Absa Bank Limited

Annual consolidated and separate financial statements for the reporting period ended 31 December 2019

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Absa Bank Limited

(1986/004794/06)

Annual consolidated and separate financial statements for the reporting period ended 31 December 2019

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

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 12, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the financial statements of Absa Bank Limited and its subsidiaries (the Bank).

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

To enable the directors to meet these responsibilities:

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

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

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

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

It is the responsibility of the independent external auditor to report on the financial statements. Their report to the shareholders of the Bank and the Company is set out on page 12 of this report.

The directors' report on pages 7 to 10 and the annual financial statements of the Bank and the Company were approved by the Board of directors and are signed on their behalf by:

W E Lucas-Bull
Group Chairman

J P Quinn
Financial Director

Johannesburg
10 March 2020

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 2019 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 Committee are set out in the Committee's mandate on the Bank's website[1].

The Committee, all independent non-executive board members, held five meetings in 2019. 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
Tasneem Abdool-Samad	5/5

Significant matters considered by the Committee included:

Matter	Committee action, discussions and decisions
1. Control environment	› The Bank's control environment reflects an organisation undergoing strategic change. Management continues to focus on delivery of the new strategy, financial performance and the Barclays PLC Separation. The associated transition risks are a key focus area while the decentralised functional operating model and restructuring activities are being embedded. Inputs considered include the operational risk and control report as well as key risk and assurance assessments. › The Committee continued to engage with Internal Audit on specific control issues that require remediation. These issues are isolated and addressed to ensure notable improvements in management's approach to the control environment. › Received confirmation from an Internal Audit review that the Board and Board committees apply the King IV principles on the roles and responsibilities of the Bank's governance forums. › Confirmed that the finance function meets the King IV requirements to fulfil all financial reporting and control functions.
2. Separation	› The Committee received regular reports on Separation activities. The updates included details on the progress that has been made with the Separation programme in the context of its complexity, timelines and organisational change. › The impact of the deployment of new systems on the control environment was continuously assessed and monitored. Controls around intangible assets with regards to capitalisation, including manpower hours, and subsequent amortisation are being embedded. › The need for post-migration contingency plans continues to be a focus, especially considering the accelerated implementation of projects towards July 2020 and the impact the Separation will have on Absa Regional Operations, in terms of IT systems and the brand change. › The Committee noted that accounting separation from Barclays PLC has been completed.
3. Restructuring activities	› The Committee reviewed various reports on the impact of the segment and business portfolio changes that took place during the reporting period. The integration of the Absa Financial Services Group of companies (AFS Group) into Retail and Business Banking was completed in August 2019. › The Committee noted that subsequent to the integration and restructure, the management governance structures of Relationship Banking, Insurance and the Investment cluster have been fully aligned. The risk management processes and capabilities remain intact and reporting to the relevant board committees has not been compromised. › A deep dive assessment on the AFS Group was presented to the Committee and it was concluded that the insurance-related functions are structured and resourced adequately to meet internal and external obligations. › The Committee has confirmed the Absa Financial Services Audit and Risk Committee's oversight of the AFS Group's control environment, product approval and governance processes, with specialised skills being strengthened. › The Committee reviewed a paper which contained an overview of the AFS Group's control environment and management control approach. There has been evidence of an improving trend and gradual reduction in the risk exposure, while the business remediation controls of the African insurance entities are being embedded.

[1] Absa Bank Limited website can be accessed at www.absa.africa

Significant matters considered by the Committee included: (continued)

Matter	Committee action, discussions and decisions
4. Compliance	› The Committee approves the changes to the Compliance coverage plan which form part of the three lines of defence model. Reviews are defined as independent assessments that required outcomes are being achieved through effective controls, cultures and behaviours. Testing results provide assurance that business activities comply with laws, regulations, compliance policies and supervisory requirements of various local jurisdictions in which the Bank operates. Review results provide management and the Compliance function with a view as to how the control environment, attitudes and behaviours are supporting the Bank in achieving outcomes that mitigate Conduct risk.
5. Regulatory reporting	› The Committee received feedback from the Regulatory Review Committee on the overview of the regulatory reporting process improvements. The Regulatory Review Committee monitors feedback from the Prudential Authority as well as accuracy and completeness of submissions.
6. Audit quality	› The Committee has noted the emphasis in audit strategy with an increased focus on system and application controls testing. The results of the increased IT system testing have enabled External Audit to place further reliance on these controls. › The interim audit did not identify any new high-risk issues related to IT outside management's remediation programme. Good progress has been made with the remediation of previously reported audit issues. IT audit findings have decreased substantially from the prior year.
7. Fraud management	› Recent incidences of significant fraud risk events highlighted the need for strengthened fraud risk management. › The Committee reviewed the Bank's new fraud operating model, which has strengthened first-line responsibility for fraud management in the business units, supported by second-line oversight, review and challenge from the centre. The business unit Principal Risk Officer also reports to the Chief Risk Officer, in addition to the business unit Chief Executive. The paper provided an overview of the operating model and an assessment of the fraud capabilities. › The Committee also noted that the Retail and Business Banking fraud management model has evolved since 2018, resulting in a central function for card and transactional banking. An overview of changes to people, processes, technology and partnerships under the new operating model was presented. The Committee is satisfied that the fraud operating model undergoes continued review to improve the Bank's defence capability.

External audit

The Committee is responsible for the appointment, compensation and oversight of the external auditors, including assessment of independence. In 2019, the Committee:

- Ensured that the external auditor appointment complied with the Companies Act, the JSE Listings Requirements and all other applicable legal and regulatory requirements.
- Approved the:
  - External audit plan to address significant focus areas, which similarly receive focus by the Committee and specifically considered the external auditor's findings in this regard.
  - Budgeted fee for the current reporting period and the terms of engagement of the external auditor.
  - Bank's policy on allowable non-audit services permitted to be provided by the external auditor.
  - Proposed engagements, including proposed fees, with the external auditor for the provision of non-audit services taking into account the non-audit services policy. These engagements were evaluated by either the Committee Chairman or the Committee as a whole who, before confirming any approval, assured themselves that there was justifiable reason for engaging the auditor and that its independence and objectivity would not be threatened.
- Assessed the quality and effectiveness of the external audit function, including receiving confirmation that there was no restriction on scope or access, and concluded that the process had been satisfactory.
- Ensured that adequate time was set aside for private discussions with the external auditor.
- Confirmed that the external auditor would attend and address queries at any general shareholders' meeting.
- Considered if any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005, and determined that there were no such reportable irregularities.
- Reviewed:
  - Findings and recommendations of the external auditor and confirmed that no unresolved issues of concern exist between the Bank and the external auditor in relation to the Bank or any of its business units and subsidiaries.

External audit (continued)

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

- Conducted an accreditation review as requested by the Johannesburg Stock Exchange on the quality processes of EY, including the review of reports of the Independent Regulatory Board for Auditors (IRBA) relating to the firm and the group reporting auditor and verified credentials of the reporting auditor to conduct audits of listed companies;
- Criteria specified for independence by the Independent Regulatory Board for Auditors;
- A submission from EY setting out the terms and conditions on which EY agrees to act as independent auditor of the Bank for the 2019 year, including the respective responsibilities of directors and auditors;
- Confirmation from the external auditors that they were not aware of any relationships during the year that may reasonably be thought to bear on their independence in respect of the statutory audit; and
- Representations from EY confirming their independence and that nothing had taken place which would impair this at any time, including obtaining confirmation that no restrictions had been placed upon EY that limited their scope or access.

The Committee confirmed that:

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

Financial statements and accounting practices

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

- Satisfied itself on the appropriateness of the going concern assumption as the basis of preparation of the interim and annual financial statements.
- Confirmed, through consultation with Internal Audit, that the Bank's internal controls support the preparation of consolidated financial reporting information.
- 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 the 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 for the year ended 31 December 2019 have been opined on in terms of ISAE 3420 by the external auditor as per the JSE requirements.
  - The accounting policies and practices and the controls of the Bank to ensure they are adhered to.
- Reviewed:
  - Significant accounting and reporting issues, sustainability of the control environment, significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements.
  - The tax governance, tax philosophy and significant tax matters arising during the reporting period, emphasising the importance of managing tax risk on the Separation contributions.
  - Significant matters which are not a normal part of the Bank's business, but which are referred to the Committee by the Board or management.

Solvency and liquidity tests

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

Internal Audit and the internal control environment

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

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

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

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

- Approved:
  - The Bank's compliance monitoring plan, methodology and structure, as well as the Bank's compliance coverage plan and compliance charter.
  - The regulatory compliance risk control framework and applicable compliance policies, which include the requirements for the Bank to comply with applicable laws, rules, codes and standards.
- Ensured that:
  - The Bank has the necessary infrastructure in place to risk score the customer base, allowing effective and appropriate due diligence standards, and ensuring that the Bank's risk-based approach methodology has been successfully implemented into this solution.
  - Procedures are in place for receiving reports from internal lawyers (and, where relevant, external lawyers) relating to breaches of laws and regulations.
  - Adequate time was set aside for private discussions with the Chief Internal Auditor and Chief Compliance Officer.
- Reviewed:
  - Compliance practices and procedures for enabling the directors of the Bank to discharge their regulatory responsibilities.
  - The Banks Act, No.94 of 1990 (the Banks Act) section 64B (2)(e) statement as to the Directors' Affairs Committee, and recommended this to the Board for approval and monitored the Bank's approach to risk assessment to ensure the integrity of the Bank's internal controls.
  - The overall status of compliance in the Bank and any significant breakdowns that could cause material loss or penalty.
- Considered:
  - Compliance with Regulation 40(4) of the Banks Act, including the annual review of material malfunction, and recommended this to the Board for approval.
  - The adequacy of resources and budget available to Bank Compliance.
  - Any significant compliance risk matters reported by Bank Compliance and monitored progress in rectifying these matters.
- Satisfied itself that the functioning of Bank Compliance is in line with relevant regulatory requirements, including without limitation, section 60A and regulation 49 of the Banks Act; Financial Advisory and Intermediary Services Act, No.37 of 2002 (FAIS), section 17 and regulation 4, regulation 5 and Board Notice 126 and 127, Financial Intelligence Centre Act, No.38 of 2001 (FICA), section 42 and King IV, Principle 6.
- Assessed the adequacy and effectiveness of Bank Compliance's performance, including receiving confirmation that there was no restriction on scope or access.
- Received confirmation that all significant control issues, are reported in a timely manner to the relevant Bank governance structures.

Group Audit and Compliance Committee report

Governance, risk management and control effectiveness

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

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

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 Bank's 2019 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 Bank's current audit firm and designated individual partner including confirmation that the appointed external auditor is duly accredited on the JSE's list of auditors;
- Determined that the Group Financial Director, J P Quinn, has appropriate expertise and experience; and
- Is satisfied that the composition, experience and skills set of the finance function are adequate to fulfil all financial, control and reporting requirements of the Bank.

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

Conclusion

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

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

The Committee reviewed the Bank and separate Company financial statements for the year ended 31 December 2019 and recommended them to the Board for approval on 10 March 2020.

On behalf of the Committee

C Beggs
Chairman of the Committee

Johannesburg
10 March 2020

Directors' report

General information and nature of activities

Absa Bank Limited (the Company) is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, and wealth management products and services. The Company and its subsidiaries (the Bank) operate primarily in South Africa and employ 25 978 people. The address of the registered office of the Bank is 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001. The Company has preference shares listed on the JSE Limited.

The Bank is a subsidiary of Absa Group Limited.

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

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the Absa Group Limited Board, on 10 March 2020.

The financial statements present the financial positions, results of operations and cash flows for the Bank and the Company for the reporting period ended 31 December 2019.

Absa Group Audit and Compliance Committee report

Refer to page 2.

Bank results

Main business and operations

The Bank recorded a decrease of 7% in headline earnings to **R7 320m** (2018: R 7 853m) for the reporting period. Headline earnings per share (HEPS) and fully diluted HEPS decreased by 7% to **1 632.8 cents** (2018: 1 751.7 cents). Refer to note 35 for the headline earnings note.

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

Headline earnings was derived from the following activities:

	Bank	
	2019 Rm	2018[1] Rm
Retail and Business Banking South Africa (RBB SA)	**7 900**	8 263
Corporate and Investment Bank South Africa (CIB SA)	**2 487**	2 881
Head Office, Treasury and other operations in South Africa	**(1 747)**	(1 521)
Barclays PLC Separation	**(1 320)**	(1 770)
Headline earnings (refer to note 35)	**7 320**	7 853

Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
W E Lucas-Bull	Independent non-executive director, Chairman	
C Beggs	Independent non-executive director	
R van Wyk[2]	Chief Executive Officer	Appointed 1 March 2019, resigned 14 January 2020
D Mminele (South African and British)	Group Chief Executive	Appointed 15 January 2020
J P Quinn	Financial director	
M J Husain	Lead independent director	
A B Darko (Ghanaian and British)	Independent non-executive director	Appointed 15 May 2019
M S Merson (British)	Independent non-executive director	Appointed 15 May 2019

[1] These numbers have been restated, refer to notes 1.19 and 50.1.

[2] Renée van Wyk was an independent non-executive director until 31 January 2019, and became an executive on 1 February 2019, prior to his appointment as Chief Executive Officer, on an interim basis, from 1 March 2019 up until 14 January 2020.

Directors' report

Re-election of retiring directors

In line with international best practice, the Company has a requirement in terms of which all directors on the Board for longer than nine years are subject to annual re-election by shareholders at the annual general meeting (AGM).

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

Directors' interests in Absa Bank Limited preference shares

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

Directors' and officers' personal financial interests in contracts

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

Executive directors are entitled to share awards (Absa Group ordinary shares), the details of which are included in note 58.

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

Directors' and prescribed officers' emoluments

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

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 41 to the consolidated financial statements.

Acquisitions and disposals during the current and prior reporting periods

Apart from non-current assets/liabilities held for sale disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was **R50m**.

Barclays Separation

The Separation programme continues to operate under a robust governance structure that involves the Board as well as various mechanisms of oversight and governance frameworks within the organisation. To date, R13.3 billion has been spent on Separation activities of which R2.1 billion was spent on Transitional Service Agreements and R11.2 billion spent on project execution and programme support costs.

Key successes achieved in 2019 include:

- Delivery of a highly transformative Financial Crime solution for Absa; and
- Migration of the human capital management system.

Brand and name change activities continued in 2019. Significant milestones were achieved with the successful rebrand of operations in Nigeria.

Dividends

- On 11 March 2019, a dividend of 111.532 cents per ordinary share was declared. The dividend was announced on 1 March 2019 to the ordinary shareholders registered on 13 April 2019. This dividend was paid on 15 April 2019.
- On 11 March 2019, a dividend of 3 518.6986 cents per preference share was declared. The dividend was announced on 1 March 2019 to preference shareholders registered on 13 April 2019. The dividend was paid on 15 April 2019.
- On 13 August 2019, an interim dividend of 3 595.89 cents per preference share was declared. The dividend was announced on 13 August 2019 to preference shareholders registered on 13 September 2019. The dividend was paid on 16 September 2019.
- On 10 March 2020, a final dividend of 3 469.32 cents per preference share was approved. The dividend was announced on 11 March 2020 to preference shareholders registered on 17 April 2020. The dividend is payable on 20 April 2020.
- On 10 March 2020, a final dividend of 446.129 cents per ordinary share was approved. The dividend was announced on 11 March 2020 to ordinary shareholders registered on 17 April 2020. The dividend is payable on 20 April 2020.
- Refer to note 38 for the Common Equity Tier 1 distribution.

Special resolutions

The following special resolutions were passed by the Bank's ordinary shareholders at the AGM held on 31 May 2019, in accordance with the Companies Act:

- **Special resolution number 1 – Remuneration of non-executive directors**
  Resolved to approve the proposed remuneration to be payable to non-executive directors for their services as directors of the Company for the period 1 June 2019 to and including the last day of the month preceding the date of the next AGM thereafter.
- **Special resolution number 2 – Financial assistance to a related or inter-related company/corporation**
  Resolved to enable the Company, in terms of a general authority contemplated in section 45(3)(a)(ii) of the Companies Act, for a period of two years from the date of this resolution, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and/or to a member of a related or inter-related company/corporation.

Company Secretary

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

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

Telephone: (+27 11) 350 5347

Email: groupsec@absa.africa

Auditors

Ernst & Young Inc. was appointed as auditor of the Bank for the 2019 reporting period, effective 1 January 2019. E van Rooyen is the individual registered auditor that has undertaken the audit.

Authorised and issued share capital

Authorised

The authorised ordinary share capital of the Company of **R322 500 000** (2018: R322 500 000) consists of:

- **320 000 000** (2018: 320 000 000) ordinary shares of R1.00 each;
- **250 000 000** (2018: 250 000 000) 'A' ordinary shares of R0.01 each.

The authorised preference share capital of the Company of R300 000 (2018: R300 000) consists of:

- **30 000 000** (2018: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each.

Issued

No additional 'A' ordinary shares were issued in the current reporting period (2018: 16 983 265).

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

- **302 609 369** (2018: 302 609 369) ordinary shares of R1.00 each;
- **145 691 959** (2018: 145 691 959) 'A' ordinary shares of R0.01 each.

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

- **4 944 839** (2018: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each.

Shareholder information

	2019			2018		
	Number of shareholders/ note holders	Number of shares/notes	% held	Number of shareholders/ note holders	Number of shares/notes	% held
Non-public shareholders						
Ordinary shares		302 609 369	100.0		302 609 359	100.0
Absa Group Limited		302 609 369	100.0		302 609 359	100.0
'A' ordinary shares		145 691 959	100.0		145 691 959	100.0
Absa Group Limited		145 691 959	100.0		145 691 959	100.0
Public shareholders						
Preference shares	4 354	4 944 839	100.0	4 087	4 944 839	100.0
Standard Chartered Bank	12	219 884	4.4	24	487 326	9.9
Standard Bank	374	1 141 643	23.1	241	1 004 956	20.3
Nedbank Investor Services	37	705 548	14.3	48	876 707	17.7
Other preference shareholders	3 931	2 877 764	58.2	3 774	2 575 850	52.1

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the Additional Tier 1 notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments. The total number of issued notes at the end of the reporting period was **R5 795 000 000** (2018: R2 741 000 000).

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the reporting period ended 31 December 2019, 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
10 March 2020

Independent Auditor's Report

To the Shareholders of Absa Bank Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Absa Bank Limited and its subsidiaries ('the group') and company set out on pages 18 to 220, which comprise of the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements 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 45, 55.5 for consolidated statements and note 39 for company statements.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 31 December 2019, 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 and separate financial statements* section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for *Auditors' Code of Professional Conduct for Registered Auditors* (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for *Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for *Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. 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.

The Key Audit Matters apply only to the audit of the consolidated and separate financial statements.

