assets) | 434 |
| Losses on hedging instruments (assets) | (540) |
| Interest expense on hedging instruments | (107) |
| **Financial liabilities – fair value hedges** | (338) |
| Gains on hedging instruments (liabilities) | 345 |
| Interest income on hedging instruments | 40 |

Movement in fair value that was recognised in profit or loss in relation to hedge ineffectiveness is:

| | Group<br>2017<br>Rm |
|---|---|
| Losses from banking and trading activities (refer to note 33) | (65) |

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## 59. Consolidated statement of financial position summary – IFRS 9 classification

| | 2018 | | | |
|---|---|---|---|---|
| | | Fair value through profit or loss | | |
| | Mandatorily held at fair value Rm | Designated at fair value Rm | Hedging instruments Rm | Total Rm |
| **Assets** | | | | |
| Cash, cash balances and balances with central banks | 5 803 | — | — | 5 803 |
| Investment securities | 6 670 | 10 450 | — | 17 120 |
| Loans and advances to banks | 18 580 | 1 220 | — | 19 800 |
| Trading portfolio assets | 127 265 | — | — | 127 265 |
| Hedging portfolio assets[2] | — | — | 2 411 | 2 411 |
| Other assets | 2 | — | — | 2 |
| Loans and advances to customers | 32 097 | 13 166 | — | 45 263 |
| Investments linked to investment contracts | 18 481 | — | — | 18 481 |
| Non-current assets held for sale | — | — | — | — |
| Assets outside the scope of IFRS 9 | — | — | — | — |
| | 208 898 | 24 836 | 2 411 | 236 145 |
| **Liabilities** | | | | |
| Deposits from banks | — | 45 770 | — | 45 770 |
| Trading portfolio liabilities | 51 632 | — | — | 51 632 |
| Hedging portfolio liabilities[3] | — | — | 1 343 | 1 343 |
| Other liabilities | — | 47 | — | 47 |
| Deposits due to customers | — | 39 092 | — | 39 092 |
| Debt securities in issue | — | 15 589 | — | 15 589 |
| Liabilities under investment contracts | — | 29 674 | — | 29 674 |
| Borrowed funds | — | — | — | — |
| Liabilities outside the scope of IFRS 9[5] | — | — | — | — |
| | 51 632 | 130 172 | 1 343 | 183 147 |

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.
[2] Includes derivative assets to the amount of **R1 163m** (2017: R1 767m) and **R1 248m** (2017: R906m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R380m** (2017: R223m) and **R963m** (2017: R890m) that have been designated as cash flow and fair value hedging instruments respectively.
[4] Includes items designated as hedged items in fair value hedging relationships.
[5] Liabilities outside the scope of IFRS 9 includes **R667m** that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

2018

| Fair value through other comprehensive income | | | | Amortised cost | | | | |
|---|---|---|---|---|---|---|---|---|
| Debt instruments Rm | Equity instruments Rm | Hedged items[4] Rm | Total Rm | Debt instruments Rm | Hedged items[4] Rm | Total Rm | Outside the scope of IFRS 9[1] Rm | Total assets and liabilities Rm |
| 2 368 | — | — | 2 368 | 38 758 | — | 38 758 | — | 46 929 |
| 83 489 | 804 | 26 647 | 110 940 | 7 360 | — | 7 360 | — | 135 420 |
| — | — | — | — | 33 340 | — | 33 340 | — | 53 140 |
| — | — | — | — | — | — | — | 1 304 | 128 569 |
| — | — | — | — | — | — | — | — | 2 411 |
| — | — | — | — | 27 466 | — | 27 466 | 3 174 | 30 642 |
| — | — | — | — | 793 820 | 2 637 | 796 457 | — | 841 720 |
| — | — | — | — | — | — | — | — | 18 481 |
| — | — | — | — | — | 30 | 30 | 209 | 239 |
| — | — | — | — | — | — | — | 31 193 | 31 193 |
| 85 857 | 804 | 26 647 | 113 308 | 900 744 | 2 667 | 903 411 | 35 880 | 1 288 744 |
| | | | | | | | | |
| — | — | — | — | 75 651 | — | 75 651 | — | 121 421 |
| — | — | — | — | — | — | — | — | 51 632 |
| — | — | — | — | — | — | — | — | 1 343 |
| — | — | — | — | 32 547 | — | 32 547 | 4 068 | 36 662 |
| — | — | — | — | 697 213 | — | 697 213 | — | 736 305 |
| — | — | — | — | 135 660 | 9 722 | 145 382 | — | 160 971 |
| — | — | — | — | — | — | — | — | 29 674 |
| — | — | — | — | 11 544 | 8 681 | 20 225 | — | 20 225 |
| — | — | — | — | — | — | — | 8 905 | 8 905 |
| — | — | — | — | 952 615 | 18 403 | 971 018 | 12 973 | 1 167 138 |

## 59. Consolidated statement of financial position summary – IAS 39 classification

| | 2017 | | | |
|---|---|---|---|---|
| | Fair value through profit or loss | | | |
| | Designated at fair value Rm | Held for trading Rm | Hedging instruments Rm | Total Rm |
| **Assets** | | | | |
| Cash, cash balances and balances with central banks | 4 808 | — | — | 4 808 |
| Investment securities | 26 335 | — | — | 26 335 |
| Loans and advances to banks | 17 198 | — | — | 17 198 |
| Trading portfolio assets | — | 130 132 | — | 130 132 |
| Hedging portfolio assets[2] | — | — | 2 673 | 2 673 |
| Other assets[5] | 4 | — | — | 4 |
| Loans and advances to customers | 26 811 | — | — | 26 811 |
| Investments linked to investment contracts | 18 877 | 59 | — | 18 936 |
| Non-current assets held for sale | — | — | — | — |
| Assets outside the scope of IAS 39 | — | — | — | — |
| | 94 033 | 130 191 | 2 673 | 226 897 |
| **Liabilities** | | | | |
| Deposits from banks | 12 555 | — | — | 12 555 |
| Trading portfolio liabilities | — | 64 047 | — | 64 047 |
| Hedging portfolio liabilities[3] | — | — | 1 123 | 1 123 |
| Other liabilities[5] | 8 | — | — | 8 |
| Deposits due to customers | 20 890 | — | — | 20 890 |
| Debt securities in issue | 5 057 | — | — | 5 057 |
| Liabilities under investment contracts | 30 585 | — | — | 30 585 |
| Borrowed funds | — | — | — | — |
| Liabilities outside the scope of IAS 39 | — | — | — | — |
| | 69 095 | 64 047 | 1 123 | 134 265 |

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IAS 39 and IFRS 9.
[2] Includes derivative assets to the amount of **R1 163m** (2017: R1 767m) and **R1 248m** (2017: R906m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R380m** (2017: R223m) and **R963m** (2017: R890m) that have been designated as cash flow and fair value hedging instruments respectively.
[4] Includes items designated as hedged items in fair value hedging relationships.
[5] Numbers have been restated, refer to note 1.21.12 for further details.

| 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Available-for-sale | | | Amortised cost | | | | |
| Designated as available-for-sale Rm | Hedged items[4] Rm | Total Rm | Designated at amortised cost Rm | Hedged items[4] Rm | Total Rm | Assets/liabilities outside the scope of IAS 39[1] Rm | Total assets and liabilities Rm |
| 952 | — | 952 | 42 909 | — | 42 909 | — | 48 669 |
| 64 657 | 20 417 | 85 074 | — | — | — | — | 111 409 |
| — | — | — | 38 228 | — | 38 228 | — | 55 426 |
| — | — | — | — | — | — | 2 051 | 132 183 |
| — | — | — | — | — | — | — | 2 673 |
| — | — | — | 21 102 | — | 21 102 | 3 470 | 24 576 |
| — | — | — | 722 915 | 46 | 722 961 | — | 749 772 |
| — | — | — | — | — | — | — | 18 936 |
| — | — | — | 1 118 | — | 1 118 | — | 1 118 |
| — | — | — | — | — | — | 24 833 | 24 833 |
| 65 609 | 20 417 | 86 026 | 826 272 | 46 | 826 318 | 30 354 | 1 169 595 |
| — | — | — | 54 835 | — | 54 835 | — | 67 390 |
| — | — | — | — | — | — | — | 64 047 |
| — | — | — | — | — | — | — | 1 123 |
| — | — | — | 31 449 | — | 31 449 | 3 903 | 35 360 |
| — | — | — | 668 977 | — | 668 977 | — | 689 867 |
| — | — | — | 122 124 | 10 767 | 132 891 | — | 137 948 |
| — | — | — | — | — | — | — | 30 585 |
| — | — | — | 11 901 | 3 994 | 15 895 | — | 15 895 |
| — | — | — | — | — | — | 8 320 | 8 320 |
| — | — | — | 889 286 | 14 761 | 904 047 | 12 223 | 1 050 535 |

# 60. Fair value disclosures

## 60.1 Assets and liabilities held at fair value

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

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

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

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# 60. Fair value disclosures (continued)

## 60.2 Reconciliation of Level 3 assets and liabilities

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

| | Group | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Trading and hedging portfolio assets Rm | Other assets Rm | Loans and advances to customers Rm | Loans and advances to banks Rm | Investment securities Rm |
| **Opening balance at the beginning of the reporting period** | 1 824 | 2 | 4 741 | 484 | 7 601 |
| Net interest income | — | — | 153 | — | 89 |
| Other income | — | — | — | — | — |
| Gains and losses from banking and trading activities | 1 240 | — | 427 | — | 199 |
| Gains and losses from investment activities | — | — | — | — | 23 |
| Purchases | 1 174 | — | 6 617 | — | 3 815 |
| Sales | (257) | — | (156) | (18) | (516) |
| Movement in other comprehensive income | — | — | — | — | (41) |
| Issues | — | — | — | — | — |
| Settlements | — | — | — | — | — |
| Transferred to/(from) assets/liabilities | — | — | — | — | — |
| Transfer to Level 3 | 357 | — | — | — | 2 928 |
| Transfer (out) of Level 3 | (889) | (2) | (1 121) | (466) | (1 914) |
| Step acquisition of subsidiary | — | — | — | — | (193) |
| **Closing balance at the end of the reporting period** | 3 449 | — | 10 661 | — | 11 991 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Trading and hedging portfolio assets Rm | Other assets Rm | Loans and advances to customers Rm | Loans and advances to banks Rm | Investment securities Rm |
| **Opening balance at the beginning of the reporting period** | 1 505 | 5 | 4 890 | 571 | 3 358 |
| Net interest income | — | — | 12 | — | 62 |
| Other income | — | — | — | — | — |
| Gains and losses from banking and trading activities | (635) | — | 29 | — | — |
| Gains and losses from investment activities | — | — | — | — | 2 |
| Purchases | 1 101 | — | 1 020 | 88 | 4 832 |
| Sales | (147) | — | (1 112) | (175) | (579) |
| Movement in other comprehensive income | — | — | — | — | 29 |
| Issues | — | — | — | — | — |
| Settlements | — | (3) | — | — | (22) |
| Transferred to/(from) assets/liabilities | — | — | — | — | — |
| Transfer (out) of Level 3 | — | — | (98) | — | (81) |
| **Closing balance at the end of the reporting period** | 1 824 | 2 | 4 741 | 484 | 7 601 |

### 60.2.1 Significant transfers between levels

During the 2018 and 2017 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity.

Transfers have been reflected as if they had taken place at the beginning of the year.

| Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2018 | | | | | | | | |
| Investment properties Rm | Investments linked to investment contracts Rm | Total assets at fair value Rm | Deposits from banks Rm | Trading and hedging portfolio liabilities Rm | Other liabilities Rm | Deposits due to customers Rm | Debt securities in issue Rm | Total liabilities at fair value Rm |
| 231 | — | 14 883 | — | 945 | 5 | 1 572 | 488 | 3 010 |
| — | — | 242 | — | — | — | — | — | — |
| 38 | — | 38 | — | — | — | — | — | — |
| — | — | 1 866 | — | (52) | — | 5 | — | (47) |
| — | — | 23 | — | — | — | — | — | — |
| 165 | 192 | 11 963 | — | — | — | — | — | — |
| — | — | (947) | — | — | — | — | — | — |
| 33 | — | (8) | — | — | — | 1 | — | 1 |
| — | — | — | 19 | 1 042 | 40 | 2 501 | — | 3 602 |
| — | — | — | — | (344) | — | (766) | — | (1 110) |
| 41 | — | 41 | — | — | — | (1) | — | (1) |
| — | — | 3 285 | — | — | — | — | — | — |
| — | — | (4 392) | — | (137) | — | (489) | (488) | (1 114) |
| — | — | (193) | — | — | — | — | — | — |
| 508 | 192 | 26 801 | 19 | 1 454 | 45 | 2 823 | — | 4 341 |

| 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Investment properties Rm | Investments linked to investment contracts Rm | Total assets at fair value Rm | Deposits from banks Rm | Trading and hedging portfolio liabilities Rm | Other liabilities Rm | Deposits due to customers Rm | Debt securities in issue Rm | Total liabilities at fair value Rm |
| 478 | — | 10 807 | — | 308 | 41 | 1 139 | 604 | 2 092 |
| — | — | 74 | — | — | — | 7 | — | 7 |
| 12 | — | 12 | — | — | — | — | — | — |
| — | — | (606) | — | 585 | — | — | — | 585 |
| — | — | 2 | — | — | — | — | — | — |
| 1 | — | 7 042 | — | — | — | — | — | — |
| (260) | — | (2 273) | — | — | — | — | — | — |
| — | — | 29 | — | — | — | — | — | — |
| — | — | — | — | 52 | — | 1 685 | 30 | 1 767 |
| — | — | (25) | — | — | (36) | (1 144) | (68) | (1 248) |
| — | — | — | — | — | — | — | — | — |
| — | — | (179) | — | — | — | (115) | (78) | (193) |
| 231 | — | 14 883 | — | 945 | 5 | 1 572 | 488 | 3 010 |

# 60. Fair value disclosures (continued)

## 60.3 Unrealised gains and losses on Level 3 assets and liabilities

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

| | Group | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Trading and hedging portfolio assets Rm | Loans and advances to customers Rm | Investment securities Rm | Investments linked to investment contracts Rm | Total assets at fair value Rm |
| Gains and (losses) from banking and trading activities | **2 589** | **1 027** | **233** | **—** | **3 849** |
| | 2017 | | | | |
| | Trading and hedging portfolio assets Rm | Loans and advances to customers Rm | Investment securities[1] Rm | Investments linked to investment contracts Rm | Total assets at fair value Rm |
| Gains and (losses) from banking and trading activities | 67 | 761 | 88 | — | 916 |

| | Group | | |
|---|---|---|---|
| | 2018 | | |
| | Trading and hedging portfolio liabilities Rm | Deposits due to customers Rm | Total liabilities at fair value Rm |
| Gains and (losses) from banking and trading activities | **(174)** | **134** | **(40)** |
| | 2017 | | |
| | Trading and hedging portfolio liabilities Rm | Deposits due to customers Rm | Total liabilities at fair value Rm |
| Gains and (losses) from banking and trading activities | 284 | — | 284 |

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

# 60. Fair value disclosures (continued)

## 60.4 Sensitivity analysis of valuations using unobservable inputs

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

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

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

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

# 60. Fair value disclosures (continued)

## 60.4 Sensitivity analysis of valuations using unobservable inputs (continued)

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

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

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

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

## 60.6 Third-party credit enhancements

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

## 60. Fair value disclosures (continued)

### 60.7 Assets and liabilities not held at fair value

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

| | Group | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Carrying value Rm | Fair value Rm | Level 1 Rm | Level 2 Rm | Level 3 Rm |
| **Financial assets** | | | | | |
| Balances with other central banks | 11 371 | 11 374 | 11 374 | — | — |
| Balances with the SARB | 13 108 | 13 108 | 13 108 | — | — |
| Coins and bank notes | 14 252 | 14 252 | 14 252 | — | — |
| Money market assets | 27 | 27 | 27 | — | — |
| **Cash, cash balances and balances with central banks** | 38 758 | 38 761 | 38 761 | — | — |
| **Investment securities** | 7 359 | 7 414 | 6 270 | 667 | 477 |
| **Loans and advances to banks** | 33 339 | 35 669 | 12 263 | 17 461 | 5 945 |
| **Other assets** | 27 468 | 27 356 | 20 570 | 1 318 | 5 468 |
| RBB South Africa | 465 921 | 467 096 | — | — | 467 096 |
| Retail Banking South Africa | 396 805 | 397 907 | — | — | 397 907 |
| Credit cards | 34 783 | 35 322 | — | — | 35 322 |
| Instalment credit agreements | 82 282 | 82 616 | — | — | 82 616 |
| Loans to associates and joint ventures | 25 489 | 25 489 | — | — | 25 489 |
| Mortgages | 224 260 | 224 260 | — | — | 224 260 |
| Other loans and advances | 3 461 | 3 461 | — | — | 3 461 |
| Overdrafts | 6 037 | 6 104 | — | — | 6 104 |
| Personal and term loans | 20 493 | 20 655 | — | — | 20 655 |
| Business Banking South Africa | 69 116 | 69 189 | — | — | 69 189 |
| Mortgages (including CPF) | 29 245 | 29 245 | — | — | 29 245 |
| Overdrafts | 20 018 | 20 088 | — | — | 20 088 |
| Term loans | 19 853 | 19 856 | — | — | 19 856 |
| CIB South Africa | 226 876 | 226 876 | — | — | 226 876 |
| Absa Regional Operations | 97 244 | 97 504 | 5 922 | 657 | 90 925 |
| WIMI | 5 734 | 5 985 | 2 503 | 2 111 | 1 371 |
| Head Office, Treasury and other operations in South Africa | 681 | 681 | — | 671 | 10 |
| **Loans and advances to customers – net of impairment losses** | 796 456 | 798 142 | 8 425 | 3 439 | 786 278 |
| **Non-current assets held for sale** | 30 | 30 | — | — | 30 |
| **Total assets (not held at fair value)** | 903 410 | 907 372 | 86 289 | 22 885 | 798 198 |
| **Financial liabilities** | | | | | |
| **Deposits from banks** | 75 651 | 79 757 | 661 | 79 025 | 71 |
| **Other liabilities** | 32 614 | 32 826 | 4 283 | 19 717 | 8 826 |
| Call deposits | 80 007 | 80 007 | 35 823 | 44 184 | — |
| Cheque account deposits | 199 053 | 199 053 | 184 356 | 13 711 | 986 |
| Credit card deposits | 1 904 | 1 904 | 1 904 | — | — |
| Fixed deposits | 155 184 | 155 184 | 80 128 | 69 242 | 5 814 |
| Foreign currency deposits | 35 597 | 35 597 | 452 | 34 256 | 889 |
| Notice deposits | 58 367 | 58 367 | 18 747 | 39 597 | 23 |
| Other deposits | 2 779 | 2 779 | 2 272 | 397 | 110 |
| Saving and transmission deposits | 164 321 | 164 321 | 140 974 | 21 722 | 1 625 |
| **Deposits due to customers** | 697 212 | 697 212 | 464 656 | 223 109 | 9 447 |
| **Debt securities in issue** | 145 382 | 147 666 | 108 | 146 615 | 943 |
| **Borrowed funds** | 20 225 | 20 225 | — | 20 225 | — |
| **Total liabilities (not held at fair value)** | 971 084 | 977 686 | 469 708 | 488 691 | 19 287 |

# 60. Fair value disclosures (continued)

## 60.7 Assets and liabilities not held at fair value (continued)

| | Group | | | | |
|---|---|---|---|---|---|
| | 2017 | | | | |
| | Carrying value Rm | Fair value Rm | Level 1 Rm | Level 2 Rm | Level 3 Rm |
| **Financial assets** | | | | | |
| Balances with other central banks | 10 281 | 10 281 | 10 281 | — | — |
| Balances with the SARB | 19 109 | 19 109 | 19 109 | — | — |
| Coins and bank notes | 13 519 | 13 519 | 13 519 | — | — |
| **Cash, cash balances and balances with central banks** | 42 909 | 42 909 | 42 909 | — | — |
| **Loans and advances to banks** | 38 228 | 39 037 | 1 552 | 34 693 | 2 792 |
| **Other assets** | 17 486 | 17 556 | 9 310 | 4 051 | 4 195 |
| RBB South Africa | 447 752 | 447 984 | 1 510 | — | 446 474 |
| Retail Banking South Africa | 383 495 | 383 727 | — | — | 383 727 |
| Credit cards | 35 223 | 35 224 | — | — | 35 224 |
| Instalment credit agreements | 77 044 | 77 275 | — | — | 77 275 |
| Loans to associates and joint ventures | 23 037 | 23 037 | — | — | 23 037 |
| Mortgages | 222 625 | 222 625 | — | — | 222 625 |
| Other loans and advances | 740 | 740 | — | — | 740 |
| Overdrafts | 5 443 | 5 443 | — | — | 5 443 |
| Personal and term loans | 19 383 | 19 383 | — | — | 19 383 |
| Business Banking South Africa | 64 257 | 64 257 | 1 510 | — | 62 747 |
| Mortgages (including CPF) | 27 833 | 27 833 | — | — | 27 833 |
| Overdrafts | 19 199 | 19 199 | 1 510 | — | 17 689 |
| Term loans | 17 225 | 17 225 | — | — | 17 225 |
| CIB South Africa[1] | 192 257 | 192 257 | — | — | 192 257 |
| Absa Regional Operations | 77 005 | 77 137 | — | 20 099 | 57 038 |
| WIMI | 5 004 | 5 004 | — | — | 5 004 |
| Head Office, Treasury and other operations in South Africa | 943 | 943 | — | 943 | — |
| **Loans and advances to customers – net of impairment losses** | 722 961 | 723 325 | 1 510 | 21 042 | 700 772 |
| **Non-current assets held for sale** | 1 118 | 1 118 | — | — | 1 118 |
| **Total assets (not held at fair value)** | 822 702 | 823 945 | 55 280 | 59 786 | 708 878 |
| **Financial liabilities** | | | | | |
| **Deposits from banks** | 54 835 | 54 915 | 1 942 | 52 948 | 25 |
| **Other liabilities** | 27 833 | 27 832 | 8 028 | 15 437 | 4 367 |
| Call deposits | 81 076 | 81 076 | 21 393 | 59 683 | — |
| Cheque account deposits | 191 048 | 191 048 | 180 646 | 10 402 | — |
| Credit card deposits | 1 921 | 1 921 | 1 921 | — | — |
| Fixed deposits | 148 328 | 148 328 | 573 | 144 265 | 3 490 |
| Foreign currency deposits | 28 418 | 28 418 | 638 | 27 780 | — |
| Notice deposits | 58 459 | 58 459 | 1 796 | 56 663 | — |
| Other deposits | 2 629 | 2 629 | 1 194 | 1 422 | 13 |
| Saving and transmission deposits | 157 098 | 157 098 | 135 476 | 19 866 | 1 756 |
| **Deposits due to customers** | 668 977 | 668 977 | 343 637 | 320 081 | 5 259 |
| **Debt securities in issue** | 132 891 | 132 891 | — | 130 787 | 2 104 |
| **Borrowed funds** | 15 895 | 15 895 | — | 15 895 | — |
| **Total liabilities (not held at fair value)** | 900 431 | 900 510 | 353 607 | 535 148 | 11 755 |

[1] In the prior year, CIB South Africa loans and advances of R20 575m were disclosed as Level 1, and R85 920m were disclosed as Level 2. The inputs into these valuations were erroneously considered to be observable, however it has been ascertained that they are unobservable, due to the level of market activity associated with them. The loans and advances have therefore been restated to be Level 3 assets.

## 61. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial assets designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements:

| | Group | | Credit risk mitigation | |
|---|---|---|---|---|
| | 2018 Rm | 2017 Rm | 2018 Rm | 2017 Rm |
| **Assets** | | | | |
| Cash, cash balances and balances with central banks | — | 4 808 | — | 72 |
| Investment securities | 10 450 | 26 335 | — | 4 529 |
| Loans and advances to banks | 1 220 | 17 198 | 1 156 | 12 913 |
| Other assets | — | 4 | — | — |
| Loans and advances to customers | 13 166 | 26 811 | 313 | 16 224 |
| Investments linked to investment contracts | — | 2 725 | — | — |
| | 24 836 | 77 881 | 1 469 | 33 738 |

The Group utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss.

### Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

The following table represents the carrying amount of financial liabilities designated at fair value through profit or loss and the amount that the Group is contractually required to pay to the holder of the obligation at maturity:

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Carrying value Rm | Contractual obligation Rm | Carrying value Rm | Contractual obligation Rm |
| **Liabilities** | | | | |
| Deposits from banks | 45 770 | 46 284 | 12 555 | 12 659 |
| Other liabilities | 47 | 47 | 8 | 8 |
| Deposits due to customers | 39 092 | 49 515 | 20 890 | 25 922 |
| Debt securities in issue | 15 589 | 16 704 | 5 057 | 6 086 |
| Liabilities under investment contracts | 29 674 | 29 674 | 30 585 | 30 585 |
| | 130 172 | 142 224 | 60 966 | 67 471 |

### (Increase)/decrease in fair value attributable to changes in own credit risk during the reporting period

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **Liabilities** | | |
| Deposits from banks and customers | (71) | (147) |
| **Cumulative adjustments in fair value attributable to changes in own risk** | | |
| **Liabilities** | | |
| Deposits from banks and customers | 297 | 226 |

The following approach is used in determining changes in fair value due to changes in own credit risk for deposits from banks and customers designated at fair value through profit or loss:

- The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Absa Group issued funding. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

# 62. Risk management

## 62.1 Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond and monitor risks in the execution of our strategy. It is essential that business growth plans are supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

The approach to managing risk is outlined in the ERMF, which creates the context for setting policies and standards, and establishing the right practices throughout the Group. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be optimally identified and managed. It also ensures that appropriate responses are in place to protect the Group and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Group that are probable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into five principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and take risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, whilst promoting collaboration and the flow of information between all areas.

### Credit risk

The risk of financial loss should the Group's customers, clients or market counterparts fail to fulfil their contractual obligation.

### Risk appetite

Risk appetite and stress testing are key components of the Group's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. The Group's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

### Risk appetite key indicators and triggers

The Group manages its risk profile in a forward-looking manner through a trigger and management action framework. Key indicators and triggers have been developed to serve as an early warning system in the event of deteriorating circumstances. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at Group, business unit, country, and product levels, and are routinely monitored by management and reported to the GRCMC on a quarterly basis.

### Stress testing

Stress testing is a key element of the Group's integrated planning process. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Group's capital planning process and enhance the stress scenarios employed. The Group takes into account the results of all such stress testing when assessing the Group's internal and regulatory capital requirements including the setting of capital buffers.

GRCMC exercises governance oversight and approval authority over stress testing results.

# 62. Risk management (continued)

## 62.2 Credit risk

The following table analyses financial assets between those that are neither past due nor impaired and those that are past due and/or impaired. Past due/impaired assets are further analysed in the tables that follow:

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | | Stage 1[1] | | |
| Maximum exposure to credit risk | Gross maximum exposure Rm | DG1 – 9 Rm | DG10 – 19 Rm | DG 20 – 21 Rm |
| Balances with other central banks | 11 380 | 3 290 | 6 552 | — |
| Balances with the SARB | 13 109 | 13 109 | — | — |
| Money market assets | 2 395 | 2 059 | 336 | — |
| **Cash, cash balances and balances with central banks** | 26 884 | 18 458 | 6 888 | — |
| Government bonds | 28 805 | 28 632 | — | — |
| Other | 50 116 | 36 871 | 10 802 | — |
| Treasury bills | 38 577 | 34 935 | 2 606 | — |
| **Investment securities** | 117 498 | 100 438 | 13 408 | — |
| **Loans and advances to banks** | 33 364 | 15 815 | 14 376 | — |
| Accounts receivable | 10 796 | 5 327 | 5 468 | — |
| Settlement accounts | 16 725 | 12 540 | 4 185 | — |
| **Other assets** | 27 521 | 17 867 | 9 653 | — |
| RBB South Africa | 488 414 | 36 626 | 354 927 | 21 566 |
| Retail Banking South Africa | 416 015 | 28 934 | 302 227 | 21 566 |
| Credit cards | 41 226 | 8 740 | 16 750 | 5 423 |
| Instalment credit agreements | 85 651 | 4 205 | 64 316 | 5 285 |
| Loans to associates and joint ventures | 25 490 | 3 162 | 22 328 | — |
| Mortgages | 229 557 | 8 327 | 181 923 | 6 770 |
| Other loans and advances | 3 527 | 2 027 | 1 033 | — |
| Overdrafts | 6 668 | 457 | 3 816 | 574 |
| Personal and term loans | 23 896 | 2 016 | 12 061 | 3 514 |
| Business Banking South Africa | 72 399 | 7 692 | 52 700 | — |
| CIB South Africa | 229 574 | 119 265 | 76 700 | — |
| Absa Regional Operations | 102 374 | 13 734 | 73 908 | 207 |
| WIMI | 5 984 | 609 | 4 733 | — |
| Head Office, Treasury and other operations in South Africa | 278 | 263 | 6 | — |
| **Loans and advances to customers** | 826 624 | 170 497 | 510 274 | 21 773 |
| **Off-statement of financial position exposure** | | | | |
| Guarantees | 46 528 | | | |
| Letters of credit | 14 838 | | | |
| Irrecoverable debt facilities | 199 062 | | | |

[1] Refer to note 1.2.1.3 for DG bucket definitions.

# 62. Risk management (continued)

## 62.2 Credit risk (continued)

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Stage 2[1] | | | Stage 3[1] |
| Maximum exposure to credit risk | DG1 – 9 Rm | DG10 – 19 Rm | DG 20 – 21 Rm | Default Rm |
| Balances with other central banks | — | 1 265 | 273 | — |
| Balances with the SARB | — | — | — | — |
| Money market assets | — | — | — | — |
| **Cash, cash balances and balances with central banks** | — | 1 265 | 273 | — |
| Government bonds | 173 | — | — | — |
| Other | 1 573 | 840 | — | 30 |
| Treasury bills | — | 1 036 | — | — |
| **Investment securities** | 1 746 | 1 876 | — | 30 |
| **Loans and advances to banks** | 189 | 2 970 | 14 | — |
| Accounts receivable | — | 1 | — | — |
| Settlement accounts | — | — | — | — |
| **Other assets** | — | 1 | — | — |
| RBB South Africa | 3 573 | 21 524 | 12 235 | 37 963 |
| Retail Banking South Africa | 3 371 | 14 275 | 12 235 | 33 407 |
| Credit cards | 30 | 2 719 | 1 754 | 5 810 |
| Instalment credit agreements | 679 | 2 859 | 3 160 | 5 147 |
| Loans to associates and joint ventures | — | — | — | — |
| Mortgages | 2 215 | 6 083 | 5 798 | 18 441 |
| Other loans and advances | — | 447 | — | 20 |
| Overdrafts | 239 | 754 | 261 | 567 |
| Personal and term loans | 208 | 1 413 | 1 262 | 3 422 |
| Business Banking South Africa | 202 | 7 249 | — | 4 556 |
| CIB South Africa | 14 787 | 13 359 | 2 603 | 2 860 |
| Absa Regional Operations | — | 5 152 | 3 339 | 6 034 |
| WIMI | 41 | 291 | — | 310 |
| Head Office, Treasury and other operations in South Africa | 1 | 8 | — | — |
| **Loans and advances to customers** | 18 402 | 40 334 | 18 177 | 47 167 |

[1] Refer to note 1.2 for DG bucket definitions.

# 62. Risk management (continued)

## 62.2 Credit risk (continued)

The following table sets out information about the credit quality of financial instruments to which are classified at fair value through profit or loss:

| | 2018 | | | |
|---|---|---|---|---|
| Maximum exposure to credit risk | Gross carrying amount Rm | DG1 – 9 Rm | DG10 – 19 Rm | DG 20 – 21 Rm |
| **Cash, cash balances and balances with central banks** | 5 803 | 5 803 | — | — |
| Money market assets | 5 803 | 5 803 | — | — |
| **Investment securities** | 13 073 | 12 576 | 497 | — |
| Government bonds | 8 420 | 8 420 | — | — |
| Other | 4 653 | 4 156 | 497 | — |
| **Loans and advances to banks** | 19 800 | 19 800 | — | — |
| **Trading portfolio assets** | 111 332 | 90 185 | 21 042 | 105 |
| Debt instruments | 52 657 | 34 904 | 17 691 | 62 |
| Derivative assets | 44 556 | 44 513 | — | 43 |
| Money market assets | 14 119 | 10 768 | 3 351 | — |
| **Hedging portfolio assets** | 2 411 | 4 | 2 407 | — |
| Derivatives designated as cash flow hedging instruments | 1 163 | 4 | 1 159 | — |
| Derivatives designated as fair value hedging instruments | 1 248 | — | 1 248 | — |
| **Other assets** | 2 | 2 | — | — |
| Accounts receivable | 2 | 2 | — | — |
| **Loans and advances to customers** | 45 263 | 27 402 | 17 721 | 140 |
| **Reinsurance assets** | 618 | 342 | 276 | — |
| Insurance contracts | 618 | 342 | 276 | — |
| **Investment linked to investment contracts** | 2 859 | 2 859 | — | — |
| Debt instruments | 615 | 615 | — | — |
| Derivative instruments | 43 | 43 | — | — |
| Money market assets | 2 201 | 2 201 | — | — |
| **Total** | 201 160 | 158 972 | 41 943 | 245 |

## 62. Risk management (continued)

### 62.2 Credit risk (continued)

#### Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions:

| | Group | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| Geographical concentration of risk | Asia, Americas and Australia Rm | Europe Rm | Africa Regions Rm | South Africa Rm | Total Rm |
| **On-statement of financial position exposure** | | | | | |
| Cash, cash balances and balances with central banks | — | — | 13 835 | 18 849 | 32 684 |
| Investment securities | 5 522 | — | 34 148 | 90 902 | 130 572 |
| Loans and advances to banks | 6 811 | 18 711 | 9 488 | 18 153 | 53 163 |
| Trading portfolio assets | 2 851 | 22 015 | 17 344 | 69 207 | 111 417 |
| Hedging portfolio assets | — | — | 4 | 2 407 | 2 411 |
| Other assets | 1 903 | 2 597 | 3 237 | 19 786 | 27 523 |
| Loans and advances to customers | 11 450 | 10 513 | 107 129 | 742 795 | 871 887 |
| Reinsurance assets | — | — | 393 | 225 | 618 |
| Investments linked to investment securities | — | — | — | 2 859 | 2 859 |
| **Subject to credit risk** | 28 537 | 53 836 | 185 578 | 965 183 | 1 233 134 |
| **Off-statement of financial position exposures** | | | | | |
| Guarantees | 839 | 5 438 | 14 307 | 25 944 | 46 528 |
| Letters of credit | 273 | 81 | 12 618 | 1 866 | 14 838 |
| Irrecoverable debt facilities | 23 | 46 | 23 094 | 175 900 | 199 063 |
| **Subject to credit risk** | 1 135 | 5 565 | 50 019 | 203 710 | 260 429 |

#### IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for financial instruments that are credit impaired at the reporting date are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset and off-statement of financial position exposure as described in note 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying amount and the undrawn facility of the related credit exposure where a loan is possibly over-collateralised.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

During the period there were no changes in the Group's collateral policies.

Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

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# 62. Risk management (continued)

## 62.2 Credit risk (continued)

| | Group | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | | Collateral – credit impaired financial assets | | | |
| Analysis of credit risk mitigation and collateral | Gross maximum exposure[1] Rm | Guarantees, credit insurance and credit derivatives Rm | Physical collateral Rm | Cash collateral Rm | Other Rm |
| **Loans and advances to banks** | 53 163 | — | — | — | — |
| Debt instruments | 52 760 | — | — | — | — |
| Derivative assets | 44 533 | — | — | — | — |
| Money market assets | 14 125 | — | — | — | — |
| **Trading portfolio assets** | 111 418 | — | — | — | — |
| RBB South Africa | 610 599 | 18 | 23 297 | 38 | 42 |
| Retail Banking South Africa | 516 169 | — | 21 009 | 1 | — |
| Credit cards | 83 134 | — | — | — | — |
| Instalment credit agreements | 85 652 | — | 3 874 | 1 | — |
| Loans to associates and joint ventures | 25 490 | — | — | — | — |
| Mortgages | 278 675 | — | 17 135 | — | — |
| Other loans and advances | 4 933 | — | — | — | — |
| Overdrafts | 12 633 | — | — | — | — |
| Personal and term loans | 25 652 | — | — | — | — |
| Business Banking South Africa | 94 430 | 18 | 2 288 | 37 | 42 |
| CIB South Africa | 326 299 | 340 | 4 | — | — |
| Absa Regional Operations | 125 621 | 150 | 1 926 | 10 | 876 |
| WIMI | 8 153 | — | 39 | — | 66 |
| Head Office, Treasury and other operations in South Africa | 278 | — | — | — | — |
| **Loans and advances to customers** | 1 070 950 | 508 | 25 266 | 48 | 984 |
| **Off-balance sheet** | | | | | |
| Guarantees | 46 528 | — | 2 | — | 2 |
| Letters of credit | 14 838 | — | — | — | — |
| **Total off-statement of financial position exposure** | 61 366 | — | 2 | — | 2 |

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

[1] Included in the gross maximum exposure is the exposure for irrevocable debt facilities.

| 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Unsecured<br>Rm | Total maximum exposure credit impaired financial assets[1]<br>Rm | Guarantees, credit insurance and credit derivatives<br>Rm | Physical collateral<br>Rm | Cash collateral<br>Rm | Other<br>Rm | Unsecured<br>Rm | Total maximum exposure not credit impaired financial assets[1]<br>Rm |
| — | — | 93 | — | — | 21 300 | 31 770 | 53 163 |
| — | — | — | — | — | — | 52 760 | 52 760 |
| — | — | 123 | — | 4 422 | 33 196 | 6 792 | 44 533 |
| — | — | — | — | — | — | 14 125 | 14 125 |
| — | — | 123 | — | 4 422 | 33 196 | 73 677 | 111 418 |
| 17 633 | 41 028 | 388 | 356 157 | 2 756 | 105 | 210 165 | 569 571 |
| 15 382 | 36 392 | 12 | 307 726 | 182 | 1 | 171 856 | 479 777 |
| 8 605 | 8 605 | 12 | 107 | 79 | 1 | 74 330 | 74 529 |
| 1 273 | 5 148 | — | 63 059 | 103 | — | 17 342 | 80 504 |
| — | — | — | — | — | — | 25 490 | 25 490 |
| 1 381 | 18 516 | — | 244 560 | — | — | 15 599 | 260 159 |
| 20 | 20 | — | — | — | — | 4 913 | 4 913 |
| 593 | 593 | — | — | — | — | 12 040 | 12 040 |
| 3 510 | 3 510 | — | — | — | — | 22 142 | 22 142 |
| 2 251 | 4 636 | 376 | 48 431 | 2 574 | 104 | 38 309 | 89 794 |
| 2 516 | 2 860 | 18 240 | 10 318 | — | 31 617 | 263 264 | 323 439 |
| 3 348 | 6 310 | 11 775 | 30 448 | 1 757 | 7 417 | 67 914 | 119 311 |
| 206 | 311 | — | 2 005 | — | 1 300 | 4 537 | 7 842 |
| — | — | — | — | — | — | 278 | 278 |
| 23 703 | 50 509 | 30 403 | 398 928 | 4 513 | 40 439 | 546 158 | 1 020 441 |
| 18 | 22 | 819 | 1 509 | 2 282 | 25 | 41 871 | 46 506 |
| — | — | 513 | 720 | 1 019 | 617 | 11 969 | 14 838 |
| 18 | 22 | 1 332 | 2 229 | 3 301 | 642 | 53 840 | 61 344 |

# 62. Risk management (continued)

## 62.2 Credit risk (continued)

### Enforcement of collateral

#### Residential properties

During the current year, the strategy regarding the stock of property in possession (PIPS) was revised so that properties are disposed of prior to the Group acquiring them. This resulted in overall acquisitions during 2018 being less than R1m.

In the prior year the Group optimised the sales strategies of PIPS to manage the inflow in order to minimise financial loss. The above strategies have resulted in the book remaining at **Rnil** (2017: Rnil).

The number of properties in possession reduced from 75 properties in the previous reporting period to **35** properties in the current reporting period. The gross PIPS portfolio decreased from R53m in the previous reporting period to **R26m** in the current reporting period. Currently **53.8%** (2017: 28%) of the current inventory is sold pending registration.

### Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

| | Group |
|---|---|
| | 2018<br>Rm |
| Assets written off during financial period still subject to enforcement activities | 7 499 |

### Reconciliation of impairment loss allowance

The following tables show reconciliations from the opening to closing balance of the loss allowances by classes of financial assets:

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | | Lifetime expected credit losses ('LEL') | | |
| Cash, cash balances and balances with central banks at amortised cost | Stage 1<br>Rm | Stage 2<br>Rm | Stage 3<br>Rm | Total expected credit losses<br>Rm |
| **Balance at the beginning of the reporting period** | 3 | 7 | — | 10 |
| Asset moved/allowance transferred to stage 2 | (1) | 1 | — | — |
| Current period provision | (1) | (3) | — | (4) |
| Foreign exchange movements | 1 | 3 | — | 4 |
| **Balance at the end of the reporting period** | 2 | 8 | — | 10 |

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | | Lifetime expected credit losses ('LEL') | | |
| Investment securities at amortised cost and FVOCI | Stage 1<br>Rm | Stage 2<br>Rm | Stage 3<br>Rm | Total expected credit losses<br>Rm |
| **Balance at the beginning of the reporting period** | 65 | 118 | — | 183 |
| Asset moved/allowance transferred to stage 1 | 1 | (1) | — | — |
| Asset moved/allowance transferred to stage 2 | — | (0) | 0 | — |
| Current period provision | (7) | (16) | 10 | (13) |
| **Balance at the end of the reporting period** | 59 | 101 | 10 | 170 |

# 62. Risk management (continued)

## 62.2 Credit risk (continued)

### Reconciliation of impairment loss allowance (continued)

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | | Lifetime expected credit losses ('LEL') | | |
| Loans and advances to banks at amortised cost | Stage 1 Rm | Stage 2 Rm | Stage 3 Rm | Total expected credit losses Rm |
| **Balance at the beginning of the reporting period** | 40 | 27 | — | 67 |
| Asset moved/allowance transferred to stage 1 | 1 | (1) | — | — |
| Current period provision | (25) | 1 | — | (24) |
| Foreign exchange movements | (7) | (13) | — | (20) |
| **Balance at the end of the reporting period** | 9 | 14 | — | 23 |

### Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to R54m.

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | | Lifetime expected credit losses ('LEL') | | |
| Loans and advances to customers at amortised cost and irrevocable debt facilities | Stage 1 Rm | Stage 2 Rm | Stage 3 Rm | Total expected credit losses Rm |
| **Balance at the beginning of the reporting period** | 4 636 | 4 626 | 20 033 | 29 295 |
| Asset moved/allowance transferred to stage 1 | 1 631 | (1 144) | (487) | — |
| Asset moved/allowance transferred to stage 2 | (249) | 660 | (411) | — |
| Asset moved/allowance transferred to stage 3 | (150) | (1 189) | 1 339 | — |
| Current period provision | (1 756) | 1 950 | 7 337 | 7 531 |
| Amounts written off | — | — | (7 499) | (7 499) |
| Foreign exchange movements | 156 | 164 | 647 | 967 |
| Net change in interest | | | 370 | 370 |
| **Balance at the end of the reporting period** | 4 268 | 5 067 | 21 329 | 30 664 |

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The reconciliation above includes the ECL allowance recognised in respect of irrevocable debt facilities, classified as a provision on the face of the statement of financial position. The provision recognised as at 31 December 2018 is **R404m**, and that as at 1 January 2018 is **R426m**. The credit risk inherent in the undrawn component of irrevocable lending facilities is 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. As a result, the total credit loss is recognised in the ECL allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision on the face of the statement of financial position.
- The current period provision of **R7 531m** excludes the impact that post write-off recoveries and the recovery of previously unrecognised interest on stage 3 assets has on the total impairment loss recognised in profit or loss.
- The Group neither acquired nor sold any significant asset portfolios or material individual loans during the current reporting period.
- The Group did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios, and did not include the write-off any significant Wholesale exposures.
- Depreciation of the Rand resulted in an increase in the ECL allowance and a loss within the foreign currency translation reserve.

The net change in interest relates only to stage 3 assets where contractual interest is suspended, and interest income is recognised based on the net carrying value of the exposures. The amount of **R370m** disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

## 62. Risk management (continued)

### 62.2 Credit risk (continued)

#### Reconciliation of impairment loss allowance (continued)

| Financial guarantees contracts and letters of credit | Group 2018 Stage 1 Rm | Lifetime expected credit losses ('LEL') Stage 2 Rm | Stage 3 Rm | Total expected credit losses Rm |
|---|---|---|---|---|
| **Balance at the beginning of the reporting period** | 100 | 48 | — | 148 |
| Asset moved/allowance transferred to stage 1 | 4 | (4) | — | — |
| Asset moved/allowance transferred to stage 2 | (2) | 2 | — | — |
| Asset moved/allowance transferred to stage 3 | — | (0) | 0 | — |
| Current period provision | (31) | 54 | 21 | 44 |
| Foreign exchange movements | 8 | (30) | — | (22) |
| **Balance at the end of the reporting period** | 79 | 70 | 22 | 171 |

#### Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL:

| | Group 2018 Rm |
|---|---|
| **Financial assets modified during the period** | |
| **Loans and advances to customers** | |
| Amortised cost before modification | 2 566 |
| Net modification loss | (7) |

## 62. Risk management (continued)

### 62.2 Credit risk 2017 (continued)

The following table analyses financial assets between those that are neither past due nor impaired and those that are past due and/or impaired. Past due/impaired assets are further analysed in the tables that follow:

| | Group 2017 | | | | |
|---|---|---|---|---|---|
| Maximum exposure to credit risk | Gross maximum exposure Rm | Neither past due nor impaired DG1 – 11 Rm | DG12 – 19 Rm | DG20 – 21 Rm | Total past due and/or impaired loans Rm |
| Balances with other central banks | 10 281 | 3 512 | 6 769 | — | — |
| Balances with SARB | 19 109 | 19 109 | — | — | — |
| Money market assets | 5 760 | 4 808 | 952 | — | — |
| **Cash, cash balances and balances with central banks (refer to note 2)** | 35 150 | 27 429 | 7 721 | — | — |
| Government bonds | 34 321 | 34 321 | — | — | — |
| Other | 35 128 | 22 294 | 12 834 | — | — |
| Treasury bills | 36 812 | 29 463 | 7 349 | — | — |
| **Investment securities (refer to note 3)** | 106 261 | 86 078 | 20 183 | — | — |
| **Loans and advances to banks (refer to note 4)** | 55 426 | 42 762 | 12 507 | 157 | — |
| Debt instruments | 34 978 | 31 885 | 3 093 | — | — |
| Derivative assets | 59 526 | 56 431 | 3 092 | 3 | — |
| Money market assets | 14 639 | 13 962 | 677 | — | — |
| **Trading portfolio assets (refer to note 5)** | 109 143 | 102 278 | 6 862 | 3 | — |
| Accounts receivable | 11 829 | 9 259 | 2 516 | — | 54 |
| Settlement accounts | 5 663 | 5 604 | 59 | — | — |
| **Other assets (refer to note 6)** | 17 492 | 14 863 | 2 575 | — | 54 |
| RBB South Africa | 461 415 | 69 034 | 310 343 | 29 910 | 52 128 |
| Retail Banking South Africa | 395 295 | 59 644 | 262 234 | 27 735 | 45 682 |
| Credit cards | 39 556 | 4 981 | 17 902 | 8 010 | 8 663 |
| Instalment credit agreements | 76 791 | 4 754 | 56 941 | 8 773 | 6 323 |
| Loans to associates and joint ventures | 23 037 | 23 037 | — | — | — |
| Mortgages | 225 821 | 22 398 | 171 649 | 5 685 | 26 089 |
| Other loans and advances | 2 809 | 2 200 | 597 | 12 | — |
| Overdrafts | 5 731 | 1 202 | 3 649 | 220 | 660 |
| Personal and term loans | 21 550 | 1 072 | 11 496 | 5 035 | 3 947 |
| Business Banking South Africa | 66 120 | 9 390 | 48 109 | 2 175 | 6 446 |
| Mortgages (including CPF) | 28 487 | 5 299 | 20 559 | 797 | 1 832 |
| Overdrafts | 19 966 | 1 343 | 15 534 | 797 | 2 292 |
| Term loans | 17 667 | 2 748 | 12 016 | 581 | 2 322 |
| CIB South Africa | 220 456 | 152 241 | 64 534 | 1 035 | 2 646 |
| Absa Regional Operations | 80 628 | 12 894 | 59 656 | 938 | 7 140 |
| WIMI | 5 191 | 1 289 | 3 510 | 102 | 290 |
| Head Office, Treasury and other operations in South Africa | 956 | 956 | — | — | — |
| **Loans and advances to customers (refer to note 8)** | 768 646 | 236 414 | 438 043 | 31 985 | 62 204 |
| Insurance contracts | 892 | 525 | 81 | — | 286 |
| Investment contracts | — | — | — | — | — |
| **Reinsurance assets (refer to note 9)** | 892 | 525 | 81 | — | 286 |
| Debt instruments | 557 | 557 | — | — | — |
| Derivative instruments | 59 | 59 | — | — | — |
| Money market assets | 2 168 | 2 168 | — | — | — |
| **Investment linked to investment contracts (refer to note 10)** | 2 784 | 2 784 | — | — | — |
| **Non-current assets held for sale** | 1 159 | 117 | 995 | 6 | 41 |
| **Total gross maximum exposure to credit risk** | 1 096 953 | | | | |
| **Impairments raised (refer to note 8)** | (18 874) | | | | |
| **Total net exposure to credit risk as disclosed on the statement of financial position** | 1 078 079 | | | | |
| **Assets not subject to credit risk** | 87 900 | | | | |
| **Total financial assets per the statement of financial position** | 1 165 979 | | | | |

# 62. Risk management (continued)

## 62.2 Credit risk 2017 (continued)

### Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

| | Group 2017 | | | | |
|---|---|---|---|---|---|
| **Geographical concentration of risk** | Asia, Americas and Australia Rm | Europe Rm | Africa Regions Rm | South Africa Rm | Total Rm |
| **On-statement of financial position exposure** | | | | | |
| Cash, cash balances and balances with central banks | — | — | 11 305 | 23 845 | 35 150 |
| Investment securities | 8 142 | — | 28 456 | 69 663 | 106 261 |
| Loans and advances to banks | 3 817 | 21 838 | 12 231 | 17 540 | 55 426 |
| Trading portfolio assets | 963 | 16 594 | 6 275 | 82 638 | 106 470 |
| Hedging portfolio assets | — | — | 6 | 2 667 | 2 673 |
| Other assets | 95 | 1 488 | 2 306 | 13 602 | 17 491 |
| Loans and advances to customers | 9 542 | 7 137 | 81 596 | 651 497 | 749 772 |
| Reinsurance assets | — | — | 425 | 467 | 892 |
| Investments linked to investment securities | — | — | — | 2 784 | 2 784 |
| Non-current assets held for sale | — | — | — | 1 118 | 1 118 |
| **Subject to credit risk** | 22 559 | 47 057 | 142 600 | 865 821 | 1 078 037 |
| **Off-statement of financial position exposures** | | | | | |
| Guarantees | 201 | 4 251 | 10 476 | 23 871 | 38 799 |
| Irrevocable debt facilities | — | — | 8 191 | 154 716 | 162 907 |
| Letters of credit | 4 | 66 | 5 526 | 2 218 | 7 814 |
| Other | — | — | 111 | 151 | 262 |
| **Subject to credit risk** | 205 | 4 317 | 24 304 | 180 956 | 209 782 |

Amounts presented in the above table are presented net of impairments, where relevant.