Level	Key audit matter
Absa Bank Limited **Absa Bank Company**	**Expected credit losses** The disclosure associated with Credit Risk is set out in the financial statements in the following notes: › Note 1.2.1 – Approach to credit risk and impairment of loans and advances (page 28) › Note 8 – Impairment losses on loans and advances to customers (page 59 and page 187) › Note 55.2 – Credit risk (page 133)

Level	Key audit matter	How our audit addressed the matter
	The expected credit loss (ECL) allowances for loans and advances are significant in the context of the financial statements due to their magnitude and the significant level of judgement required in determining the value of the allowances. We have identified the audit of the ECL allowances as a key audit matter as it required significant auditor attention because the calculation is subject to a high degree of judgement, requires significant input from specialists, and uses assumptions which change on an annual basis. The specific areas requiring auditor attention in the current year included: › A significant portion of the ECL is calculated on a modelled basis. Management exercises significant judgement when developing and executing these models, including the estimation of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters. › The ECL models also consider multiple macro-economic scenarios. Management sources scenario forecasts from an external provider; this information is forward looking, impacted by global and local economic circumstances, and is estimated with the input of economics specialists. › Significant increases in credit risk (SICR) is assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporated assumptions which are subjective; subject to both judgement and estimation by management. › A significant portion of the stage 3 ECL allowances on loans and advances are assessed on an individual basis. Determining if individual financial assets are impaired, estimating the expected amount and timing of future cash flows, and evaluating the recoverability of any collateral, requires the use of assumptions which are subject to estimation and management judgement. › Manual adjustments are applied to the ECL model outputs where the models are unable to fully incorporate factors which impact the ECL. The basis and calculation of each management adjustment is unique, and each adjustment is supported by different evidence. As a result, increased audit effort is required to test these adjustments.	Our audit testing included the following procedures in addressing the key audit matter. We have evaluated the IFRS 9 accounting policies, appropriateness of the disclosures for credit risk and ECL methodologies applied and compared these to the requirements of IFRS 9: Financial Instruments. We have obtained an understanding of management's process over credit origination, credit monitoring and credit remediation, as well as the governance over the credit models and management adjustments, and tested the relevant controls identified within these processes. With the assistance of our specialists: › We have tested the appropriateness of the macro-economic forecasts by benchmarking these against external evidence and economic data. Our audit testing included the following procedures in addressing the key audit matter. We have evaluated the IFRS 9 accounting policies, appropriateness of the disclosures for credit risk and ECL methodologies applied and compared these to the requirements of IFRS 9: Financial Instruments. We have obtained an understanding of management's process over credit origination, credit monitoring and credit remediation, as well as the governance over the credit models and management adjustments, and tested the relevant controls identified within these processes. With the assistance of our specialists: › We have tested the appropriateness of the macro-economic forecasts by benchmarking these against external evidence and economic data. › We have also obtained an understanding of the design and tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models. › We have tested the appropriateness of the incorporation of the macro-economic scenarios into the model through reperformance. › We have assessed the appropriateness of Absa's SICR methodologies and calibrations of the models and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. We have tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems and external data providers.

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td></td><td></td><td>We have tested management's processes and judgements used to determine whether specific stage 3 loans and advances are credit impaired, including the completeness and reasonability of management's assessments. Our procedures, which were performed on a sample of stage 3 exposures, focused on assessing the reasonability of the amount and timing of expected future cash flows used in measuring ECL. Our procedures included:
› Where the exposures are collateralised, testing Absa Bank's legal right to the collateral by inspecting legal agreements and bond registration information.
› Testing, on a sample basis, the collateral valuation by:
o assessing the competence and objectivity of the valuation experts engaged by management to perform valuations;
o testing management controls which support the collateral valuation process; and
o evaluating the reasonability of key assumptions of the valuations against available market and internal information.
› Where future cash flows are estimated based on a valuation of the loan counterparty's underlying business, we agreed the valuations to both available market and counterparty specific information. Where the applied valuation techniques were more complex, we have used our valuation specialists to support the audit team by assessing key valuation assumptions against market comparable information or by performing independent valuation assessments.
We have assessed the inputs (data, assumptions and judgements) applied by management when estimating the manual management adjustments against the requirements of IFRS 9: Financial instruments. We have considered the appropriateness of these inputs against the Bank's internal data, external legal, regulatory and economic information and the Bank's internal governance processes. We have recalculated a sample of management adjustments.</td></tr>
<tr><td rowspan="2">Absa Bank Limited
Absa Bank Company</td><td colspan="2">Valuation of complex financial instruments
The disclosure associated with the valuation of complex financial instruments is set out in the financial statements in the following notes:
› Note 1.2.3 – Fair value measurement (page 34)
› Note 53 – Fair value disclosures (page 122) (consolidated financial statements)
› Note 43- Fair value disclosures (page 212) (separate financial statements)</td></tr>
<tr><td>Valuation of complex financial instruments (such as derivatives and investment securities) requires significant judgement to determine the appropriate valuation techniques to apply and to source relevant and reliable inputs.
Such judgements include those pertaining to the level 3 financial instruments measured at fair value for which there are no quoted market prices (including those instruments in illiquid markets) as well as other judgements relating to the counterparty valuation adjustments and funding costs.
Fair value valuations, specifically those for level 3 financial instruments, are dependent on various sources of external and internal data and on the use of sophisticated modelling techniques, which are evolving as markets become more sophisticated. Changes to the models and the appropriateness of the models used are key areas requiring valuation specialists and specific auditor attention.</td><td>We have obtained an understanding of management's processes to ensure that inputs used in the models were appropriate and tested the relevant key controls in place for the assessment of independent market inputs in the models.
Our audit risk and model valuation specialists were involved in assessing (for a sample of financial instruments) the appropriateness of the valuation models used with reference to approaches commonly used in the industry.
We have assessed the judgements applied by management against our understanding of current market practice and conditions. We have also obtained independently sourced inputs, which were compared against the inputs used by management.
Where valuation inputs were unobservable, we used our valuation specialists to assess the reasonability of the valuation inputs based on supportable and comparable information and compared these to management's valuation inputs.
We evaluated the reasonability of gains or losses on significant settled deals to assess the calibration of mark-to-market model values.</td></tr>
</table>

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="2">Absa Bank Limited

Absa Bank Company</td><td colspan="2">Separation from Barclays PLC
The disclosure associated with the separation from Barclays PLC is set out in the financial statements in the following notes:
› Note 31 – Operating expenses (page 75) (consolidated financial statements)
› Note 30 – Operating expenses (page 199) (separate financial statements)
› Note 13 – Goodwill and Intangible assets (page 63 and page 189)
› Note 1.2.2 – Significant judgements and estimates (page 34)</td></tr>
<tr><td>The impact of the separation continues to be a significant area of audit focus. This has resulted in two specific key areas of focus:

Part 1: Impact of changes to many financial and operational systems and processes and outputs on the audit.

This includes:
› Changes in the control environment and key controls;
› Changes of IT – platforms and/or migration to new IT – platforms;
› Migration of data to new systems/platforms; and
› Changes in outsourcing arrangements and agreements with third parties.

Several separation projects are strategic long-term transformation projects, with important IT components that are required to meet regulatory requirements.

Equally, several separation projects are designed to increase the operating effectiveness and efficiency of IT infrastructure and enhance data quality. Through the period of change there is an increased risk that general IT controls may not operate as intended, and data would not be migrated accurately and completely. Effective general IT controls are required for reliance on automated controls in the Bank's operations and in our audit approach.

The degree of changes to systems and processes requires significant auditor attention and large audit effort to assess and implement changes to the audit strategy. Effort was also required to understand, document and test the controls to mitigate the risk of material misstatement in the financial statements due to the changes. Effort was also required in testing migration of data between systems and processes.

Part 2: Intangible assets arising out of separation.

In addition, the separation from Barclays PLC continues to result in significant costs being incurred, some of which were capitalised in accordance with IAS 38: Intangible Assets.

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. This includes considering which costs relating to a system should be capitalised, and to what extent it should be expensed, or capitalised. Management also applies their judgement to their estimation of future economic benefit of previously capitalised costs as intangible assets, and whether any indicators of impairment exist.

This is an area of significance to the audit due to the value of costs capitalised, the judgement in determining which costs should be capitalised, and the degree of estimation involved in assessing the future economic benefit to be derived from new or enhanced systems.</td><td>We performed, amongst others, the following procedures:

On the impact of changing systems and processes:
› We established a specialist group within the audit team to assist in identifying and testing the impact of Absa Group's separation on the financial statement audit. The specialist group consisted of individuals with experience in data and IT audit as well as large-project management skills.
› We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over key financial statement processes that have changed or have been replaced with new controls that the audit team relied upon.
› We obtained an understanding, evaluated the design, and tested the operating effectiveness of key controls of legacy systems still in operation during the audit period.
› We tested the completeness and accuracy of data migrated from legacy systems to new systems implemented during the audit period.
› With the assistance of our cyber risk specialists we performed threat and vulnerability risk assessment, and assessed the impact on the overall IT environment, with a focus on the risk to the financial statements.
› We obtained an understanding of significant outsourced services, including the nature of the relationship between the Bank and the service organisation. We assessed and tested the key controls with an impact on the financial systems.
› We obtained an understanding of the overall IT control environment and tested the general IT controls, with specific focus of Access controls and Change management controls.
› We evaluated the design and tested the operating effectiveness of IT controls over the key applications, operating systems and databases that are relevant to financial reporting;
› For those systems that have migrated, we have tested the completeness and accuracy of migrated information feeds as well as tested the IT general control environment for the new systems that impact the financial reporting process.

For identified deficiencies, we tested the design and operating effectiveness of compensating controls and, where necessary, extended the scope of our audit procedures.</td></tr>
</table>

Independent auditors' report to the shareholders of Absa Bank Limited

Level	Key audit matter	How our audit addressed the matter
		On intangible assets arising out of separation: › We understood management's process and controls in place for identifying costs to be capitalised. › We assessed the accounting policy against the requirements of IAS 38. › We performed data analysis procedures and tested the classification of costs as an expense or capitalised intangible asset. › We considered management's rationale for the capitalisation of significant projects and considered the potential future economic benefit of these systems. › We tested management's judgements and estimates made in the capitalisation of costs by assessing the qualifying criteria used by management for capitalisation against the requirements of IAS 38: Intangible assets. › We assessed the appropriateness of impairment of costs capitalised to intangible assets in prior years, by testing the indicators of impairment, assessing the future economic benefits of projects and by re-performing management's impairment calculation. › With the input of our specialist group we assessed projects for potential inefficiencies that could give rise to impairment indicators and have independently calculated the effect on impairment where applicable.

Other Information

The directors are responsible for the other information. The other information comprises the information included in pages 2 to 11 of the document titled the Group Audit and Compliance Committee Report, the Company Secretary's certificate to the shareholders of Absa Bank Limited, the Directors' Report, as required by the Companies Act of South Africa and the Directors' approval, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. The other information also includes the sections marked as unaudited in the annual financial statements and described in our Opinion paragraph above. Other information does not include the consolidated or the separate financial statements and our auditor's 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company'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 and company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 and company'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 and company'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 and/or the company 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 auditor of Absa Bank Limited for 26 years and the sole auditor of Absa Bank Limited for two years.

Ernst & Young Inc.

Director: E van Rooyen CA(SA)

Registered Auditor

102 Rivonia Road, Sandton

10 March 2020

Consolidated statement of financial position

as at 31 December

		Bank	
	Note	2019 Rm	2018 Rm
Assets			
Cash, cash balances and balances with central banks	2	**25 485**	22 679
Investment securities	3	**75 230**	93 576
Loans and advances to banks	4	**44 993**	40 533
Trading portfolio assets	5	**111 592**	101 271
Hedging portfolio assets	5	**3 355**	2 407
Other assets	6	**21 728**	22 294
Current tax assets		**1 223**	366
Non-current assets held for sale	7	**3 706**	50
Loans and advances to customers	8	**794 382**	735 200
Loans to group companies	9	**50 460**	37 363
Investments in associates and joint ventures	10	**1 648**	1 310
Investment property	11	**—**	180
Property and equipment	12	**15 588**	13 609
Goodwill and intangible assets	13	**8 863**	7 246
Deferred tax assets	14	**1 572**	1 595
Total assets		**1 159 825**	1 079 679
Liabilities			
Deposits from banks	15	**119 477**	127 959
Trading portfolio liabilities	16	**55 968**	46 280
Hedging portfolio liabilities	16	**1 379**	1 343
Other liabilities	17	**32 338**	31 907
Provisions	18	**2 622**	2 682
Current tax liabilities		**6**	66
Deposits due to customers	19	**677 809**	605 647
Debt securities in issue	20	**157 603**	160 042
Borrowed funds	21	**21 282**	20 052
Deferred tax liabilities	14	**16**	15
Total liabilities		**1 068 500**	995 993
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Ordinary share capital	22	**304**	304
Ordinary share premium	22	**36 879**	36 879
Preference share capital	22	**1**	1
Preference share premium	22	**4 643**	4 643
Additional Tier 1 capital	22	**5 795**	2 741
Retained earnings	23	**39 075**	35 209
Other reserves	23	**4 625**	3 918
		91 322	83 695
Non-controlling interest – ordinary shares		**3**	(9)
Total equity		**91 325**	83 686
Total liabilities and equity		**1 159 825**	1 079 679

Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Bank	
	Note	2019 Rm	2018 Rm
Net interest income		**31 772**	29 952
Interest and similar income	24	**81 652**	74 155
Effective interest income		**79 871**	72 565
Other interest income		**1 781**	1 590
Interest expense and similar charges[1]	25	**(49 880)**	(44 203)
Non-interest income		**20 985**	21 891
Net fee and commission income		**19 060**	18 491
Fee and commission income	26	**20 661**	19 781
Fee and commission expense	26	**(1 601)**	(1 290)
Gains and losses from banking and trading activities	27	**1 485**	3 177
Gains and losses from investment activities	28	**3**	1
Other operating income	29	**437**	222
Total income		**52 757**	51 843
Impairment losses	30	**(6 032)**	(5 078)
Operating income before operating expenses		**46 725**	46 765
Operating expenses	31	**(35 116)**	(34 341)
Other expenses		**(1 456)**	(1 579)
Other impairments	32	**(318)**	(433)
Indirect taxation	33	**(1 138)**	(1 146)
Share of post-tax results of associates and joint ventures	10	**221**	179
Operating profit before income tax		**10 374**	11 024
Taxation expense	34	**(2 488)**	(3 002)
Profit for the reporting period		**7 886**	8 022
Profit attributable to:			
Ordinary equity holders		**7 098**	7 481
Non-controlling interest – ordinary shares		**1**	—
Preference equity holders		**352**	351
Additional Tier 1 capital		**435**	190
		7 886	8 022
Earnings per share:			
Basic earnings per share (cents)	43	**1 583.3**	1 668.7
Diluted earnings per share (cents)	43	**1 583.3**	1 668.7

[1] The Bank has elected to change its accounting policy to no longer present other interest expense and similar charges separately from interest expense calculated using the effective interest method. This results in more relevant information as in this manner, the Bank achieves consistency with its peers. This does not impact the prior reporting period's results, as total other interest expense and similar charges was Rnil.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Bank 2019 Rm	Bank 2018 Rm
Profit for the reporting period		**7 886**	8 022
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(59)**	(11)
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)		**9**	19
Fair value gains		**11**	27
Deferred tax		**(2)**	(8)
Movement of liabilities designated at fair value through profit or loss (FVTPL) due to changes in own credit risk		**(44)**	(13)
Fair value losses		**(61)**	(71)
Deferred tax		**17**	58
Movement in retirement benefit fund assets and liabilities		**(24)**	(17)
Decrease in retirement benefit surplus	37	**(34)**	(24)
Deferred tax	14	**10**	7
Items that are or may be subsequently reclassified to profit or loss		**449**	(236)
Movement in cash flow hedging reserve		**916**	(247)
Fair value gains		**2 078**	207
Amount removed from other comprehensive income and recognised in profit or loss		**(806)**	(550)
Deferred tax		**(356)**	96
Movement in fair value of debt instruments measured at FVOCI		**(467)**	11
Fair value gains/(losses)		**(629)**	26
Release to profit or loss	27	**(20)**	(9)
Deferred tax	14	**182**	(6)
Total comprehensive income for the reporting period		**8 276**	7 775
Total comprehensive income attributable to:			
Ordinary equity holders		**7 488**	7 234
Non-controlling interest – ordinary shares		**1**	—
Preference equity holders		**352**	351
Additional Tier 1 capital		**435**	190
		8 276	7 775

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Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
Balance at the end of the previous reporting period	**448 301**	**304**	**36 879**	**1**	**4 643**	**2 741**
Impact of adopting new accounting standards at 1 January 2019 IFRS 16	—	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	**448 301**	**304**	**36 879**	**1**	**4 643**	**2 741**
Total comprehensive income	—	—	—	—	352	435
Profit for the period	—	—	—	—	352	435
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(352)	—
Transactions with Non-controlling interest holders	—	—	—	—	—	—
Distributions paid during the reporting period	—	—	—	—	—	(435)
Issuance of Additional Tier 1 capital	—	—	—	—	—	3 054
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Deferred tax	—	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—	—
Balance at the end of the reporting period	**448 301**	**304**	**36 879**	**1**	**4 643**	**5 795**
Note	22	22	22	22	22	22

All movements are reflected net of taxation.

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

Bank

2019

Retained earnings Rm	Total other reserves Rm	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Total equity attributable to equity holders Rm	Non-controlling interest – ordinary shares Rm	Total equity Rm
35 209	3 918	(13)	402	1	1 422	794	1 312	83 695	(9)	83 686
(198)	—	—	—	—	—	—	—	(198)	—	(198)
35 011	3 918	(13)	402	1	1 422	794	1 312	83 497	(9)	83 488
7 039	449	(467)	916	—	—	—	—	8 275	1	8 276
7 098	—	—	—	—	—	—	—	7 885	1	7 886
(59)	449	(467)	916	—	—	—	—	390	—	390
(2 500)	—	—	—	—	—	—	—	(2 852)	—	(2 852)
—	—	—	—	—	—	—	—	—	11	11
—	—	—	—	—	—	—	—	(435)	—	(435)
—	—	—	—	—	—	—	—	3 054	—	3 054
(254)	—	—	—	—	—	—	—	(254)	—	(254)
—	37	—	—	—	—	37	—	37	—	37
—	(372)	—	—	—	—	(372)	—	(372)	—	(372)
—	430	—	—	—	—	430	—	430	—	430
—	(21)	—	—	—	—	(21)	—	(21)	—	(21)
(221)	221	—	—	—	—	—	221	—	—	—
39 075	4 625	(480)	1 318	1	1 422	831	1 533	91 322	3	91 325
		23	23	23	23	23	23			

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares[1] '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm	Additional Tier 1 capital Rm
Balance at the end of the previous reporting period	448 301	304	36 879	1	4 643	1 500
IFRS 9	—	—	—	—	—	—
IFRS 15	—	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	448 301	304	36 879	1	4 643	1 500
Total comprehensive income	—	—	—	—	351	190
Profit for the period	—	—	—	—	351	190
Other comprehensive income	—	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(351)	—
Distributions paid during the reporting period	—	—	—	—	—	(190)
Issuance of Additional Tier 1 capital	—	—	—	—	—	1 241
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—	—
Value of employee services	—	—	—	—	—	—
Deferred tax	—	—	—	—	—	—
Share of post-tax results of associates and joint ventures	—	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 879	1	4 643	2 741
Note	22	22	22	22	22	22

All movements are reflected net of taxation.