# 62. Risk management (continued)

## 62.2 Credit risk 2017 (continued)

| Analysis of credit risk mitigation and collateral | Group 2017<br>Gross maximum exposure Rm | Guarantees, credit insurance and credit derivatives Rm | Physical collateral Rm | Cash collateral Rm | Other Rm | Unsecured Rm |
|---|---|---|---|---|---|---|
| Balances with other central banks | 10 281 | — | — | — | — | 10 281 |
| Balances with SARB | 19 109 | — | — | — | — | 19 109 |
| Money market | 5 760 | 72 | — | — | — | 5 688 |
| **Cash, cash balances and balances with central banks (refer to note 2)** | 35 150 | 72 | — | — | — | 35 078 |
| **Loans and advances to banks (refer to note 4)** | 55 426 | 326 | — | — | 15 452 | 39 648 |
| Government bonds | 34 321 | — | — | — | — | 34 321 |
| Other | 35 124 | 133 | — | — | — | 34 991 |
| Treasury bills | 36 812 | — | — | — | — | 36 812 |
| **Investment securities (refer to note 3)** | 106 261 | 133 | — | — | — | 106 129 |
| Debt instruments | 34 978 | 309 | — | — | 31 | 34 637 |
| Derivative assets | 59 527 | — | — | 2 009 | 35 867 | 21 651 |
| Money market assets | 14 639 | — | — | — | — | 14 639 |
| **Trading portfolio assets (refer to note 5)** | 109 143 | 309 | — | 2 009 | 35 898 | 70 927 |
| Accounts receivable | 11 828 | 22 | 55 | — | 61 | 11 690 |
| Settlement accounts | 5 663 | — | 1 | — | 1 | 5 661 |
| **Other assets (refer to note 6)** | 17 491 | 22 | 56 | — | 62 | 17 351 |
| RBB South Africa | 461 416 | 935 | 333 090 | 504 | 3 | 126 884 |
| Retail Banking South Africa | 395 296 | 1 | 288 366 | 40 | — | 106 888 |
| Credit cards | 39 556 | 1 | 43 | 25 | — | 39 486 |
| Instalment credit agreements | 76 791 | — | 76 776 | 15 | — | — |
| Loans to associates and joint ventures | 23 037 | — | — | — | — | 23 037 |
| Mortgages | 225 822 | — | 211 547 | — | — | 14 275 |
| Other loans and advances | 2 809 | — | — | — | — | 2 809 |
| Overdrafts | 5 731 | — | — | — | — | 5 731 |
| Personal and term loans | 21 550 | — | — | — | — | 21 550 |
| Business Banking South Africa | 66 120 | 934 | 44 724 | 464 | 3 | 19 996 |
| Mortgages (including CPF) | 28 487 | 859 | 27 019 | 22 | — | 588 |
| Overdrafts | 19 968 | 61 | 7 831 | 291 | 2 | 11 783 |
| Term loans | 17 665 | 14 | 9 874 | 151 | 1 | 7 625 |
| CIB South Africa | 220 456 | 18 376 | 18 115 | — | 21 517 | 162 447 |
| Absa Regional Operations | 80 628 | 1 863 | 21 796 | 788 | 4 353 | 51 827 |
| WIMI | 5 191 | — | 1 075 | — | — | 4 117 |
| Head Office, Treasury and other operations in South Africa | 956 | — | — | — | — | 956 |
| **Loans and advances to customers (refer to note 8)** | 768 647 | 21 174 | 374 076 | 1 292 | 25 873 | 346 231 |
| **Non-current assets held for sale** | 1 159 | — | — | — | — | 1 159 |

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

# 62. Risk management (continued)

## 62.2 Credit risk (2017) (continued)

### Analysis of past due accounts

The following table demonstrates the maximum exposure to credit risk of financial assets considered past due and/or considered to be impaired:

| | Group 2017 | | | | |
|---|---|---|---|---|---|
| | | Past due not impaired Performing loans | | | |
| | Total past and/or impaired Rm | Past due up to one month Rm | Past due 1 – 2 months Rm | Past due 2 – 3 months Rm | Past due 3 – 4 months Rm |
| **Loans and advances to banks** | — | — | — | — | — |
| Accounts receivable | 12 | 10 | 2 | — | — |
| Settlement accounts | — | — | — | — | — |
| **Other assets** | 12 | 10 | 2 | — | — |
| RBB South Africa | 52 131 | 1 896 | 197 | 161 | 44 |
| Retail Banking South Africa | 45 685 | 15 | 7 | 5 | 26 |
| Credit cards | 8 664 | — | — | — | — |
| Instalment credit agreements | 6 323 | 15 | 7 | 5 | 26 |
| Loans to associates and joint ventures | — | — | — | — | — |
| Mortgages | 26 089 | — | — | — | — |
| Other loans and advances | — | — | — | — | — |
| Overdrafts | 662 | — | — | — | — |
| Personal and term loans | 3 947 | — | — | — | — |
| Business Banking South Africa | 6 446 | 1 881 | 190 | 156 | 18 |
| Mortgages (including CPF) | 1 832 | 153 | 39 | 27 | — |
| Overdrafts | 2 292 | 619 | 63 | 52 | 8 |
| Term loans | 2 322 | 1 109 | 88 | 77 | 10 |
| CIB South Africa | 2 646 | 614 | — | — | — |
| Absa Regional Operations | 7 139 | 286 | 674 | 980 | 8 |
| WIMI | 291 | 11 | — | — | — |
| Head office, Treasury and other operations in South Africa | — | — | — | — | — |
| **Loans and advances to customers** | 62 207 | 2 807 | 871 | 1 141 | 52 |
| **Non-current assets held for sale** | 41 | — | — | — | — |

Financial assets not disclosed in the table above did not have any past due accounts.

| Group 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past due not impaired Non-performing loans | | | | | Past due and/or impaired | | |
| Past due older than 4 months Rm | Past due up to one month Rm | Past due 1 – 2 months Rm | Past due 2 – 3 months Rm | Past due 3 – 4 months Rm | Past due older than 4 months Rm | Performing loans Rm | Non-performing loans Rm | Total non-performing loans Rm |
| — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — | — |
| 79 | 180 | 76 | 43 | 23 | 426 | 25 877 | 23 125 | 23 868 |
| 2 | — | — | 1 | — | — | 25 087 | 20 539 | 20 534 |
| — | — | — | — | — | — | 3 634 | 5 030 | 5 053 |
| 2 | — | — | 1 | — | — | 3 904 | 2 362 | 2 362 |
| — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | 15 725 | 10 364 | 10 353 |
| — | — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | 277 | 384 | 383 |
| — | — | — | — | — | — | 1 547 | 2 399 | 2 383 |
| 77 | 180 | 76 | 42 | 23 | 426 | 790 | 2 586 | 3 334 |
| 32 | 82 | 29 | 22 | — | 223 | 105 | 1 121 | 1 477 |
| 29 | 11 | — | — | 2 | 153 | 439 | 915 | 1 082 |
| 16 | 87 | 47 | 20 | 21 | 50 | 246 | 550 | 775 |
| — | — | — | — | — | — | — | 2 019 | 2 019 |
| 287 | 751 | 27 | 36 | 3 | 1 574 | — | 2 512 | 4 904 |
| 18 | 1 | — | — | 9 | 41 | — | 211 | 262 |
| — | — | — | — | — | — | — | — | — |
| 384 | 932 | 103 | 79 | 35 | 2 041 | 25 877 | 27 867 | 31 053 |
| — | — | — | — | — | — | — | 41 | 41 |

# 62. Risk management (continued)

## 62.2 Credit risk (2017) (continued)

### Allowances for impairments on loans and advances to customers

Based on the credit quality of financial assets disclosed in the previous two tables, the Group raised the following allowances for impairments on loans and advances to customers during the reporting period:

| | Group 2017 | | |
|---|---|---|---|
| | Unidentified impairment Rm | Identified individual impairment Rm | Identified collective impairment Rm |
| RBB South Africa | (1 374) | (1 786) | (10 509) |
| Retail Banking South Africa | (802) | (664) | (10 334) |
| Credit cards | (154) | (14) | (4 165) |
| Instalment credit agreements | (275) | (202) | (1 339) |
| Loans to associates and joint ventures | — | — | — |
| Mortgages | (257) | (13) | (2 927) |
| Other loans and advances | — | — | — |
| Overdrafts | (21) | — | (266) |
| Personal and term loans | (95) | (435) | (1 637) |
| Business Banking South Africa | (572) | (1 122) | (175) |
| Mortgages (including CPF) | (135) | (492) | (32) |
| Overdrafts | (258) | (420) | (93) |
| Term loans | (179) | (210) | (50) |
| CIB | (559) | (832) | — |
| Absa Regional Operations | (583) | (931) | (2 102) |
| WIMI | (13) | (175) | — |
| Head Office, Treasury and other operations in South Africa | (10) | — | — |
| **Loans and advances to customers (refer to note 8)** | (2 539) | (3 724) | (12 611) |
| **Non-current assets held for sale** | — | (35) | (6) |

## 62.3 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

### Approach

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

# 62. Risk management (continued)

## 62.3 Equity investment risk (continued)

### Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk-weighted approach to calculate Risk Weighted Assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Group applies a 300% risk weighting to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1.06. Investments in financial entities are treated in line with the principles embodied in Basel III and the Regulations relating to Banks, whereby the risk weightings are subject to the aggregate value of the Group's shareholding in those investments and also in relation to the Group's capital.

The Solvency Assessment Management (SAM) regime is equivalent to Solvency II in the UK and went live in 2017. Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes.

Economic capital for equity investment risk in the banking book is based on the investment type and portfolio risk modelling and varies from 35.2% to 100%.

### Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis. Equity hedge structures were in place for the shareholders' equity investment portfolio in previous reporting periods. This assisted to hedge downside risk on equities if market values decrease with more than 6% and resulted in counterparties sharing in positive returns if market values increased between 2% and 4%. No equity hedge structures were in place at the reporting date.

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | 2017 | | | | |
| | Impact of a 5% reduction in fair value | | | Impact of a 5% increase in fair value | | Impact of a 5% reduction in fair value | | | Impact of a 5% increase in fair value | |
| | Profit or loss Rm | Equity Rm | Fair value Rm | Profit or loss Rm | Equity Rm | Profit or loss Rm | Equity Rm | Fair value Rm | Profit or loss Rm | Equity Rm |
| **Insurance activities' listed and unlisted equity investments[1,2]** | (88) | — | 1 764 | 88 | — | (120) | — | 2 394 | 120 | — |
| Listed equity investments | (85) | — | 1 698 | 85 | — | (120) | — | 2 393 | 120 | — |
| Unlisted equity investments | (3) | — | 65 | 3 | — | (0) | — | 1 | 0 | — |
| **Group listed and unlisted equity investments, excluding insurance activities' investments** | (115) | (40) | 3 097 | 115 | 40 | (100) | (38) | 2 754 | 100 | 38 |
| Listed equity investments | (30) | (5) | 716 | 30 | 5 | (17) | (6) | 465 | 17 | 6 |
| Unlisted equity investments | (85) | (35) | 2 382 | 85 | 35 | (83) | (32) | 2 289 | 83 | 32 |
| **Total on Group equity investments** | (203) | (40) | 4 861 | 203 | 40 | (220) | (38) | 5 148 | 220 | 38 |

[1] The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit-linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit-linked contracts due to the fact that the asset and liability is 100% matched.

[2] The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

# 62. Risk management (continued)

## 62.4 Market risk

### Traded market risk

Traded 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.

Traded market risk arises in the trading book as a result of the need to hold inventory to support the demands of the Group's clients and to facilitate market liquidity as a market maker with the aim of generating revenues from assuming and managing risk. Non-traded market risk arises from the banking book activities such as the provision of retail and wholesale banking and structured products and services as well as treasury functions net of hedges and is incorporated within Treasury Risk.

The Group Market Risk Committee (GMRC) meets monthly to review, challenge and make recommendations concerning the traded market risk profile, including risk appetite, policies, limits, risk utilisation, valuation risk and the effectiveness of the control environment.

The Trading Risk Committee (TRC) and Market Risk Control and Infrastructure Committee (MRCIC) are subcommittees of the GMRC that provide oversight of specific traded market risks and the traded market risk control environment.

### Strategy

Market risk management objectives are to:

- Develop frameworks and policies for traded market risk and assess conformance against these;
- Use appropriate models to measure risk and understand risk sensitivity and volatility;
- Leverage stress testing and empirical analytics to reduce model risk arising from the impact of known limitations in the VaR model;
- Set traded market risk appetite and supporting limits within the Group's market risk appetite and monitor risk against this appetite and limit framework; and
- Manage regulatory relationships for traded market risk, and overseeing delivery of regulatory commitments.

#### Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, providing risk management solutions, generating revenues from assuming and managing risk, and execution of syndications.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as 'Interest rate risk in the banking book' as part of the Treasury Risk framework.

#### Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy;
- budgeted revenue growth;
- statistical modelling measures; and
- risk equated to capital projection under normal and stressed market conditions.

#### Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk (VaR) based measures including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting;
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

#### Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%.

## 62. Risk management (continued)

### 62.4 Market risk (continued)

The historical simulation methodology can be split into three parts:

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- DVaR is the 95th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to 26 times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory back testing and Regulatory Capital (RC) calculation purposes, respectively. The VaR internal model has been approved by the SARB to calculate RC for all trading book portfolios in South Africa. The approval covers general position risk across all interest rate, foreign exchange, commodity, equity and traded credit products. As part of this approval, the SARB has assigned a DVaR and sVaR model multiplier to be used in RC calculations. Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the Africa regions is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

VaR estimates have a number of limitations:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentiles.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

Tail risk metrics, stress testing and other sensitivity measures are used to complement VaR.

#### Backtesting

The Group conducts backtesting of the VaR risk measurement model against:

- the theoretical profit or loss representing the change in the value of the portfolio as computed by the risk system under the assumption that the portfolio holdings remained constant for the holding period; and
- the actual profit or loss representing the actual daily trading outcome.

#### Tail metrics

Tail risk metrics highlight the risk beyond the percentile selected for DVaR. The two tail risk metrics chosen for daily monitoring, using the current portfolio and two years of price and rate history, are:

- the average of the worst three hypothetical losses from the historical simulation; and
- expected shortfall (also referred to as expected tail loss), which is the average of all hypothetical losses from the historical simulation beyond the 95th percentile used for DVaR.

#### Position and sensitivity reporting

Position and sensitivity reporting covers non-statistical measures of calculating and monitoring risk sensitivities and exposures as well as gross or notional limits where appropriate. All asset classes and product types have position and sensitivity reporting and limit monitoring, as required. These limits are aligned to DVaR limits, but do not bear a direct linear relationship.

#### Stressed value at risk

Stressed value at risk (sVaR) is an estimate of the potential loss arising from a 12-month period of significant financial stress. The Group's sVaR model and period selection methodology was approved by the SARB. sVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12-month period to replicate a period of significant stress. A regular process is applied to assess the stress period in terms of the approved methodology, which means that the stress period is subject to change.

The sVaR RC requirement is calculated daily for South Africa and is disclosed for the reporting period.

# 62. Risk management (continued)

## 62.4 Market risk (continued)

### Stress testing

Stress testing provides an indication of the potential size of losses that could occur in extreme conditions. Stress testing assists in identifying risk concentrations across business lines and assists senior management in making capital planning decisions. The Group performs two main types of stress/scenario testing. Firstly, risk factor stress testing is carried out, where extended historical stress moves are applied to each of the main risk categories including interest rate, equity, foreign exchange, commodity and credit spread risk. Secondly, the trading book is subjected to multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events. Scenarios are reviewed at least annually.

Stress testing results are monitored against approved limits and triggers for trading books in South Africa. A full revaluation approach is applied to undertake stress testing for these trading books. The approach taken for trading books in the African Regional Operations is sensitivity based.

### Standardised approach

Idiosyncratic risks are capitalised through the Basel/regulatory framework using standardised rules. In addition, the standardised rules are used to quantify general risk RC for any instruments traded in South Africa for which internal model approach approval has not yet been obtained.

General risk for the African Regional Operations is quantified using standardised rules, specifically for the interest rate and foreign exchange asset classes. Exposure to other asset classes is limited. The maturity method is used to quantify general interest rate risk for the Africa regions.

### Risk control

Risk limits are set and reviewed at least annually to control the trading activities, in line with the defined risk appetite of the Group. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy.

This limit structure comprises the following types of market risk limits:

- VaR limits (DVaR);
- SVaR as relevant;
- position and sensitivity limits;
- stress testing limits, as relevant; and
- management action triggers: reporting of actual losses based on predetermined tolerance levels.

Valuation control, independent price testing and bid-offer testing are conducted by Product Control and the results are reviewed monthly by the CIB Traded Risk Committee.

The Independent Model Validation function (IVU) is responsible for validating all valuation models used for accounting and risk. The validation reviews the theoretical approach and its applicability to the product. Focus is on ensuring the implementation of the model is correct, identifying the primary risks, model limitations or uncertainties and recommending provisions to account for such uncertainties.

### Risk reporting

The market risk team produces a number of detailed and summary market risk reports daily and monthly. These reports summarise the positions, risks and top stresses covering interest rate, foreign exchange, equity, commodity and credit spread risks. A risk summary is also presented at the GMRC and other governance committees, as required.

### Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA) for general trading position risk. Traded market risk exposure, as measured by average total DVaR, increased to **R28.31m** (2017: R25.86m) for the reporting period, which is a 9% increase on the prior year balance. This was principally due to a combination of increased volatility feeding into the recent time series, risk positioning being adverse to historic market movements and higher levels of inventory held to facilitate client trades primarily in the offshore interest rate and equity franchise. The model showed resilience in tough trading conditions. Trading revenues increased compared to the previous reporting period and favourable risk-adjusted returns were maintained.

# 62. Risk management (continued)

## 62.4 Market risk (continued)

### Analysis of traded market risk exposure (continued)

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2017 | | | |
| | Average Rm | High[1] Rm | Low[1] Rm | As at the reporting date Rm | Average Rm | High[1] Rm | Low[1] Rm | As at the reporting date Rm |
| Interest rate risk | 24.15 | 38.80 | 11.52 | 21.72 | 25.96 | 36.84 | 18.80 | 31.85 |
| Foreign exchange risk | 12.62 | 35.21 | 4.10 | 6.72 | 8.58 | 32.98 | 2.16 | 12.23 |
| Equity risk | 11.25 | 26.58 | 2.30 | 17.36 | 6.78 | 29.70 | 1.33 | 3.32 |
| Commodity risk | 0.60 | 1.91 | 0.21 | 0.51 | 0.58 | 1.59 | 0.05 | 0.82 |
| Inflation risk | 10.99 | 27.78 | 5.07 | 7.46 | 10.29 | 20.84 | 3.21 | 14.04 |
| Credit spread risk | 2.62 | 3.53 | 1.21 | 2.09 | 4.38 | 6.08 | 3.21 | 3.54 |
| Diversification effect | (33.92) | (81.16) | (7.90) | (24.27) | (30.70) | n/a | n/a | (45.09) |
| Total DVaR[2] | 28.31 | 52.65 | 16.51 | 31.59 | 25.86 | 43.24 | 16.97 | 20.71 |
| Expected shortfall[2] | 40.62 | 76.29 | 22.85 | 41.09 | 43.00 | 79.50 | 26.83 | 34.16 |
| Regulatory VaR[3] | 47.65 | 89.07 | 26.33 | 43.15 | 50.15 | 95.27 | 29.81 | 41.02 |
| Regulatory sVaR[3] | 86.60 | 191.68 | 48.49 | 64.14 | 62.19 | 116.15 | 38.37 | 66.36 |

### Other market risks

The Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Bank may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses are affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Bank policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises in the Wealth segment.

## 62.5 Treasury risk

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.
- **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-approved capital target ranges and above regulatory capital requirements.
- **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.

[1] The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] The analysis is for trading books for which internal models approval has been obtained and is at a 95% confidence level as used for risk management purposes.

[3] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.1 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Liquidity risk is monitored at a group level under a single group framework. The Liquidity Risk Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite (LRA) set by the local Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Each geographic entity is required to be self-sustaining from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

#### Strategy

The Group's liquidity risk management objectives are:.

- manage the funding position and High Quality Liquid Asset (HQLA) position in line with board-approved liquidity risk appetite framework and regulatory requirements;
- build and maintain adequate liquidity buffers to ensure the bank remains continuously compliant with the liquidity coverage ratio and net stable funding ratio;
- grow and diversify the funding base to support asset growth and other strategic initiatives while optimising the funding cost;
- grow core Retail, Business Bank, Corporate and Public Sector deposits faster than wholesale funding;
- work with regulatory authorities and other stakeholders on resolution planning, and Deposit Insurance Scheme;
- manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- balance the above objectives against the long-term impacts on the bank cost of funding.

#### Approach to liquidity risk

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the Liquidity Risk Framework, which is designed to meet the following objectives:

- to maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the LRA as expressed by the Board;
- to maintain market confidence;
- to set limits to control liquidity risk within and across lines of business and legal entities;
- to set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- to maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

The Group applies a three-step risk management process:

- **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

#### Stress and scenario testing

Under the Liquidity Framework, the Group has established the Liquidity Risk Appetite (LRA), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Group undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the contingency funding plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Group's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

#### Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- the roles and responsibilities of senior management in a crisis situation;
- authorities for invoking the plan;
- communications and organisation;
- an analysis of a realistic range of market-wide and Group-specific liquidity stress tests; and
- scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.1 Liquidity risk (continued)

The Group maintains a range of early warning indicators (EWIs). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. The Group continues to work with the Regulator on recovery and resolution planning.

#### Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the 'on demand' time bucket at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Carrying value (excluding impairment losses on amortised cost instruments) | | | | | |
| Discounted maturity | On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Impairment losses Rm | Total Rm |
| **Assets** | | | | | | |
| Cash, cash balances and balances with central banks | 38 814 | 7 195 | 690 | 240 | (10) | 46 929 |
| Investment securities | 6 815 | 52 782 | 39 188 | 36 638 | (3) | 135 420 |
| Loans and advances to banks | 17 199 | 34 696 | 1 162 | 106 | (23) | 53 140 |
| Trading portfolio assets | 127 266 | — | — | — | — | 127 266 |
| Derivative assets | 44 534 | — | — | — | — | 44 534 |
| Non-derivative assets | 82 732 | — | — | — | — | 82 732 |
| Hedging portfolio assets | — | 513 | 731 | 1 167 | — | 2 411 |
| Other financial assets | 18 341 | 9 182 | — | — | — | 27 523 |
| Loans and advances to customers | 116 996 | 164 134 | 345 053 | 245 703 | (30 166) | 841 720 |
| Non-current assets held for sale | — | 239 | — | — | — | 239 |
| Reinsurance assets | — | 241 | 372 | 5 | — | 618 |
| Investments linked to investment contracts | 412 | 4 155 | 5 785 | 8 129 | — | 18 481 |
| Financial assets | 325 843 | 273 137 | 392 981 | 291 988 | (30 202) | 1 253 747 |
| Non-financial assets | | | | | | 34 997 |
| **Total assets** | | | | | | 1 288 744 |
| **Liabilities** | | | | | | |
| Deposits from banks | 38 464 | 67 979 | 14 381 | 597 | — | 121 421 |
| Trading portfolio liabilities | 51 632 | — | — | — | — | 51 632 |
| Derivative liabilities | 36 118 | — | — | — | — | 36 118 |
| Non-derivative liabilities | 15 514 | — | — | — | — | 15 514 |
| Hedging portfolio liabilities | — | 144 | 569 | 630 | — | 1 343 |
| Other financial liabilities | 24 445 | 7 232 | 342 | 614 | — | 32 633 |
| Non-current liabilities held for sale | — | 124 | — | — | — | 124 |
| Deposits due to customers | 459 364 | 226 363 | 45 215 | 5 363 | — | 736 305 |
| Debt securities in issue | 1 844 | 87 396 | 60 205 | 11 526 | — | 160 971 |
| Liabilities under investment contracts | 4 945 | 3 999 | 11 227 | 9 503 | — | 29 674 |
| Policyholder liabilities under insurance contracts | 1 763 | — | — | 2 405 | — | 4 168 |
| Borrowed funds | 1 126 | 3 336 | 14 608 | 1 155 | — | 20 225 |
| Financial liabilities | 583 583 | 396 573 | 146 547 | 31 793 | — | 1 158 496 |
| Non-financial liabilities | | | | | | 8 642 |
| **Total liabilities** | | | | | | 1 167 138 |
| **Equity** | | | | | | 121 606 |
| **Total equity and liabilities** | | | | | | 1 288 744 |
| **Net liquidity position of financial instruments** | (257 740) | (123 436) | 246 434 | 260 195 | (30 202) | 95 251 |

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.1 Liquidity risk (continued)

| Discounted maturity | Group 2017 Carrying value (excluding impairment losses on amortised cost instruments) On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Impairment Losses Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash, cash balances and balances with central banks | 43 541 | 5 128 | — | — | — | 48 669 |
| Investment securities | 14 489 | 39 125 | 23 456 | 34 339 | — | 111 409 |
| Loans and advances to banks | 15 975 | 37 462 | 1 495 | 494 | — | 55 426 |
| Trading portfolio assets | 130 132 | — | — | — | — | 130 132 |
| Derivative assets | 56 853 | — | — | — | — | 56 853 |
| Non-derivative assets | 73 278 | — | — | — | — | 73 278 |
| Hedging portfolio assets | — | 254 | 1 439 | 980 | — | 2 673 |
| Other financial assets[1] | 11 527 | 9 579 | — | — | — | 21 106 |
| Loans and advances to customers[2] | 70 098 | 153 548 | 312 098 | 232 902 | (18 874) | 749 772 |
| Non-current assets held for sale – Loans and advances to customers | — | 1 118 | — | — | — | 1 118 |
| Reinsurance assets | — | 600 | — | 292 | — | 892 |
| Investments linked to investment contracts | 754 | 2 624 | 7 372 | 8 186 | — | 18 936 |
| Financial assets | 286 515 | 249 438 | 345 860 | 277 193 | (18 874) | 1 140 133 |
| Non-financial assets | | | | | | 29 462 |
| **Total assets** | | | | | | 1 169 595 |
| **Liabilities** | | | | | | |
| Deposits from banks | 5 982 | 50 800 | 10 455 | 153 | — | 67 390 |
| Trading portfolio liabilities | 64 047 | — | — | — | — | 64 047 |
| Derivative liabilities | 52 100 | — | — | — | — | 52 100 |
| Non-derivative liabilities | 11 946 | — | — | — | — | 11 946 |
| Hedging portfolio liabilities | — | 55 | 365 | 703 | — | 1 123 |
| Other financial liabilities[1] | 23 348 | 8 056 | 47 | 4 | — | 31 454 |
| Deposits due to customers | 449 335 | 208 416 | 27 678 | 4 438 | — | 689 867 |
| Debt securities in issue | 2 458 | 68 348 | 54 210 | 12 932 | — | 137 948 |
| Liabilities under investment contracts | 5 169 | 2 483 | 12 651 | 10 282 | — | 30 585 |
| Policyholder liabilities under insurance contracts[1] | 686 | — | — | 3 656 | — | 4 342 |
| Borrowed funds | 308 | 3 350 | 8 692 | 3 544 | — | 15 895 |
| Financial liabilities | 551 333 | 341 507 | 114 098 | 35 712 | — | 1 042 651 |
| Non-financial liabilities | | | | | | 7 686 |
| **Total liabilities** | | | | | | 1 050 337 |
| **Equity** | | | | | | 119 258 |
| **Total equity and liabilities** | | | | | | 1 169 595 |
| **Net liquidity position of financial instruments** | (264 818) | (92 069) | 231 762 | 241 481 | (18 874) | 97 482 |

[1] The prior period balances in relation to the 'Other financial assets', 'Other financial liabilities' and 'Policyholder liabilities under insurance contracts' line items have been restated. Please refer to the reporting changes overview per 1.21.12 and 1.21.10 respectively for further details on the nature of the restatements.

[2] Due to the adoption of IFRS 9, the bucketing methodology in relation to the loans and advances to customers line item has been restated in order to reflect the carrying amount, excluding the effect of impairment losses, per maturity bucket, rather than the carrying amount after impairment losses.

## 62. Risk management (continued)

### 62.5 Treasury risk (continued)

#### 62.5.1 Liquidity risk (continued)

| Undiscounted maturity (statement of financial position value with impact of future interest) | Group 2018 On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Discount effect Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **On-statement of financial position** | | | | | | |
| Deposits from banks | 38 464 | 68 811 | 17 902 | 1 675 | (5 431) | 121 421 |
| Trading portfolio liabilities | 51 632 | — | — | — | — | 51 632 |
| Derivative liabilities | 36 118 | — | — | — | — | 36 118 |
| Non-derivative liabilities | 15 514 | — | — | — | — | 15 514 |
| Hedging portfolio liabilities | — | 146 | 774 | 1 289 | (866) | 1 343 |
| Other financial liabilities | 24 445 | 7 298 | 395 | 1 037 | (542) | 32 633 |
| Non-current liabilities held for sale | — | 127 | — | — | (3) | 124 |
| Deposits due to customers | 459 364 | 231 383 | 58 691 | 11 904 | (25 037) | 736 305 |
| Debt securities in issue | 1 844 | 91 006 | 76 977 | 23 458 | (32 314) | 160 971 |
| Liabilities under investment contracts | 4 945 | 4 163 | 14 576 | 20 703 | (14 713) | 29 674 |
| Policyholder liabilities under insurance contracts | 1 763 | — | — | 13 592 | (11 187) | 4 168 |
| Borrowed funds | 1 126 | 3 514 | 20 356 | 2 888 | (7 659) | 20 225 |
| **Financial liabilities** | 583 583 | 406 448 | 189 671 | 76 546 | (97 752) | 1 158 496 |
| **Non-financial liabilities** | | | | | | 8 642 |
| **Total liabilities** | — | — | — | — | — | 1 167 138 |
| **Off-statement of financial position** | | | | | | |
| Financial guarantee contracts | 46 529 | — | — | — | — | 46 529 |
| Loan commitments | 129 017 | 70 045 | — | — | — | 199 062 |

| Undiscounted maturity (statement of financial position value with impact of future interest) | 2017 On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Discount effect Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **On-statement of financial position** | | | | | | |
| Deposits from banks | 5 982 | 51 103 | 13 944 | 301 | (3 940) | 67 390 |
| Trading portfolio liabilities | 64 047 | — | — | — | — | 64 047 |
| Derivative liabilities | 52 100 | — | — | — | — | 52 100 |
| Non-derivative liabilities | 11 946 | — | — | — | — | 11 946 |
| Hedging portfolio liabilities | — | 57 | 501 | 1 454 | (889) | 1 123 |
| Other financial liabilities[1] | 23 348 | 8 204 | 52 | 6 | (156) | 31 454 |
| Deposits due to customers | 449 335 | 212 752 | 34 494 | 9 831 | (16 546) | 689 867 |
| Debt securities in issue | 2 458 | 70 727 | 67 959 | 26 140 | (29 336) | 137 948 |
| Liabilities under investment contracts | 5 169 | 2 572 | 15 919 | 22 176 | (15 252) | 30 585 |
| Policyholder liabilities under insurance contracts[1] | 686 | — | — | 8 906 | (5 250) | 4 342 |
| Borrowed funds | 308 | 3 567 | 12 619 | 9 309 | (9 910) | 15 895 |
| **Financial liabilities** | 547 719 | 348 982 | 145 488 | 78 122 | (81 278) | 1 042 651 |
| **Non-financial liabilities** | | | | | | 7 686 |
| **Total liabilities** | | | | | | 1 046 919 |
| **Off-statement of financial position** | | | | | | |
| Financial guarantee contracts | 10 | — | — | — | — | 10 |
| Loan commitments | 174 259 | 38 789 | — | — | — | 213 048 |

[1] The prior period balances in relation to the 'Other financial liabilities' and 'Policyholder liabilities under insurance contracts' line items have been restated. Please refer to the reporting changes overview per 1.21.12 and 1.21.10 respectively for further details on the nature of the restatements.

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.2 Capital management

Capital risk is 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.

The Group's capital management strategy, which is in line with and in support of the Group's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Group's risk appetite.

The Group's capital management priorities are to:
- Maintain an optimal mix of high quality capital while continuing to generate sufficient capital to support profitable growth and a sustainable dividend.
- Continue to manage the capital position of the 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 by providing comment on the publication of an amendment to the Financial Sector Regulation Act (FSRA) by the National Treasury in September 2018, for public comment, which outlined the requirements for the establishment of a resolution framework in South Africa.

Various processes play a role in ensuring that the Group's capital management priorities are met, including:
- The Internal Capital Adequacy Assessment Process (ICAAP);
- Stress testing; and
- Recovery and Resolution Planning.

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Absa Regional Operations). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Group's capital target ranges for the current reporting period were set after considering the following:
- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and its impact on the integrated plan, including the capital position of the Group;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis.

#### Capital adequacy ratios (unaudited)

| Group | 2018 | 2017 | 2018 Board target ranges % | 2018 Minimum regulatory capital requirements[1] % | 2017 Board target ranges % | 2017 Minimum regulatory capital requirements % |
|---|---|---|---|---|---|---|
| **Statutory capital ratios (includes unappropriated profits) (%)** | | | | | | |
| Common Equity Tier 1 | **12.8** | 13.5 | **10.0 – 11.5** | **7.4** | 10.0 – 11.5 | 7.3 |
| Tier 1 | **13.5** | 14.1 | **11.75 – 13.25** | **8.9** | 11.5 – 13.0 | 8.5 |
| Total | **16.1** | 16.1 | **14.25 – 15.75** | **11.1** | 14.0 – 15.5 | 10.8 |
| **Capital supply and demand for the reporting period (Rm)** | | | | | | |
| Qualifying capital | **131 596** | 118 899 | | | | |
| Total RWA | **818 592** | 736 892 | | | | |

Regulatory capital comprises the following:

Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.
Tier1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.
Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

During the past year, the Group complied in full with all externally imposed capital requirements (2017: the same).

[1] The 2017 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 D-SIB add-on.

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.3 Interest rate risk in banking book (IRRBB)

#### Approach

IRRBB is the risk that the Group's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to local treasury or Group Treasury, which is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

#### Risk mitigation

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits.
  - Where possible, hedge accounting is applied to derivatives that are used to hedge IRRBB. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Bank's accounting policies, are followed.
  - Structural interest rate risk arises from the variability of income from non-interest-bearing products, managed variable rate products and the Bank's equity, and is managed by Bank Treasury. Interest rate risk also arises in each of the Africa regions treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.

#### Key assumptions

Embedded optionality risk may also give rise to IRRBB:

- Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Group is unable to collect full market-related compensation. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Processes are in place to enable robust management of these additional forms of IRRBB.

#### Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

#### Re-pricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.3 Interest rate risk in banking book (IRRBB) (continued)

#### Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/NII sensitivity measures the sensitivity of NII over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

#### Daily value at risk (DVaR)

The Bank uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring IRRBB. The DVaR is monitored against approved internal limits, and is used as a complementary metric to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

#### Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time (PIT) to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

#### Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the Africa regions is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Africa regions and is monitored against formal internal limits.

#### Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics (position and sensitivity limits), as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Africa regions market risk team with oversight provided by Market Risk.

#### Risk reporting

DVaR and supporting metrics are reported daily for Group Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Group Treasury.

#### Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

#### Re-pricing profile

The re-pricing profile of the Group's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.3 Interest rate risk in banking book (IRRBB) (continued)

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | | |
| Expected re-pricing profile | On demand – 3 months Rm | 4 – 6 months Rm | 7 – 12 months Rm | Over 12 months Rm |
| **Domestic bank book**[1] | | | | |
| Interest rate sensitivity gap | 142 895 | (10 598) | (23 052) | (25 602) |
| Derivatives[2] | (107 518) | 15 373 | 26 632 | 65 513 |
| Net interest rate sensitivity gap | 35 377 | 4 775 | 3 580 | 39 911 |
| Cumulative interest rate gap | 35 377 | 40 152 | 43 732 | 83 643 |
| Cumulative gap as a percentage of Absa Bank Limited's total assets (%) | 3.3 | 3.7 | 4.0 | 7.7 |
| **Foreign subsidiaries' bank books** | | | | |
| Interest rate sensitivity gap | 21 172 | 5 038 | 7 103 | 21 017 |
| Derivatives[2] | 21 | — | — | (21) |
| Net interest rate sensitivity gap | 21 193 | 5 038 | 7 103 | 20 996 |
| Cumulative interest rate gap | 21 193 | 26 231 | 33 334 | 54 330 |
| Cumulative gap as a percentage of foreign subsidiaries' total assets (%) | 10.9 | 13.6 | 17.2 | 28.1 |
| **Total** | | | | |
| Cumulative interest rate gap | 56 570 | 66 383 | 77 066 | 137 973 |
| Cumulative gap as a percentage of the Group's total assets (%) | 4.4 | 5.1 | 6.0 | 10.7 |

| | 2017 | | | |
|---|---|---|---|---|
| Expected re-pricing profile | On demand – 3 months Rm | 4 – 6 months Rm | 7 – 12 months Rm | Over 12 months Rm |
| **Domestic bank book**[1] | | | | |
| Interest rate sensitivity gap | 145 153 | (23 367) | (34 815) | (29 314) |
| Derivatives[2] | (129 591) | 18 919 | 34 799 | 75 872 |
| Net interest rate sensitivity gap | 15 562 | (4 448) | (16) | 46 558 |
| Cumulative interest rate gap | 15 562 | 11 114 | 11 098 | 57 656 |
| Cumulative gap as a percentage of Absa Bank Limited's total assets (%) | 1.6 | 1.1 | 1.1 | 5.8 |
| **Foreign subsidiaries' bank books** | | | | |
| Interest rate sensitivity gap | 21 016 | 2 520 | 5 617 | 20 684 |
| Derivatives[2] | — | — | (1) | — |
| Net interest rate sensitivity gap | 21 016 | 2 520 | 5 617 | 20 684 |
| Cumulative interest rate gap | 21 016 | 23 536 | 29 153 | 49 837 |
| Cumulative gap as a percentage of foreign subsidiaries' total assets (%) | 11.0 | 12.0 | 15.0 | 26.0 |
| **Total** | | | | |
| Cumulative interest rate gap | 36 578 | 34 650 | 40 251 | 107 493 |
| Cumulative gap as a percentage of the Group's total assets (%) | 3.1 | 3.0 | 3.5 | 9.2 |

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.3 Interest rate risk in banking book (IRRBB) (continued)

#### Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R2.755bn** (2017: R1.93bn). A similar increase would result in an increase in projected 12-month net interest income of **R2.49bn** (2017: R1.7bn). AEaR increased by 1.8% to 6.3% of the Group's net interest income.

#### Annual earnings at risk for 100 and 200 bps changes in market interest rates

| | Group | | | |
|---|---|---|---|---|
| | **2018 Change in market interest rates** | | | |
| | **200 bps decrease** | **100 bps decrease** | **100 bps increase** | **200 bps increase** |
| Domestic bank book (Rm)[1] | **(2 148)** | **(912)** | **947** | **1 884** |
| Foreign subsidiaries' bank books (Rm)[2] | **(607)** | **(304)** | **304** | **607** |
| Total (Rm) | **(2 755)** | **(1 216)** | **1 251** | **2 491** |
| Percentage of the Group's net interest income (%) | **(6.3)** | **(2.8)** | **2.9** | **5.7** |
| Percentage of the Group's equity (%) | **(2.2)** | **(1.0)** | **1.0** | **2.0** |

| | 2017 Change in market interest rates | | | |
|---|---|---|---|---|
| | 200 bps decrease | 100 bps decrease | 100 bps increase | 200 bps increase |
| Domestic bank book (Rm)[1] | (1 405) | (459) | 609 | 1 172 |
| Foreign subsidiaries' bank books (Rm)[2] | (530) | (265) | 265 | 530 |
| Total (Rm) | (1 935) | (724) | 874 | 1 702 |
| Percentage of the Group's net interest income (%) | (4.5) | (1.7) | 2.0 | 4.0 |
| Percentage of the Group's equity (%) | (1.9) | (0.7) | 0.9 | 1.7 |

#### Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower fair value through other comprehensive income (2017: available-for-sale) reserve reflecting higher or lower fair values of fair value through other comprehensive income (2017: available-for-sale) financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and fair value through other comprehensive income (2017: available-for-sale) portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate fair value through other comprehensive income (2017: available-for-sale) assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the fair value through other comprehensive income (2017: available-for-sale) reserves is mainly due to the increase in the net directional risk.

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

# 62. Risk management (continued)

## 62.5 Treasury risk (continued)

### 62.5.3 Interest rate risk in banking book (IRRBB) (continued)

Sensitivity of reserves to market interest rate movements

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Impact on equity at the reporting date Rm | Maximum impact[1,2] Rm | Minimum impact[1,2] Rm | Impact on equity at the reporting date Rm | Maximum impact[1,2] Rm | Minimum impact[1,2] Rm |
| **+100 bps parallel move in all yield curves** | | | | | | |
| Fair value through other comprehensive income reserve (2017: Available-for-sale reserve) | (365) | (604) | (282) | (435) | (462) | (419) |
| Cash flow hedging reserve | (2 030) | (2 130) | (1 928) | (2 114) | (2 359) | (2 039) |
| | (2 395) | (2 734) | (2 210) | (2 548) | (2 821) | (2 458) |
| **As a percentage of Group equity (%)** | (1.9) | (2.2) | (1.9) | (2.5) | (2.7) | (2.4) |

The sensitivity of reserves to market interest rates movements exhibit very little convexity resulting in a materially equivalent change in value for -100 bps parallel move. Basis risk has been maintained constant.

[1] The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

[2] The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month as indicated in footnote 1 above).

# 62. Risk management (continued)

## 62.6 Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

### Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

### Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

### Functional foreign currency

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Foreign currency net investment Rm | Impact on equity from 5% currency translation shock Rm | Foreign currency net investment Rm | Impact on equity from 5% currency translation shock Rm |
| Botswana pula | **2 840** | **142** | 2 547 | 127 |
| Ghana cedi | **3 886** | **194** | 2 874 | 144 |
| Kenya shilling | **7 147** | **357** | 6 115 | 306 |
| Mauritian rupee | **662** | **33** | 625 | 31 |
| Mozambican metical | **1 717** | **86** | 1 300 | 65 |
| Namibian dollar | **95** | **5** | 101 | 5 |
| Nigerian naira | **39** | **2** | 16 | 1 |
| Seychelles rupee | **648** | **32** | 582 | 29 |
| Pound sterling | **412** | **21** | 179 | 9 |
| Tanzanian shilling | **2 145** | **107** | 2 075 | 104 |
| Uganda shilling | **1 635** | **82** | 1 478 | 74 |
| United States dollar | **4 427** | **221** | 3 449 | 172 |
| Zambia kwacha | **1 755** | **88** | 1 622 | 81 |
| | **27 408** | **1 370** | 22 962 | 1 148 |

## 62.7 Insurance risk management

### Definition

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing. Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio of policies and claims;
- Premiums are not invested to adequately match the duration, timing and size of expected claims; or
- Unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in the entity.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Strategy

The Group's insurance risk management objectives are to:

- Pursue profitable growth opportunities within the financial volatility and solvency risk appetite approved by the Board;
- Balance exposure between, and within, life and non-life insurance to allow for better diversification and optimal risk-adjusted returns; and
- Leverage off the Absa presence and infrastructure across Africa.

### Governance

Insurance risk is governed by various management and Board structures. At the Board level, insurance risk is overseen by the following Absa Financial Services Limited (AFS) board committees: the Group Actuarial Committee (GAC) and the Audit, Risk and Compliance Committee (ARCC). The AFS Board is accountable for oversight across a range of business components and relies on assurance from senior management and independent professional service providers such as the heads of control functions. The GAC's objectives are to review actuarial and technical matters, whereas the ARCC oversees internal controls, risk, compliance, internal and external audit matters on behalf of all WIMI entities.

Relevant WIMI Executive Risk Committees are the WIMI Financial Risk Committee (FRC) and the WIMI Control Review Committee (CRC). These management committees report to the GAC, ARCC and relevant Group executive committees. The WIMI FRC and WIMI CRC have been set up to provide oversight of the risk profiles of all entities in WIMI. The WIMI FRC focuses on the governance of the financial risk profile, including aggregation and concentration risk across WIMI, capital management, stress testing and risk appetite setting and monitoring. The WIMI CRC focuses on general risk, regulatory and assurance matters and assesses the risk profile of the organisation against the approved risk appetite.

The WIMI Actuarial Oversight Committee (WAOC) is a subcommittee of the WIMI FRC and has been set up to provide oversight over all relevant actuarial duties, models and model risk across WIMI. In addition, the Insurance Governance Control Forum (IGCF) provides oversight of the risk profile of the insurance entities, and the Model Risk Governance Control Forum (MGCF) provides oversight of the model risk profile of insurance models within WIMI. The IGCF and MGCF report into the WIMI CRC.

### Insurance risk management

Solvency Assessment and Management (SAM), the new regulatory regime for insurers in South Africa, was effective on 1 July 2018. In preparation for this the Prudential Authority published the new Insurance Act and related Prudential Standards. The standards include the Governance and Operational Standards as well as the Financial Soundness Standards for both Insurers and Insurance Groups, with the former formalising and extending the content of Board Notice 158. The internal Insurance Principal Risk Control Framework (IPRCF) and related policies are aligned to the new requirements.

The IPRCF applies the evaluate-respond-monitor process to insurance risk and applies across all regulated insurance entities. The Group's insurance entities are required to comply with the IPRCF and the six insurance risk policies:

- Insurance Underwriting Policy;
- Insurance Reserving Policy;
- Reinsurance and Risk Transfer Policy;
- Insurance Asset Liability Management Policy;
- Insurance Investment Management Policy (which includes concentration, credit and liquidity risk); and
- Insurance Own Risk and Solvency Assessment (ORSA) Policy.

Other policies required by the Governance and Operational Standard for Insurers (GOI) 3 such as Capital Management are addressed in the Enterprise Risk Management Framework (ERMF) under other risk types.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Risk identification and management

In addition to the risks described in some of the other Principal Risk Frameworks, entities that conduct insurance business are specifically exposed to the following risk features of insurance activity:

- **Underwriting:** The underwriting process includes the assessment, pricing and acceptance of insurance contracts at inception and the subsequent process of monitoring the experience and conducting pricing reviews. Risk arises from inadequate pricing (to cover future claims and related expenses) or acceptance of unwanted insurance exposures (either in the size and nature of individual insured risks or perils, as well as the aggregations of exposures). Underwriting seeks to ensure these risks are understood and adequately priced (as a portfolio of pooled exposures) given special terms or avoided altogether.
- **Reserving:** Adequate provisioning or reserving for current and future claims and related expenses is a cornerstone of financial stability of insurance entities, given the variety of reserves, the complexity of actuarial techniques and the material impact fluctuations in reserves can have on the financial results of the entity. Risk arises from weaknesses in the actuarial processes of quantifying reserves and is mitigated through the appropriate application of the actuarial control cycle.
- **Reinsurance:** Reinsurance and other risk transfer techniques enable insurance entities to transfer risk which the entity does not have the appetite or expertise to retain on its own. While this is an extremely effective mechanism to manage risk to the balance sheet and income statement, and to obtain expertise through strategic partnerships, it does expose the entity to the risk of counterparty default of the reinsurance company.
- **Asset-liability management:** It is important that the profile (nature, term, currency and uncertainty) of investments backing certain insurance liabilities is appropriate, and sufficiently liquid, for the profile of related insurance liabilities. Asset liability mismatch risk arises when the value of liabilities and the value of assets backing those liabilities move differently as economic market conditions change.
- **Investment management:** Adverse investment experience, either due to market dynamics or inadequate adherence to defined benchmarks, impacts the ability of the entity to provide for policy obligations and solvency requirements, as well as the ability to provide shareholders with an acceptable return on surplus assets retained in the business.

Risk measurement and management techniques use both best practice and mandatory local and international actuarial methodologies.

- Assets and liabilities are quantified for local regulatory and financial reporting purposes. Depending on the purpose, asset and liability measurement techniques utilise either deterministic or stochastic methods and may include implicit or explicit margins, or be done on either market consistent or best estimate bases.
- Solvency requirements are defined for local regulatory and internal solvency purposes.
  - Regulatory solvency requirements are quantified using a prescribed methodology and are derived at 99.5% confidence level (prescribed by SAM) for the AFS insurance group and South African solo insurance entities. Regulatory solvency requirements for ARO entities are based on local (in-country) regulatory prescribed methodology.
  - Internal/economic solvency requirements are based on a combination of prescribed methodology (used for regulatory capital) and/or approved internal methodology. This is used to set adequate capital buffers over regulatory capital requirements.
- The forward-looking nature of insurance reserves requires a large number of assumptions to be made. These include demographic (e.g. mortality, morbidity), statistical (claims incidence, reporting and development patterns) and economic (interest rates, yield curves, market returns, etc.) assumptions.
- Scenario/stress testing is used to isolate and examine the impact of specific, or combinations of, variables. These are either defined internally by the Group or by regulators.

Risk limits and tolerance thresholds are set for insurance risk so that the insurance legal entities take risk decisions which are within Board-approved risk appetite. Each business area also operates within defined insurance risk limits, with an understanding of the risks it will take and the risks it will avoid.

### Reporting

Insurance risk reporting follows both qualitative and quantitative processes through control environment reporting and measurement against solvency and earnings volatility appetites respectively. The adherence of insurance entities to the insurance risk policies is overseen through the governance structure, through ongoing monitoring and reporting. Assurance on the governance is achieved through combined assurance structures across the three lines of defence. The WAOC, WIMI FRC, WIMI and entity level CRCs and the Insurance Governance Control Forum provide oversight of the risk profile of the insurance entities. The Model Risk Governance Control Forum provides oversight of the model risk profile of insurance models within WIMI.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Life insurance risks

Life insurance underwriting activities are undertaken by Absa Life Limited, Barclays Life Botswana Limited (BLB), Barclays Life Zambia Limited (BLZ), Barclays Life Assurance Kenya Limited (BLAK), and Global Alliance Seguros Mozambique (GAM).

The table that follows summarises the main risk exposures per life insurance product line.

| Product line | Description of product | Absa Life | BLB | BLZ | BLAK | GAM (Life) | Main risk exposures |
|---|---|---|---|---|---|---|---|
| Underwritten life | Each life is individually underwritten. Premium rates are differentiated by gender, age, smoker status, socio-economic class and occupation. | ✓ | × | × | × | × | Mortality, morbidity, lapse |
| Limited under-written life | This product family consists of a wide range of individual products. Underwriting varies from a limited number of underwriting questions to the application of waiting periods, pre-existing condition exclusions and the phasing in of sums insured. | ✓ | ✓ | ✓ | ✓ | ✓ | Mortality, morbidity, lapse |
| Funeral | Funeral insurance provides a benefit in the event of death of the lives assured. Funeral cover usually involves limited underwriting. | ✓ | ✓ | ✓ | ✓ | ✓ | Mortality, lapse |
| Credit life | Credit life insurance is designed to pay off a borrower's debt if the borrower dies or is retrenched. Premiums generally do not differ by gender, age or smoker status and demographic shifts might introduce additional insurance risk. | ✓ | ✓ | ✓ | ✓ | ✓ | Mortality, morbidity retrenchment, lapse |
| Group life | Group life insurance covers a group of people under a single insurance contract. Typically, the policyholder is an employer or an entity such as a labour organisation, and the policy covers the employees or members of the group. | ✓ | ✓ | ✓ | ✓ | ✓ | Mortality, morbidity, longevity, concentration |
| Investments | Investment products include endowment and living annuity products where benefits are linked to investments returns. | ✓ | ✓ | × | × | × | Financial risks taken by the policyholder include investment, longevity and tax |
| Health | Benefits provided under health insurance include critical illness cover and hospital cash plans which offer fixed benefits. | ✓ | × | ✓ | × | ✓ | Morbidity |

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Underwriting risk

The underwriting process involves underwriting risks on an individual basis in order to apply terms commensurate with the risk. The process is automated for relatively standard risk cases, but experienced underwriters manually assess cases that present increased risk whilst following established underwriting guidelines. The outcome of the underwriting process can be to accept cases at standard terms, accept with increased premiums, accept with specific conditions or events excluded or to decline the application.

The product development process is managed under the New and Amended Product Approval Policy and Product Review Policy. The design of new or amendments to existing products are informed through various types of research, including customer research and engagement and collaboration with functional subject matter experts. The proposed design is then tabled for initial approval at the Cluster Product Risk Committee under the mandate of the WIMI Product Risk Committee. A subsequent risk assessment process is followed whereby the relevant risk and functional areas review the design and provide their approval and/or conditions for approval. Depending on the nature of the new or amended product, the WIMI Product Review Committee sanctions the initiative before approval to launch is obtained. The ongoing relevance and appropriateness of the products are formally considered at least every three years (depending on the risk rating of the product) whilst various forums and committees manage the products and product performance on a regular basis.

Pricing (including re-pricing) is conducted under the requirements of the Insurance Underwriting Policy and WIMI Model Risk Standard. Various reviews and approvals are required before implementing and operationalising new premiums, including independent review by the Head of the Actuarial Function. Annual pricing reviews are also conducted to ensure the premiums remain appropriate and result in profit and claim ratios which are within target ranges as approved by the FRC. The targets aim to balance the interests of shareholders and policyholders whilst having regard to the risk associated by product line.

The experience related to all risks underwritten is reviewed on a regular basis to determine whether underwriting guidelines and rules need to be tightened and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency, expense assumptions) are reviewed to determine changes in trends that are likely to continue in the future.

Effective claims management processes ensure that all valid claims are honoured in line with policy documentation and appropriate allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

### Reinsurance and reinsurer credit risk

Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer credit risk is managed by transacting solely with approved reinsurers and within mandated levels as defined in the counterparty credit risk mandates. Mandates are governed and approved by the WIMI Financial Risk Committee. In existing reinsurance agreements, reinsurer credit risk is managed by monitoring counterparty exposures to take corrective actions should the creditworthiness of the counterparty deteriorate materially.

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Standard and Poor's rating[1] | Description | Number of reinsurers Rm | Total premiums ceded Rm | Total premiums ceded Rm |
| AA- and above | Very strong | 4 | 170 | 113 |
| A- | Strong | 1 | 85 | 121 |
| BBB+ | Good | 2 | 1 | 0 |
| Unrated | N/A | 4 | 54 | 36 |
| Total | | 11 | 309 | 270 |

[1] Long Term Financial Strength International Scale Local Currency Ratings.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Reinsurance and reinsurer credit risk (continued)

The total premiums received in 2018 amounted to **R3.4 billion** (2017: R3.1 billion).

The individual ratings of the various reinsurers, knowledge of disputes and collection experience are used to determine whether the reinsurance assets should be impaired. As at 31 December 2018, the reinsurance assets were unimpaired (2017: unimpaired).

### Reserving risk

Reserving risk arises from weaknesses in the actuarial processes of quantifying reserves, for example inappropriate assumptions.

### Assumption risk

Assumption risk is the risk that the assumptions used in the most recent valuation are not appropriate. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins prescribed by the Standard of Actuarial Practice 104 (SAP 104) issued by ASSA.

The risk discount rate used to discount future profits includes a margin over assumed investment returns to reflect any risks associated with the emergence of future shareholder cash flows that are not allowed for elsewhere in the valuation. The government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve. The economic assumptions used, including certain representative points on the risk-free curve, are disclosed in Annexure A: Embedded value report for the Life insurance entities.

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact profits in future years. The business is also sensitive to expense assumptions. There has been a noticeable change in sensitivity to assumptions between 2017 and 2018. This is mainly due to the effects of the new methodology that allows partial recognition of negative reserves.