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

Consolidated statement of changes in equity

for the reporting period ended 31 December

2018

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

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Bank 2019 Rm	Bank 2018 Rm
Cash flow from operating activities			
Interest received		**80 069**	72 853
Interest paid		**(46 817)**	(40 137)
Fees and commission received		**20 661**	19 780
Fees and commission paid		**(1 601)**	(1 290)
Net trading and other income		**1 767**	737
Cash payments to employees and suppliers		**(32 698)**	(32 336)
Dividends received from banking and trading activities		**110**	69
Income taxes paid		**(3 326)**	(3 614)
Cash flow from operating activities before changes in operating assets and liabilities		**18 165**	16 062
Net (increase)/decrease in trading and hedging portfolio assets		**(11 295)**	1 117
Net increase in loans and advances to customers		**(66 611)**	(79 133)
Net decrease/(increase) in investment securities		**17 722**	(17 456)
Net (increase)/decrease in other assets		**(18 427)**	957
Net increase/(decrease) in trading and hedging portfolio liabilities		**10 739**	(13 242)
Net increase in amounts due to customers and banks		**60 145**	71 841
Net (decrease)/increase in other liabilities[1]		**(5 003)**	26 200
Net cash generated from operating activities		**5 435**	6 346
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**50**	1 079
Proceeds from disposal of investment properties	11	**180**	—
Purchase of property and equipment	12	**(2 624)**	(2 641)
Proceeds from disposal of properties and equipment		**176**	139
Purchase of intangible assets	13	**(2 881)**	(4 031)
Dividends received from investing activities		**3**	2
Acquisition of businesses	49	**—**	(30)
Investment in associates		**(117)**	—
Net cash utilised in investing activities		**(5 213)**	(5 482)
Cash flow from financing activities			
Purchase of Group shares in respect of equity-settled share-based payment schemes		**(254)**	(172)
Issue of Additional Tier 1 capital		**3 054**	1 241
Proceeds from borrowed funds		**1 580**	6 432
Repayment of borrowed funds		**(500)**	(3 195)
IFRS 16 lease liability		**(938)**	—
Distribution to Tier 1 capital holders		**(435)**	(190)
Dividends paid		**(2 841)**	(6 062)
Net cash generated from/(utilised in) financing activities		**(334)**	(1 946)
Net decrease in cash and cash equivalents		**(112)**	(1 082)
Cash and cash equivalents at the beginning of the reporting period		**9 958**	11 040
Cash and cash equivalents at the end of the reporting period	47	**9 846**	9 958

[1] Net increase in other liabilities includes debt securities in issue and provisions.

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 (IFRS-IC), 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 16 Leases (IFRS 16)

IFRS 16 is effective from 1 January 2019 and sets out principles for the recognition, measurement, presentation and disclosures of leases. IFRS 16 introduces a single lessee accounting model, which requires a lessee 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 leasing activities and how exposures are managed.

The Bank has elected to apply the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019 with no restatement of comparatives.

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

Amendment to IFRS 9 Prepayment features with negative compensation

The amendment is effective for reporting periods beginning on or after 1 January 2019 and clarifies how an entity 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 prepayment penalty and the case of an early prepayment gain. Adoption did not have a material impact on the Bank.

Amendment 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 amendment is effective for periods beginning on, or after, 1 January 2019, with earlier application permitted. It is effective prospectively and does not impact the Bank's previously reported results. The accounting for any plan amendments, curtailments or settlements being considered after the effective date would need to take into account the impact of this amendment. Adoption of this amendment did not have an impact on the Bank.

Amendment to IAS 28 Investments in Associates and Joint Ventures (IAS 28) regarding long-term interests in associates and joint ventures

This amendment, which is effective on 1 January 2019, and 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. Adoption of this amendment did not have an impact on the Bank.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 is effective on or after 1 January 2019 and 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. Adoption of the interpretation did not have a material impact on the financial statements of the Bank.

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 dividends 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 remain 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.

Adoption of these amendments did not have a material impact on the Bank

1. Summary of significant accounting policies (continued)

1.1 Introduction (continued)

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

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

1.2.1 Approach to credit risk and impairment of loans and advances

The Bank has an established framework, and related processes, which govern its approach to credit risk management and any resultant impairment of financial assets. 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:

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

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

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

1.2.1.1 Approach to credit modelling/internal ratings

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

The key credit parameters used in this process are:

1. probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
2. exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
3. 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, unless this mitigation has been recognised at fair value.

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 sections 1.2.1.4 and 1.2.1.5.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Bank 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.

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:

1. 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.
2. 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.
3. Risk appetite: Regulatory capital, economic capital and earnings volatility measures are used in the Bank's risk appetite framework.
4. Economic capital calculations: Credit economic capital calculations use PD, LGD and EAD inputs.
5. Risk profile reporting: Credit risk reports for senior management make use of model outputs to describe the Bank's credit risk profile.

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)

1.2.1.2 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 Bank uses two types of PDs, namely:

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

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

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

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

1.2.1.4 Approach to impairment of credit exposures

The accounting policy for the impairment of financial assets held at amortised cost or fair value through other comprehensive income applied by the Bank is described in note 1.7.4.

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.

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

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

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

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

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 credit exposures (continued)

IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the Bank believes there to be no reasonable expectation of recovery. The Bank has well-governed internal policies, which define how an individual account should be assessed for write-off, and which ensure that post write-off recoveries remain insignificant over the long run. Further, the policies are recalibrated over time, as and when actual recovery experience changes. Whilst the Bank's write-off policy determines the point of derecognition at an individual account level, it also impacts the level of recoveries modelled on a collective basis for the purposes of determining LGDs to be applied at a portfolio level. Under IFRS 9, the Bank applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Bank's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries which are therefore forecast to be received post the point of write-off are excluded from the LGD model. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

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

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

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

Retail portfolio

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

- Internal risk estimates of PD, EAD and LGD are based on historical experience and are reliant on historical data.
- PDs are assigned at account level, and consist of three elements, namely:
  - a term structure, capturing typical default behaviour by the months since observation;
  - a behavioural model which incorporates client level risk characteristics; and
  - a macro-economic model that incorporates forward looking macro-economic 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.

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 macro-economic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macro-economic conditions, thereby adjusting the PD from a seven-year historical average to a PD reflective of the macro-economic environment at the reporting date; and
  - an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for Stage 2.
- LGD estimates depend on the key drivers of recovery such as collateral value, seniority and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. The main adjustments to LGD comprise a macro-economic adjustment that changes the long-run LGD to reflect a given macro-economic 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. 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 Critical areas of judgement with regards to IFRS 9

Definition of a significant increase in credit risk:
The Bank uses various quantitative, qualitative and back stop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio are reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments 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. The Bank considers the impact of changes in the quality of credit enhancements (e.g. guarantees) it holds on the borrower's probability of default if a shareholder or parent has provided a guarantee, and has an incentive and the financial ability to prevent default by capital or cash infusion;
- 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. one day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Bank's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

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

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

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

In addition, within the Retail portfolios:

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

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

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

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

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

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

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

Incorporation of forward looking information into the IFRS 9 modelling:

The Bank's IFRS 9 impairment models consume macro-economic information to enable the models to provide an output that is based on forward looking information. The macro-economic variables and forecast scenarios are sourced from one of the world's largest research companies, and are reviewed and approved in accordance with the Bank's macro-economic governance framework. This review includes the testing of forecast estimates, the appropriateness of variables and probability weightings, as well as the incorporation of these forecasts into the ECL allowance.

The Bank has adopted the use of three economic scenarios: a base scenario, a mild upside scenario, and a mild downside scenario.

The projections incorporated into the IFRS 9 ECL model as at 31 December 2019, have been prepared within the context of the base and alternative macro-economic scenarios detailed below.

Base scenario

Global

The International Monetary Fund cut 0.1pp of its 2019 and 2020 forecasts, pulling global growth 2019 down to 3.2% (the lowest since the global financial crisis) and 2020 down to 3.5%. Data generally reflect softer inflation and weaker than expected activity, led by investment and consumer durables spending as low levels of business and consumer confidence continue to impact. Global trade has also been particularly sluggish. Key global risks include further trade and technology tensions, geopolitical tensions (Iran, Hong Kong), a lack of room in some countries for a counter-cyclical boost should it be required, and the potential for sharp swings in global risk sentiment.

Slowing growth, weakened confidence, modest inflation and a preponderance of downside macro risks together have provided an environment where many central banks, both in advanced economies and in emerging markets, have signalled a willingness to ease monetary policy. That room is likely to be larger in those countries that have further progressed in their policy normalisation (United States, China), than in those who have not (European Union, Japan). Moderate, rather than deep, rate cycles are the current baseline.

South Africa

South Africa's GDP growth forecasts are muted at 0.6% for 2019 and roughly 1.5% pa in 2020 and beyond as of last forecast in July, but with much more downside than upside risk from 2020 onwards. Big policy changes on various politically challenging fronts are needed to lift growth appreciably, and government is not making good progress, even on relatively easier reforms. CPI has printed at or below the 4.5% target range midpoint for all of 2019, but will now likely rise above 5% into early 2020, driven by food prices, and administered prices. The Monetary Policy Committee is expected to leave the repo rate on hold for the foreseeable future, pending clear evidence of serious fiscal consolidation progress. State-owned enterprises (SOEs) remain a major source of ongoing macro-economic risks.

Rest of Africa Region

The Rest of Africa economic recovery is underway, but there are some downside risks. Economic growth is being supported largely by a recovery in the agriculture sector, improved commodity prices and output. Monetary policy easing cycle has come to an end across the region due to rising inflation.

Mild upside scenario: Stronger near term growth

Global

The global economy grows faster than expected supported by United States (US) fiscal stimulus, favourable settlement to US/China trade war and Britain's exit (Brexit) from the European Union, which boost global business confidence. Commodity price move higher versus baseline.

Global financial markets improve. Globally, investor and consumer sentiment rises, due to stronger growth and favourable financial environment.

South Africa

Policy and political uncertainty ease and boost confidence and fixed investment growth. SA's fiscal position improves and there are no further ratings downgrades over the forecast horizon.

We assume a strong rand compared to base is driven by improved confidence, sovereign rating being unchanged and the general positive global sentiment.

Inflation moves lower on the back of a much stronger rand and continued moderation in food price inflation.

Falling inflation and diminished domestic risks gives the South African Reserve Bank (SARB) room to provide stimulus to the economy by cutting interest rates to support economic growth.

Rest of Africa Region

Stronger global economy and higher commodity prices help support growth in rest of Africa commodity exports and fixed investments. The level of output remains above baseline scenario.

Inflation moves lower as the currency appreciates on the back of capital flows and higher commodity prices supporting exports.

Easing inflation allows some central banks to lower interest rates.

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

Mild downside scenario: Moderate recession

Global

Global growth slows markedly on the back of trade war uncertainty between the US and China and protracted Brexit negotiations. As a result financial markets sell off on fears of unfavourable outcomes from both these risk events.

Global stock markets and commodity prices drop sharply, lowering global trade. Additionally, the eurozone moves back into recession, while China growth slows markedly. There is very limited monetary or fiscal policy space to provide sufficient support to the slowing global economy.

South Africa

South Africa goes into a recession on the back of weaker global growth, fiscal conditions and SOE balance sheet deteriorate further.

SA is downgraded by Moody's in late 2019 and no further ratings are assumed.

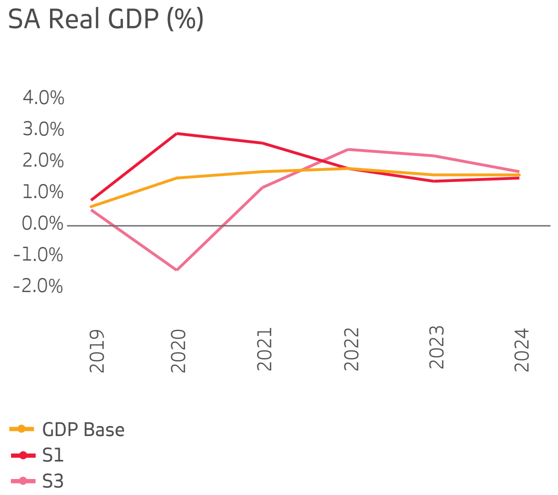
We assume rand weakens compared to base and S1 due to capital flight post the ratings downgrade.

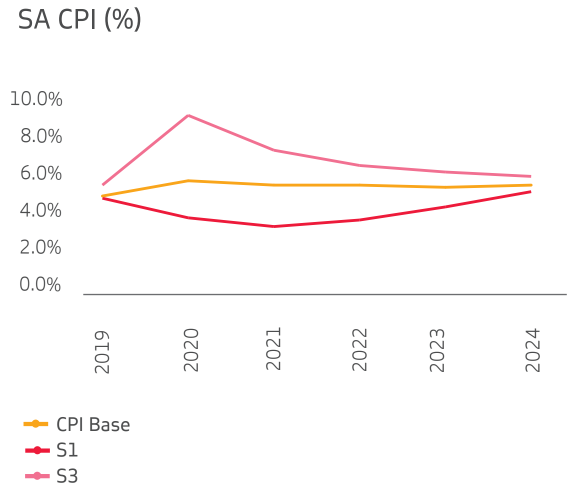
Rand weakness drives inflation higher due to petrol and food prices. The SARB reacts to protect the rand, stem capital flight and fight rising inflation hiking interest rates. Yield curve moves accordingly reflective of risk events.

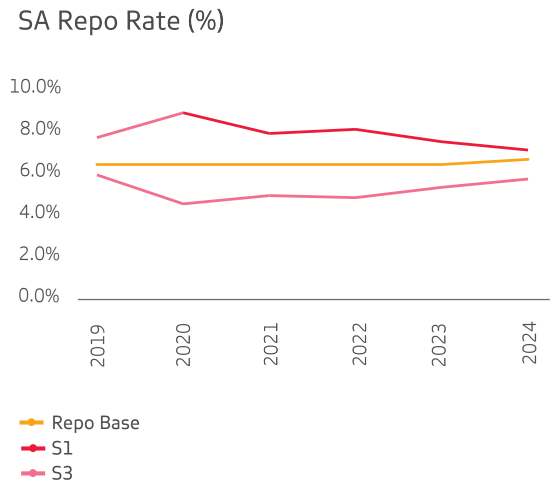
Rest of Africa Region

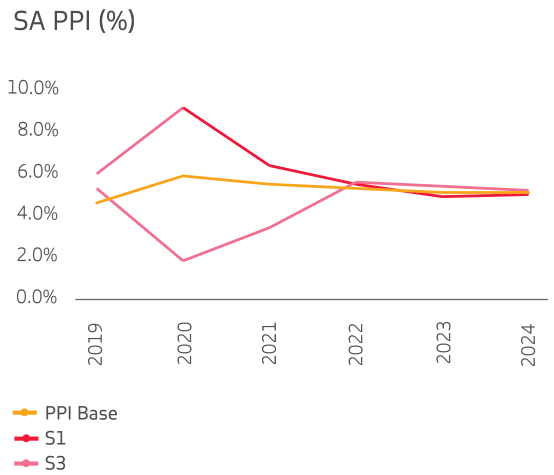
Sub-Saharan Africa's growth slows as weaker global growth, lower commodity prices and financial market volatility weighs on economies. Weaker commodity prices and falling exports drives currencies weaker and inflation higher. Central banks intervene by hiking interest rates to help stem the flight of capital, protect currencies and slow inflation.

Macro-economic assumptions









1. Summary of significant accounting policies (continued)

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

1.2.2 Capitalisation, amortisation and impairment of internally generated intangible assets, and impairment of goodwill

Capitalisation

Expenditure incurred in developing internally generated software assets is capitalised only if the criteria for the capitalisation of development expenditure has been met. Management judgement is applied in order to determine whether these criteria have been met, and this is usually determined to be the case when a development project has reached a defined milestone according to an established project management model.

The determination of which expenditures can be capitalised in the development phase may involve judgement, as it may be necessary to determine whether an inefficiency has been identified, as the cost thereof may not be capitalised. Management considers scope changes, complexity of the project, as well as the effect of any delays in the delivery of a project, in order to ascertain the appropriateness of capitalisation of development costs. This includes the determination as to whether, and by how much, cost incurred on a project is considered inefficient and needs to be expensed rather than capitalised.

Amortisation

For intangible assets with a finite useful life, the depreciable amount of the asset is required to be allocated on a systematic basis over its useful life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Management applies judgement in determining when the intangible asset is considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation of an asset commences once the asset group as a whole is ready to commence operations, and determination of this stage in the project delivery involves management judgement.

Impairment

The recoverable amount for intangible assets and goodwill is determined to be the higher of the asset's fair value less costs to sell and its value in use.

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 intangible asset/the CGU to which it belongs. 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 intangible asset/the CGU to which it belongs. Growth rates in the impairment calculations range from 0% to 10% (2018: 0% to 10%) and projected cash flow periods approximate three to five years (2018: five years).

The discount rate applied to the forecasted future cash flows in the value-in-use calculation is based on the Bank's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates a number of financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business that is being evaluated. These variables are subject to fluctuations in external market rates and economic conditions which are outside of management's control. As a consequence they may be established through the exercise of significant management judgement. The range of discount rates used in the impairment calculations is 12.86% (2018: 12.65%).

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

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.

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)

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 through employing other analytical techniques.

Financial assets and financial liabilities

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

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

Investment properties

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

Judgemental inputs on valuation of principal instruments

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

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

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

- **Equity instruments**

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

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)

- **Derivatives**

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

- **Loans and advances**

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

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

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

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

Fair value adjustments

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

- **Bid-offer valuation adjustments**

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

- **Uncollateralised derivative adjustments**

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

- **Model valuation adjustments**

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

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 2

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

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Loans and advances to banks	Future cash flows are discounted using market-related interest rates, adjusted for credit inputs, over the contractual period of the instruments (that is, discounted cash flow)	Interest rates and/or money market curves, as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
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 2019	Range of unobservable inputs applied 2018
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	**0.1% to 2.9%**	0.513% to 3.235%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	**Discount rate of 7.75% to 8%**	Discount rate of 7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**0.5% to 12.8%**	0.15% to 8.2%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	**0.02% to 26%, 15% to 93.2%, 60% to 90%**	0.03% to 14%, 15% to 76%, 60% to 90%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	**9.3% to 67.3%**	14.91% to 53.2%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**1.4% to 26%**	(4.48)% to 24.7%
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	**0.3% to 8.5%**	0.20% to 9.34%
Deposits due to customers	Discounted cash flow models	Absa Africa Group Limited's funding spreads (greater than 5 years)	**1.13% to 1.7%**	1.3% to 1.8%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**1.13% to 1.7%**	1.3% to 1.8%
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%	10% 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 54.7.

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

1. Summary of significant accounting policies (continued)

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

1.2.4 Consolidation of structured or sponsored entities

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

Definition of a structured entity

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

Assessment of agent versus principal

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

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

Assessment of sponsored entities

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

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

Refer to notes 41 and 44.

1.2.5 Post-retirement benefits

The valuations of and contributions towards the defined benefit pension plan is 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.

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

Exposure to actuarial risks

The defined benefit fund exposes the Bank to the risk that the benefits promised in the various funds cost more than the accumulated assets set aside to meet such benefits, and ultimately will require additional funding from the Bank.

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.

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 the defined benefit part of the plans and the introduction of the defined contribution element. 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.

1. Summary of significant accounting policies (continued)

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

1.2.5 Post-retirement benefits (continued)

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 South Africa. 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 37 for the specific assumptions used and carrying amounts of post-retirement benefits.

1.2.6 Provisions

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

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

1.2.7 Income taxes

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

The Bank periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes tax liabilities, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The carrying amount of any resulting liabilities will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

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

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

1.2.8 Share-based payments

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

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

1. Summary of significant accounting policies (continued)

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

1.2.8 Share-based payments (continued)

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

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

1.2.9 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Bank's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 42.