### Sensitivity analysis (South African entities only)

| Sensitivity analysis | 2018 Potential effect recorded in (profit) or loss Rm | 2017 Potential effect recorded in (profit) or loss Rm |
|---|---|---|
| Mortality and morbidity +10% | **173** | 118 |
| Lapse rate +10% | **(11)** | (37) |
| Renewal and termination expenses +10% | **49** | 34 |
| Expense inflation +1% | **44** | 27 |
| Investment return -1% | **11** | 36 |

### HIV and AIDS risk

The life insurance business is exposed to Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) risk if an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process.

Mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected AIDS risk experience.

### Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy or not generating the anticipated profit margins, as a result of adverse lapse experience. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby at least a portion of the commission is recouped. Annual investigations of lapse experience are performed to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Expense risk

Expense risk refers to the risk of variations in the expenses incurred in servicing insurance obligations, including the risk from the growth in expenses over and above that of inflation. An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- Conducting annual expense investigations based on the most recent operating expenditure incurred;
- Monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- Basing the assumed future inflation rate on observable economic indicators and experience.

### Concentration risk

The risk of several claims arising simultaneously ('concentration risk') on individual lives is small. The size of individual policies is low and reinsurance is used to cover larger individual exposures. The table below shows the value of benefit insured by benefit band before and after reinsurance for individual insurance business.

| Benefit band per life assured (RSA entities only) (R'000) | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross of reinsurance | | Net of reinsurance | | | Gross of reinsurance | | Net of reinsurance | |
| | Number of policies | Total benefits assured Rm | % | Total benefits assured Rm | % | Number of policies | Total benefits assured Rm | % | Total benefits assured Rm | % |
| 0 – 250 | **2 996 720** | **93 841** | **53** | **89 011** | **61** | 2 915 700 | 96 272 | 55 | 91 217 | 63 |
| 250 – 500 | **78 225** | **25 139** | **14** | **22 660** | **16** | 75 593 | 21 140 | 12 | 17 433 | 12 |
| 500+ | **51 682** | **59 018** | **33** | **32 807** | **23** | 52 522 | 57 653 | 33 | 36 216 | 25 |
| | **3 126 627** | **177 998** | **100** | **144 477** | **100** | 3 043 815 | 175 065 | 100 | 144 866 | 100 |

In the case of the Group Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

### Asset-liability mismatch risk

Mismatch risk refers to cash flow matching as well as assets backing liabilities in the balance sheet moving differently from each other. A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. Quarterly meetings are held with asset managers to monitor adherence to the mandated asset durations and targeted levels.

### Longevity risk

Longevity risk arises from claims on Group Life products such as pensions and disability income benefit where there is a guarantee to make payments in the event of the survival and/or continued disability, sickness or injury of the policyholder. It is the risk of loss or adverse change in the value of insurance obligations resulting from a decrease in mortality rates. The management of longevity risk includes the monitoring of experience and annual experience investigations; pricing philosophy; and reinsurance. The risk management process is similar to the process covered under underwriting risk.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Non-life insurance risks

Non-life insurance underwriting activities are undertaken by Absa Insurance Company Limited (AIC)[1], Absa Insurance Risk Management Services Limited (AIRMS), Global Alliance Seguros (Mozambique) (GAM), First Assurance Kenya (FAK) and First Assurance Tanzania (FAT).

The table that follows summarises the main risk exposures per non-life insurance product line.

| Product line | Description of product | AIC | AIRMS | GAM (ST) | FAK | Main risk exposures |
|---|---|---|---|---|---|---|
| Personal lines | Protects families or individuals against financial losses. This includes Motor and Home cover including personal liability type products. | ✓ | × | ✓ | ✓ | Underwriting; Concentration; Reinsurer default |
| Commercial lines | A subset of property and liability type insurance that covers businesses, rather than property belonging to an individual. | ✓ | ✓ | ✓ | ✓ | Underwriting; Concentration; Reinsurer default |
| Idirect | Personal lines insurance on a direct basis (without an intermediary) dealing with customers directly. | ✓ | × | × | × | Underwriting; Concentration; Reinsurer default |
| Specialist lines | Two types of products: unusual or difficult insurance and higher risk accounts. | × | ✓ | ✓ | ✓ | Underwriting; Investment; Reinsurer default |

### Underwriting risk

Management monitors loss ratios on a regular basis and identifies areas of the business where claims experience is not in line with expectations, and where this is found, corrective action is taken. The non-life business adopts an agile pricing methodology, enabling quick pricing and product changes to occur as and when the need arises. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Products are regularly compared to those of competitors, and these comparisons are reported at least quarterly. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, this occurs across the portfolio as well as for any specific initiatives. Actions are then derived from this monitoring. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items. Artificial intelligence aids the business in improving processes (improve cost to serve and reduce turnaround time) and driving out fraudulent behaviour.

Non-life insurance underwriting risk is managed through underwriting authority mandates and with oversight by an Underwriting Review Forum, as and when required. A subset of the Underwriting Review Forum is the Pricing Forum, which has representation from Risk, Business, Analytics and Actuarial. This forum ensures that all pricing model monitoring occurs timeously and rigorously, and the actions that follow are commensurate with the risk. This forum monitors lapses, cancellations, new business rates, benchmarking against competitor rates, renewal rates, marketing spend on sales initiatives, fraud prevention, lead generation and quality as well as the risk profile of the business (as measured by expected claim frequency and expected claim severity).

[1] Note that the consolidation of the AIC and Absa idirect Limited licences were approved by the Prudential Authority effective 1 October 2018.

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Reinsurance and reinsurance credit risk

The impact of large individual non-life insurance claims is limited through the purchase of reinsurance that reduces the exposure to large claims. The South African entities have the following reinsurance programme in place:

- Automatic surplus reinsurance cover which provides protection against significant property-related claims. By covering against excessive losses, surplus treaty reinsurance provides more security for the equity and solvency coverage and when unusual or major events occur.
- Further large loss cover is bought by purchasing excess-of-loss cover to protect our net retention for large claims occurring in the lines of business: Property; Motor; Engineering; Liability; and Personal Accident.
- Facultative reinsurance cover is bought when the risk exceeds the set underwriting limits.
- Catastrophe cover is bought to protect the net retention following a catastrophe event. The treaty covers various perils (including hail and earthquake) and protection is bought in line with the output from catastrophe models that analyse risks at a location level. The catastrophe cover purchased cover losses of up to **R3.0bn** (2017: R3.0bn) for the South African entities; the cover has been maintained year-on-year.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A' rating by the Standard & Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and WIMI FRC approval has been obtained.

| Standard & Poor's rating[1] | Description | 2018 Number of reinsurers | 2018 Total premiums ceded Rm | 2017 Total premiums ceded Rm |
|---|---|---|---|---|
| AA- and above | Very strong | 7 | 52 | 51 |
| A- | Strong | 27 | 97 | 110 |
| BBB+ | Good | 9 | 12 | 13 |
| Unrated | N/A | — | — | — |
| Total | | 43 | 161 | 174 |

### Reserving risk

Outstanding claims reserves and incurred but not reported claims reserves.

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the active South Africa entities at the reporting date amounted to **R296m** (2017: R435m). Reserves are calculated for the Africa regions entities based on the in-country regulatory requirements.

A stochastic reserving model is applied to calculate the IBNR claim provision for the majority of the exposures. The IBNR claim provision is calculated using well-known actuarial techniques such as basic Chain Ladder and the Bornheuter-Ferguson Method. Where detailed data is not available, the provision is calculated by referencing the experience to date and prior year investigations. The IBNR provision at the reporting date amounted to **R114m** (2017: R125m).

The IBNR provision is determined by taking the following factors, per class of business underwritten, into account: actual and expected claims experience; actual and expected reporting patterns; premium volumes; claim process changes; and seasonality. These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required.

The IBNR and outstanding claims provisions take historical data, trends and recent experience in claims processing and loss ratios into account. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances. Margins are added to the best estimate assumptions in order to calculate sufficiently prudent provisions. The margins are calculated using the 75th percentile method. This is equal to the difference between the 75th percentile and the mean claims. This margin protects Absa from volatility in claims experience.

### Claims development tables

The presentation of the claims development tables is based on the actual date of the event that caused the claim (incident year basis). The claims development tables represent the development of the actual claims paid.

[1] Long Term Financial Strength International Scale Local Currency Ratings.

## 62. Risk management (continued)

### 62.7 Insurance risk management (continued)

Payment development

**Non-life insurance claims – gross**

| | | Claims paid in respect of | | | | | |
|---|---|---|---|---|---|---|---|
| **Rm** | **Total actual claims cost** | **2018** | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Reporting year** | | | | | | | |
| 2018 | **1 572** | **1 300** | 249 | 17 | 3 | 1 | 1 |
| 2017 | **1 622** | — | 1 313 | 282 | 16 | 9 | 1 |
| 2016 | **1 888** | — | — | 1 582 | 286 | 13 | 7 |
| 2015 | **2 040** | — | — | — | 1 595 | 410 | 35 |
| 2014 | **2 375** | — | — | — | — | 2 035 | 340 |
| 2013 and prior | **2 541** | — | — | — | — | — | 2 541 |
| Cumulative payments to date | **12 038** | **1 300** | 1 562 | 1 881 | 1 900 | 2 468 | 2 925 |

**Non-life insurance claims – net**

| | | Claims paid in respect of | | | | | |
|---|---|---|---|---|---|---|---|
| **Rm** | **Total actual claims cost** | **2018** | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Reporting year** | | | | | | | |
| 2018 | **1 404** | **1 161** | 223 | 15 | 2 | 1 | 1 |
| 2017 | **1 447** | — | 1 172 | 252 | 14 | 8 | 1 |
| 2016 | **1 700** | — | — | 1 424 | 258 | 12 | 6 |
| 2015 | **1 675** | — | — | | 1 309 | 337 | 29 |
| 2014 | **1 977** | — | — | | | 1 694 | 283 |
| 2013 and prior | **1 801** | — | — | | | | 1 801 |
| Cumulative payments to date | **10 004** | **1 161** | 1 395 | 1 691 | 1 583 | 2 052 | 2 121 |

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

### Reporting development

**Non-life insurance claims provision – gross**

| | | Financial year during which claims occurred | | | | | |
|---|---|---|---|---|---|---|---|
| Rm | Total claims provision | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Reporting year** | | | | | | | |
| 2018 | **412** | **366** | 31 | 9 | 4 | 1 | 2 |
| 2017 | **555** | **—** | 426 | 63 | 22 | 17 | 27 |
| 2016 | **515** | **—** | — | 426 | 48 | 16 | 24 |
| 2015 | **395** | **—** | — | — | 333 | 29 | 33 |
| 2014 | **251** | **—** | — | — | — | 203 | 48 |
| 2013 and prior | **720** | **—** | — | — | — | — | 720 |

**Non-life insurance claims provision – net**

| | | Financial year during which claims occurred | | | | | |
|---|---|---|---|---|---|---|---|
| Rm | Total claims provision | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Reporting year** | | | | | | | |
| 2018 | **351** | **311** | 26 | 7 | 4 | 1 | 1 |
| 2017 | **265** | **—** | 203 | 30 | 10 | 8 | 13 |
| 2016 | **213** | **—** | — | 176 | 20 | 6 | 10 |
| 2015 | **216** | **—** | — | — | 182 | 16 | 18 |
| 2014 | **233** | **—** | — | — | — | 188 | 45 |
| 2013 and prior | **408** | **—** | — | — | — | — | 408 |

### Cash-back reserves

These reserves allow for the cash-back bonus which Absa idirect policyholders receive after a specified number of claim-free months. The cash-back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. The cash-back reserve provision at the reporting date amounted to **R32.5m** (2017: R26.9m).

### Assumption risk

Assumptions are required in order to set premium rates and to assess the eventual cost of liabilities. Absa continually monitors its experience relative to that assumed when setting premiums or valuing liabilities to reduce potential losses because of assumption risk.

### Concentration risk

The main source of concentration risk is exposure to personal property, personal lines and commercial insurance business. The table below shows the geographical exposure based on the sum assured in each region.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Rm | % | Rm | % |
| South Africa | | | | |
| Pretoria | **107 861** | **15.1** | 106 642 | 15.2 |
| Johannesburg | **98 457** | **13.8** | 95 417 | 13.6 |
| East Rand | **83 425** | **11.7** | 79 982 | 11.4 |
| Others | **422 681** | **59.3** | 419 554 | 59.8 |
| | **712 424** | **100** | 701 595 | 100 |

# 62. Risk management (continued)

## 62.7 Insurance risk management (continued)

The maximum expected loss for a one in 250-year event is a loss of **R2.5bn** (2017: R2.5bn). This shows a 'real' decrease in the catastrophe exposure when compared to the premium growth achieved. The reason for the decrease is due to the declining number of high sum-insured risks in the Property book. Catastrophe cover is purchased to cover losses up to **R3.0bn** (2017: R3.0bn).

### Insurance risks applicable to both life and non-life insurance

**Insurance-related investment risks**

Investment risk relates to the variability in the value of life and non-life shareholder assets and of assets backing policyholder liabilities. Interest rate/equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

For entities outside of South Africa, the shareholder funds are invested in money market type instruments, with the exception of Barclays Life Assurance Kenya where the shareholder assets are invested in government bonds. The table below shows the shareholder funds asset allocation for Absa Life excluding the effect of intragroup transactions.

| Absa Life shareholder funds – actual asset allocation (%) | 2018 % | 2017 % |
|---|---|---|
| Offshore equities | — | 6 |
| Offshore alternatives and cash | — | 3 |
| Domestic equities | — | 18 |
| Domestic bonds | — | 10 |
| Domestic cash and money market instruments | **100** | 63 |
| | **100** | 100 |

The Life insurance shareholders' funds in South Africa were previously invested in a diversified portfolio to provide secure and stable growth over the long term. Due to prolonged volatility in domestic equity and bonds as well as offshore investments, management decided to disinvest from these asset classes in favour of domestic cash investments.

Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the Insurance Investment Management Policy under the IPRCF.

A single investment strategy is maintained for non-life insurance shareholder assets and for assets backing non-life insurance policyholder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

Liquidity risk is managed in the non-life insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds.

### Capital management for insurance entities

**Regulatory capital**

SAM is a risk-based regulatory regime established for the prudential regulation of South African Life and Non-life insurers. SAM was effective 1 July 2018 and replaced the previous statutory regime, i.e. Capital Adequacy Requirement (CAR). The Solvency Capital Requirement (SCR) under SAM is determined using prescribed Standard Formula methodology which is calibrated to correspond to the value-at-risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period. The AFS insurance group SCR is aggregated using SAM Deduction and Aggregation approach. The capital requirements for non-South African insurance entities are based on relevant local regulatory requirements.

Current target capital levels and dividend policies for South Africa entities are set with reference to the new SAM regulatory reporting regime.

### Solvency position

The SAM solvency position for AFS as an insurance group as at 31 December 2018 will be submitted to the regulator by 30 April 2019. AFS was solvent as at 30 June 2018 with a capital cover of 1.92.

## 63. Going concern

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, these consolidated financial statements are prepared on a going concern basis.

## 64. Events after the reporting period

Absa Group Limited CEO, Maria Ramos, announced her retirement on 29 January 2019, effective 28 February 2019. The Board has appointed René van Wyk as Absa's 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 IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2018 and the date of authorisation of these annual consolidated and separate financial statements.

## 65. Directors' and prescribed officers' remuneration

The Group's Remuneration Committee's (RemCo) mandate includes ensuring that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of pay are benchmarked against the market, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures focus on business imperatives including, importantly, financial performance. Risk management is carefully considered.

The Group's remuneration approach complies with the regulatory and statutory provisions relating to reward governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa and other relevant jurisdictions in which we conduct business operations.

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## 65. Directors' and prescribed officers' remuneration (continued)

### Combined tables for 2018 total remuneration

| Executive directors | Maria Ramos 2018 R | Maria Ramos 2017 R | David Hodnett[2] 2018 R | David Hodnett[2] 2017 R |
|---|---|---|---|---|
| Salary | **8 607 951** | 8 130 855 | **2 481 271** | 6 656 796 |
| Role based pay | **4 875 000** | 6 500 000 | **1 868 280** | 5 000 000 |
| Medical aid | **115 788** | 106 476 | **55 658** | 136 980 |
| Pension | **166 486** | 175 000 | **66 993** | 175 000 |
| Other employee benefits | **49 210** | 46 981 | **1 904 475** | 40 536 |
| **Total fixed remuneration** | **13 814 435** | 14 959 312 | **6 376 677** | 12 009 312 |
| Non-deferred cash award | **7 950 000** | 3 000 000 | **—** | 2 900 000 |
| Non-deferred share award | **—** | 3 000 000 | **—** | 2 900 000 |
| Deferred cash award[1] | **3 975 000** | 4 500 000 | **—** | 4 350 000 |
| Deferred share award[1] | **3 975 000** | 4 500 000 | **—** | 4 350 000 |
| **Total variable remuneration** | **15 900 000** | 15 000 000 | **—** | 14 500 000 |
| **Total remuneration** | **29 714 435** | 29 959 312 | **6 376 677** | 26 509 312 |

| Prescribed officers | Nomkhita Nqweni 2018 R | Nomkhita Nqweni 2017 R | Arrie Rautenbach[3] 2018 R | Arrie Rautenbach[3] 2017 R |
|---|---|---|---|---|
| Salary | **4 847 120** | 4 667 804 | **3 709 282** | n/a |
| Role based pay | **1 875 000** | 2 500 000 | **1 194 444** | n/a |
| Medical aid | **59 064** | 54 444 | **96 337** | n/a |
| Pension | **225 143** | 175 000 | **120 632** | n/a |
| Other employee benefits | **46 765** | 112 064 | **335 929** | n/a |
| **Total fixed remuneration** | **7 053 092** | 7 509 312 | **5 456 624** | n/a |
| Non-deferred cash award | **3 000 000** | 1 200 000 | **5 652 500** | n/a |
| Non-deferred share award | **—** | 1 200 000 | **—** | n/a |
| Deferred cash award | **1 500 000** | 1 800 000 | **2 826 250** | n/a |
| Deferred share award | **1 500 000** | 1 800 000 | **2 826 250** | n/a |
| **Total variable remuneration** | **6 000 000** | 6 000 000 | **11 305 000** | n/a |
| **Total remuneration** | **13 053 092** | 13 509 312 | **16 761 624** | n/a |

### Board appointment dates and contract terms

Maria Ramos was appointed to the Board on 1 March 2009. Peter Matlare and Jason Quinn were appointed to the Board on 1 August 2016 and 1 September 2016 respectively. David Hodnett was appointed on 1 March 2010, resigned from the Board on 15 May 2018. Nomkhita Nqweni became a prescribed officer on 1 October 2015. Arrie Rautenbach became a prescribed officer on 9 April 2018. Charles Russon became a prescribed officer on 5 November 2018. Temi Ofong and Mike Harvey were appointed as co-Chief Executive Officers of Corporate and Investment Bank from 9 April to 31 October 2018 and were invited to attend the executive meetings during this period. They were prescribed officers for that period. Craig Bond was appointed 1 January 2013 and ceased to be a prescribed officer from May 2017. All executive directors and prescribed officers have a notice period of six months.

[1] The election between deferred cash award and deferred share award will be made once the Group is no longer in a closed period.

[2] David Hodnett resigned as a member of the Board and the Executive Committee effective 15 May 2018. He remained an employee of the Group for the remainder of 2018, and his total pension contribution for 2018 was R169 017.

[3] The amounts reflected for Arrie Rautenbach, Charles Russon, Temi Ofong and Mike Harvey are pro-rated.

[4] Craig Bond stepped down from the Executive Committee effective 15 May 2017 and was therefore no longer a prescribed officer. The amounts are pro-rated. His total pension contribution for 2018 was **R142 621** (2017: R175 000).

| Jason Quinn | | Peter Matlare | | Total | |
|---|---|---|---|---|---|
| **2018 R** | 2017 R | **2018 R** | 2017 R | **2018 R** | 2017 R |
| **5 269 074** | 4 793 007 | **5 963 759** | 5 806 948 | **22 322 055** | 25 387 606 |
| **—** | — | **2 625 000** | 3 500 000 | **9 368 280** | 15 000 000 |
| **98 436** | 90 732 | **198 528** | 182 568 | **468 410** | 516 756 |
| **418 519** | 392 593 | **480 633** | 481 482 | **1 132 631** | 1 224 075 |
| **40 321** | 32 981 | **39 154** | 38 314 | **2 033 160** | 158 812 |
| **5 826 350** | 5 309 313 | **9 307 074** | 10 009 312 | **35 324 536** | 42 287 249 |
| **5 898 000** | 1 600 000 | **5 505 000** | 2 000 000 | **19 353 000** | 9 500 000 |
| **—** | 1 600 000 | **—** | 2 000 000 | **—** | 9 500 000 |
| **2 949 000** | 2 400 000 | **2 752 500** | 3 000 000 | **9 676 500** | 14 250 000 |
| **2 949 000** | 2 400 000 | **2 752 500** | 3 000 000 | **9 676 500** | 14 250 000 |
| **11 796 000** | 8 000 000 | **11 010 000** | 10 000 000 | **38 706 000** | 47 500 000 |
| **17 622 350** | 13 309 313 | **20 317 074** | 20 009 312 | **74 030 536** | 89 787 249 |

| Charles Russon[3] | | Temi Ofong[3] | | Mike Harvey[3] | | Craig Bond[4] | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **2018 R** | 2017 R | **2018 R** | 2017 R | **2018 R** | 2017 R | **2018 R** | 2017 R | **2018 R** | 2017 R |
| **874 952** | n/a | **2 295 879** | n/a | **2 493 695** | n/a | **—** | 2 376 276 | **14 220 928** | 7 044 080 |
| **—** | n/a | **1 433 333** | n/a | **1 433 333** | n/a | **—** | 2 083 333 | **5 936 110** | 4 583 333 |
| **25 751** | n/a | **38 649** | n/a | **83 581** | n/a | **—** | 57 075 | **303 382** | 111 519 |
| **25 007** | n/a | **95 207** | n/a | **95 168** | n/a | **—** | 72 917 | **561 157** | 247 917 |
| **5 615** | n/a | **183 152** | n/a | **17 257** | n/a | **—** | 15 112 | **588 718** | 127 176 |
| **931 325** | n/a | **4 046 220** | n/a | **4 123 034** | n/a | **—** | 4 604 713 | **21 610 295** | 12 114 025 |
| **4 178 000** | n/a | **5 160 750** | n/a | **5 160 750** | n/a | **—** | 833 333 | **23 152 000** | 2 033 333 |
| **—** | n/a | **—** | n/a | **—** | n/a | **—** | 833 333 | **—** | 2 033 333 |
| **2 089 000** | n/a | **2 580 375** | n/a | **2 580 375** | n/a | **—** | 833 333 | **11 576 000** | 2 633 333 |
| **2 089 000** | n/a | **2 580 375** | n/a | **2 580 375** | n/a | **—** | 833 333 | **11 576 000** | 2 633 333 |
| **8 356 000** | n/a | **10 321 500** | n/a | **10 321 500** | n/a | **—** | 3 333 332 | **46 304 000** | 9 333 332 |
| **9 287 325** | n/a | **14 367 720** | n/a | **14 444 534** | n/a | **—** | 7 938 045 | **67 914 295** | 21 447 357 |

## 65. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period) and role based pay delivered as phantom shares in the year.

| | Group 2018 | | | |
|---|---|---|---|---|
| | Number of shares under award at 1 January 2018 | Number of shares awarded during 2018 | Share price on award R | Number of shares released during 2018 |
| **Executive directors** | | | | |
| **Maria Ramos** | | | | |
| Share value plan 2015 – 2017 | 15 226 | — | — | 15 226 |
| Share value plan 2016 – 2018[1] | 37 542 | — | — | 18 770 |
| Share value plan 2017 – 2019[1] | 28 497 | — | — | 9 499 |
| Share value plan 2018 – 2020 | — | 22 822 | 197.17 | — |
| Role based pay March 2014[1] | 5 028 | — | — | 5 028 |
| Role based pay June 2014[1] | 4 184 | — | — | 4 184 |
| Role based pay October 2014[1] | 3 866 | — | — | 3 866 |
| Role based pay December 2014[1] | 3 716 | — | — | 3 716 |
| Role based pay March 2015[1] | 5 155 | — | — | 5 155 |
| Role based pay June 2015[1] | 5 337 | — | — | 5 337 |
| Role based pay September 2015[1] | 5 463 | — | — | 5 463 |
| Role based pay December 2015[1] | 6 096 | — | — | 6 096 |
| Role based pay March 2016[1] | 4 453 | — | — | 2 598 |
| Role based pay June 2016[1] | 4 475 | — | — | 2 612 |
| Role based pay September 2016[1] | 4 463 | — | — | 2 605 |
| Role based pay December 2016[1] | 4 094 | — | — | 2 389 |
| Role based pay March 2017[1] | 5 145 | — | — | 1 715 |
| Role based pay June 2017[1] | 5 589 | — | — | 1 863 |
| Non-deferred share award 2018 | — | 15 215 | 197.17 | 15 215 |
| Restricted award – Share value plan 2016[1] | 55 290 | — | — | 36 860 |
| Restricted award – Share value plan 2017 | 56 893 | — | — | — |
| Long-term incentive award 2017 | 165 870 | — | — | — |
| **Total** | **426 382** | **38 037** | | **148 197** |
| **David Hodnett[2]** | | | | |
| Share value plan 2015 – 2017 | 14 274 | — | — | — |
| Share value plan 2016 – 2018 | 35 624 | — | — | — |
| Share value plan 2017 – 2019 | 27 547 | — | — | — |
| Share value plan 2018 – 2020 | — | 22 062 | 197.17 | — |
| Non-deferred share award 2018 | — | 14 708 | 197.17 | — |
| Restricted award – Share value plan 2016 | 48 379 | — | — | — |
| Restricted award – Share value plan 2017 | 49 781 | — | — | — |
| Long-term incentive award 2017 | 145 137 | — | — | — |
| **Total** | **320 742** | **36 770** | | **—** |
| **Peter Matlare** | | | | |
| Share value plan 2017 – 2019[1] | 7 599 | — | — | 2 533 |
| Share value plan 2018 – 2020 | — | 30 430 | 197.17 | — |
| Non-deferred share award 2018 | — | 10 143 | 197.17 | 10 143 |
| Long-term incentive award 2017 | 134 770 | — | — | — |
| **Total** | **142 369** | **40 573** | | **12 676** |

[1] Change in vesting date from five-year deferral to three-year deferral and shares are no longer subject to holding periods.
[2] David Hodnett's share-based long-term incentive includes awards until his resignation as an executive director on 15 May 2018.
[3] Due to different vesting dates different share prices are used to calculate the value of the release.