1.3 Consolidated financial statements of the Bank

1.3.1 Subsidiaries

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

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

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

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

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

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

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

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

1. Summary of significant accounting policies (continued)

1.3 Consolidated financial statements of the Bank (continued)

1.3.2 Investments in associates and joint ventures

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

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

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

1.3.3 Structured entities

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

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

1.3.4 Common control

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

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

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

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

1.4 Segment reporting

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

1.5 Foreign currencies

1.5.1 Foreign currency translations

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

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

1. Summary of significant accounting policies (continued)

1.5 Foreign currencies (continued)

1.5.2 Foreign currency transactions

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

At each subsequent reporting date:

- foreign currency monetary amounts are reported using the closing rate;
- non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction;
- non-monetary items carried at fair value are 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

1.7.1 Initial recognition

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

1.7.2 Day one profits or losses

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

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

1.7.3 Classification and measurement of financial instruments

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

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

The classification and subsequent measurement of financial assets depends on:

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

Business model assessment

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

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

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

1.7.3.1 Debt instruments

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

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

1.7.3.2 Equity instruments

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

1.7.3.3 Financial liabilities

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

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

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

1.7.3.4 Derivatives

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

1.7.4 Expected credit losses on financial assets

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

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

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

Three-stage approach to ECL

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

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

The stage allocation is required to be performed as follows:

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

Expected credit loss calculation

The measurement of ECL reflects:

- 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.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.4 Expected credit losses on financial assets (continued)

Expected credit loss calculation (continued)

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 months ECL and lifetime ECL) as a function of the exposure at default (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 Bank is exposed to credit risk. The Bank estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Bank uses the remaining contractual term of the financial instrument.

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

Forward looking information

Forward looking information is factored into the measurement of ECL through the use of multiple expected macro-economic 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 Bank can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Bank pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure;
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding cost and rates and taxes.

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.5 Derecognition of financial assets and financial liabilities

1.7.5.1 Derecognition of financial assets

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

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

1.7.5.2 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.

1.7.6 Modification of financial assets and financial liabilities

1.7.6.1 Modification of financial assets

Modifications to financial assets are assessed as follows:

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

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

1.7.6.2 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.

1.7.7 Offsetting of financial assets and financial liabilities

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

1.7.8 Hedge accounting

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.8 Hedge accounting (continued)

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.

1.7.9 Equity instruments

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

1.7.10 Compound financial instruments

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

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

1.7.11 Subordinated debt

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

1.7.12 Repurchase and reverse repurchase agreements

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.13 Loan commitments

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

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

1.7.14 Financial guarantee contracts

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

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 which is calculated using the effective interest method is 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 and debt instruments at fair value through other comprehensive income. Further, an effective interest expense is 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.

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

Impact of IFRS 9 ECL on interest recognition

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

1.9.2 Net trading income

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

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

1. Summary of significant accounting policies (continued)

1.9 Revenue recognition (continued)

1.9.3 Net fee and commission income

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

Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered, which is either over the period over which the performance obligation is discharged; or at a point in time, should the performance obligation be discharged at a point in time. For example, 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 direct and incremental to the generation of fee and commission income.

1.10 Commodities

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

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

1.11 Intangible assets

1.11.1 Goodwill

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

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

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

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

1.11.2 Intangible assets other than goodwill

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

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

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

Intangible assets are reviewed for impairment when there are indicators that impairment may have occurred. Should such an indicator exist, or in the instance that an intangible asset is not yet available for use, the asset is tested for impairment by comparing its carrying value with its recoverable amount. Any impairment loss identified is recognised immediately in profit or loss.

1. Summary of significant accounting policies (continued)

1.11 Intangible assets (continued)

1.11.2 Intangible assets other than goodwill (continued)

	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	10 – 33	10

1.12 Property and equipment

1.12.1 Property and equipment not subject to lease agreements

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

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

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

1.12.2 Property and equipment subject to lease agreements

1.12.2.1 Property and equipment subject to lease agreements (2019)

As lessee

Where the Bank is a lessee, a right-of-use asset and corresponding lease liability are recognised at the lease commencement date. The right-of-use asset is initially and subsequently measured at cost with depreciation recognised on a straight-line basis over the lease term. The right-of-use asset is included within 'property and equipment' in the statement of financial position. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease, if readily determinable, or the lessee's incremental borrowing rate. After the commencement date, a lessee shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability determined and reducing the carrying amount to reflect the lease payments made. Any revisions to in-substance fixed lease payments, reassessment or lease modifications will be reflected by re-measuring the carrying amount. Interest is recognised within net interest income and the lease liability is included within 'other liabilities' in the statement of financial position.

The lease payments in relation to short-term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term.

As lessor

Finance leases

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

Operating leases

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

1. Summary of significant accounting policies (continued)

1.12 Property and equipment (continued)

1.12.2 Property and equipment subject to lease agreements (continued)

1.12.2.2 Property and equipment subject to lease agreements (2018)

Finance leases

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

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

Operating leases

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

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

1.12.3 Investment properties

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

1.13 Repossessed properties

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

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

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

1.14 Non-current assets held for sale

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

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

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

1.15 Cash and cash equivalents

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

1. Summary of significant accounting policies (continued)

1.16 Provisions, contingent liabilities and commitments

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

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

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

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

1.17 Employee benefits

1.17.1 Post-retirement benefits

The Bank operates a number of pension schemes including defined contribution and defined benefit schemes.

Defined contribution schemes

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

Defined benefit schemes

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

Costs arising from regular pension cost, interest on net defined benefit liability or asset, past service cost settlements 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.

1.17.2 Staff costs

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

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

1.17.3 Share-based payments

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

Employee services settled in equity instruments

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

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

1. Summary of significant accounting policies (continued)

1.17 Employee benefits (continued)

1.17.3 Share-based payments (continued)

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

Employee services settled in cash

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

1.18 Tax

1.18.1 Current tax

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

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

1.18.2 Deferred tax

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

1.18.3 Dividends withholding tax

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

1.18.4 Value added tax (VAT)

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

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

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

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

1.19 Reporting changes overview

The Bank effected the following financial reporting changes during the current reporting period:

1.19.1 Implementation of IFRS 16 Leases (IFRS 16)
1.19.2 Changes to reportable segments and business portfolios

1.19.1 Implementation of IFRS 16 Leases

IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases, and it replaces IAS 17 *Leases* (IAS 17), IFRIC 4 *Determining whether an arrangement contains a lease* (IFRIC 4), SIC-15 *Operating Leases – Incentives* (SIC-15) and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* (SIC-27).

One of the key change of IFRS 16 is the introduction of a single lessee accounting model which requires a lessee to recognise assets and liabilities, for lease contracts with a term of more than 12 months, unless the underlying asset is of low value, eliminating the classification of leases as either operating leases or finance leases. As a result, a depreciation charge for the right-of-use assets and interest expense on lease liabilities is recognised instead of the straight-line operating lease expense. Lessor accounting remains similar to the previous standard (IAS 17) in which lessors continue to classify leases as finance or operating leases.

1. Summary of significant accounting policies (continued)

1.19 Reporting changes overview (continued)

1.19.1 Implementation of IFRS 16 Leases (continued)

The Bank has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019 with no restatement of comparatives.

The Bank elected the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases, and to apply a single discount rate to a portfolio of leases with similar characteristics. Judgement was applied in determining the appropriate incremental borrowing rate to use. The rates used consider the tenor of the lease, currency of the lease, credit risk of the specific lessee and the economic environment. The weighted average incremental rate, determined as at 1 January 2019 was between 8% and 9%. For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at initial application was determined as the carrying amount of the leased asset and lease liability under IAS 17 at 31 December 2018.

In the application of this model the Bank has recognised the following at the date of initial application (unless the lease term is shorter than 12 months or the underlying asset is of low value):

(a) A lease liability for all leases previously classified as operating leases, measured at the present value of the remaining lease payments, discounted using the entity's incremental borrowing rate at the date of initial application; and

(b) A right of use asset, measured retrospectively, using the applicable entity's incremental borrowing rate at the date of initial application.

In impracticable cases, the Bank measured the right-of-use asset at an amount equal to the lease liability, adjusted for any existing prepaid or accrued rentals.

1.19.1 The table below summarises the total impact of IFRS 16 on the Bank's statement of changes in equity:

	Share capital and share premium Rm	Preference share capital and share premium Rm	Additional Tier 1 capital Rm	Retained earnings Rm	Other reserves Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Total equity Rm
Balance reported as at 31 December 2018	37 183	4 644	2 741	35 209	3 918	83 695	(9)	83 686
Impact of adopting IFRS 16	—	—	—	(198)	—	(198)	—	(198)
Adjusted balance as at 1 January 2019	37 183	4 644	2 741	35 011	3 918	83 497	(9)	83 488

1.19.1.2 The following table summarises the total impact of IFRS 16 on the Bank's statement of financial position as at 1 January 2019:

	31 December 2018 Rm	Impact of initial adoption of IFRS 16 Rm	1 January 2019 Rm
Assets			
Property and equipment	13 609	2 713	16 322
Deferred tax assets	1 595	77	1 672
Total assets	1 079 679	2 790	1 082 469
Liabilities			
Other liabilities[1]	31 907	2 988	34 895
Total liabilities	995 993	2 988	998 981
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Retained earnings	35 209	(198)	35 011
	83 695	(198)	83 497
Non-controlling interest – ordinary shares	(9)	—	(9)
Total equity	83 686	(198)	83 488
Total liabilities and equity	1 079 679	2 790	1 082 469

[1] Includes an amount of **R3 373m** relating to the IFRS 16 lease liability, which is offset by the release of the IAS 17 straight-lining lease liability of **R385m**.

1. Summary of significant accounting policies (continued)

1.19 Reporting changes overview (continued)

1.19.1 Implementation of IFRS 16 Leases (continued)

1.19.1.3 The table below reconciles the previously disclosed operating lease commitments to the lease liabilities recognised on 1 January 2019:

	Rm
Operating lease commitments at 31 December 2018	**4 209**
Discounted using the incremental borrowing rate at 1 January 2019	**(695)**
Finance lease liabilities recognised	**3 514**
Reconciling items	
Previously disclosed commitments subject to recognition exemption	**(141)**
Lease liabilities recognised at 1 January 2019	**3 373**

1.19.2 Changes to reportable segments and business portfolios

Refer to note 50 for more detail.

1.20 New standards and interpretations not yet adopted

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

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

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

1.20.2 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.

1.20.3 Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (IBOR)

The amendments, which are applicable for financial reporting periods beginning on or after 1 January 2020, focus on hedge accounting issues related to uncertainties arising in the period leading up to the replacement of IBORs with alternative nearly risk-free rates, and provide reliefs to allow hedge accounting to continue during the period of uncertainty before an IBOR is replaced. The amendments are mandatory for all hedge relationships directly affected by interest rate benchmark reform, and are required to be applied on a retrospective basis.

1.20.4 Amendments to IAS 1 Classification of liabilities as current or non-current

The amendments aim to help companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted.

	Bank 2019 Rm	Bank 2018 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**16 587**	13 108
Coins and bank notes	**8 898**	9 571
	25 485	22 679

The minimum reserve balance to be held in cash with the SARB is calculated under the provision of Regulation 27 and cannot be utilised in the normal course of business. 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 from the fifteenth business day of the month, up to and including the fourteenth business day of the following month based on the latest BA 310 return submitted to the SARB.

	Bank 2019 Rm	Bank 2018 Rm
3. Investment securities		
Government bonds	**36 078**	43 445
Listed equity instruments	**1 119**	651
Other debt securities	**20 839**	22 379
Treasury bills	**16 638**	26 570
Unlisted equity and hybrid instruments	**556**	533
Gross investment securities	**75 230**	93 578
Impairment losses	**(0)**	(2)
	75 230	93 576

Government bonds of **R4 673m** (2018: R10 152m) which relate to repurchase agreements have been pledged with the SARB and other central banks.

Impairment losses relate to expected credit losses raised on investment securities held at amortised cost. Expected credit losses of **R7m** (2018: R35m) have been recognised on investment securities at FVOCI.

	Bank 2019 Rm	Bank 2018 Rm
4. Loans and advances to banks		
Gross loans and advances to banks	**45 013**	40 553
Impairment losses	**(20)**	(20)
	44 993	40 533

Included above are reverse repurchase agreements of **R26 783m** (2018: R16 342m) and other collateralised loans of **R372m** (2018: R1 505m) relating to securities borrowed.

5. Trading and hedging portfolio assets

	Bank 2019 Rm	Bank 2018 Rm
Commodities	**668**	1 304
Debt instruments	**41 727**	44 238
Derivative assets (refer to notes 51.3 and 51.4)	**57 088**	43 723
Commodity derivatives	**302**	1 487
Credit derivatives	**155**	173
Equity derivatives	**5 490**	5 380
Foreign exchange derivatives	**12 611**	8 006
Interest rate derivatives	**38 530**	28 677
Equity instruments	**520**	533
Money market assets	**11 589**	11 473
Total trading portfolio assets	**111 592**	101 271
Hedging portfolio assets (refer to note 51.3)	**3 355**	2 407
	114 947	103 678

Trading portfolio assets with carrying values of **R18 719m** (2018: R42 705m) and **R4 381m** (2018: R3 434m) 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.

6. Other assets

	Bank 2019 Rm	Bank 2018 Rm
Accounts receivable and prepayments	**8 671**	8 510
Deferred costs	**181**	165
Inventories	**150**	28
Cost	**150**	29
Write-down	**—**	(1)
Retirement benefit fund surplus (refer to note 37)	**466**	466
Settlement accounts	**12 260**	13 125
Gross other assets	**21 728**	22 294
Impairment losses	**0**	0
	21 728	22 294

	Bank 2019 Rm	Bank 2018 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	**50**	1 119
Disposals	**(50)**	(1 119)
Transfer from loans and advances to customers	**3 685**	—
Transfer from property and equipment (refer to note 12)	**21**	50
Balance at the end of the reporting period	**3 706**	50

The following movements in non-current assets and non-current liabilities occurred during the current financial reporting period:

- RBB South Africa transferred a loan book with a carrying amount of **R3 685m** to non-current assets held for sale.
- Head Office, Treasury and other operations in South Africa disposed of property and equipment with a carrying amount of **R50m**.
- Head Office, Treasury and other operations in South Africa transferred property and equipment with a carrying amount of **R21m** to non-current assets held for sale.

The following movements in non-current assets held for sale occured during the previous financial reporting period:

- RBB South Africa disposed of a loan book as well as property and equipment with carrying amounts of R1 118m and R1m, respectively.
- Head Office, Treasury and other operations in South Africa transferred property and equipment with a carrying amount of R50m to non-current assets held for sale.

	Bank 2019 Rm	Bank 2018 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**11 920**	12 770
Credit cards	**32 866**	31 577
Foreign currency loans	**39 075**	36 462
Instalment credit agreements[1]	**89 925**	81 809
Finance lease receivables (refer to note 8.1)[1]	**4 467**	3 870
Loans to associates and joint ventures (refer to note 41.5)	**28 490**	28 259
Micro loans	**4 595**	3 970
Mortgages	**308 477**	289 698
Other advances	**12 723**	11 276
Overdrafts	**50 035**	50 648
Overnight finance	**19 717**	19 486
Personal and term loans	**47 481**	38 959
Preference shares	**20 986**	20 450
Reverse repurchase agreements (carries)	**43 222**	29 414
Wholesale overdrafts	**102 466**	99 019
Gross loans and advances to customers	**816 445**	757 667
Impairment losses	**(22 063)**	(22 467)
	794 382	735 200

The Bank has securitised certain loans and advances to customers, the total value of these securitised assets is **R6 056m** (2018: R3 277m). Included above are collateralised loans of **R1 404m** (2018: R888m) relating to securities borrowed.

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

Other advances include working capital solutions and collateralised loans.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R3 277m** (2018: R 3 884m).

[1] In the current reporting period 'finance lease receivables' of R3 870m has been disaggregated from instalment credit agreement with comparatives being restated accordingly.

	Bank 2019 Gross advances Rm	2019 Unearned finance charges Rm	2019 Net advances Rm	2018[1] Gross advances Rm	2018[1] Unearned finance charges Rm	2018[1] Net advances Rm
8. Loans and advances to customers (continued)						
8.1 Finance lease receivables						
Maturity analysis						
Less than one year	966	(28)	938	1 696	(171)	1 525
Between one and five years	3 906	(479)	3 427	2 619	(318)	2 301
More than five years	148	(46)	102	50	(6)	44
Gross carrying amount	5 020	(553)	4 467	4 365	(495)	3 870

The Bank enters into finance lease contracts in respect of motor vehicles, equipment and medical equipment.

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

Under the terms of the agreements, no contingent rentals are payable.

Unguaranteed residual values of finance lease receivables at the previous reporting date are **R2 169m** (2018: R1 819m)[1].

Included in the allowance for impairments in the previous reporting period is R23m[1] which relates to finance lease receivables. This amount has not been disclosed for the current period as it is not required to be disclosed under IFRS 16.

	Bank 2019 Rm	2018 Rm
9. Loans to group companies		
Gross loans to group companies	50 621	37 598
Impairment losses	(161)	(235)
	50 460	37 363

	Bank 2019 Rm	2018 Rm
10. Investments in associates and joint ventures		
Unlisted investments	1 648	1 310
10.1 Movement in carrying value of associates and joint ventures accounted for under the equity method		
Balance at the beginning of the reporting period	1 310	1 235
Change in the Bank's share of net assets due to adoption of IFRS 9	—	(104)
Share of current reporting period post-tax results	221	179
Share of current reporting period results before taxation	288	250
Taxation on reporting period results	(67)	(71)
Net movement resulting from additional acquisitions/capital contributions	117	—
Balance at the end of the reporting period	1 648	1 310

[1] The numbers have been restated to reflect only the amounts relating to leases as defined under IFRS 16 (2019)/IAS 17 (2018) and not to the remaining financing arrangements included in instalment credit agreements. This resulted in a reduction in prior year in gross advances of R102 893m, unearned finance charges of R21 084m, unguaranteed residual values of R7 847m, and allowance for impairment of R3 346m.

10. Investments in associates and joint ventures (continued)

10.2 Associates and joint ventures

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

Bank share	Associates 2019 Rm	Associates 2018 Rm	Joint ventures 2019 Rm	Joint ventures 2018 Rm
Post-tax profit from continuing operations	**25**	25	**196**	154
Total comprehensive income	**25**	25	**196**	154

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

	Bank 2019 Rm	Bank 2018 Rm
Unlisted investments		
Shares at cost	**100**	100
Share of post-acquisition reserves	**1 431**	1 210
Additional capital contribution	**117**	—
	1 648	1 310

10.4 Carrying value of associates and joint ventures

	Bank 2019 Associates Rm	Bank 2019 Joint ventures Rm	Bank 2019 Total Rm	Bank 2018 Associates Rm	Bank 2018 Joint ventures Rm	Bank 2018 Total Rm
Equity accounted	**376**	**1 272**	**1 648**	233	1 077	1 310
Designated at fair value through profit or loss	**30**	**299**	**329**	21	298	319
	406	**1 571**	**1 977**	254	1 375	1 629

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

Refer to note 41.5 for additional disclosure of the Bank's investments in associates and joint ventures.

11. Investment properties

	Bank 2019 Rm	Bank 2018 Rm
Balance at the beginning of the reporting period	**180**	—
Additions	**—**	165
Change in fair value (refer to note 29)	**—**	15
Disposals	**(180)**	—
Balance at the end of the reporting period	**—**	180

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

	Bank					
	2019			2018		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
12. Property and equipment						
Computer equipment	7 863	(4 712)	3 151	8 069	(4 658)	3 411
Freehold property	5 543	(413)	5 130	5 595	(367)	5 228
Furniture and other equipment	8 716	(3 933)	4 783	8 256	(3 287)	4 969
Motor vehicles	4	(2)	2	3	(2)	1
Right-of-use assets	3 412	(890)	2 522	—	—	—
	25 538	(9 950)	15 588	21 923	(8 314)	13 609

Bank 2019 — Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfers to intangibles Rm	Transfer to non-current assets held for sale Rm	Depre-ciation Rm	Impairment Rm	Closing balance Rm
Computer equipment	3 411	1 013	(96)	1	—	—	(1 106)	(72)	3 151
Freehold property	5 228	744	(70)	(680)	—	(21)	(7)	(64)	5 130
Furniture and other equipment	4 969	160	(4)	679	—	—	(970)	(51)	4 783
Motor vehicles	1	2	—	—	—	—	(1)	—	2
Right-of-use assets[2]	—	3 412	—	—	—	—	(880)	(10)	2 522
	13 609	5 331	(170)	—	—	(21)	(2 964)	(197)	15 588
Note		36				7	31	32	

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

Included in the above additions is **R722m** (2018: R1 155m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R680m (2018: R1 499m) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R8m** (2018: R340m) of assets under construction relating to freehold property was brought in to use during the reporting period.