Group 2018

| Market price on release date R | Value of release (pre-tax) R | Value of dividend released (pre-tax) R | Number of shares/options lapsed in 2018 | Number of shares under award at 31 December 2018 | Last scheduled vesting date |
|---|---|---|---|---|---|
| 162.55 | 2 474 986 | 539 341 | — | — | 2018/09/01 |
| 162.55 | 3 051 064 | 569 575 | — | 18 772 | 2019/03/01 |
| 162.55/154.00 | 1 511 572 | 182 136 | — | 18 998 | 2020/03/01 |
| — | — | — | — | 22 822 | 2021/03/01 |
| 192.54/156.90 | 878 492 | 279 354 | — | — | 2018/12/01 |
| 170.33/156.90 | 684 565 | 207 527 | — | — | 2018/12/01 |
| 162.94/156.90 | 618 251 | 168 797 | — | — | 2018/12/01 |
| 156.90 | 583 040 | 171 021 | — | — | 2018/12/01 |
| 192.54/156.90 | 870 049 | 228 432 | — | — | 2018/12/01 |
| 170.33/156.90 | 861 267 | 209 638 | — | — | 2018/12/01 |
| 162.94/156.90 | 868 144 | 212 016 | — | — | 2018/12/01 |
| 156.90 | 956 462 | 215 738 | — | — | 2018/12/01 |
| 192.54/156.90 | 447 294 | 84 174 | — | 1 855 | 2019/03/01 |
| 170.33/156.90 | 424 838 | 68 150 | — | 1 863 | 2019/06/01 |
| 162.94/156.90 | 415 459 | 66 834 | — | 1 858 | 2019/09/01 |
| 156.90 | 374 834 | 53 503 | — | 1 705 | 2019/12/01 |
| 192.54/156.90 | 305 757 | 29 239 | — | 3 430 | 2020/03/01 |
| 170.33/156.90 | 307 306 | 25 026 | — | 3 726 | 2020/06/01 |
| 154.00 | 2 343 110 | 158 004 | — | — | 2018/12/01 |
| 154.00 | 5 676 440 | 582 582 | — | 18 430 | 2019/09/30 |
| — | — | — | — | 56 893 | 2020/09/30 |
| — | — | — | — | 165 870 | 2020/07/31 |
| | 23 652 930 | 4 051 087 | — | 316 222 | |
| — | — | — | — | 14 274 | 2018/09/01 |
| — | — | — | — | 35 624 | 2019/09/01 |
| — | — | — | — | 27 547 | 2022/09/01 |
| — | — | — | — | 22 062 | 2023/09/01 |
| — | — | — | — | 14 708 | 2019/03/01 |
| — | — | — | — | 48 379 | 2022/03/30 |
| — | — | — | — | 49 781 | 2020/09/30 |
| — | — | — | — | 145 137 | 2020/07/31 |
| | — | — | — | 357 512 | |
| 162.55/154.00 | 403 069 | 48 766 | — | 5 066 | 2020/03/01 |
| — | — | — | — | 30 430 | 2021/03/01 |
| 154.00 | 1 562 022 | 105 182 | — | — | 2018/12/01 |
| — | — | — | — | 134 770 | 2020/07/31 |
| | 1 965 091 | 153 948 | — | 170 266 | |

## 65. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives (continued)

| | Group 2018 | | | |
|---|---|---|---|---|
| | Number of shares under award at 1 January 2018 | Number of shares awarded during 2018 | Share price on award R | Number of shares released during 2018 |
| **Executive directors** | | | | |
| **Jason Quinn[1]** | | | | |
| Share value plan 2015 – 2017 | 1 586 | — | — | 1 586 |
| Share value plan 2016 – 2018[2] | 3 654 | — | — | 1 826 |
| Share value plan 2017 – 2019[2] | 9 499 | — | — | 3 165 |
| Share value plan 2018 – 2020 | — | 12 172 | 197.17 | — |
| Non-deferred share award 2018 | — | 8 114 | 197.17 | 8 114 |
| Restricted award – Share value plan 2016[2] | 20 733 | — | — | 13 822 |
| Restricted award – Share value plan 2017 | 21 334 | — | — | — |
| Long-term incentive award 2017 | 96 758 | — | — | — |
| **Total** | 153 564 | 20 286 | | 28 513 |
| **Prescribed officers** | | | | |
| **Nomkhita Nqweni[3]** | | | | |
| Share value plan 2015 – 2017 | 2 538 | — | — | 2 538 |
| Share value plan 2016 – 2018[2] | 14 524 | — | — | 7 260 |
| Share value plan 2017 – 2019[2] | 12 348 | — | — | 4 116 |
| Share value plan 2018 – 2020 | — | 9 129 | 197.17 | — |
| Non-deferred share award 2018 | — | 6 086 | 197.17 | 6 086 |
| Restricted award – Share value plan 2016[2] | 20 733 | — | — | 13 822 |
| Restricted award – Share value plan 2017 | 21 334 | — | — | — |
| Long-term incentive award 2017 | 96 758 | — | — | — |
| **Total** | 168 235 | 15 215 | | 33 822 |
| **Arrie Rautenbach[4]** | | | | |
| Share value plan 2015 – 2017 | 2 379 | — | — | 2 379 |
| Share value plan 2016 – 2018 | 14 524 | — | — | 7 260 |
| Share value plan 2017 – 2019 | 17 098 | — | — | 5 699 |
| Share value plan 2018 – 2020 | 27 388 | — | — | — |
| Non-deferred share award 2018 | 9 129 | — | — | 9 129 |
| Restricted award – Share value plan 2016 | 34 556 | — | — | 23 037 |
| Restricted award – Share value plan 2017 | 35 558 | — | — | — |
| Long-term incentive award 2017 | 103 669 | — | — | — |
| **Total** | 244 301 | — | — | 47 504 |
| **Charles Russon[5]** | | | | |
| Share value plan 2016 – 2018 | 6 852 | — | — | — |
| Share value plan 2017 – 2019 | 12 159 | — | — | 2 027 |
| Share value plan 2018 – 2020 | 24 344 | — | — | — |
| Non-deferred share award 2018 | 8 114 | — | — | 8 114 |
| Restricted award – Share value plan 2016 | 34 556 | — | — | 23 037 |
| Restricted award – Share value plan 2017 | 35 558 | — | — | — |
| Long-term incentive award 2017 | 93 302 | — | — | — |
| **Total** | 214 885 | — | — | 33 178 |

[1] Includes awards received prior to being appointed as an executive director in 2016.
[2] Change in vesting date from five-year deferral to three-year deferral and shares are no longer subject to holding periods.
[3] Includes awards received prior to Nomkhita Nqweni becoming a prescribed officer on 1 October 2015.
[4] Arrie Rautenbach's outstanding share-based long-term incentives include the period he was a prescribed officer from 9 April to 31 December 2018.
[5] Charles Russon's outstanding share-based long-term incentives include the period he was a prescribed officer from 5 November to 31 December 2018.
[6] Due to different vesting dates different share prices are used to calculate the value of the release.

| Group 2018 | | | | | |
|---|---|---|---|---|---|
| Market price on release date[6] R | Value of release (pre-tax) R | Value of dividend released R | Number of shares/options lapsed in 2018 | Number of shares under award at 31 December 2018 | Last scheduled vesting date |
| 162.55 | 257 804 | 56 242 | — | — | 2018/09/01 |
| 162.55 | 296 816 | 55 430 | — | 1 828 | 2019/03/01 |
| 162.55/154.00 | 503 646 | 60 760 | — | 6 334 | 2020/03/01 |
| — | — | — | — | 12 172 | 2021/03/01 |
| 154.00 | 1 249 556 | 84 238 | — | — | 2018/12/01 |
| 154.00 | 2 128 588 | 218 526 | — | 6 911 | 2019/09/30 |
| — | — | — | — | 21 334 | 2020/09/30 |
| — | — | — | — | 96 758 | 2020/07/31 |
| | 4 436 410 | 475 196 | — | 145 337 | |
| 162.55 | 412 552 | 89 890 | — | — | 2018/09/01 |
| 162.55 | 1 180 113 | 219 768 | — | 7 264 | 2019/03/01 |
| 162.55/154.00 | 654 974 | 78 941 | — | 8 232 | 2020/03/01 |
| — | — | — | — | 9 129 | 2021/03/01 |
| 154.00 | 937 244 | 63 294 | — | — | 2018/12/01 |
| 154.00 | 2 128 588 | 218 526 | — | 6 911 | 2019/09/30 |
| — | — | — | — | 21 334 | 2020/09/30 |
| — | — | — | — | 96 758 | 2020/07/31 |
| | 5 313 471 | 670 419 | — | 149 628 | |
| 162.55 | 386 706 | 84 201 | — | — | 2018/09/01 |
| 162.55 | 1 180 113 | 219 768 | — | 7 264 | 2019/03/01 |
| 162.55/154.00 | 906 878 | 109 167 | — | 11 399 | 2020/03/01 |
| — | — | — | — | 27 388 | 2021/03/01 |
| 154.00 | 1 405 866 | 94 710 | — | — | 2018/12/01 |
| 154.00 | 3 547 698 | 364 210 | — | 11 519 | 2019/09/30 |
| — | — | — | — | 35 558 | 2020/09/30 |
| — | — | — | — | 103 669 | 2020/07/31 |
| | 7 427 261 | 872 056 | — | 196 797 | |
| — | — | — | — | 6 852 | 2019/03/01 |
| 154.00 | 312 158 | 44 506 | — | 10 132 | 2020/03/01 |
| — | — | — | — | 24 344 | 2021/03/01 |
| 154.00 | 1 249 556 | 84 238 | — | — | 2018/12/01 |
| 154.00 | 3 547 698 | 364 210 | — | 11 519 | 2019/09/30 |
| — | — | — | — | 35 558 | 2020/09/30 |
| — | — | — | — | 93 302 | 2020/07/31 |
| | 5 109 412 | 492 954 | — | 181 707 | |

## 65. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives (continued)

| | Group 2018 | | | |
|---|---|---|---|---|
| | Number of shares under award at 1 January 2017 | Number of shares awarded during 2017 | Share price on award R | Number of shares released during 2017 |
| **Prescribed officers** | | | | |
| **Mike Harvey[1]** | | | | |
| Share value plan 2015 – 2017 | 6 744 | — | — | 6 744 |
| Share value plan 2016 – 2018 | 7 764 | — | — | 3 882 |
| Share value plan 2017 – 2019 | 15 578 | — | — | 3 115 |
| Share value plan 2018 – 2020 | 30 430 | — | — | — |
| Non-deferred share award 2018 | 10 143 | — | — | — |
| Restricted award – Share value plan 2016 | 15 550 | — | — | — |
| Restricted award – Share value plan 2017 | 16 001 | — | — | — |
| Long-term incentive award 2017 | 82 935 | — | — | — |
| **Total** | 185 145 | — | | 13 741 |
| **Temi Ofong[1]** | | | | |
| Share value plan 2015 – 2017 | 4 097 | — | — | 4 097 |
| Share value plan 2016 – 2018 | 18 840 | — | — | 9 418 |
| Share value plan 2017 – 2019 | 16 718 | — | — | 3 343 |
| Share value plan 2018 – 2020 | 15 215 | — | — | — |
| Non-deferred share award 2018 | 10 143 | — | — | — |
| Restricted award – Share value plan 2016 | 15 550 | — | — | — |
| Restricted award – Share value plan 2017 | 16 001 | — | — | — |
| Long-term incentive award 2017 | 82 935 | — | — | — |
| **Total** | 179 499 | — | | 16 858 |

[1] Mike Harvey and Temi Ofong's outstanding share-based long-term incentives include incentives for the period they were prescribed officers (9 April to 31 October 2018).

[2] Due to different vesting dates different share prices are used to calculate the value of the release.

# Notes to the consolidated financial statements

for the reporting period ended 31 December

| Group 2018 | | | | | |
|---|---|---|---|---|---|
| Market price on release date[2] R | Value of release (pre-tax) R | Value of dividend released R | Number of shares/options lapsed in 2017 | Number of shares under award at 31 December 2017 | Last scheduled vesting date |
| | | | | | |
| 162.55 | 1 096 237 | 238 949 | — | — | 2018/09/01 |
| 162.55 | 631 019 | 117 686 | — | 3 882 | 2019/03/01 |
| 162.55 | 506 343 | 53 967 | — | 12 463 | 2020/03/01 |
| — | — | — | — | 30 430 | 2021/03/01 |
| — | — | — | — | 10 143 | 2018/12/01 |
| — | — | — | — | 15 550 | 2019/09/30 |
| — | — | — | — | 16 001 | 2020/09/30 |
| — | — | — | — | 82 935 | 2020/07/31 |
| | 2 233 599 | 410 602 | — | 171 404 | |
| 162.55 | 665 967 | 144 995 | — | — | 2018/09/01 |
| 162.55 | 1 530 896 | 286 088 | — | 9 422 | 2019/03/01 |
| 162.55 | 543 405 | 57 705 | — | 13 375 | 2020/03/01 |
| — | — | — | — | 15 215 | 2021/03/01 |
| — | — | — | — | 10 143 | 2018/12/01 |
| — | — | — | — | 15 550 | 2019/09/30 |
| — | — | — | — | 16 001 | 2020/09/30 |
| — | — | — | — | 82 935 | 2020/07/31 |
| | 2 740 268 | 488 788 | — | 162 641 | |

# 65. Directors' and prescribed officers' remuneration (continued)

## Outstanding share-based long-term incentives (continued)

| | Group 2017 | | | |
|---|---|---|---|---|
| | Number of shares under award at 1 January 2017 | Number of shares awarded during 2017 | Share price on award R | Number of shares released during 2017 |
| **Executive directors** | | | | |
| **Maria Ramos** | | | | |
| Barclays Africa Long-term incentive Plan 2013 – 2015[1] | 59 408 | — | 139 | 59 408 |
| Share value plan 2014 – 2016 | 17 054 | — | 129 | 17 054 |
| Share value plan 2015 – 2017 | 30 452 | — | 189 | 15 226 |
| Share value plan 2016 – 2018 | 56 312 | — | 146 | 18 770 |
| Share value plan 2017 – 2019 | — | 28 497 | 158 | — |
| Role based pay March 2014 | 7 542 | — | 129 | 2 514 |
| Role based pay June 2014 | 6 276 | — | 155 | 2 092 |
| Role based pay October 2014 | 5 798 | — | 168 | 1 932 |
| Role based pay December 2014 | 5 574 | — | 175 | 1 858 |
| Role based pay March 2015 | 6 873 | — | 189 | 1 718 |
| Role based pay June 2015 | 7 115 | — | 183 | 1 778 |
| Role based pay September 2015 | 7 284 | — | 178 | 1 821 |
| Role based pay December 2015 | 8 128 | — | 160 | 2 032 |
| Role based pay March 2016 | 5 566 | — | 146 | 1 113 |
| Role based pay June 2016 | 5 593 | — | 145 | 1 118 |
| Role based pay September 2016 | 5 578 | — | 146 | 1 115 |
| Role based pay December 2016 | 5 117 | — | 159 | 1 023 |
| Role based pay March 2017 | — | 5 145 | 158 | — |
| Role based pay June 2017 | — | 5 589 | 145 | — |
| Non-deferred share award 2017 | — | 18 998 | 158 | 18 998 |
| Restricted award – Share value plan 2016 | — | 55 290 | 145 | — |
| Restricted award – Share value plan 2017 | — | 56 893 | 141 | — |
| Long-term incentive award 2017 | — | 165 870 | 145 | — |
| **Total** | 239 670 | 336 282 | | 149 570 |
| **David Hodnett** | | | | |
| Barclays Africa Long-term incentive Plan 2013 – 2015[1] | 29 704 | — | 139 | 29 704 |
| Share value plan 2013 – 2015 | 13 257 | — | 129 | 13 257 |
| Share value plan 2014 – 2016 | 28 548 | — | 189 | 14 274 |
| Share value plan 2015 – 2017 | 53 434 | — | 146 | 17 810 |
| Share value plan 2016 – 2018 | — | 27 547 | 158 | — |
| Share value plan 2017 – 2019 | — | 18 364 | 158 | 18 364 |
| Restricted award – Share value plan 2016 | — | 48 379 | 145 | — |
| Restricted award – Share value plan 2017 | — | 49 781 | 141 | — |
| Long-term incentive award 2017 | — | 145 137 | 145 | — |
| **Total** | 124 943 | 289 208 | | 93 409 |
| **Peter Matlare** | | | | |
| Share value plan 2017 – 2019 | — | 7 599 | 158 | — |
| Non-deferred share award 2017 | — | 5 066 | 158 | 5 066 |
| Long-term incentive award 2017 | — | 134 770 | 145 | — |
| **Total** | — | 147 435 | | 5 066 |

[1] The Barclays Africa Long-term incentive plan 2013 – 2015 vested at 55% of the maximum based on performance achieved against the metrics.

| Group 2017 | | | | | |
|---|---|---|---|---|---|
| Market price on release date R | Value of release R | Value of dividend released R | Number of shares/options lapsed in 2017 | Number of shares under award at 31 December 2017 | Last scheduled vesting date |
| 139 | 8 257 712 | 582 549 | — | — | 2016/10/01 |
| 148 | 2 530 473 | 603 758 | — | — | 2017/09/01 |
| 148 | 2 259 234 | 317 533 | — | 15 226 | 2018/09/01 |
| 148 | 2 785 093 | 310 114 | — | 37 542 | 2019/09/01 |
| — | — | — | — | 28 497 | 2022/09/01 |
| 152 | 382 002 | 74 456 | — | 5 028 | 2019/03/01 |
| 145 | 304 123 | 61 348 | — | 4 184 | 2019/06/01 |
| 150 | 289 093 | 49 978 | — | 3 866 | 2019/09/01 |
| 147 | 272 745 | 57 691 | — | 3 716 | 2019/12/01 |
| 152 | 261 050 | 34 493 | — | 5 155 | 2020/03/01 |
| 145 | 258 475 | 36 198 | — | 5 337 | 2020/06/01 |
| 150 | 272 484 | 38 306 | — | 5 463 | 2020/09/01 |
| 147 | 298 288 | 44 185 | — | 6 096 | 2020/12/01 |
| 152 | 169 120 | 12 308 | — | 4 453 | 2021/03/01 |
| 145 | 162 528 | 11 048 | — | 4 475 | 2021/06/01 |
| 150 | 166 842 | 11 223 | — | 4 463 | 2021/09/01 |
| 147 | 150 171 | 10 569 | — | 4 094 | 2021/12/01 |
| — | — | — | — | 5 145 | 2022/03/01 |
| — | — | — | — | 5 589 | 2022/06/01 |
| 148 | 2 818 923 | 102 382 | — | — | 2017/09/01 |
| — | — | — | — | 55 290 | 2022/03/30 |
| — | — | — | — | 56 893 | 2020/09/30 |
| — | — | — | — | 165 870 | 2020/07/31 |
| | 21 638 356 | 2 358 139 | — | 426 382 | |
| 139 | 4 128 856 | 291 205 | — | — | 2016/10/01 |
| 148 | 1 967 074 | 469 326 | — | — | 2017/09/01 |
| 148 | 2 117 976 | 297 947 | — | 14 274 | 2018/09/01 |
| 148 | 2 642 648 | 294 089 | — | 35 624 | 2019/09/01 |
| — | — | — | — | 27 547 | 2022/09/01 |
| 148 | 2 724 850 | 98 969 | — | — | 2017/09/01 |
| — | — | — | — | 48 379 | 2022/03/30 |
| — | — | — | — | 49 781 | 2020/09/30 |
| — | — | — | — | 145 137 | 2020/07/31 |
| | 13 581 404 | 1 451 536 | — | 320 742 | |
| — | — | — | — | 7 599 | 2022/09/01 |
| 148 | 751 693 | 27 302 | — | — | 2017/09/01 |
| — | — | — | — | 134 770 | 2020/07/31 |
| | 751 693 | 27 302 | | 142 369 | |

## 65. Directors' and prescribed officers' remuneration (continued)

### Outstanding share-based long-term incentives (continued)

| | Group 2017 | | | |
|---|---|---|---|---|
| | Number of shares under award at 1 January 2017 | Number of shares awarded during 2017 | Share price on award R | Number of shares released during 2017 |
| **Executive directors** | | | | |
| **Jason Quinn[1]** | | | | |
| Share value plan 2014 – 2016 | 1 910 | — | 129 | 1 910 |
| Share value plan 2015 – 2017 | 3 172 | — | 189 | 1 586 |
| Share value plan 2016 – 2018 | 5 480 | — | 146 | 1 826 |
| Share value plan 2017 – 2019 | — | 9 499 | 158 | — |
| Retention award 2014 | 19 494 | — | 129 | 19 494 |
| Non-deferred share award 2017 | — | 6 332 | 158 | 6 332 |
| Restricted award – Share value plan 2016 | — | 20 733 | 145 | — |
| Restricted award – Share value plan 2017 | — | 21 334 | 141 | — |
| Non-deferred share award 2016 | — | 96 758 | 145 | — |
| **Total** | 30 056 | 154 656 | | 31 148 |
| **Prescribed officers** | | | | |
| **Craig Bond[2]** | | | | |
| Barclays Africa Long-term Incentive Plan 2013 – 2015[2] | 35 645 | — | 139 | 35 645 |
| Share value plan 2014 – 2016 | 16 375 | — | 129 | 16 375 |
| Share value plan 2015 – 2017 | 16 918 | — | 189 | 8 459 |
| Share value plan 2016 – 2018 | 27 950 | — | 146 | 9 316 |
| Share value plan 2017 – 2019 | — | 17 478 | 158 | — |
| Joiners share value plan | 2 704 | — | 156 | 2 704 |
| Non-deferred share award 2017 | — | 11 652 | 158 | 11 652 |
| Restricted award – Share value plan 2016 | — | 20 733 | 145 | — |
| Restricted award – Share value plan 2017 | — | 21 334 | 141 | — |
| Long-term incentive award 2017 | — | 96 758 | 145 | — |
| **Total** | 99 592 | 167 955 | | 84 151 |
| **Nomkhita Nqweni[3]** | | | | |
| Barclays Africa Long-term Incentive Plan 2013 – 2015[2] | 11 881 | — | 139 | 11 881 |
| Share value plan 2014 – 2016 | 4 641 | — | 129 | 4 641 |
| Share value plan 2015 – 2017 | 5 076 | — | 189 | 2 538 |
| Share value plan 2016 – 2018 | 21 784 | — | 146 | 7 260 |
| Share value plan 2017 – 2019 | — | 12 348 | 158 | — |
| Non-deferred share award 2017 | — | 8 232 | 158 | 8 232 |
| Restricted award – Share value plan 2016 | — | 20 733 | 145 | — |
| Restricted award – Share value plan 2017 | — | 21 334 | 141 | — |
| Long-term incentive award 2017 | — | 96 758 | 145 | — |
| **Total** | 43 382 | 159 405 | | 34 552 |

[1] Jason Quinn's outstanding share-based long-term incentives include awards received prior to becoming an executive director in 2016.

[2] Craig Bond stepped down from the executive committee effective 15 May 2017. The number of share awards at 31 December 2017 have been disclosed although Craig Bond is no longer a prescribed officer.

[3] Nomkhita Nqweni's outstanding share-based long-term incentives include awards received prior to becoming a prescribed officer on 1 October 2015.

| | | Group 2017 | | | |
|---|---|---|---|---|---|
| Market price on release date R | Value of release R | Value of dividend released R | Number of shares/options lapsed in 2017 | Number of shares under award at 31 December 2017 | Last scheduled vesting date |
| 152 | 290 225 | 56 525 | — | — | 2017/09/01 |
| 148 | 235 331 | 33 089 | — | 1 586 | 2018/09/01 |
| 148 | 270 942 | 30 121 | — | 3 654 | 2019/09/01 |
| — | — | — | — | 9 499 | 2022/09/01 |
| 152 | 2 962 113 | 578 170 | — | — | 2017/03/01 |
| 148 | 939 542 | 34 127 | — | — | 2017/09/01 |
| — | — | — | — | 20 733 | 2022/03/30 |
| — | — | — | — | 21 334 | 2020/09/30 |
| — | — | — | — | 96 758 | 2020/07/31 |
| | 4 698 153 | 732 032 | — | 153 564 | |
| 139 | 4 954 655 | 349 446 | — | — | 2016/10/01 |
| 148 | 2 429 723 | 579 572 | — | — | 2017/09/01 |
| 148 | 1 255 146 | 176 572 | — | 8 459 | 2018/09/01 |
| 148 | 1 382 308 | 153 870 | — | 18 634 | 2019/09/01 |
| — | — | — | — | 17 478 | 2022/09/01 |
| 152 | 410 873 | 132 045 | — | — | 2017/03/31 |
| 148 | 1 728 924 | 62 765 | — | — | 2017/09/01 |
| — | — | — | — | 20 733 | 2022/03/30 |
| — | — | — | — | 21 334 | 2020/09/30 |
| — | — | — | — | 96 758 | 2020/07/31 |
| | 12 161 629 | 1 454 270 | — | 183 396 | |
| 139 | 1 651 459 | 116 482 | — | — | 2016/10/01 |
| 152 | 705 200 | 137 667 | — | — | 2017/09/01 |
| 148 | 376 588 | 52 823 | — | 2 538 | 2018/09/01 |
| 148 | 1 077 239 | 119 594 | — | 14 524 | 2019/09/01 |
| — | — | — | — | 12 348 | 2022/09/01 |
| 148 | 1 221 464 | 44 366 | — | — | 2017/09/01 |
| — | — | — | — | 20 733 | 2022/03/30 |
| — | — | — | — | 21 334 | 2020/09/30 |
| — | — | — | — | 96 758 | 2020/07/31 |
| | 5 031 950 | 470 932 | — | 168 235 | |