R21m (2018: R50m) of certain property and equipment was transferred to non-current assets held for sale due to a change in the use of the assets.

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

[1] An amount of **R680m** (2018: R1 499m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R1m** (2018: R27m) and 'Furniture and other equipment' **R679m** (2018: R1 472m) in accordance with the nature of these assets.

[2] Included in additions is an amount of **R2 713m** relating to the take on balance of the right-of-use asset from the adoption of IFRS 16.

13. Goodwill and intangible assets

	Bank 2019 Cost Rm	2019 Accumulated amortisation and/or impairments Rm	2019 Carrying value Rm	2018 Cost Rm	2018 Accumulated amortisation and/or impairments Rm	2018 Carrying value Rm
Computer software development costs	10 895	(2 173)	8 722	10 608	(3 510)	7 098
Customer lists and relationships	410	(410)	—	410	(410)	—
Goodwill	149	(37)	112	183	(71)	112
Other	70	(41)	29	123	(87)	36
	11 524	(2 661)	8 863	11 324	(4 078)	7 246

Bank

2019

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	7 098	2 881	—	(1 136)	(121)	—	8 722
Goodwill	112	—	—	—	—	—	112
Other	36	—	—	(7)	—	—	29
	7 246	2 881	—	(1 143)	(121)	—	8 863
Note				31	32		

2018

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	3 695	4 032	—	(639)	(1)	11	7 098
Goodwill	112	—	34	—	(34)	—	112
Other	54	—	—	(7)	—	(11)	36
	3 861	4 032	34	(646)	(35)	—	7 246
Note				31	32		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R5 016m** (2018: R5 743m) relating to assets under construction.

R3 075m (2018: R994m) of assets under construction relating to computer software was brought into use during the reporting period.

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

	Bank 2019 Rm	2018 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	112	112
	112	112

In considering reasonably possible changes to key assumptions, even if the estimated discount rate and/or growth rate was changed by **2%** (2018: 2%), no additional impairment loss would be recognised (2018: Rnil).

	Bank 2019 Rm	Bank 2018 Rm
14. Deferred tax		
14.1 Reconciliation of net deferred tax (asset)/liability		
Balance at the beginning of the reporting period	**(1 580)**	332
Effects of adopting IFRS 16	**(77)**	—
Effects of adopting IFRS 9	—	(1 474)
Deferred tax on amounts charged directly to other comprehensive income and equity	**170**	(124)
Charge to profit and loss (refer to note 34)	**(110)**	(314)
Tax effect of translation and other differences	**41**	—
Balance at the end of the reporting period	**(1 556)**	(1 580)
14.2 Deferred tax (asset)/liability		
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**16**	15
Prepayments, accruals and other provisions	**17**	15
Impairment of loans and advances	**(1)**	(0)
Deferred tax asset	**(1 572)**	(1 595)
Prepayments, accruals and other provisions	**(403)**	(512)
Capital allowances	**1 080**	1 135
Cash flow hedge and financial assets at fair value through other comprehensive income reserve	**236**	180
Own credit risk	**(75)**	(58)
Impairment of loans and advances	**(1 907)**	(1 865)
Lease and rental debtor allowances	**(272)**	(244)
Property allowances	**208**	188
Retirement benefit fund asset and liabilities	**128**	138
Fair value adjustments on financial instruments	**(263)**	(244)
Share-based payments	**(304)**	(313)
Net deferred tax (asset)/liability	**(1 556)**	(1 580)

	Bank 2019 Rm	Bank 2018 Rm
15. Deposits from banks		
Call deposits	**12 056**	7 457
Fixed deposits	**26 502**	25 907
Foreign currency deposits	**33 329**	24 180
Notice deposits	**2 453**	2 452
Other	**2 225**	3 817
Repurchase agreements	**42 912**	64 146
	119 477	127 959

	Bank 2019 Rm	Bank 2018 Rm
16. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to notes 51.3 and 51.4)	45 567	35 208
Commodity derivatives	475	1 489
Credit derivatives	132	174
Equity derivatives	1 832	3 091
Foreign exchange derivatives	11 916	8 410
Interest rate derivatives	31 212	22 044
Short positions	10 401	11 072
Total trading portfolio liabilities	55 968	46 280
Hedging portfolio liabilities (refer to note 51.3)	1 379	1 343
	57 347	47 623

	Bank 2019 Rm	Bank 2018 Rm
17. Other liabilities		
Accruals	1 608	1 732
Audit fee accrual	142	15
Cash-settled share-based payment liability (refer to note 48)	282	293
Creditors	8 481	12 350
Deferred income	220	225
Lease liabilities (2019)/liabilities under finance lease (2018)	3 220	28
Settlement balances	18 385	17 264
	32 338	31 907

	Bank			
	2019			
	Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Undrawn contractually committed and guarantees provision Rm	Total Rm
18. Provisions				
Balance at the beginning of the reporting period	1 629	571	482	2 682
Additions	1 525	439	—	1 964
Amounts used	(1 688)	(426)	—	(2 114)
Reversals	(27)	—	—	(27)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 46)	—	—	117	117
Balance at the end of the reporting period	1 439	584	599	2 622

Provisions have been raised on financial guarantees, letters of credit and undrawn committed facilities, which is in line with the requirement of IFRS 9 (refer to note 46 for the gross amounts as well as note 55.2 for detailed reconciliations of the expected credit losses).

Provisions expected to be recovered or settled within 12 months after the reporting date amount to **R1 451m** (2018: R1 539m).

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

	Bank	
	2019 Rm	2018 Rm
19. Deposits due to customers		
Call deposits	52 406	57 981
Cheque account deposits	160 138	156 909
Credit card deposits	1 862	1 904
Fixed deposits	193 395	157 613
Foreign currency deposits	23 975	17 541
Notice deposits	68 997	58 367
Other deposits	722	1 473
Repurchase agreements	19 884	12 793
Savings and transmission deposits	156 430	141 066
	677 809	605 647

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

	Bank	
	2019 Rm	2018 Rm
20. Debt securities in issue		
Commercial paper	5 290	1 436
Credit linked notes	9 464	9 049
Floating rate notes	57 028	64 181
Negotiable certificates of deposit	44 007	52 613
Other	1 481	963
Promissory notes	1 120	1 257
Senior notes	39 111	30 442
Structured notes and bonds	102	101
	157 603	160 042

21. Borrowed funds

			Bank 2019 Rm	Bank 2018 Rm
Subordinated callable notes issued by Absa Bank Limited				
Interest rate	**Final maturity date**	**Note**		
Consumer Price Index linked notes fixed at 5.50%	7 December 2028	i	**1 500**	1 500
10.05%	5 February 2025	ii	**807**	807
10.835%	19 November 2024	iii	**—**	130
11.365%	4 September 2025	iv	**508**	508
11.40%	29 September 2025	v	**288**	288
11.74%	20 August 2026	vi	**140**	140
11.81%	3 September 2027	vii	**737**	737
12.43%	5 May 2026	viii	**200**	200
Three-month JIBAR + 2.40%	11 April 2029	ix	**1 580**	—
Three-month JIBAR + 2.45%	29 November 2028	x	**1 500**	1 500
Three-month JIBAR + 3.30%	19 November 2024	xi	**—**	370
Three-month JIBAR + 3.50%	5 February 2025	xii	**1 693**	1 693
Three-month JIBAR + 3.50%	4 September 2025	xiii	**437**	437
Three-month JIBAR + 3.60%	3 September 2027	xiv	**30**	30
Three-month JIBAR + 4.00%	5 May 2026	xv	**31**	31
Three-month JIBAR + 4.00%	20 August 2026	xvi	**1 510**	1 510
Three-month JIBAR + 4.00%	3 November 2026	xvii	**500**	500
Three-month JIBAR + 3.78%	17 March 2027	xviii	**642**	642
Three-month JIBAR + 3.85%	25 May 2027	xix	**500**	500
Three-month JIBAR + 3.85%	14 August 2029	xx	**390**	390
Three-month JIBAR + 3.15%	30 September 2027	xxi	**295**	295
Three-month JIBAR + 3.45%	29 September 2029	xxii	**1 014**	1 014
USD 6.25%	25 April 2028	xxiii	**4 952**	4 932
Other				
Accrued interest			**1 162**	1 222
Fair value adjustments			**245**	63
Foreign exchange movements			**621**	613
			21 282	20 052

Included in interest paid on the statement of cash flows is **R2 012m** (2018: R1 880m) which relates to interest on borrowed funds.

i 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.

ii. The 10.05% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

iii. The 10.835% fixed rate notes were redeemed in full on 19 November 2019.

iv. The 11.365% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

v. The 11.40% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 29 September 2020. Interest is paid semi-annually in arrears on 29 March and 29 September. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 29 September 2020. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

vi. The 11.74% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 20 August 2021. Interest is paid semi-annually in arrears on 20 August and 20 February. Absa Bank Limited has an option to exercise the redemption on any interest payment date after 20 August 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

21. Borrowed funds (continued)

vii. The 11.81% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 3 September 2022. Interest is paid semi-annually in arrears on 3 March and 3 September. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

viii. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Bank Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

ix. The three-month JIBAR plus 2.40% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 11 April 2024. Interest is paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 11 April 2024. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

x. 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. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

xi. The three-month JIBAR plus 3.30% floating rate notes were redeemed in full on 19 November 2019.

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

xiii. The three-month JIBAR plus 3.50% floating rate notes may be redeemed in full at the option of Absa Bank Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Absa Bank Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. No step-up will apply on the coupon rate, should Absa Bank Limited not exercise the redemption option.

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

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

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

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

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

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

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

21. Borrowed funds (continued)

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

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

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

Note i is listed on the Johannesburg Stock Exchange Debt Market.

Notes ii to xxiii have been issued to Absa Group Limited.

In accordance with its memorandum of incorporation, the borrowing powers of Absa Bank Limited are unlimited.

	Bank	
	2019 Rm	2018 Rm
22. Share capital and premium		
22.1 Ordinary share capital		
Authorised		
320 000 000 (2018: 320 000 000) ordinary shares of R1.00 each	**320**	320
250 000 000 (2018: 250 000 000) 'A' ordinary shares of R0.01 each	**3**	3
	323	323
Issued		
302 609 369 (2018: 302 609 369) ordinary shares of R1.00 each	**303**	303
145 691 959 (2018: 145 691 959) 'A' ordinary shares of R0.01 each	**1**	1
	304	304
Total issued capital		
Share capital	**304**	304
Share premium	**36 879**	36 879
	37 183	37 183

Authorised shares

There were no changes to the authorised share capital during the current reporting period.

Unissued shares

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

Shares issued

There were no shares issued during the current and prior reporting periods. All shares issued by the Bank were paid in full.

22. Share capital and premium (continued)

22.2 Preference share capital and premium

	Bank 2019 Rm	Bank 2018 Rm
Authorised		
30 000 000 (2018: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	**1**	1
Issued		
4 944 839 (2018: 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 preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of such shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or a resolution is proposed by the Company which directly affects the rights attracted to the preference shares or the interest of the holders thereof.

22.3 Directors' interests in Absa Bank Limited preference shares

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

22.4 Additional tier 1 capital

Subordinated callable notes issued by Absa Bank Limited		Bank 2019 Rm	Bank 2018 Rm
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**	1 241
Three-month JIBAR + 4.50%	28 May 2019	**1 678**	—
Three-month JIBAR + 4.25%	5 December 2019	**1 376**	—
		5 795	2 741

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) on 12 September 2022, 10 October 2023, 28 November 2024 and 5 June 2025, subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the issuer would have become non-viable. In addition, the Additional Tier 1 notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments.

23. Other reserves

23.1 Fair value reserve

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

23.2 Cash flow hedging reserve

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

23.3 Foreign currency translation reserve

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

23. Other reserves (continued)

23.4 Capital reserve

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

23.5 Share-based payment reserve

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

23.6 Associates' and joint ventures' reserve

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

23.7 Retained earnings

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

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

	Bank	
	2019 Rm	2018 Rm
24. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	4	4
Interest on hedging instruments	331	201
Investment securities	7 342	7 254
Loans and advances to banks	1 739	1 235
Loans and advances to customers	70 691	63 938
Corporate overdrafts and specialised finance loans	1 003	889
Credit cards	4 846	4 396
Foreign currency loans	1 468	1 248
Instalment credit agreements and finance lease receivables	9 801	8 641
Loans to associates and joint ventures	2 031	1 894
Microloans	663	622
Mortgages	26 822	24 949
Other advances	840	1 121
Overdrafts	4 136	3 566
Overnight finance	2 050	1 934
Personal and term loans	6 182	5 087
Preference shares	1 570	1 386
Wholesale overdrafts	9 279	8 205
Other interest	1 545	1 523
	81 652	74 155

	Bank 2019 Rm	Bank 2018 Rm
24. Interest and similar income (continued)		
Classification of interest and similar income		
Interest on hedging instruments	331	201
Cash flow hedges (refer to note 51.6)	671	545
Fair value hedges	(340)	(344)
Interest on financial assets held at amortised cost	76 593	69 499
Interest on financial assets measured at FVOCI	2 947	2 866
Interest on financial assets measured at FVTPL	1 781	1 589
Investment securities	158	352
Loans and advances to customers	1 623	1 237
	81 652	74 155

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

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

	Bank 2019 Rm	Bank 2018 Rm
25. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	2 134	2 216
Debt securities in issue	12 540	11 565
Deposits due to customers	32 864	28 642
Call deposits	4 972	4 840
Cheque account deposits	3 158	2 996
Credit card deposits	7	7
Fixed deposits	12 484	9 519
Foreign currency deposits	189	167
Notice deposits	4 986	4 147
Other deposits	369	645
Savings and transmission deposits	6 699	6 321
Deposits from banks	2 105	1 862
Call deposits	472	471
Fixed deposits	1 290	1 391
Foreign currency deposits	343	—
Interest on hedging instruments	(187)	(179)
Interest incurred on finance leases	286	—
Other	138	97
	49 880	44 203
Classification of interest expense and similar charges		
Interest on hedging instruments	(187)	(178)
Cash flow hedges (refer to note 51.6)	(100)	(89)
Fair value hedges	(87)	(89)
Interest on financial liabilities held at amortised cost	50 067	44 381
	49 880	44 203

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

	Bank 2019 Rm	Bank 2018 Rm
26. Net fee and commission income		
Consulting and administration fees	303	261
Credit-related fees and commissions	17 275	16 590
Cheque accounts	5 471	5 385
Credit cards	2 276	2 204
Electronic banking	5 397	5 244
Other	2 136	1 692
Savings accounts	1 995	2 065
Insurance commission received	593	556
Asset management, markets execution and investment banking fees	396	476
Merchant income	1 902	1 721
Other	120	105
Trust and other fiduciary services[1]	72	72
Portfolio and other management fees	63	62
Trust and estate income	9	10
Fee and commission income	20 661	19 781
Fee and commission expense	(1 601)	(1 290)
Brokerage fees	(1)	(1)
Cheque processing fees	(120)	(122)
Clearing and settlement charges	(755)	(688)
Insurance commission paid	—	(17)
Notification fees	(216)	(180)
Other	(431)	(207)
Valuation fees	(78)	(75)
	19 060	18 491

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

	Bank 2019 Rm	Bank 2018 Rm
26.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	5 471	5 385
Credit cards	2 276	2 204
Electronic banking	5 397	5 244
Other	2 136	1 692
Savings accounts	1 995	2 065
Fee and commission income	17 275	16 590
Fee and commission expense	(1 312)	(1 147)
	15 963	15 443

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.

[1] Includes 'Asset management and other related fees', which was separately disclosed in the prior period (2018: R25m).

	Bank 2019 Rm	Bank 2018 Rm
27. Gains and losses from banking and trading activities		
Net gains on investments	37	174
Debt instruments held at FVTPL	(2)	113
Equity instruments mandatorily held at FVTPL	19	52
Unwind from reserves for debt instruments at FVOCI	20	9
Net trading result	1 559	2 494
Net trading income excluding the impact of hedge accounting	1 318	2 706
Ineffective portion of hedges	241	(212)
Cash flow hedges (refer to note 51.6.2)	225	(198)
Fair value hedges (refer to note 51.6.1)	16	(14)
Other (losses)/gains	(111)	509
	1 485	3 177
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	1 318	2 706
Losses on financial instruments designated at FVTPL	(7 178)	(1 740)
Net gains on financial assets designated at FVTPL	9 173	1 384
Net losses on financial liabilities designated at FVTPL	(16 351)	(3 124)
Gains on financial instruments mandatorily measured at FVTPL	8 496	4 446
Other (losses)/gains	(111)	509
Losses on financial instruments designated at FVTPL	(63)	(90)
(Losses)/gains on financial instruments mandatorily measured at FVTPL	(48)	599

	Bank 2019 Rm	Bank 2018 Rm
28. Gains and losses from investment activities		
Other gains	3	1

	Bank 2019 Rm	Bank 2018 Rm
29. Other operating income		
Foreign exchange differences, including amounts recycled from other comprehensive income	(6)	22
Income from investment properties	—	17
Change in fair value (refer to note 11)	—	15
Rentals	—	2
Income arising from contracts with customers	64	52
Income from maintenance contracts	33	39
Profit/(loss) on disposal of property and equipment	6	(17)
Profit on sale of repossessed properties	25	30
Gross sales	57	56
Cost of sales	(32)	(26)
Rental income	22	36
Sundry income	357	95
	437	222

30. Impairment losses

	Bank 2019 Rm	Bank 2018 Rm
Impairment losses raised during the reporting period	**6 571**	5 903
Stage 1 expected losses	**(454)**	(4 104)
Stage 2 expected losses	**1 535**	7 488
Stage 3 expected losses	**5 490**	2 519
Losses on modifications	**118**	22
Recoveries of loans and advances previously written off	**(657)**	(847)
	6 032	5 078

31. Operating expenses

	Bank 2019 Rm	Bank 2018 Rm
Administration fees	**1 082**	504
Amortisation of intangible assets (refer to note 13)	**1 143**	646
Auditors' remuneration	**280**	257
Audit fees – current reporting period	**236**	181
Audit fees – underprovision	**9**	6
Audit-related fees	**19**	18
Other services	**16**	52
Cash transportation	**1 195**	1 166
Depreciation (refer to note 12)	**2 964**	1 949
Equipment costs	**182**	180
Rentals	**68**	72
Maintenance	**114**	108
Information technology	**3 334**	2 914
Marketing costs	**1 322**	1 604
Operating lease expenses on properties	**90**	1 226
Other (includes fraud losses, travel and entertainment costs)	**377**	591
Printing and stationery	**206**	229
Professional fees	**1 889**	2 224
Property costs	**1 380**	1 397
Staff costs	**18 462**	17 960
Bonuses	**1 461**	1 628
Deferred cash and share-based payments (refer to note 48)	**588**	687
Other	**344**	402
Salaries and current service costs on post-retirement benefit funds	**15 710**	14 899
Training costs	**359**	344
TSA direct costs	**469**	820
Telephone and postage	**741**	674
	35 116	34 341

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totalling **R78m** (2018: R255m). Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs. Transitional Services Agreements (TSA) costs relate to costs incurred to Barclays PLC as a result of separation activities.