## 65. Directors' and prescribed officers' remuneration (continued)

### Outstanding cash-based long-term awards (continued)

| | Group 2018 | | | | |
|---|---|---|---|---|---|
| | Value under award at 1 January 2018 R | Maximum potential value at 1 January 2018 R | Value awarded in the year R | Value released in the year R | Value forfeited in the year R |
| **Executive directors** | | | | | |
| **Maria Ramos** | | | | | |
| Cash value plan 2017 – 2019[1] | 4 500 000 | 4 950 000 | — | 1 500 000 | — |
| Cash value plan 2018 – 2020 | — | — | 4 500 000 | — | — |
| **Total** | 4 500 000 | 4 950 000 | 4 500 000 | 1 500 000 | — |
| **David Hodnett[2]** | | | | | |
| Cash value plan 2017 – 2019 | 4 350 000 | 4 785 000 | — | 870 000 | — |
| Cash value plan 2018 – 2020 | — | — | 4 350 000 | — | — |
| **Total** | 4 350 000 | 4 785 000 | 4 350 000 | 870 000 | — |
| **Peter Matlare** | | | | | |
| Cash value plan 2017 – 2019[1] | 1 200 000 | 1 320 000 | — | 400 000 | — |
| **Total** | 1 200 000 | 1 320 000 | — | 400 000 | — |
| **Jason Quinn[3]** | | | | | |
| Cash value plan 2015 – 2017 | 300 000 | 390 000 | — | 300 000 | — |
| Cash value plan 2016 – 2018 | 533 334 | 613 334 | — | 266 667 | — |
| Cash value plan 2017 – 2019[1] | 1 500 000 | 1 650 000 | — | 500 000 | — |
| Cash value plan 2018 – 2020 | — | — | 2 400 000 | — | — |
| **Total** | 2 333 334 | 2 653 334 | 2 400 000 | 1 066 667 | — |
| **Prescribed officers** | | | | | |
| **Nomkhita Nqweni[4]** | | | | | |
| Cash value plan 2015 – 2017 | 480 000 | 624 000 | — | 480 000 | — |
| Cash value plan 2017 – 2019[1] | 1 950 000 | 2 145 000 | — | 650 000 | — |
| Cash value plan 2018 – 2020 | — | — | 1 800 000 | — | — |
| **Total** | 2 430 000 | 2 769 000 | 1 800 000 | 1 130 000 | — |
| **Arrie Rautenbach** | | | | | |
| Cash value plan 2017 – 2019 | 2 160 000 | 2 430 000 | — | 360 000 | — |
| **Total** | 2 160 000 | 2 430 000 | — | 360 000 | — |
| **Charles Russon** | | | | | |
| Cash value plan 2017 – 2019 | 1 920 000 | 2 160 000 | — | 320 000 | — |
| **Total** | 1 920 000 | 2 160 000 | — | 320 000 | — |
| **Mike Harvey[5]** | | | | | |
| Cash value plan 2016 – 2018 | 566 667 | 736 667 | — | — | — |
| Cash value plan 2017 – 2019 | 1 968 000 | 2 214 000 | — | — | — |
| **Total** | 2 534 667 | 2 950 667 | — | — | — |
| **Temi Ofong[5]** | | | | | |
| Cash value plan 2017 – 2019 | 2 112 000 | 2 376 000 | — | — | — |
| Cash value plan 2018 – 2020 | 3 000 000 | 3 000 000 | — | — | — |
| **Total** | 5 112 000 | 5 376 000 | — | — | — |

[1] Change in vesting date from five-year deferral to three-year deferral.
[2] David Hodnett's incentive includes awards until his resignation as executive director on 15 May 2018.
[3] Includes awards received prior to Jason Quinn being appointed as executive director in 2016.
[4] Nomkhita Nqweni and Arrie Rautenbach's outstanding cash-based long-term incentives include awards received prior to becoming prescribed officers on 1 October 2015 and 9 April 2018 respectively.
[5] Mike Harvey and Temi Ofong's outstanding cash-based long-term incentives include awards for the period they were prescribed officers from 9 April to 31 October 2018.

| Converted to equity R | Service credit awarded in the year R | Service credit released in the year R | Service credit forfeited in the year R | Value under award at 31 December 2018 R | Maximum potential value at 31 December 2018 R | Last scheduled vesting date |
|---|---|---|---|---|---|---|
| — | — | — | — | 3 000 000 | 3 450 000 | 2020/03/01 |
| — | — | — | — | 4 500 000 | 4 500 000 | 2021/03/01 |
| — | — | — | — | 7 500 000 | 7 950 000 | |
| — | — | — | — | 3 480 000 | 3 915 000 | 2022/03/01 |
| — | — | — | — | 4 350 000 | 4 350 000 | 2023/03/01 |
| — | — | — | — | 7 830 000 | 8 265 000 | |
| — | — | — | — | 800 000 | 920 000 | 2020/03/01 |
| — | — | — | — | 800 000 | 920 000 | |
| — | — | 90 000 | — | — | — | 2018/03/01 |
| — | — | — | — | 266 667 | 346 667 | 2019/03/01 |
| — | — | — | — | 1 000 000 | 1 150 000 | 2020/03/01 |
| — | — | — | — | 2 400 000 | 2 400 000 | 2021/03/01 |
| — | — | 90 000 | — | 3 666 667 | 3 896 667 | |
| — | — | 144 000 | — | — | — | 2018/03/01 |
| — | — | — | — | 1 300 000 | 1 495 000 | 2020/03/01 |
| — | — | — | — | 1 800 000 | 1 800 000 | 2021/03/01 |
| — | — | 144 000 | — | 3 100 000 | 3 295 000 | |
| — | — | — | — | 1 800 000 | 2 070 000 | 2020/03/01 |
| — | — | — | — | 1 800 000 | 2 070 000 | |
| — | — | — | — | 1 600 000 | 1 840 000 | 2020/03/01 |
| — | — | — | — | 1 600 000 | 1 840 000 | |
| — | — | — | — | 566 667 | 736 667 | 2019/03/01 |
| — | — | — | — | 1 968 000 | 2 214 000 | 2020/03/01 |
| — | — | — | — | 2 534 667 | 2 950 667 | |
| — | — | — | — | 2 112 000 | 2 376 000 | 2020/03/01 |
| — | — | — | — | 3 000 000 | 3 000 000 | 2021/03/01 |
| — | — | — | — | 5 112 000 | 5 376 000 | |

# 65. Directors' and prescribed officers' remuneration (continued)

## Outstanding cash-based long-term awards (continued)

| | Group 2017 | | | | |
|---|---|---|---|---|---|
| | Value under award at 1 January 2017 R | Maximum potential value at 1 January 2017 R | Value awarded in the year R | Value released in the year R | Value forfeited in the year R |
| **Executive directors** | | | | | |
| **Maria Ramos** | | | | | |
| Cash value plan 2014 – 2016 | 2 200 000 | 2 860 000 | — | 2 200 000 | — |
| Cash value plan 2017 – 2019 | — | — | 4 500 000 | — | — |
| Restricted award 2016[1] | 8 000 000 | 8 000 000 | — | — | — |
| **Total** | 10 200 000 | 10 860 000 | 4 500 000 | 2 200 000 | — |
| **David Hodnett** | | | | | |
| Cash value plan 2014 – 2016 | 1 700 000 | 2 210 000 | — | 1 700 000 | — |
| Cash value plan 2017 – 2019 | — | — | 4 350 000 | — | — |
| Restricted award 2016[1] | 7 000 000 | 7 000 000 | — | — | — |
| **Total** | 8 700 000 | 9 210 000 | 4 350 000 | 1 700 000 | — |
| **Peter Matlare** | | | | | |
| Cash value plan 2017 – 2019 | — | — | 1 200 000 | — | — |
| **Total** | — | — | 1 200 000 | — | — |
| **Jason Quinn[2]** | | | | | |
| Cash value plan 2014 – 2016 | 246 400 | 320 320 | — | 246 400 | — |
| Cash value plan 2015 – 2017 | 600 000 | 690 000 | — | 300 000 | — |
| Cash value plan 2016 – 2018 | 800 000 | 880 000 | — | 266 666 | — |
| Cash value plan 2017 – 2019 | — | — | 1 500 000 | — | — |
| Restricted award 2016[1] | 3 000 000 | 3 000 000 | — | — | — |
| **Total** | 4 646 400 | 4 890 320 | 1 500 000 | 813 066 | — |
| **Prescribed officers** | | | | | |
| **Craig Bond[3]** | | | | | |
| Cash value plan 2014 – 2016 | 2 100 000 | 2 730 000 | — | 2 100 000 | — |
| Cash value plan 2015 – 2017 | 3 200 000 | 3 680 000 | — | 1 600 000 | — |
| Cash value plan 2016 – 2018 | 4 080 000 | 4 488 000 | — | 1 360 000 | — |
| Cash value plan 2017 – 2019 | — | — | 2 760 000 | — | — |
| Restricted award 2016[1] | 3 000 000 | 3 000 000 | — | — | — |
| **Total** | 12 380 000 | 13 898 000 | 2 760 000 | 5 060 000 | — |
| **Nomkhita Nqweni[4]** | | | | | |
| Cash value plan 2014 – 2016 | 600 000 | 780 000 | — | 600 000 | — |
| Cash value plan 2015 – 2017 | 960 000 | 1 104 000 | — | 480 000 | — |
| Cash value plan 2017 – 2019 | — | — | 1 950 000 | — | — |
| Restricted award 2016[1] | 3 000 000 | 3 000 000 | — | — | — |
| **Total** | 4 560 000 | 4 884 000 | 1 950 000 | 1 080 000 | — |

[1] Due to JSE listing restrictions, the 2016 restricted award was made in cash but converted to equity in 2017.
[2] Jason Quinn's incentive includes awards received to his appointment as an executive director in 2016.
[3] Craig Bond stepped down from the executive committee effective 16 May 2017. The number of cash awards as at 2017 have been disclosed although he is no longer a prescribed officer.
[4] Nomkhita Nqweni's outstanding cash-based long-term incentives include awards received prior to becoming a prescribed officer on 1 October 2015.

| Converted to equity R | Service credit awarded in the year R | Service credit released in the year R | Service credit forfeited in the year R | Value under award at 31 December 2018 R | Maximum potential value at 31 December 2018 R | Last scheduled vesting date |
|---|---|---|---|---|---|---|
| — | — | 660 000 | — | — | — | 2017/03/01 |
| — | 450 000 | — | — | 4 500 000 | 4 950 000 | 2022/03/01 |
| 8 000 000 | — | — | — | — | — | 2018/09/30 |
| 8 000 000 | 450 000 | 660 000 | | 4 500 000 | 4 950 000 | |
| — | — | 510 000 | — | — | — | 2017/03/01 |
| — | 435 000 | — | — | 4 350 000 | 4 785 000 | 2022/03/01 |
| 7 000 000 | — | — | — | — | — | 2018/09/30 |
| 7 000 000 | 435 000 | 510 000 | | 4 350 000 | 4 785 000 | |
| — | 120 000 | — | — | 1 200 000 | 1 320 000 | 2022/03/01 |
| — | 120 000 | — | — | 1 200 000 | 1 320 000 | |
| — | — | 73 920 | — | — | — | 2017/03/01 |
| — | — | — | — | 300 000 | 390 000 | 2018/03/01 |
| — | — | — | — | 533 334 | 613 334 | 2019/03/01 |
| — | 150 000 | — | — | 1 500 000 | 1 650 000 | 2022/03/01 |
| 3 000 000 | — | — | — | — | — | 2018/09/30 |
| 3 000 000 | 150 000 | 73 920 | | 2 333 334 | 2 653 334 | |
| — | — | 630 000 | — | — | — | 2017/03/01 |
| — | — | — | — | 1 600 000 | 2 080 000 | 2018/03/01 |
| — | — | — | — | 2 720 000 | 3 128 000 | 2019/03/01 |
| — | 276 000 | — | — | 2 760 000 | 3 036 000 | 2022/03/01 |
| 3 000 000 | — | — | — | — | — | 2018/09/30 |
| 3 000 000 | 276 000 | 630 000 | | 7 080 000 | 8 244 000 | |
| — | — | 180 000 | — | — | — | 2017/03/01 |
| — | — | — | — | 480 000 | 624 000 | 2018/03/01 |
| — | 195 000 | — | — | 1 950 000 | 2 145 000 | 2022/03/01 |
| 3 000 000 | — | — | — | — | — | 2018/09/30 |
| 3 000 000 | 195 000 | 180 000 | | 2 430 000 | 2 769 000 | |

## 65. Directors' and prescribed officers' remuneration (continued)

### Group Chairman and non-executive directors' fees

| | Group 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | Subsidiary boards and committees | | | |
| | Group Board R | Group Board committees and sub-committees R | Absa Bank R | Absa Financial Services R | Other R | Total[9] R |
| Alex Darko[1] | 577 975 | 1 026 931 | — | — | — | **1 604 906** |
| Colin Beggs[1,2] | 671 199 | 1 667 087 | 181 655 | 53 250 | 226 074 | **2 799 265** |
| Dhanasagree (Daisy) Naidoo | 597 683 | 459 050 | — | — | — | **1 056 733** |
| Daniel (Dan) Hodge[3] | 455 277 | 257 398 | — | — | — | **712 675** |
| Francis Okomo-Okello | 577 975 | 123 384 | — | — | — | **701 359** |
| Mark Merson[1] | 617 391 | 458 771 | — | — | — | **1 076 162** |
| Mohamed Husain[1] | 612 075 | 1 171 753 | 181 655 | — | — | **1 965 483** |
| Monwabisi Fandeso[4] | 509 165 | 234 519 | — | — | — | **743 684** |
| Paul O'Flaherty[1,5] | 462 668 | 1 214 701 | 150 844 | — | — | **1 828 213** |
| René van Wyk[1] | 651 491 | 1 742 826 | 181 655 | — | — | **2 575 972** |
| Tasneem Abdool-Samad[6] | 573 318 | 246 970 | 29 205 | 639 525 | — | **1 489 018** |
| Trevor Munday[7] | 227 757 | 276 492 | 73 013 | — | — | **577 262** |
| Wendy Lucas-Bull (Group Chairman)[8] | 6 084 715 | 66 939 | — | — | — | **6 151 654** |
| Yolanda Cuba[1] | 577 975 | 463 598 | — | — | — | **1 041 573** |
| **Total** | 13 196 664 | 9 410 419 | 798 027 | 692 775 | 226 074 | **24 323 959** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | Subsidiary boards, committees and trusts | | | |
| | Group Board R | Group Board committees and sub-committees R | Absa Bank R | Absa Financial Services R | Other R | Total[9] R |
| Alex Darko[1,15] | 560 419 | 810 593 | — | — | 6 715 | 1 377 727 |
| Ashok Vaswani[10] | 253 679 | 200 979 | — | — | — | 454 658 |
| Colin Beggs[1,2] | 560 419 | 1 608 138 | 171 664 | 208 667 | 161 511 | 2 710 399 |
| Dhanasagree (Daisy) Naidoo | 560 419 | 452 211 | — | — | — | 1 012 630 |
| Daniel (Dan) Hodge[11] | 373 737 | 199 340 | — | — | — | 573 077 |
| Francis Okomo-Okello | 560 419 | 116 599 | — | — | — | 677 018 |
| Mark Merson[12] | 560 419 | 437 540 | — | — | — | 997 959 |
| Mohamed Husain[1] | 560 419 | 1 144 452 | 171 664 | — | — | 1 876 535 |
| Monwabisi Fandeso[4] | 176 293 | 79 347 | — | — | — | 255 640 |
| Patrick Clackson[13] | 165 532 | 128 960 | — | — | — | 294 492 |
| Paul O'Flaherty[1] | 518 119 | 1 402 521 | 171 664 | — | — | 2 092 304 |
| René van Wyk[1,14] | 519 036 | 1 409 642 | 157 953 | — | — | 2 086 631 |
| Trevor Munday[1] | 539 269 | 872 658 | 171 664 | — | — | 1 583 591 |
| Wendy Lucas-Bull (Group Chairman)[8] | 5 707 950 | 146 760 | — | — | — | 5 854 710 |
| Yolanda Cuba[6] | 560 419 | 497 480 | — | — | — | 1 057 899 |
| **Total** | 12 176 548 | 9 507 220 | 844 609 | 208 667 | 168 226 | 22 905 270 |

1 The GACC, GRCMC, RemCo and SEC Chairmen receive fees equal to two and a half times the fee payable to members of these committees. Chairmen of the remaining committees receive fees equal to two times the member fee.
2 Trustee of the Absa Group Pension Fund (reported under Other). Within Absa Financial Services, Colin was a member of the Actuarial and Audit Risk and Compliance Committees until 31 March 2018.
3 Fees are paid to Barclays PLC and not to the individual.
4 Monwabisi Fandeso joined the Board on 1 September 2017. He resigned from the Board effective 19 November 2018.
5 Paul O'Flaherty resigned from the Board effective 5 November 2018.
6 Tasneem Abdool-Samad joined the Group Board on 1 February 2018 and GACC on 1 April 2018. Within Absa Financial Services, Tasneem is chairman of the Audit Risk and Compliance Committee and is a member of the Board and the Actuarial Committee.
7 Trevor Munday retired from the Board effective 15 May 2018.
8 The fee applicable to the Group Chairman covers chairmanship and membership of all Board committees and sub-committees, except for attendance at the Separation Oversight Committee (a special committee established in relation to the Barclays PLC sell-down which will remain in place until completion of the separation which is anticipated to be June 2020).
9 The fees indicated above are exclusive of VAT. Where applicable VAT has been levied by the non-executive directors and such fees plus VAT were paid to the non-executive directors concerned (subject to the issue of a valid tax invoice).
10 Ashok Vaswani resigned from the Board on 30 June 2017.
11 Dan Hodge joined the Board on 1 May 2017.
12 Mark Merson remained on the Board as a non-executive director after his departure from Barclays PLC and subsequently became an independent non-executive director.
13 Patrick Clackson resigned from the Board on 30 April 2017.
14 René van Wyk joined the Board on 1 February 2017.
15 Trustee of the Share Incentive Trust (reported under Other).

# Annexure A: Embedded value report for life insurance entities (unaudited)

## Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Barclays Life Botswana Proprietary Limited, Barclays Life Zambia Limited, Global Alliance Seguros S.A., Barclays Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2018 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

## Embedded value

The present value of in-force covered business (PVIF) is the discounted value of the projected stream of future after tax shareholder profits arising in the Company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the Company's licences.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets and liabilities valued according to IFRS 4. At 31 December 2018 the required capital takes into account the solvency capital requirements as well as internal liquidity requirements, in line with the Company's dividend policy. This represents a change from the previous year as a result of the implementation of the Solvency Assessment and Management regulatory framework.

## Value of new business

The value of new business is 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 respective life insurance licences during the financial year 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.

## Embedded value and value of new business

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Free surplus[1] | **1 383** | 497 |
| Required capital | **487** | 917 |
| Covered business adjusted net worth (ANW) | **1 860** | 1 414 |
| Present value of in-force business (PVIF) | **4 793** | 4 408 |
| Cost of required capital (CoC) | **(173)** | (275) |
| **Total embedded value (EV)** | **6 481** | 5 547 |
| Value of new business (before CoC) | **717** | 636 |
| CoC | **(27)** | (36) |
| **Value of new business (VNB)** | **690** | 600 |
| Present value of future premiums (gross of reinsurance premiums) | **5 111** | 5 926 |
| Value of new business as a percentage of the present value of future premiums[2] | | |
| All business (%) | **14** | 10.1 |
| Excluding investment business (%) | **18.6** | 17.2 |

1 A full year dividend of **R665m** (2017: R763m) was proposed for the reporting period ended 31 December 2018.

2 Reported gross of reinsurance premiums.

# Annexure A: Embedded value report for life insurance entities (unaudited)

## Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions used in the statutory valuation. These assumptions were based on recent experience investigations.

For Absa Life Limited, the government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve. The economic assumptions used including certain representative points on the risk-free curve are as follows (gross of tax where applicable):

| | 2018 Absa Life Limited Rm | 2017 Absa Life Limited Rm |
|---|---|---|
| Risk-free rate of return: | | |
| 1-year term | **6.08** | 7.26 |
| 5-year term | **8.64** | 8.08 |
| 10-year term | **9.77** | 9.29 |
| 20-year term | **10.63** | 10.45 |
| Equity return differential | **3.36** | 3.36 |
| Cash return differential | **(2.00)** | (2.00) |
| Overall investment return differential | **(0.44)** | (0.44) |
| Risk discount rate differential | **3.15** | 3.15 |

For the non-South African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3.5%, plus a further company risk specific margin of 0.25%. The economic assumptions used including the country-specific risk-free rates for the non-South African life insurance entities are as follows (gross of tax where applicable):

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Barclays Life Botswana Proprietary Limited Rm | Barclays Life Zambia Limited Rm | Global Alliance Seguros S.A. Rm | Barclays Life Kenya Limited Rm | Barclays Life Botswana Proprietary Limited Rm | Barclays Life Zambia Limited Rm | Global Alliance Seguros S.A. Rm | Barclays Life Kenya Limited Rm |
| Risk-free rate of return | **4** | **19.3** | **20** | **12** | 4.0 | 21.5 | 20.0 | 12.5 |
| Equity return – unhedged | **n/a** | **n/a** | **n/a** | **n/a** | n/a | n/a | n/a | n/a |
| Cash return | **4** | **16.8** | **18** | **0** | 4.0 | 19.0 | 18.0 | 0.0 |
| Overall investment return | **2** | **16.8** | **20** | **12.5** | 2.0 | 19.0 | 20.0 | 12.5 |
| Risk discount rate | **7.4** | **22.7** | **23.4** | **15.9** | 7.4 | 22.4 | 23.4 | 15.9 |
| Expense inflation | **3.8** | **7.9** | **15** | **9.5** | 2.9 | 6.3 | 15.0 | 9.5 |

## Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation of Absa Life Limited (South Africa) to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | |
| Percentage change | Risk discount rate +1% | Interest rates –1% | Equity capital values x 0.9 | Equity returns +1% | Mortality/ morbidity x 0.9 | Maintenance expenses x 0.9 | Lapse/ surrender x 0.9 | Initial expenses x 0.9 |
| ANW | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **n/a** |
| PVIF | **(3.8)** | **3.9** | **(1.4)** | **0.2** | **3.9** | **2.1** | **5.1** | **n/a** |
| CoC | **9.3** | **5.0** | **0.0** | **—** | **3.9** | **0.0** | **5.3** | **n/a** |
| EV | **(2.9)** | **2.8** | **(1.0)** | **0.1** | **2.8** | **1.5** | **3.7** | **n/a** |
| VNB | **(3.8)** | **6.6** | **(0.1)** | **(0.1)** | **3.7** | **2.4** | **11.0** | **2.7** |

# Annexure A: Embedded value report for life insurance entities (unaudited)

## Sensitivities (continued)

| | 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Percentage change** | Risk discount rate +1% | Interest rates –1% | Equity capital values x 0.9 | Equity returns +1% | Mortality/ morbidity x 0.9 | Mainte-nance expenses x 0.9 | Lapse/ surrender x 0.9 | Initial expenses x 0.9 |
| ANW | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | n/a |
| PVIF | (4.6) | 3.3 | (1.3) | 0.3 | 3.7 | 2.0 | 4.6 | n/a |
| CoC | 12.5 | 3.6 | 0.0 | (5.2) | 0.0 | 0.0 | 10.7 | n/a |
| EV | (4.1) | 2.5 | (1.0) | 0.4 | 3.0 | 1.6 | 3.2 | n/a |
| VNB | (5.0) | (5.3) | (0.1) | 0.1 | 3.8 | 2.3 | 11.1 | 3.0 |

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

| | Group | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| Embedded value at the end of the reporting period | 5 605 | 4 853 |
| Dividends accrued or paid | 665 | 823 |
| Embedded value at the beginning of the reporting period | (4 884) | (4 279) |
| **Embedded value earnings** | **1 386** | **1 397** |
| Components of embedded value earnings: | | |
| Value of new business at point of sale | 587 | 532 |
| Expected return on covered business (unwinding) | 415 | 365 |
| Operating experience variances | (168) | 152 |
| Operating assumption and model changes | 133 | (59) |
| Credit life reprice | — | — |
| Modelling net of tax | — | 42 |
| Release of gross-up reserve | (4) | 6 |
| Expected return on ANW | 116 | 90 |
| **Embedded value operating return** | **1 415** | **1 128** |
| Investment return variances on in-force covered business | (26) | 4 |
| Investment return variances on ANW | (58) | (1) |
| Effect of economic assumption changes | 54 | 267 |
| **Embedded value earnings** | **1 386** | **1 398** |
| **Return on embedded value (%)** | **28** | **33** |

## Review by the independent actuaries

The embedded value and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte & Touche.

# Company financial statements

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# Company statement of financial position

as at 31 December

| | Note | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 2 | **1 201** | 954 |
| Investment securities | 3 | **5 960** | 375 |
| Other assets | 4 | **311** | — |
| Current tax assets | | **23** | 32 |
| Deferred tax assets | 9 | **47** | 68 |
| Subsidiaries | 5 | **72 155** | 67 852 |
| **Total assets** | | **79 697** | 69 281 |
| **Liabilities** | | | |
| Other liabilities | 6 | **260** | 208 |
| Borrowed funds | 7 | **20 310** | 12 741 |
| Debt securities in issue | 8 | **—** | 132 |
| Deferred tax liabilities | 9 | **—** | — |
| Current tax liabilities | | **—** | — |
| Loans from group companies | | **473** | — |
| **Total liabilities** | | **21 043** | 13 081 |
| **Equity** | | | |
| **Capital and reserves** | | | |
| Attributable to ordinary equity holders of the Company: | | | |
| Ordinary share capital | 10 | **1 696** | 1 696 |
| Ordinary share premium | 10 | **23 786** | 23 786 |
| Retained earnings | | **30 373** | 29 218 |
| Other reserves | | **58** | — |
| **Total equity** | | **55 913** | 54 700 |
| Non-controlling interest – Additional Tier 1 capital | 11 | **2 741** | 1 500 |
| **Total equity and liabilities** | | **79 697** | 69 281 |

# Company statement of comprehensive income

for the reporting period ended 31 December

| | Note | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|
| Net interest income | 12 | 59 | 24 |
| Non-interest income | | | |
| Gains and losses from investment activities | 13 | 10 459 | 13 424 |
| Other operating income | 14 | 320 | 48 |
| **Total income** | | 10 838 | 13 496 |
| Impairment losses | | — | — |
| **Operating income before operating expenditure** | | 10 838 | 13 496 |
| Operating expenses | | (36) | 524 |
| Operating expenses | 15 | (36) | 31 |
| Other impairments | 16 | — | 493 |
| **Operating profit before income tax** | | 10 802 | 14 020 |
| Taxation expense | 17 | (259) | (208) |
| **Profit for the reporting period** | | 10 543 | 13 812 |
| **Profit attributable to:** | | | |
| Ordinary equity holders | | 10 353 | 13 764 |
| Non-controlling interest – Additional Tier 1 capital | | 190 | 48 |
| | | 10 543 | 13 812 |
| **Earnings per share** | | | |
| Basic earnings per share | 18 | 1 221.1 | 1 623.5 |
| Diluted earnings per share | 18 | 1 221.1 | 1 623.5 |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **Profit for the reporting period** | 10 543 | 13 812 |
| **Other comprehensive income** | | |
| **Items that are or may be subsequently reclassified to profit or loss** | 58 | — |
| Movement in cash flow hedging reserve | 58 | — |
| Fair value gains | 58 | — |
| **Total comprehensive income for the reporting period** | 10 601 | 13 812 |
| **Total comprehensive income attributable to:** | | |
| Ordinary equity holders | 10 411 | 13 764 |
| Non-controlling interest – ordinary shares | — | — |
| Non-controlling interest – preference shares | — | — |
| Non-controlling interest – Additional Tier 1 capital | 190 | 48 |
| | 10 601 | 13 812 |

# Company statement of changes in equity

for the reporting period ended 31 December

Company

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of ordinary shares '000 | Share capital Rm | Share premium Rm | Retained earnings Rm | Total other reserves Rm | Cash flow hedging reserve Rm | Total equity attributable to ordinary equity holders Rm | Non-controlling interest – Additional Tier 1 capital Rm | Total equity Rm |
| **Balance at the beginning of the reporting period** | **847 750** | **1 696** | **23 786** | **29 218** | **—** | **—** | **54 700** | **1 500** | **56 200** |
| Total comprehensive income | — | — | — | 10 353 | 58 | 58 | 10 411 | 190 | 10 601 |
| Profit for the period | — | — | — | 10 353 | — | — | 10 353 | 190 | 10 543 |
| Other comprehensive income | — | — | — | — | 58 | 58 | 58 | — | 58 |
| Dividends paid during the reporting period | — | — | — | (9 199) | — | — | (9 199) | — | (9 199) |
| Distributions paid during the reporting period | — | — | — | — | — | — | — | (190) | (190) |
| Issuance of Additional Tier 1 capital | — | — | — | — | — | — | — | 1 241 | 1 241 |
| **Balance at the end of the reporting period** | **847 750** | **1 696** | **23 786** | **30 372** | **58** | **58** | **55 912** | **2 741** | **58 653** |
| Notes | 10 | 10 | 10 | | | | | 11 | |

| | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of ordinary shares '000 | Share capital Rm | Share premium Rm | Retained earnings Rm | Total other reserves Rm | Cash flow hedging reserve Rm | Total equity attributable to ordinary equity holders Rm | Non-controlling interest – Additional Tier 1 capital Rm | Total equity Rm |
| **Balance at the beginning of the reporting period** | 847 750 | 1 696 | 23 786 | 24 312 | — | — | 49 794 | — | 49 794 |
| Profit and total comprehensive income for the reporting period | — | — | — | 13 764 | — | — | 13 764 | 48 | 13 812 |
| Dividends paid during the reporting period | — | — | — | (8 858) | — | — | (8 858) | — | (8 858) |
| Distributions paid during the reporting period | — | — | — | — | — | — | — | (48) | (48) |
| Issuance of Additional Tier 1 capital | — | — | — | — | — | — | — | 1 500 | 1 500 |
| Barclays separation – Empowerment Trust | — | — | — | 1 891 | — | — | 1 891 | — | 1 891 |
| Transaction with Absa Empowerment Trust | — | — | — | (1 891) | — | — | (1 891) | — | (1 891) |
| **Balance at the end of the reporting period** | 847 750 | 1 696 | 23 786 | 29 218 | — | — | 54 700 | 1 500 | 56 200 |

All movements are reflected net of taxation.