	Bank 2019 Rm	Bank 2018 Rm
32. Other impairments		
Goodwill (refer to note 13)	—	34
Intangible assets (refer to note 13)[1]	121	1
Property and equipment (refer to note 12)[2]	197	398
	318	433

	Bank 2019 Rm	Bank 2018 Rm
33. Indirect taxation		
Training levy	153	159
VAT net of input credits	985	987
	1 138	1 146

	Bank 2019 Rm	Bank 2018 Rm
34. Taxation expense		
Current		
Foreign and other taxation	152	99
South African current tax	2 873	3 087
South African current tax – previous reporting period	(427)	130
	2 598	3 316
Deferred		
Deferred tax (refer to note 14)	(110)	(314)
Capital allowances	(32)	(37)
Expected credit losses/allowances for loan losses	(127)	521
Provisions	(89)	(194)
Movements in prepayments, accruals and other provisions	130	(525)
Fair value and similar adjustments through profit and loss	(37)	(54)
Fair value and similar adjustments in relation to prior year	57	—
Share-based payments	(12)	(25)
	2 488	3 002
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	10 374	11 024
Share of post-tax results of associates and joint ventures (refer to note 10)	(221)	(179)
	10 153	10 845
Tax calculated at a tax rate of 28%	2 843	3 037
Effect of different tax rates in other countries	152	62
Expenses not deductible for tax purposes[3]	295	417
Dividend income	(538)	(394)
Non-taxable interest[4]	(122)	(53)
Other income not subject to tax	(17)	(14)
Non-taxable portion of capital gain	(18)	45
Other	(107)	(98)
	2 488	3 002

[1] Management has impaired certain software assets totalling **R121m** (2018: R1m) for which the value in use is determined to be zero.

[2] Management has decided to dispose of certain property and equipment resulting in an impairment of **R197m** (2018: R398m). As property will be disposed of, the impairment was calculated based on fair value less costs to sell prior to transferring to non-current assets held for sale.

[3] This includes donations, non-deductible expenses.

[4] This relates to interest earned from certain governments in Africa as well as interest earned on certain capital instruments, which is exempt from tax.

	Bank			
	2019		2018	
	Gross Rm	Net Rm	Gross Rm	Net Rm
35. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Bank		7 098		7 481
Total headline earnings adjustment:		222		372
IFRS 3 – Goodwill impairment (refer to note 32)	—	—	34	34
IFRS 5 – Loss on disposal of non-current assets held for sale	—	—	40	40
IAS 16 – (Profit)/loss on disposal of property and equipment	(6)	(4)	17	12
IAS 36 – Impairment of property and equipment (refer to note 32)	197	145	398	297
IAS 36 – Impairment of intangible assets (refer to note 32)	121	87	1	1
IFRS 5 – Re-measurement of non-current assets held for sale	(9)	(6)	—	—
IAS 40 – Change in fair value of investment properties (refer to note 29)	—	—	(15)	(12)
Headline earnings/diluted headline earnings		7 320		7 853
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		1 632.8		1 751.7

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

	Bank
	2019 Rm
36. Leases	
The following amounts have been recognised in the statement of comprehensive income in respect of leases in which the Bank is the lessee:	
Depreciation charge for right-of-use assets (refer to note 12)	880
Property	880
Interest expense on lease liabilities (refer to note 25)	286
Expense related to short-term leases	146
Expense related to low-value assets	28
Right-of-use assets recognised in the statement of financial position relate to the following classes of assets:	
Right-of-use assets (refer to note 12)	2 522
Property	2 522
Total additions to right-of-use assets recognised during the year (refer to note 12)	3 412
Total cash outflow included in the statement of cash flows related to leases	1 224
Maturity analysis of lease liabilities – contractual undiscounted cash flows:	
Less than one year	1 055
Between one and five years	2 318
More than five years	633
Total undiscounted lease liabilities	4 006
Lease liabilities included in the statement of financial position (refer to note 17)	3 220

The Bank's leases consist mostly of property leases including branches, head offices, ATM sites and other administrative buildings. None of these leases are considered individually significant to the Bank. Leases are negotiated for an average term of three to five years although this differs depending on the type of property. Some leases will include renewal options but these are generally renewals at market rates to be negotiated at the time of renewing the contract. These rates will only be included in the lease liability once it is reasonably certain that the Bank will exercise the extension option. Most leases in the Bank have fixed escalations.

37. Retirement benefit fund obligations

37.1 Absa Pension Fund

The Absa Pension Fund (the Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the Fund be carried out at least once every three years. The most recent statutory valuation of the Fund was effected on 31 March 2019 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 Account (ESA). According to the Fund rules and the PF Act, the ESA can be used for a number of purposes including funding a deficit in the Fund, enhancing benefits of the Fund or enabling a contribution holiday.

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

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

Should a retiree elect a conventional annuity, the Bank is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Bank is therefore not exposed to any asset return risk prior to the election of this option, i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. Pensioners who have elected to receive a living annuity as well as members who joined the fund on/after 1 July 2015 have been excluded from the IAS 19 disclosures as the employer is not exposed to any longevity or other actuarial risk in respect of these members. Net defined benefit plan assets relating to these pensioners that have elected to receive a living annuity amount to **R3 742m** (2018: R3 696m).

	Bank Absa Pension Fund	
	2019	2018
Categories of the Fund		
Defined benefit active members	**15**	17
Defined benefit deferred pensioners	**2**	2
Defined benefit pensioners	**8 198**	8 303
Defined contribution active members	**21 490**	23 884
Defined contribution pensioners	**2 865**	2 839
Duration of the scheme – defined benefit (years)	**8.8**	8.9
Duration of the scheme – defined contribution (years)	**20.4**	21.3
Duration of the scheme – defined contribution option (years)	**15.2**	15.2
Expected contributions to the Fund for the next 12 months (Rm)	**1 218.5**	1 438.6

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

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

37. Retirement benefit fund obligations (continued)

37.1 Absa Pension Fund (continued)

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

The Fund investments are managed on a Liability Driven Investment (LDI) mandate. The primary objective of the portfolio manager for the defined benefit section of the Fund to achieve is a net real return of 4.5% per annum, measured over rolling 36-month periods.

	Bank	
	2019 Rm	2018 Rm
37.1.1 Reconciliation of the net defined benefit plan surplus		
Reconciliation of the net surplus		
Present value of funded obligations	(26 710)	(26 529)
Defined benefit portion	(7 149)	(7 055)
Defined contribution portion	(19 561)	(19 474)
Fair value of the plan assets	28 832	28 601
Defined benefit portion	9 271	9 127
Defined contribution portion	19 561	19 474
Funded status	2 122	2 072
Irrecoverable surplus (effect of asset ceiling)	(1 656)	(1 606)
Net surplus arising from the defined benefit obligation	466	466
37.1.2 Reconciliation of movement in the funded obligation		
Balance at the beginning of the reporting period	(26 529)	(27 265)
Defined benefit portion	(7 055)	(7 335)
Defined contribution portion	(19 474)	(19 930)
Reconciling items – defined benefit portion	(94)	280
Actuarial gains – financial	14	543
Actuarial gains/(losses) – experience adjustments	149	(15)
Benefits paid	800	716
Current service costs	(13)	(22)
Interest expense	(694)	(704)
Defined contribution member transfers	(350)	(238)
Reconciling items – defined contribution portion	(87)	456
Increase in obligation linked to plan assets return	(792)	127
Employer contributions	(799)	(884)
Employee contributions	(584)	(586)
Disbursements and member transfers	2 088	1 799
Balance at the end of the reporting period	(26 710)	(26 529)

37. Retirement benefit fund obligations (continued)

37.1 Absa Pension Fund (continued)

37.1.3 Reconciliation of movement in the plan assets

	Bank 2019 Rm	Bank 2018 Rm
Balance at the beginning of the reporting period	**28 601**	29 766
Defined benefit portion	9 127	9 836
Defined contribution portion	19 474	19 930
Reconciling items – defined benefit portion	**144**	(709)
Benefits paid	(800)	(716)
Employer contributions	1	1
Interest income	902	950
Return on plan assets in excess of interest	(309)	(1 182)
Defined contribution member transfers	350	238
Reconciling items – defined contribution portion	**87**	(456)
Return on plan assets	792	(127)
Employer contributions	799	884
Employee contributions	584	586
Disbursements and member transfers	(2 088)	(1 799)
Balance at the end of the reporting period	**28 832**	28 601

37.1.4 Reconciliation of movement in the irrecoverable surplus

	Bank 2019 Rm	Bank 2018 Rm
Balance at the beginning of the reporting period	**(1 606)**	(2 035)
Interest on irrecoverable surplus	(162)	(202)
Changes in the irrecoverable surplus in excess of interest	112	631
Balance at the end of the reporting period	**(1 656)**	(1 606)

37.1.5 Nature of the pension fund assets

	Bank 2019 Fair value of plan assets			
	Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Plan assets relating to the defined benefit plan				
Defined benefit portion	3 224	5 403	644	9 271
Quoted fair value	3 015	5 390	98	8 503
Unquoted fair value	182	5	430	617
Own transferable financial instruments	27	8	—	35
Investments in listed property entities/funds	—	—	116	116
Defined contribution portion	3 477	12 486	3 598	19 561
Quoted fair value	3 288	12 468	1 359	17 115
Unquoted fair value	132	—	1 538	1 670
Own transferable financial instruments	57	18	103	178
Investments in listed property entities/funds	—	—	598	598
	6 701	17 889	4 242	28 832

37. Retirement benefit fund obligations (continued)

37.1 Absa Pension Fund (continued)

37.1.5 Nature of the pension fund assets (continued)

	2018 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	3 924	4 953	252	9 129
Quoted fair value	3 884	4 953	124	8 961
Unquoted fair value	6	—	(29)	(23)
Own transferable financial instruments	34	—	1	35
Investments in listed property entities/funds	—	—	156	156
Defined contribution portion	2 990	12 426	4 058	19 474
Quoted fair value	2 601	12 425	2 140	17 166
Unquoted fair value	145	1	1 012	1 158
Own transferable financial instruments	244	—	10	254
Investments in listed property entities/funds	—	—	896	896
	6 914	17 379	4 310	28 603

	Bank 2019 Rm	2018 Rm
37.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest income	**(46)**	(44)
Current service cost	**13**	22
	(33)	(22)
Recognised in other comprehensive income:		
Actuarial (gains)/losses – financial	**(14)**	(543)
Actuarial adjustments (gains)/losses – experience	**(149)**	15
Return on plan assets in excess of interest	**309**	1 182
Changes in the irrecoverable surplus in excess of interest	**(112)**	(631)
	34	23
37.1.7 Actuarial assumptions used:		
Discount rate (%) p.a.	**9.5**	10.1
Inflation rate (%) p.a.	**5.2**	6.4
Expected rate on the plan assets (%) p.a.	**9.2**	10.2
Future salary increases (%) p.a.	**6.2**	7.4
Average life expectancy in years of pensioner retiring at 60 – male	**22.8**	21.5
Average life expectancy in years of pensioner retiring at 60 – female	**27.6**	26.4

37. Retirement benefit fund obligations (continued)

37.1 Absa Pension Fund (continued)

37.1.8 Sensitivity analysis of the significant actuarial assumptions

	Bank 2019 Reasonable possible change	Bank 2019 Increase/ (decrease) on defined benefit obligation Rm
Increase in discount rate (%)	**0.5**	**(255)**
Increase in inflation (%)	**0.5**	**295**
Increase in life expectancy (years)	**1**	**220**

	2018 Reasonable possible change	2018 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

37.1.9 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 149m** (2018: R7 055m).

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 561m** (2018: R19 474m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets.

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

	Bank 2019 Rm	Bank 2018 Rm
38. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(13 August 2019: 446.12851 cents per share (cps))** (6 August 2018: 602.27349 cps)	**2 000**	2 700
Final dividend **(11 March 2020: 446.129 cps)** (11 March 2019: 111.532 cps)	**2 000**	500
	4 000	3 200
Dividends declared to preference equity holders		
Interim dividend **(13 August 2019: 3 595.89 cps)** (6 August 2018: 3 542.67 cps)	**178**	175
Final dividend **(11 March 2020: 3 469.3151 cps)** (11 March 2019: 3 518.6986 cps)	**172**	174
	350	349
Distributions declared to Additional Tier 1 capital note holder		
Distribution		
10 January 2019: 29 981.67 Rands per note (rpn)[1]	**37**	—
12 March 2019: 31 561.64 rpn; 12 March 2018: 31 500 rpn[1]	**47**	47
10 April 2019: 29 342.47 rpn[1]	**36**	—
12 June 2019: 32 263.01 rpn; 12 June 2018: 32 200 rpn[1]	**49**	49
10 July 2019: 29 688.43 rpn[1]	**37**	—
28 August 2019: 29 344.21 rpn[1]	**49**	—
12 September 2019: 32 031.12 rpn; 12 September 2018: 31 675.726 rpn[1]	**48**	47
10 October 2019: 29 659.28 rpn[1]	**37**	—
28 November 2019: 28 525.04 rpn[1]	**48**	—
12 December 2019: 31 059.67 rpn; 12 December 2018: 31 620.63 rpn[1]	**47**	47
	435	190
Dividends paid to ordinary equity holders		
Final dividend **(15 April 2019: 111.532 cps)** (16 April 2018: 669.1927668 cps)	**500**	3 000
Interim dividend **(16 September 2019: 446.12851 cps)** (17 September 2018: 602.27349 cps)	**2 000**	2 700
	2 500	5 700
Dividends paid to preference equity holders		
Final dividend **(15 April 2019: 3 518.6986 cps)** (16 April 2018: 3 558.01 cps)	**174**	176
Interim dividend **(16 September 2019: 3 595.89 cps)** (17 September 2018: 3 542.67 cps)	**178**	175
	352	351
Distributions paid to Additional Tier 1 capital note holder		
Distributions		
10 January 2019: 29 981.67 rpn[1]	**37**	—
12 March 2019: 31 561.64 rpn; 12 March 2018: 31 500 rpn[1]	**47**	47
10 April 2019: 29 342.47 rpn[1]	**36**	—
12 June 2019: 32 263.01 rpn; 12 June 2018: 32 200 rpn[1]	**49**	49
10 July 2019: 29 688.43 rpn[1]	**37**	—
28 August 2019: 29 344.21 rpn[1]	**49**	—
12 September 2019: 32 031.12 rpn; 12 September 2018: 31 675.726 rpn[1]	**48**	47
10 October 2019: 29 659.28 rpn[1]	**37**	—
28 November 2019: 28 525.04 rpn[1]	**48**	—
12 December 2019: 31 059.67 rpn; 12 December 2018: 31 620.63 rpn[1]	**47**	47
	435	190

[1] In order to provide more transparent disclosures, the distributions declared and paid to Additional Tier 1 capital holders have been expanded to separately disclose the amount declared/paid at each date rather than including the total for each period. Comparatives have been restated accordingly.

39. Securities borrowed/lent and repurchase/reverse repurchase agreements

39.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Bank has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R92 320m** (2018: R77 469m) of which **R55 248m** (2018: R42 288m) have been sold or repledged.

39.2 Repurchase agreements and securities lent

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

	Bank				
	2019				
	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	**23 393**	**(22 775)**	**23 393**	**(22 775)**	**618**
Equity instruments	**4 381**	**(1 102)**	**4 381**	**(1 102)**	**3 279**
	2018				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	52 857	(51 330)	52 857	(51 330)	1 527
Equity instruments	3 434	(1 085)	3 434	(1 085)	2 348

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

40. Transfer of financial assets

40.1 Transfer of financial assets involving structured entities

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

40.2 Transfer of financial assets that does not result in derecognition

	Bank				
	2019				
	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**
Investment securities	**892**	**(619)**	**892**	**(619)**	**273**
Loans and advances to customers	**7 485**	**(5 197)**	**7 485**	**(5 197)**	**2 288**
	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
Investment securities	—	—	—	—	—
Loans and advances to customers	25	(25)	25	(25)	—

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

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

40. Transfer of financial assets (continued)

40.3 Transfer of financial assets that results in partial derecognition

The Bank invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise corporate loans. The assets are included in the statement of financial position under 'Loans and advances to customers'. The carrying amount of the loans before transfer was **Rnil** (2018: R1 175m) and the current carrying amount as at the reporting date is **Rnil** (2018: R747m). There are no liabilities associated with the assets transferred.

40.4 Continuing involvement in financial assets that have been derecognised in their entirety

The instance may arise where the Bank transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2019, the Bank had no continuing involvement where financial assets have been derecognised in their entirety (2018: None).

41. Related parties

41.1 Transactions with key management personnel

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

	Bank	
	2019 Rm	2018 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	3	9
Non-deferred cash payments[1]	12	14
Post-employment benefit contributions	—	1
Salaries and other short-term benefits	20	35
Share-based payments	9	33
	44	92
Other key management personnel		
Deferred cash payments	9	18
Non-deferred cash payments[1]	27	43
Post-employment benefit contributions	2	2
Salaries and other short-term benefits	55	57
Share-based payments	50	75
	143	195

[1] The prior year amount has been restated as a result of inadvertently not disclosing it for the 2018 financial year.

41. Related parties (continued)

41.1 Transactions with key management personnel (continued)

	Bank			
	2019		2018	
	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	**87**	**20**	29	15
Inception/(discontinuance) of related-party relationships[1]	**(48)**	**—**	16	(1)
Loans issued and interest earned	**21**	**—**	101	—
Loans repaid	**(16)**	**(9)**	(59)	6
Balance at the end of the reporting period	**44**	**11**	87	20
Interest income	**(4)**	**—**	(6)	(1)
Deposits				
Balance at the beginning of the reporting period	**27**	**6**	27	—
Inception/(discontinuance) of related-party relationships[1]	**(20)**	**(6)**	4	24
Deposits received	**98**	**—**	145	(18)
Deposits repaid and interest paid	**(103)**	**—**	(149)	—
Balance at the end of the reporting period	**2**	**0**	27	6
Interest expense	**1**	**—**	1	—
Guarantees	**88**	**12**	109	24
Other investments				
Balance at the beginning of the reporting period	**134**	**44**	119	48
(Discontinuance)/inception of related-party relationships[1]	**(48)**	**—**	(33)	—
Value of new investments/contributions	**56**	**—**	29	2
Value of withdrawals/disinvestments	**(70)**	**(2)**	(15)	(4)
Fees and charges	**—**	**—**	—	—
Investment returns	**(18)**	**—**	34	(2)
Balance at the end of the reporting period	**54**	**42**	134	44

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

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

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0m** (2018: R1.3m) and received claims of **R0m** (2018: R0m).

[1] Includes balances relating to key management personnel who resigned during the reporting periods.