# Company statement of cash flows

for the reporting period ended 31 December

| | Note | Company 2018 Rm | 2017 Rm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net interest (paid)/received | | 1 196 | ( 72) |
| Fees and commissions paid/(received) | | (1) | — |
| Net trading and other income | | (2) | — |
| Cash payments to employees and suppliers | | 323 | 158 |
| Dividends received from investment activities | | 10 481 | 13 345 |
| Income taxes paid | | (228) | (262) |
| Cash flow from operating activities before changes in operating assets and liabilities | | 11 769 | 13 169 |
| Increase in investment securities | | (5 585) | (15) |
| Decrease in other assets | | 161 | 290 |
| Decrease in debt securities in issue | | (132) | (68) |
| Decrease in other liabilities | | 52 | (92) |
| **Net cash generated from operating activities** | | 6 265 | 13 284 |
| **Cash flow from investing activities** | | | |
| Increase in investment in subsidiaries | | (4 303) | (7 823) |
| **Net cash utilised in investing activities** | | (4 303) | (7 823) |
| **Cash flow from financing activities** | | | |
| Dividends paid | | (9 198) | (8 859) |
| Proceeds from borrowed funds | | 6 432 | 2 841 |
| Repayment of borrowed funds | | — | ( 561) |
| Issue of Additional Tier 1 capital | | 1 241 | 1 500 |
| Distributions paid to Tier 1 capital holders | | (190) | (48) |
| **Net cash utilised in financing activities** | | (1 715) | (5 127) |
| Net increase in cash and cash equivalents | | 247 | 334 |
| Cash and cash equivalents at the beginning of the reporting period | | 954 | 620 |
| **Cash and cash equivalents at the end of the reporting period** | 2 | 1 201 | 954 |

## 1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

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

#### IFRS 9 initial adoption of IFRS 9 Financial instruments (IFRS 9)

The impact of adopting IFRS 9 has not had a significant impact on the separate financial statements of Absa Group Limited and therefore no further disclosures have been provided.

## 2. Loans and advances to banks

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| Gross loans and advances to bank | 1 201 | 954 |
| | **1 201** | 954 |

All the aforementioned loans are at variable rates.

## 3. Investment securities

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| Debt securities | 5 960 | 375 |
| | **5 960** | 375 |

## 4. Other assets

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| Accounts receivable and prepayments | 311 | — |
| | **311** | — |

## 5. Subsidiaries

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| Equity investments | 57 198 | 55 268 |
| Impairment allowance of equity investments | — | (327) |
| | **57 198** | 54 941 |
| Debt instruments | 14 957 | 12 911 |
| | **72 155** | 67 852 |

During the current year, the investment in subsidiaries increased mainly as a result of the Company Tier 1 capital for R1.2bn.

## 6. Other liabilities

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| Unclaimed dividends | 225 | 208 |
| Other | 35 | — |
| | **260** | 208 |

| | | | Company | |
|---|---|---|---|---|
| | | | 2018 Rm | 2017 Rm |

# 7. Borrowed funds

## Subordinated callable notes issued by Absa Group Limited

The following subordinated debt instruments qualify as Tier 2 capital in terms of Basel III:

| Interest rate | Final maturity date | Note | 2018 Rm | 2017 Rm |
|---|---|---|---|---|
| 10.05% | 5 February 2025 | i | **807** | 807 |
| 10.835% | 19 November 2024 | ii | **130** | 130 |
| 11.365% | 4 September 2025 | iii | **508** | 508 |
| 11.40% | 29 September 2025 | iv | **288** | 288 |
| 11.74% | 20 August 2026 | v | **140** | 140 |
| 11.81% | 3 September 2027 | vi | **737** | 737 |
| 12.43% | 5 May 2026 | vii | **200** | 200 |
| Three-month JIBAR + 2.45% | 29 November 2028 | viii | **1 500** | — |
| Three-month JIBAR + 3.30% | 19 November 2024 | ix | **370** | 370 |
| Three-month JIBAR + 3.50% | 5 February 2025 | x | **1 693** | 1 693 |
| Three-month JIBAR + 3.50% | 4 September 2025 | xi | **437** | 437 |
| Three-month JIBAR + 3.60% | 3 September 2027 | xii | **30** | 30 |
| Three-month JIBAR + 4.00% | 5 May 2026 | xiii | **31** | 31 |
| Three-month JIBAR + 4.00% | 20 August 2026 | xiv | **1 510** | 1 510 |
| Three-month JIBAR + 4.00% | 3 November 2026 | xv | **500** | 500 |
| Three-month JIBAR + 3.78% | 17 March 2027 | xvi | **642** | 642 |
| Three-month JIBAR + 3.85% | 25 May 2027 | xvii | **500** | 500 |
| Three-month JIBAR + 3.85% | 14 August 2029 | xviii | **390** | 390 |
| Three-month JIBAR + 3.15% | 30 September 2027 | xix | **295** | 295 |
| Three-month JIBAR + 3.45% | 29 September 2029 | xx | **1 014** | 1 014 |
| USD6.25% | 25 April 2028 | xxi | **4 932** | — |
| Accrued interest | | | **418** | 180 |
| Foreign exchange movements | | | **613** | — |
| | | | **17 685** | 10 402 |

## Non-subordinated debt extended by Absa Group Limited

| Interest rate | Final maturity date | Note | 2018 Rm | 2017 Rm |
|---|---|---|---|---|
| Three-month JIBAR + 1.31% | 11 June 2020 | xxii | **58** | 58 |
| Three-month JIBAR + 1.40% | 15 January 2021 | xxiii | **114** | 114 |
| Three-month JIBAR + 1.265% | 30 January 2020 | xxiv | **301** | 301 |
| Three-month JIBAR + 1.20% | 29 July 2019 | xxv | **516** | 516 |
| Three-month JIBAR + 1.12% | 29 January 2019 | xxvi | **179** | 179 |
| Three-month JIBAR + 1.225% | 19 July 2023 | xxvii | **88** | — |
| Three-month LIBOR + 0.87% | 26 March 2020 | xxviii | **720** | 618 |
| Three-month LIBOR + 0.92% | 30 March 2021 | xxix | **144** | 124 |
| Three-month LIBOR + 0.89% | 27 January 2021 | xxx | **432** | 371 |
| Accrued interest | | | **73** | 58 |
| | | | **2 625** | 2 339 |
| | | | **20 310** | 12 741 |

Included in interest paid on the statement of cash flows is **R1 117m** (2017: R1 055m) interest on borrowed funds.

i The 10.05% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Absa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ii. The 10.835% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 19 November 2019. Interest is paid semi-annually in arrears on 19 May and 19 November. Absa Group Limited has an option to exercise the redemption on any interest payment date after 19 November 2019. There is no step-up in the coupon rate if Absa Group Limited does not exercise the redemption option.

iii. The 11.365% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Absa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

## 7. Borrowed funds (continued)

iv. The 11.40% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Absa Group Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

v. The 11.74% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Group Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vi. The 11.81% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

vii. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

viii. The three-month JIBAR plus 2.45% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 29 November 2023. If Absa Bank Limited does not exercise the redemption option, there is no step-up in the coupon rate.

ix. The three-month JIBAR plus 3.30% floating rate notes may be redeemed in full at the option of Absa Group Limited on 19 November 2019. Interest is paid quarterly in arrears on 19 February, 19 May, 19 August and 19 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 19 November 2019. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

x. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xi. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option of Absa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xii. The three-month JIBAR plus 3.60% floating rate notes may be redeemed in full at the option of Absa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiii. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xiv. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xv. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvi. The three-month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xvii. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xviii. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

xix. The three-month JIBAR plus 3.15% floating rate notes may be redeemed in full at the option of Absa Group Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September and 30 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 30 September 2022. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate

xx. The three-month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. If Absa Group Limited does not exercise the redemption option, there is no step-up in the coupon rate.

## 7. Borrowed funds (continued)

xxi. The 6.25% fixed rate reset callable USD notes with the value of USD400m may be redeemed in full at the option of Absa Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on the reset determination date, 27 April 2023. The reset margin is 3.523% per annum.

xxii. The three-month JIBAR plus 1.31% floating rate notes are to be redeemed in full by Absa Group Limited on 11 June 2020. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxiii. The three-month JIBAR plus 1.40% floating rate notes are to be redeemed in full at the option of Absa Group Limited on 15 January 2021. Interest is paid first on 31 May 2016 and after that annually on 31 May. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxiv. The three-month JIBAR plus 1.265% floating rate notes are to be redeemed in full by Absa Group Limited on 30 January 2020. Interest is paid semi-annually in arrears on 30 January and 31 July. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxv. The three-month JIBAR plus 1.20% floating rate notes are to be redeemed in full by Absa Group Limited on 29 July 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxvi. The three-month JIBAR plus 1.12% floating rate notes are to be redeemed in full by Absa Group Limited on 29 January 2019. Interest is paid semi-annually in arrears on 29 January and 29 July. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R100 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxvii. The three-month JIBAR plus 1.225% floating rate notes are to be redeemed in full by Absa Group Limited on 19 July 2023. Interest is paid annually in arrears on 31 May. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of R50 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxviii. The three-month LIBOR plus 0.87% floating rate notes are to be redeemed in full by Absa Group Limited on 26 March 2020. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxix. The three-month LIBOR plus 0.92% floating rate notes are to be redeemed in full by Absa Group Limited on 30 March 2021. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

xxx. The three-month LIBOR plus 0.89% floating rate notes are to be redeemed in full by Absa Group Limited on 27 January 2021. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Absa Group Limited may, if it gives Absa Bank Limited (the lender) not less than 20 business days' prior notice to cancel or pre-pay the whole or any part (being a minimum of USD10 million) of the loan on the last day of any interest period or, if earlier, the date specified by Absa Group Limited in the notice delivered to Absa Bank Limited.

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

Note xxi is listed on the London Stock Exchange.

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

| | Company | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **8. Debt securities in issue** | | |
| Senior notes | — | 132 |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **9. Deferred tax** | | |
| **9.1 Reconciliation of net deferred tax asset** | | |
| **Balance at the beginning of the reporting period** | **68** | 70 |
| Charge to profit or loss (refer to note 17) | **(21)** | (2) |
| **Balance at the end of the year** | **47** | 68 |
| **9.2 Deferred tax asset/(liability)** | | |
| Tax effects of temporary differences between tax and book value for: | | |
| Other | **112** | 112 |
| Exchange differences – unrealised | **(65)** | (44) |
| **Net deferred tax asset** | **47** | 68 |
| **10. Share capital and premium** | | |
| **Ordinary share capital** | | |
| 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 |
| **Total issued capital** | | |
| Share capital | **1 696** | 1 696 |
| Share premium | **23 786** | 23 786 |
| | **25 482** | 25 482 |

### Authorised shares

There were no changes to the authorised share capital during the current reporting period under review.

### Unissued shares

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

### Shares issued during the year under review

There were no shares issued during the current reporting period.

### Shares issued during the prior year

There were no shares issued during the previous reporting period.

All shares issued by the Company were paid in full.

| | | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|
| **11. Non-controlling interest – additional** | | | |
| **Subordinated callable notes issued by Absa Group Limited** | | | |
| **Interest rate** | **Date of issue** | | |
| Three month JIBAR + 5.65% | 11 September 2017 | **1 500** | 1 500 |
| Three month JIBAR + 4.75% | 9 October 2018 | **1 241** | — |
| | | **2 741** | 1 500 |

The Additional Tier 1 capital notes issued on 11 September 2017 and 9 October 2018 represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited on 12 September 2022 and 10 October 2023 respectively subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **12. Net interest income** | | |
| Net interest and similar income | 59 | 24 |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **13. Gains and losses from investment activities** | | |
| Dividends received from subsidiaries | 10 459 | 13 424 |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **14. Other operating income** | | |
| Foreign exchange differences | 83 | — |
| Sundry income | 237 | 48 |
| | 320 | 48 |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **15. Operating expenses** | | |
| Administrative and other expenses | 36 | (31) |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **16. Other impairments** | | |
| Equity investment in subsidiaries | — | (493) |

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **17. Taxation expense** | | |
| **Current** | | |
| Current tax | 49 | 89 |
| Current tax – previous reporting period | (9) | — |
| Foreign tax | 198 | 117 |
| | 238 | 206 |
| **Deferred** | 21 | 2 |
| Other | — | — |
| Exchange difference | 21 | 2 |
| | 259 | 208 |
| **Reconciliation between operating profit before income tax and the taxation expense** | | |
| Operating profit before income tax | 10 802 | 14 020 |
| Tax calculated at a tax rate of 28% | 3 024 | 3 924 |
| Expenses not deductible for tax purposes | 60 | 55 |
| Dividend Income[1] | (2 934) | (3 737) |
| Other income not subject to tax[1] | (78) | (13) |
| Items of a capital nature | — | (138) |
| South African current taxation prior year | (11) | — |
| Foreign tax | 198 | 117 |
| | 259 | 208 |

## 18. Earnings per share

### Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **Basic and diluted earnings attributable to ordinary equity holders of the Company** | 10 353 | 13 764 |
| Weighted average number of ordinary shares in issue (millions) | 847.8 | 847.8 |
| Issued shares at the beginning and end of the reporting period | 847.8 | 847.8 |
| **Basic earnings per share/diluted earnings per ordinary share (cents)** | 1 221.1 | 1 623.5 |

[1] In the prior reporting period 'Income not subject to tax' of R3750m has been disaggregated to 'Dividend Income' R3737m and 'Non-taxable interest' R13m.

| | Company | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Gross Rm | Net Rm | Gross Rm | Net Rm |
| **19. Headline earnings** | | | | |
| **Headline earnings are determined as follows:** | | | | |
| Profit attributable to ordinary equity holders of the Company | | **10 353** | | 13 764 |
| Total headline earnings adjustment: | | **—** | | (493) |
| IAS 36 – Impairment of investment in subsidiary (refer to note 16) | **—** | **—** | (493) | (493) |
| **Headline earnings/diluted headline earnings** | | **10 353** | | 13 271 |
| **Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)** | | **1 221.1** | | 1 565.3 |

| | Company | |
|---|---|---|
| | 2018 Rm | 2017 Rm |
| **20. Dividends per share** | | |
| **Dividends declared to ordinary equity holders** | | |
| Interim dividend **(6 August 2018: 490 cents)** (28 July 2017: 475 cents) | **4 154** | 4 027 |
| Final dividend **(11 March 2019: 620 cents)** (1 March 2018: 595 cents) | **5 256** | 5 044 |
| | **9 410** | 9 071 |
| **Distributions declared to additional Tier 1 capital note holders** | | |
| Distribution **(12 December 2018: 31 620.63 Rands) (12 September 2018: 31 675.726 Rands) (12 June 2018: 32 200 Rands) (12 March 2018: 31 500 Rands)** (12 December 2017: 31 990.79 Rands) | **190** | 48 |
| | **190** | 48 |
| **Dividends paid to ordinary equity holders** | | |
| Final dividend **(16 April 2018: 595 cents)** (10 April 2017: 570 cents) | **5 044** | 4 832 |
| Interim dividend **(17 September 2018: 490 cents)** (11 September 2017: 475 cents) | **4 155** | 4 027 |
| | **9 199** | 8 859 |
| **Distributions paid to additional Tier 1 capital note holders** | | |
| Distribution **(12 December 2018: 31 620.63 Rands) (12 September 2018: 31 675.726 Rands) (12 June 2018: 32 200 Rands) (12 March 2018: 31 500 Rands)** (12 December 2017: 31 990.79 Rands) | **190** | 48 |
| | **190** | 48 |

| | Company | |
|---|---|---|
| | 2018 Rm | 2017 Rm |

## 21. Related parties

Refer to note 49 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related-party transactions and balances exist for the Company:

### 21.1 Balances and transactions with subsidiaries

Debit amounts are shown as positive, credit amounts are shown as negative.

| | Company 2018 Rm | Company 2017 Rm |
|---|---|---|
| **Balances** | | |
| Loans and advances to banks | **1 201** | 954 |
| Investment securities | **5 960** | 375 |
| Loan to subsidiaries | **14 415** | 12 912 |
| Other assets | **51** | — |
| Borrowed funds | **(20 310)** | (2 339) |
| **Transactions** | | |
| Interest and similar income | **(52)** | (1 021) |
| Interest expense and similar charges | **111** | 25 |
| Operating (recoveries)/expenses | **—** | (25) |
| Operating income | **—** | (48) |
| Dividends received | **(10 661)** | (13 424) |

## 22. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 62 of the Group's financial statements.

| | Company | |
|---|---|---|
| **Credit risk** | 2018 Gross maximum exposure – Stage 1 Rm | 2017 Gross maximum exposure – neither past due nor impaired Rm |
| **Maximum exposure to credit risk** | | |
| Loans and advances to banks | **1 201** | 954 |
| Investment securities | **5 960** | 375 |
| Other assets | **311** | – |
| Subsidiaries | **14 957** | 12 911 |
| | **22 429** | 14 240 |

## 22. Risk management (continued)

### Treasury risk

#### Liquidity risk

Analysis of liquidity risk:

| Discounted maturity | Company 2018 Carrying value (excluding impairment losses on amortised cost instruments) On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Impairment losses Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Investment securities | — | — | — | 5 960 | — | 5 960 |
| Loans and advances to banks | 1 201 | — | — | — | — | 1 201 |
| Other financial assets | 296 | 16 | — | — | — | 312 |
| Subsidiaries | 417 | 885 | 11 092 | 2 563 | — | 14 957 |
| Financial assets | 1 914 | 901 | 11 092 | 8 523 | — | 22 430 |
| Non-financial assets | | | | | | 57 267 |
| **Total assets** | | | | | | 79 697 |
| **Liabilities** | | | | | | |
| Other financial liabilities | 260 | — | — | — | — | 260 |
| Borrowed funds | — | 2 241 | 15 262 | 2 807 | — | 20 310 |
| Loans from group companies | 260 | — | 213 | — | — | 473 |
| Financial liabilities | 520 | 2 241 | 15 475 | 2 807 | — | 21 043 |
| Non-financial liabilities | | | | | | — |
| **Total liabilities** | | | | | | 21 043 |
| **Equity** | | | | | | 58 654 |
| **Total equity and liabilities** | | | | | | 79 697 |
| **Net liquidity position of financial instruments** | 1 394 | (1 340) | (4 383) | 5 716 | — | 1 387 |

| Discounted maturity | 2017 Carrying value (excluding impairment losses on amortised cost instruments) On demand Rm | Within 1 year Rm | From 1 year to 5 years Rm | More than 5 years Rm | Impairment losses Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Investment securities | — | — | — | 375 | — | 375 |
| Loans and advances to banks | 954 | — | — | — | — | 954 |
| Subsidiaries | — | 240 | 10 762 | 1 909 | — | 12 911 |
| Financial assets | 954 | 240 | 10 762 | 2 284 | — | 14 240 |
| Non-financial assets | | | | | | 55 041 |
| **Total assets** | | | | | | 69 281 |
| **Liabilities** | | | | | | |
| Other financial liabilities | 208 | — | — | — | — | 208 |
| Debt securities in issue | — | 132 | — | — | — | 132 |
| Borrowed funds | — | 239 | 11 098 | 1 404 | — | 12 741 |
| Financial liabilities | 208 | 371 | 11 098 | 1 404 | — | 13 081 |
| Non-financial liabilities | | | | | | — |
| **Total liabilities** | | | | | | 13 081 |
| **Equity** | | | | | | 56 200 |
| **Total equity and liabilities** | | | | | | 69 281 |
| **Net liquidity position of financial instruments** | 746 | (131) | (336) | 880 | | 1 159 |

## 22. Risk management (continued)

| Undiscounted maturity (statement of financial position value with impact of future interest) | Company 2018<br>On demand<br>Rm | Within 1 year<br>Rm | From 1 year to 5 years<br>Rm | More than 5 years<br>Rm | Discount effect<br>Rm | Total<br>Rm |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| On-statement of financial position | | | | | | |
| Other financial liabilities | 260 | — | — | — | — | 260 |
| Borrowed funds | — | 2 384 | 19 157 | 5 133 | (6 364) | 20 310 |
| Loans from group companies | 260 | — | 241 | — | ( 28) | 473 |
| Financial liabilities | 520 | 2 384 | 19 398 | 5 133 | (6 392) | 21 043 |
| Non-financial liabilities | | | | | | — |
| **Total liabilities** | 520 | 2 384 | 19 398 | 5 133 | (6 392) | 21 043 |

| Undiscounted maturity (statement of financial position value with impact of future interest) | 2017<br>On demand<br>Rm | Within 1 year<br>Rm | From 1 year to 5 years<br>Rm | More than 5 years<br>Rm | Discount effect<br>Rm | Total<br>Rm |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| On-statement of financial position | | | | | | |
| Other financial liabilities | 208 | — | — | — | — | 208 |
| Debt securities in issue | — | 134 | — | — | (2) | 132 |
| Borrowed funds | — | 250 | 13 219 | 1 924 | (2 652) | 12 741 |
| Financial liabilities | 208 | 384 | 13 219 | 1 924 | (2 654) | 13 081 |
| Non-financial liabilities | | | | | | — |
| **Total liabilities** | 208 | 384 | 13 219 | 1 924 | (2 654) | 13 081 |

### Market risk

Interest rate risk in the banking book

Impact on earnings

| | 2018 Change in market risk<br>200 bps decrease | 100 bps decrease | 100 bps increase | 200 bps increase |
|---|---|---|---|---|
| Change in projected net interest income (Rm) | (4) | (2) | 2 | 4 |
| Percentage of the Company's net interest income (%) | (15) | (8) | 8 | 15 |
| With respect to investment securities balance | 185 | 187 | 191 | 193 |

Interest rate risk in the banking book

Impact on earnings

| | 2017 Change in market risk<br>200 bps decrease | 100 bps decrease | 100 bps increase | 200 bps increase |
|---|---|---|---|---|
| Change in projected net interest income (Rm) | (8) | (4) | 4 | 8 |
| Percentage of the Company's net interest income (%) | (31) | (16) | 16 | 31 |
| With respect to investment securities balance | 368 | 371 | 379 | 383 |

# 23. Fair value disclosures

## 23.1 Assets and liabilities not held at fair value

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

| | Company | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Carrying value Rm | Fair value Rm | Carrying Level 1 Rm | Carrying Level 2 Rm | Carrying Level 3 Rm |
| **Financial assets** | | | | | |
| Investment securities | 5 771 | 5 771 | — | 5 771 | — |
| Loans and advances to banks | 1 201 | 1 201 | 1 201 | — | — |
| Subsidiaries | 14 957 | 14 957 | — | 14 957 | — |
| Other assets | 312 | 312 | — | 276 | 36 |
| **Total financial assets (not held at fair value)** | 22 241 | 22 241 | 1 201 | 21 004 | 36 |
| **Financial liabilities** | | | | | |
| Other liabilities | 260 | 260 | 255 | — | 5 |
| Borrowed funds | 20 310 | 20 310 | — | 20 310 | — |
| **Total financial liabilities (not held at fair value)** | 20 570 | 20 570 | 255 | 20 310 | 5 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying value Rm | Fair value Rm | Carrying Level 1 Rm | Carrying Level 2 Rm | Carrying Level 3 Rm |
| **Financial assets** | | | | | |
| Loans and advances to banks | 954 | 954 | — | 954 | — |
| Subsidiaries | 12 911 | 12 911 | — | 12 911 | — |
| **Total financial assets (not held at fair value)** | 13 865 | 13 865 | — | 13 865 | — |
| **Financial liabilities** | | | | | |
| Debt securities in issue | 132 | 132 | — | 132 | — |
| Borrowed funds | 12 741 | 12 741 | — | 12 741 | — |
| **Total financial liabilities (not held at fair value)** | 12 873 | 12 873 | — | 12 873 | — |

## 23. Fair value disclosures (continued)

### 23.2 Assets and liabilities held at fair value

The Company holds investments in debt instruments which are measured at fair value.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

| | Company | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Quoted prices for Level 1 Rm | Valuations with reference to observable prices Level 2 Rm | Valuation Reference to unobservable prices Level 3 Rm | Total Rm |
| Investment securities | **—** | **189** | **—** | **189** |

| | 2017 | | | |
|---|---|---|---|---|
| | Quoted prices for Level 1 Rm | Valuations with reference to observable prices Level 2 Rm | Reference to unobservable prices Level 3 Rm | Total Rm |
| Investment securities | — | 375 | — | 375 |

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and the fair value of non-fair value items.

## 24. Derivatives

### Hedges of net investments in foreign operations

Net investment hedges are used by the Company to protect against the potential risk arising from the Company's exposures to foreign currency risk in relation to its investment in foreign operations.

During the current reporting period, net gains of **R58m** (2017: Rnil) have been recognised in other comprehensive income.

## 25. Going concern

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

## 26. Events after the reporting period

Absa Group Company Limited CEO, Maria Ramos, announced her retirement on 29 January 2019, effective 28 February 2019. The Board has appointed René van Wyk as Absa's 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 IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2018 and the date of authorisation of these annual consolidated and separate financial statements.

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