41. Related parties (continued)

41.2 Balances and transactions with the parent company, fellow subsidiaries, and associates and joint ventures of the parent company

	Bank[1]			
	2019		2018	
	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent Rm	Parent company Rm	Fellow subsidiaries and associates and joint ventures of the parent Rm
Balances				
Cash and cash balances with central banks	—	—	—	—
Loans and advances to banks	—	57	—	176
Trading portfolio assets	—	7	—	(2)
Loans to Absa group companies	—	50 460	—	37 363
Deposits from banks	—	(8 553)	—	(10 335)
Borrowed funds	—	(18 649)	—	(17 685)
Transactions				
Dividends paid	2 500	—	5 700	—
Distributions paid to Tier 1 capital holders	435	—	(190)	—
Interest and similar income	—	(1 324)	—	(1 091)
Interest expense and similar charges	28	2 200	193	2 357
Fee and commission income	—	(547)	(1)	(503)
Fee and commission expense	—	11	—	(75)
Gains and losses from banking and trading activities	—	(1 170)	(22)	1 052
Gains and losses from investing activities	—	—	—	1
Other operating income	—	(2)	—	(2)
Operating expenditure/(recovered expenses)	—	(1 403)	—	(952)

41.3 Subsidiaries and consolidated structured entities

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

			Bank	
Name	Nature of business	Country of incorporation	2019 % holding	2018 % holding
Absa Representative Office Nigeria Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	100	100
Absa Technology Finance Solutions Proprietary Limited	Financial broker/executive finance company.	South Africa	100	100
Absa Vehicle and Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	100	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	100	100

[1] Debit amounts are shown as positive, credit amounts are shown as negative.

41. Related parties (continued)

41.3 Subsidiaries and consolidated structured entities (continued)

			Bank	
Name	Nature of business	Country of incorporation	2019 % holding	2018 % holding
Structured entities				
Absa Foundation Trust	Fund used to invest in unit trusts. Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	n/a	n/a
NewFunds Collective Investment Scheme	Collective Investment Scheme.	South Africa	n/a	n/a
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	n/a	n/a
iMpumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed commercial.	South Africa	n/a	n/a
Absa Home Loans 101 (RF) Limited	Securitisation vehicle.	South Africa	n/a	n/a
Commissioner Street No 10 (RF) Limited	Securitisation vehicle.	South Africa	n/a	n/a

A full list of subsidiaries and consolidated structured entities (SEs) is available, on request, at the registered address of the Bank.

41.4 Nature and extent of significant restrictions relating to investments in subsidiaries

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

Regulatory requirements

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

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

The minimum amount of RC required to be maintained by the Bank was **R69.2bn** (2018: R63.4bn).

Contractual requirements

Certain of the Bank's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Bank has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2019 was **R10.6bn** and **R10.5bn** respectively (2018: R10bn and R9.9bn respectively).

41. Related parties (continued)

41.5 Associates, joint ventures and retirement benefit fund

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

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

	Bank 2019 Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Bank	—	7 149	7 149
Value of Absa defined contribution pension fund investments managed by the Bank	—	19 561	19 561
Value of Barclays Africa Group Limited shares held by defined benefit pension fund	—	8	8
Value of other Barclays Africa Group Limited securities held by defined benefit pension fund	—	27	27
Statement of financial position			
Other assets	—	466	466
Loans and advances to customers (refer to note 8)	28 490	—	28 490
Statement of comprehensive income			
Interest income from joint ventures and associates and on plan assets[1]	2 031	902	2 933
Interest expense on defined benefit obligations[1]	—	(694)	(694)
Fee and commission income	158	—	158
Fee and commission expense	(114)	—	(114)
Current service costs (refer to note 37)[1]	—	(13)	(13)
Staff Costs (Contributions to Absa Pension Fund)	—	—	—
Operating expenses	(1 193)	—	(1 193)

	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 Bank	—	7 055	7 055
Value of Absa defined contribution pension fund investments managed by the Bank	—	19 474	19 474
Value of other Barclays Africa 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
Statement of comprehensive income			
Interest income from joint ventures and associates and on plan assets[1]	2 094	1 294	3 388
Interest expense on defined benefit obligations[1]	—	(1 035)	(1 035)
Fee and commission income	154	—	154
Fee and commission expense	(107)	—	(107)
Current service costs (refer to note 37)[1]	—	(51)	(51)
Operating expenses	(1 185)	—	(1 185)

[1] The amounts in relation to our retirement benefit fund are included as part of the staff expense cost in the operating expenses note. Such amounts have no effect on the net interest income of the Bank.

41. Related parties (continued)

41.5 Associates, joint ventures and retirement benefit fund (continued)

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

		Bank	
Name	**Nature of business**	**2019 Ownership %**	2018 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	**25**	25
Documents Exchange Association (DEA)	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 (RF) Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	**50**	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	**50**	50
MAN Financial Services (SA) (RF) 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 Bank.

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

42. Offsetting financial assets and financial liabilities

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

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

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

42. Offsetting financial assets and financial liabilities (continued)

Bank

	2019							
	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	67 838	(9 820)	58 018	(43 982)	(1 212)	12 824	2 425	60 443
Reverse repurchase agreements and other similar secured lending	71 781	—	71 781	—	(71 781)	—	—	71 781
Total assets	139 619	(9 820)	129 799	(43 982)	(72 993)	12 824	2 425	132 224
Derivative financial liabilities	(56 228)	10 221	(46 007)	43 982	—	(2 025)	(939)	(46 946)
Repurchase agreements and other similar secured borrowings	(63 968)	—	(63 968)	—	63 968	—	—	(63 968)
Total liabilities	(120 196)	10 221	(109 975)	43 982	63 968	(2 025)	(939)	(110 914)

[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'.

42. Offsetting financial assets and financial liabilities (continued)

	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	1 768	46 130
Reverse repurchase agreements and other similar secured lending	48 148	—	48 148	—	(48 148)	—	—	48 148
Total assets	98 832	(6 322)	92 510	(33 074)	(52 570)	6 866	1 768	94 278
Derivative financial liabilities	(42 398)	7 415	(34 983)	33 074	—	(1 909)	(1 568)	(36 551)
Repurchase agreements and other similar secured borrowings	(79 651)	—	(79 651)	—	79 651	—	—	(79 651)
Total liabilities	(122 049)	7 415	(114 634)	33 074	79 651	(1 909)	(1 568)	(116 202)

Offsetting and collateral arrangements

Derivative assets and liabilities

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

Repurchase and reverse repurchase agreements and other similar secured lending and borrowing

Credit risk is mitigated where possible through netting arrangements such as global master repurchase agreements and global master securities lending agreements whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral is obtained and typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Bank are further explained in the credit risk mitigation, collateral and other credit enhancements section of note 55.

[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'.

	Bank 2019 Rm	Bank 2018 Rm
43. 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, by the weighted average number of ordinary shares in issue during the reporting period. Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are no instruments that would have a dilutive impact.		
Basic and diluted earnings attributable to ordinary equity holders	**7 098**	7 481
Weighted average number and diluted number of ordinary shares in issue (millions)	**448.3**	448.3
Issued shares at the beginning of the reporting period	**448.3**	448.3
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	**1 583.3**	1 668.7

44. Structured entities

Exchange-traded funds

Exchange traded funds (ETFs) are passively managed index funds that are listed and traded on a securities exchange. An ETF tracks the performance of and/or gains a broad exposure to a particular index, sector or commodity for individual and institutional investors. All ETFs have a market maker to ensure that liquidity is always maintained, and in many instances, the Bank will act in this capacity. The Bank may therefore hold a direct interest in the fund, but the magnitude of such interest will vary with sufficient regularity. Whether the Bank consolidates any of the funds depends on the magnitude of the interest held therein, as well as on the Bank's ability to direct the relevant activities of the fund, either directly or indirectly. The Bank, through its contractual undertaking to act as market maker, ensures that liquidity is always maintained. The Bank earns management fee income from its involvement in the funds. To the extent that the Bank holds participatory units in the funds, the Bank will receive distributions recognised as investment income, as well as unrealised gains and losses on the revaluations thereof. ETFs are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act, No 45 of 2002.

Securitisation vehicles

The Bank has used SEs in order to securitise loans that were originated by the Bank. These entities have minimal equity and therefore rely on funding in the form of notes in order to acquire the underlying loans. The Bank transfers the contractual right to receive cash flows on the underlying loans, but in many instances, does not relinquish exposure to substantially all the risks and rewards of ownership. Exposures to credit risk, prepayment risk and/or interest rate risk are retained when the Bank purchases either senior notes or junior notes and sells derivatives to the entity. When the securitisation vehicles are established to run entirely on autopilot or when the only relevant activity of the entity constitutes recovery of the securitised loans in the event of default, then provided such activity is not directed by the Bank, the Bank will not have power over the relevant activities of the vehicle. The Bank earns interest income on the notes issued by the vehicles, together with management fees from the Bank's ongoing involvement. To the extent that the notes are fair valued, unrealised gains and losses are generated, which are recognised by the Bank in profit or loss.

Structured investment vehicles

The Bank holds investments in a number of vehicles which were established and are managed by third-party fund managers. These vehicles are generally not consolidated by the Bank on the basis that the relevant activities of the vehicles are directed by the fund manager, and no substantive kick-out rights exist. The investments held in the vehicles are measured at fair value with changes therein being recognised in profit or loss. Distributions made by the vehicles will be recognised as investment income in profit or loss. The vehicles are funded through the commitment and provision of capital by investors.

Preference share funding vehicles

The Bank provides financing to a number of SEs, established and managed by clients, in the form of a subscription for cumulative redeemable preference shares. These instruments typically have the economic characteristics of vanilla debt instruments, and as such the Bank recognises interest income from its investments. Often the Bank subscribes for preference shares in these vehicles together with other financial institutions on a syndicated basis. The Bank does not have the ability to direct the relevant business activities in these vehicles and therefore in the absence of control, the vehicles are not consolidated. An entity which forms part of the same group of companies as the preference share funding vehicle, most commonly the parent company, writes the Bank a financial guarantee or a put option, so as to provide security in the event of default.

Funding vehicles

The Bank provides funding in the form of loans to bankruptcy remote SEs to enable them to purchase fixed assets, such as property. The loans are fully collateralised by the underlying asset, and the repayment of principal and interest is met through the receipt of lease income. The loans are subject to guarantees received from the parent company, or from other trading entities within the same group of companies. The Bank earns interest on the loans. The loans are either measured at amortised cost, or are designated as at fair value through profit or loss.

44. Structured entities (continued)

44.1 Consolidated structured entities

During the reporting period the Bank provided financial or other support to the following consolidated SEs despite not being contractually obliged to do so:

Name	Nature of support	Reason for providing support	Bank 2019 Rm	Bank 2018 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes	81	78
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	4

The Bank has consolidated the Absa Foundation Trust since 2006 and new ETFs since 2017.

The Bank intends to provide financial support to the Absa Foundation Trust and any new ETFs in 2020.

44.2 Unconsolidated structured entities

The level of risk that the Bank is exposed to is determined by the nature and purpose of it holding an interest in the entity. Owing to the large number of SEs in which the Bank holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Bank 2019					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange-traded funds Rm	Funding vehicles Rm	Total Rm
Assets						
Investment securities	—	506	—	1 384	—	1 890
Debt securities	—	506	—	—	—	506
Equity securities	—	—	—	1 384	—	1 384
Loans and advances to customers	20 660	—	767	—	32	21 459
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	341	—	—	341
	20 660	506	1 108	1 384	32	23 690
Liabilities						
Interest rate derivatives (carrying value)	—	—	—	—	—	—
Interest rate derivatives (notional value)	—	—	—	—	—	—
Maximum exposure to loss[2]	20 660	506	1 108	1 384	32	23 690
Total size of entities[3]	128 375	506	1 998	29 346	32	160 257

[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 Bank's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

44. Structured entities (continued)

44.2 Unconsolidated structured entities (continued)

	2018					
	Preference funding vehicles Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange-traded funds Rm	Funding vehicles Rm	Total Rm
Assets						
Investment securities	—	503	—	431	—	934
Debt securities	—	503	—	—	—	503
Equity securities	—	—	—	431	—	431
Loans and advances to customers	18 127	—	2 541	—	68	20 736
Derivatives held for trading	—	—	3	—	—	3
Interest rate derivatives (carrying value)	—	—	3	—	—	3
Interest rate derivatives (notional value)	—	—	280	—	—	280
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	350	—	—	350
	18 127	503	2 894	431	68	22 023
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	503	2 894	431	68	22 023
Total size of entities[3]	89 587	503	4 139	18 485	68	112 782

The Bank did not incur any losses related to its interests in unconsolidated structured entities in the current financial reporting period (2018: Rnil).

44.3 Sponsored entities

The Bank did not earn material income from its involvement in the unconsolidated SEs which it sponsors.

Assets transferred to unconsolidated sponsored structured entities

The Bank did not transfer assets during the current reporting year (2018: 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 Bank's maximum exposure to loss has been calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance. The actual loss, due to the collateral held by the entities, the availability of netting and credit protection held is likely to be less in most cases.

[3] Total size of entities is measured relative to total assets.

	Bank	
	(unaudited) 2019 Rm	(unaudited) 2018 Rm
45. Assets under management and administration		
Alternative asset management and exchange-traded funds	**28 797**	19 977
Other	**1 910**	2 038
Portfolio management	**3 144**	3 135
Unit trusts	**1 823**	2 130
	35 674	27 280

	Bank	
	2019 Rm	2018 Rm
46. Contingencies, commitments and similar items		
Guarantees	**33 523**	34 479
Irrevocable debt facilities	**134 154**	166 198
Letters of credit	**5 303**	6 828
Other	**1**	63
	172 981	207 568
Authorised capital expenditure		
Contracted but not provided for	**187**	589

The Bank has capital commitments in respect of computer equipment, software and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

	Bank	
	2019 Rm	2018 Rm
Operating lease payments due		
No later than one year	—	981
Later than one year and no later than five years	—	2 561
Later than five years	—	667
	—	4 209

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Bank. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually. Following the implementation of IFRS 16 from 1 January 2019, the disclosure relating to 'Operating lease payments due' will no longer be disclosed.

Guarantees include performance guarantee contracts and financial guarantee contracts.

Financial guarantee contracts represent contracts where the Bank undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

Irrevocable debt facilities do not include other lending facilities which are revocable but for which an impairment provision has been raised (i.e. revolving products). The value of these other lending facilities is included in the credit risk disclosure, whereas the above table presents only those gross loan commitments that are contractually committed and are legally irrevocable.

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 **R54m** (2018: R30m) has been raised on guarantees, **R23m** (2018: R43m) has been raised for letters of credit and **R522m** (2018: R409m) on irrevocable debt facilities/other lending facilities. Refer to note 18.

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

46. Contingencies, commitments and similar items (continued)

Legal proceedings

The Bank has been party to proceedings against it during the reporting period. As at reporting date the material cases are disclosed below:

- MyRoof: During 2015, Absa terminated an agreement in terms of which MyRoof provided to Absa an online electronic system that facilitated the advertising and sale of distressed Home Loans properties. A dispute subsequently arose, with MyRoof contending that Absa owed to it certain commission based fee revenue. This resulted in the institution of arbitration proceedings in which MyRoof claims a statement and debatement of account. Absa is disputing both the substance and the quantum of the claim.
- Absa has received a claim under a guarantee issued by it to secure the obligations of a subsidiary, in the amount of US$64m. Absa is defending the matter.

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

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

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

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

In terms of the requirements of IFRS, the Group has, in 2019, reassessed any possible obligation regarding the Pinnacle Point Holdings case to be remote. The case relating to the Ayanda Collective Investment Scheme was amicably resolved during the year under review.

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis has resulted in a significant tightening of regulation and changes to regulatory structures globally and locally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation.

The nature and impact of future changes in the legal framework, policies and regulatory action especially in the areas of financial crime, banking and insurance regulation, cannot currently be fully predicted and are beyond the Bank's control. Some of these are likely to have an impact on the Bank's businesses, systems and earnings.

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

The Bank's possible obligation with regards to the matter previously disclosed relating to the SACC seeking sanction against Barclays/Absa has, in the current reporting period, been reassessed to be remote.

46. Contingencies, commitments and similar items (continued)

Income taxes

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

The Bank recognises provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

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

	Bank	
	2019 Rm	2018 Rm
47. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	**8 898**	9 571
Loans and advances to banks[2]	**948**	388
	9 846	9 959

	Bank	
	2019 Rm	2018 Rm
48. Deferred cash and share-based payments		
Share-based payments expense	**451**	514
Equity-settled arrangements:		
Absa Group Limited Long-Term Incentive Plan (LTIP)	**194**	103
Absa Group Limited Joiners Share Value Plan (JSVP)	**25**	32
Absa Group Limited Share Value Plan (SVP)	**183**	243
Absa Group Limited Share Incentive Awards (SIA)	**(4)**	(10)
Absa Group Limited Retention Share Value Plan (SVP Cliff)	**0**	(2)
Absa Group Limited Restricted Share Value Plan (RSVP)	**23**	112
Cash-settled arrangements:		
Absa Group Limited Long-Term Incentive Plan (LTIP)	**11**	2
Absa Group Limited Joiners Share Value Plan (JSVP)	**9**	8
Absa Group Limited Share Value Plan (SVP)	**(2)**	11
Absa Group Limited Role Based Pay (RBP)	**0**	(1)
Absa Group Limited Restricted Share Value Plan (RSVP)	**12**	16
Deferred cash expense		
Absa Group Limited Cash Value Plan (CVP)	**137**	173
Total deferred cash and share-based payments (refer to note 31)	**588**	687
Total carrying amount of liabilities for cash-settled arrangements (refer to note 17)	**282**	293
Total carrying amount of equity settled share based payment arrangement (refer to the statement of changes in equity)	**831**	794

Following regulatory deconsolidation from Barclays PLC in July 2018, the Bank is no longer required to comply with the UK Prudential Regulatory Authority Remuneration Rulebook which required material risk takers to have a deferral period of five years. The Bank has subsequently reassessed the vesting periods for incentive awards and has reduced the vesting period for affected populations to three years, which is aligned with local market practice. This modification in the vesting period resulted in an increase in the share-based payment expense for the prior year of R33m.

[1] Includes coins and bank notes.

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

48. Deferred cash and share-based payments (continued)

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

Absa Group Limited Long-Term Incentive Plan

Qualifying participants of the Long-Term Incentive Plan (LTIP) will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The Bank retains the obligation to settle in cash certain LTIP awards that are prohibited from being equity-settled. The award will be issued by the employing entity or subsidiary in the Bank. In order for the participant to be entitled to these awards, the participant needs to render three or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends accumulate and are reinvested over the vesting period.

Absa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan (JSVP) enables the Bank to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period.

Absa Group Limited Share Value Plan

The Share Value Plan (SVP) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards typically vest in equal tranches after one to five years. The Bank retains the obligation to settle in cash certain SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

Absa Group Limited Restricted Share Value Plan

The Restricted Share Value Plan (RSVP) awards (and any associated notional dividends) are awarded at no cost to the participants. Vesting periods range from two to five years, with each tranche subject to its own independent non-market-related performance conditions on vesting. The Bank retains the obligation to settle in cash certain Restricted 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, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

Absa Group Limited Share Incentive Awards

The Share Incentive Award (SIA) is a scheme for certain employees previously identified as code staff for Absa Group Limited. The award which is 50% of the participant's non-deferred annual incentive, will vest up to 12 months from the date on which it is granted.

Absa Limited Retention Share Value Plan

The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years or in equal tranches over three years, subject to their own independent non-market-related performance conditions on vesting. The Bank retains the obligation to settle in cash, certain historic SVP Cliff awards that were not converted to equity awards in 2015. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends accumulate and are reinvested over the vesting period.

Absa Bank Limited Role Based 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.

48. Deferred cash and share-based payments (continued)

	Number of awards '000									
	2019					2018				
	Opening balance	Granted/ trans-ferred	Forfeited	Exercised	Closing balance	Opening balance	Granted/ trans-ferred	Forfeited	Exercised	Closing balance
Equity-settled:										
LTIP	**7 281**	**6 122**	**(528)**	**(3)**	**12 872**	7 676	128	(518)	(5)	7 281
JSVP	**349**	**129**	**(56)**	**(194)**	**228**	258	266	(14)	(161)	349
SVP	**2 679**	**1 281**	**(240)**	**(1 231)**	**2 489**	2 528	1 490	(107)	(1 232)	2 679
SIA	**74**	**—**	**(25)**	**(49)**	**—**	455	—	(111)	(270)	74
RSVP	**1 348**	**—**	**(106)**	**(878)**	**364**	2 016	—	(79)	(589)	1 348
SVP Cliff	**—**	**—**	**—**	**—**	**—**	346	—	(16)	(330)	—
Cash-settled:										
LTIP	**442**	**(65)**	**—**	**—**	**377**	484	—	(42)	—	442
JSVP	**19**	**12**	**—**	**(10)**	**21**	1	18	—	—	19
SVP	**21**	**—**	**—**	**(3)**	**18**	23	—	—	(2)	21
RSVP	**232**	**—**	**—**	**(126)**	**106**	305	—	—	(73)	232
RBP	**14**	**—**	**—**	**(10)**	**4**	67	—	—	(53)	14

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

	Weighted average share price at exercise date during the reporting period (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2019	2018	2019	2018	2019	2018
Equity-settled:						
LTIP	**144.69**	144.69	**1.55**	1.58	**156.24**	—
JSVP	**152.23**	162.78	**0.84**	1.63	**161.94**	158.76
SVP	**167.68**	161.24	**1.05**	1.39	**167.12**	194.59
SIA	**198.50**	198.50	**—**	0.16	**—**	198.50
RSVP	**144.22**	153.00	**0.92**	1.10	**—**	—
SVP Cliff	**—**	182.98	**—**	—	**—**	—
Cash-settled:						
LTIP	**—**	—	**0.71**	2.58	**153.69**	—
JSVP	**166.68**	—	**1.39**	2.40	**155.94**	178.67
SVP	**166.68**	198.50	**0.17**	0.93	**—**	—
RSVP	**160.78**	152.41	**0.75**	1.13	**—**	—
RBP	**165.25**	162.08	**0.30**	1.82	**—**	—

48. Deferred cash and share-based payments (continued)

Future cash flow effects associated with equity-settled share-based payments

	2019			
	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	**453**	**107**	**—**	**560**

	2018			
	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	207	437	—	644

The estimates provided above indicate the amounts which are expected to be transferred to tax authorities relating to the employees' tax obligations on equity schemes which have been granted but which vest in future periods. The amounts were estimated based on the number of awards expected to vest, the share price as at year end and an estimate of the average applicable employee effective tax rate.

Deferred cash

Absa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash-settled payment arrangement. The award will vest in equal tranches over a period of three and five years, subject to the Rules which includes a 10% service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2019 is **10%** (2018: 10%) of the initial value of the award that vests.

49. Acquisitions and disposals of businesses and other similar transactions

49.1 Acquisitions of businesses during the current reporting period

49.1.1 Acquisitions of businesses during the current reporting period

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

49.1.2 Disposals of businesses during the current reporting period

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

49.2.1 Acquisitions of businesses during the previous reporting period

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

The Bank also acquired a 100% holding in Home Obligors Mortgage Enhanced Securities (RF) Limited (Homes) a structured entity (SE) established in 2006 as a securitisation funding vehicle. Since its establishment in 2006, Homes has been accounted for as a subsidiary of Absa Group Limited. The transaction meets the definition of a business combination under common control, and in accordance with the Bank's policy, predecessor accounting is applied. The assets, liabilities and equity of Homes were transferred to the consolidated Bank financial statements at their carrying value on the date of transfer. The acquisition of Homes at R100 had an effective date of 1 December 2018.

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

	Bank	
	2019 Rm	2018 Rm
Summary of net cash outflow due to acquisitions	—	30

49.2.2 Disposals of businesses during the previous reporting period

Apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 7) there were no other disposals of businesses that were finalised during the previous reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was **R1 079m**.

50. Segment report

50.1 Summary of segments

The Bank has identified its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity. The identified reportable segments are in a manner in which the Bank's businesses are managed and reported to the Chief Operating Decision Maker (CODM).

The Bank has refined its operating model which resulted in Wealth no longer being a reportable segment on its own and is now part of Relationship Banking in RBB South Africa.

The following summary describes the operations in each of the Bank's key divisions:

- RBB South Africa: offers retail and business banking products within South Africa.
- Corporate and Investment Banking South Africa (CIB South Africa): offers corporate and investment banking solutions in South Africa.
- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities and includes investment income earned by the Bank, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- Barclay's separation effects: Barclays PLC contributed R12.1 billion to the Bank in June 2017, primarily in recognition of the investments required for the Bank to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Bank over time. The separation process will increase the capital base of the Bank in the near term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Bank has therefore included an additional reconciling stripe, 'Barclays' separation effects' in its segment results.

The reportable segments identified are broken down into smaller components to provide additional information of each. Discrete financial information is available for the following:

Reportable segments:

- **RBB South Africa:**

  RBB South Africa has aligned its operating model enable a more customer-centric approach which will offer more holistic product offerings. The business has now been arranged into the following units:

  - **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 funding solutions for passenger and light commercial vehicles to individual customers through the branch network, approved dealerships, and preferred suppliers. VAF's joint venture with Ford Financial Services is an extension of the business and reinforces the strategic intent of establishing and harnessing relationships with dealers and customers;
  - **Everyday Banking:** offers the day-to-day banking services for the retail customer and includes:
    - **Card:** offers credit cards 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 and self-service terminal network, digital channels as well as through a third-party retailer.
  - **Relationship Banking:** consists of business units and associated products, where a name relationship exists and was formed to provide customers with a single 'warm-body' relationship manager rather than multiple touch points within the Bank. The businesses consolidated into Relationship Banking include Card Acquiring, Commercial Asset Finance (CAF), Business Banking (including associated lending, transactional and deposit products), Private Banking, Wealth and Financial Advisory. Relationship Banking also includes an Equity Portfolio which is being reduced in and orderly manner.
  - **Retail and Business Banking Other (RBB Other):** includes investment spend, cost associated with the restructure, holding companies and related consolidation entries, as well as allocated shareholder overhead expenses.

50. Segment report (continued)

50.1 Summary of segments (continued)

Reportable segments: (continued)

- **CIB South Africa:** 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 South Africa 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.

Other reconciling stripes

- Head Office, Treasury and other operations in South Africa: consists of various non-banking activities.
- Barclay's separation effects: as part of Barclays PLC divestment Barclays PLC contributed R12.1 billion primarily in recognition of the investments required for the Bank to separate from Barclays PLC. Investments will be made primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Bank overtime.

Changes to reportable segments and business portfolios

The following changes to reportable segments and business portfolios have occurred during the reporting period:

A. The Bank has refined its operating model which resulted in Wealth no longer being a reportable segment on its own and is now part of Relationship Banking in RBB South Africa.

B. Software projects and other assets, liabilities (together with the funding provided by Treasury) and associated income and expenses which were previously centrally maintained, have been moved from Head Office in South Africa to the various responsible segments to ensure end-to-end accountability of business activities.

C. The Absa Namibia representative office, which was previously reported in RBB South Africa has been moved to CIB South Africa to support its regional expansion strategy.

D. RBB South Africa has aligned its operating model to enable a more customer-centric approach which will offer more holistic product offerings. The business has now been arranged into the following units:
- Home Loans
- VAF
- Everyday Banking
  - Card
  - Personal Loans
  - Transactional and Deposits
- Relationship Banking
- RBB Other

The afore-mentioned segment and business portfolio changes have resulted in the restatement of financial results for the respective segments, but have not impacted the overall position or net earnings of the Bank.

50. Segment report (continued)

	RBB South Africa		CIB South Africa	
	2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm
Statement of comprehensive income				
Net interest income	**24 605**	23 626	**7 213**	6 841
Non-interest income	**18 284**	17 303	**2 780**	3 892
Total income	**42 889**	40 929	**9 993**	10 734
Impairment losses	**(5 707)**	(4 036)	**(341)**	(1 032)
Operating expenses	**(25 473)**	(24 658)	**(6 436)**	(6 062)
Depreciation and amortisation	**(1 805)**	(1 065)	**(160)**	(93)
Other operating expenses	**(23 668)**	(23 593)	**(6 276)**	(5 969)
Other	**(627)**	(639)	**(109)**	(47)
Other impairments	**(147)**	(99)	**(6)**	—
Indirect taxation	**(480)**	(540)	**(103)**	(47)
Share of post-tax results of associates and joint ventures	**196**	154	**13**	14
Operating profit before income tax	**11 278**	11 750	**3 120**	3 607
Tax expenses	**(3 008)**	(3 231)	**(327)**	(519)
Profit for the reporting period	**8 270**	8 519	**2 793**	3 088
Profit attributable to:				
Ordinary equity holders	**7 794**	8 184	**2 483**	2 882
Non-controlling interest – ordinary shares	**—**	—	**—**	—
Non-controlling interest – preference shares	**212**	217	**140**	134
Non-controlling interest – Additional Tier 1 capital	**264**	118	**170**	72
	8 270	8 519	**2 793**	3 088
Headline earnings	**7 900**	8 263	**2 487**	2 881
Statement of financial position				
Loans and advances to customers	**495 786**	461 665	**297 767**	272 823
Loans and advances to banks	**12 800**	11 030	**41 127**	36 587
Investment securities	**27 602**	45 488	**40 978**	38 022
Other assets	**325 898**	278 859	**238 911**	174 749
Total assets	**862 086**	797 042	**618 783**	522 181
Deposits due to customers	**372 564**	338 235	**207 464**	173 834
Debt securities in issue	**—**	—	**17 026**	11 864
Other liabilities	**479 135**	452 234	**390 407**	332 365
Total liabilities	**851 699**	790 469	**614 897**	518 063

[1] These numbers have been restated, refer to note 50.1.

Head Office, Treasury and other operations in South Africa		Total before Barclays separation effects		Barclays separation effects		Bank	
2019 Rm	2018[1] Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
(241)	(846)	31 577	29 621	195	331	31 772	29 952
(47)	171	21 017	21 366	(32)	525	20 985	21 891
(288)	(676)	52 594	50 987	163	856	52 757	51 843
16	(10)	(6 032)	(5 078)	—	—	(6 032)	(5 078)
(1 443)	(780)	(33 352)	(31 500)	(1 764)	(2 841)	(35 116)	(34 341)
(1 802)	(1 372)	(3 767)	(2 530)	(340)	(65)	(4 107)	(2 595)
359	592	(29 585)	(28 970)	(1 424)	(2 776)	(31 009)	(31 746)
(663)	(720)	(1 399)	(1 406)	(57)	(173)	(1 456)	(1 579)
(165)	(334)	(318)	(433)	—	—	(318)	(433)
(498)	(386)	(1 081)	(973)	(57)	(173)	(1 138)	(1 146)
12	11	221	179	—	—	221	179
(2 366)	(2 175)	12 032	13 182	(1 658)	(2 158)	10 374	11 024
509	360	(2 826)	(3 390)	338	388	(2 488)	(3 002)
(1 857)	(1 815)	9 206	9 792	(1 320)	(1 770)	7 886	8 022
(1 859)	(1 815)	8 418	9 251	(1 320)	(1 770)	7 098	7 481
1	—	1	—	—	—	1	—
—	—	352	351	—	—	352	351
1	—	435	190	—	—	435	190
(1 857)	(1 815)	9 206	9 792	(1 320)	(1 770)	7 886	8 022
(1 747)	(1 521)	8 640	9 623	(1 320)	(1 770)	7 320	7 853
829	712	794 382	735 200	—	—	794 382	735 200
(8 934)	(7 084)	44 993	40 533	—	—	44 993	40 533
6 650	10 066	75 230	93 576	—	—	75 230	93 576
(324 085)	(246 397)	240 724	207 211	4 496	3 159	245 220	210 370
(325 540)	(242 703)	1 155 329	1 076 520	4 496	3 159	1 159 825	1 079 679
97 781	93 578	677 809	605 647	—	—	677 809	605 647
140 577	148 178	157 603	160 042	—	—	157 603	160 042
(633 618)	(548 450)	235 924	236 149	(2 836)	(5 845)	233 088	230 304
(395 260)	(306 694)	1 071 336	1 001 838	(2 836)	(5 845)	1 068 500	995 993

50. Segment report (continued)

	Home Loans 2019 Rm	Home Loans 2018[1] Rm	Vehicle and Asset Finance 2019 Rm	Vehicle and Asset Finance 2018[1] Rm	Everyday Banking 2019 Rm	Everyday Banking 2018[1] Rm
Statement of comprehensive income						
Net interest income	4 072	3 882	2 320	2 170	11 341	10 756
Non-interest income	467	467	530	518	11 352	10 528
Total income	4 539	4 349	2 850	2 688	22 693	21 284
Impairment losses	(182)	(113)	(1 099)	(1 022)	(4 167)	(2 647)
Operating expenses	(1 979)	(1 919)	(1 493)	(1 474)	(13 811)	(13 192)
Depreciation and amortisation	(6)	(28)	(25)	(28)	(77)	(71)
Other operating expenses	(1 973)	(1 891)	(1 468)	(1 446)	(13 734)	(13 121)
Other	(38)	(31)	(30)	(24)	(136)	(109)
Other impairments	—	—	(3)	—	(15)	(2)
Indirect taxation	(38)	(31)	(27)	(24)	(121)	(107)
Share of post-tax results of associates and joint ventures	—	—	179	138	—	—
Operating profit before income tax	2 340	2 286	407	306	4 579	5 336
Tax expenses	(636)	(647)	(55)	(52)	(1 266)	(1 503)
Profit for the reporting period	1 704	1 639	352	254	3 313	3 833
Profit attributable to:						
Ordinary equity holders	1 588	1 565	296	212	3 184	3 735
Non-controlling interest – preference shares	52	48	25	27	58	63
Non-controlling interest – Additional Tier 1 capital	64	26	31	15	71	35
	1 704	1 639	352	254	3 313	3 833
Headline earnings	1 588	1 565	299	212	3 195	3 735
Statement of financial position						
Loans and advances to customers	237 391	227 086	83 740	76 772	50 701	47 803
Loans and advances to banks	417	771	—	43	11 955	9 478
Investment securities	12 311	12 684	4 267	4 193	3 714	3 576
Other assets	11 076	6 469	3 218	2 657	231 230	208 815
Total assets	261 195	247 010	91 225	83 665	297 600	269 672
Deposits due to customers	1 508	1 542	—	—	227 212	205 624
Other liabilities	257 613	244 278	90 027	83 350	67 182	62 068
Total liabilities	259 121	245 820	90 027	83 350	294 394	267 692

[1] These numbers have been restated, refer to note 50.1.

Relationship Banking		Retail and Business Banking Other		Retail and Business Banking South Africa	
2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm
7 515	7 223	(643)	(405)	24 605	23 626
5 396	5 244	539	546	18 284	17 303
12 911	12 467	(104)	141	42 889	40 929
(261)	(252)	2	(2)	(5 707)	(4 036)
(7 357)	(7 215)	(833)	(858)	(25 473)	(24 658)
(277)	(273)	(1 420)	(665)	(1 805)	(1 065)
(7 080)	(6 942)	587	(193)	(23 668)	(23 593)
(93)	(133)	(330)	(342)	(627)	(639)
(17)	(52)	(112)	(45)	(147)	(99)
(76)	(81)	(218)	(297)	(480)	(540)
17	16	—	—	196	154
5 217	4 883	(1 265)	(1 061)	11 278	11 750
(1 404)	(1 412)	353	383	(3 008)	(3 231)
3 813	3 471	(912)	(678)	8 270	8 519
3 641	3 352	(915)	(680)	7 794	8 184
76	77	1	2	212	217
96	42	2	—	264	118
3 813	3 471	(912)	(678)	8 270	8 519
3 654	3 385	(836)	(634)	7 900	8 263
123 952	110 003	2	1	495 786	461 665
9	141	419	597	12 800	11 030
6 614	12 314	696	12 721	27 602	45 488
65 964	55 865	14 410	5 053	325 898	278 859
196 539	178 323	15 527	18 372	862 086	797 042
143 833	131 057	11	12	372 564	338 235
48 104	43 747	16 209	18 791	479 135	452 234
191 937	174 804	16 220	18 803	851 699	790 469

50. Segment report (continued)

50.2 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:

	2019				
	RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	18 590	2 184	(113)	—	20 661
Consulting and administration fees	283	19	—	—	302
Transactional fees and commissions	15 660	1 634	(19)	—	17 275
Cheque accounts	5 334	138	(1)	—	5 471
Credit cards	2 276	—	—	—	2 276
Electronic banking	4 377	1 020	—	—	5 397
Other[1]	1 679	476	(19)	—	2 136
Savings accounts	1 994	—	1	—	1 995
Merchant income	1 902	—	—	—	1 902
Trust and other fiduciary services fees	67	4	1	—	72
Other fees and commissions	39	178	(96)	—	121
Insurance commissions received	593	—	—	—	593
Investment banking fees	46	349	1	—	396
Other income from contracts with customers	57	—	7	—	64
Other non-interest income, net of expenses	(363)	596	59	(32)	260
Total non-interest income	**18 284**	**2 780**	**(47)**	**(32)**	**20 985**

	2018[2]				
	RBB South Africa Rm	CIB South Africa Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	17 693	2 145	(57)	—	19 781
Consulting and administration fees	238	23	—	—	261
Transactional fees and commissions	15 023	1 572	(5)	—	16 590
Cheque accounts	5 270	115	—	—	5 385
Credit cards	2 204	—	—	—	2 204
Electronic banking	4 163	1 082	(1)	—	5 244
Other[1]	1 323	374	(5)	—	1 692
Savings accounts	2 063	1	1	—	2 065
Merchant income	1 721	—	—	—	1 721
Trust and other fiduciary services fees	70	2	—	—	72
Other fees and commissions	44	113	(52)	—	105
Insurance commissions received	556	—	—	—	556
Investment banking fees	41	435	—	—	476
Other income from contracts with customers	64	—	(12)	—	52
Other non-interest income, net of expenses	(454)	1 747	239	526	2 058
Total non-interest income	**17 303**	**3 892**	**170**	**526**	**21 891**

[1] Includes fees on mortgage loans and foreign currency transactions.
[2] These numbers have been restated, refer to 50.1 for more details.

51. Derivatives

51.1 Derivative financial instruments

Derivative financial instruments are entered into in the normal course of business to manage various financial risks.

The derivative instrument contract value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Bank's net interest income, net trading income, net fee and commission income and derivative assets and liabilities.

Some derivative financial instruments have been designated as hedging instruments in fair value or cash flow hedging relationships or hedges of net investments in foreign operations. At the reporting date, the Bank did not have any compound financial instruments with multiple embedded derivatives in issue.

The Bank trades the following derivative instruments:

Foreign exchange derivatives

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Bank's principal interest rate-related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

Credit derivatives

The Bank's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

The Bank's principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Bank also enters into fund-linked derivatives, being swaps and options which include mutual funds, hedge funds, indices and multi-asset portfolios as underlying.

Commodity derivatives

The Bank's principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are agricultural commodities and precious metals.

51. Derivatives (continued)

51.2 Notional amount

The gross notional amount is the sum of the absolute value of all contracts. The notional amount will not generally reflect the amount receivable or payable under a derivative contract. The notional amount should be viewed only as a means of assessing the Bank's participation in derivative contracts and not the market risk position nor the credit exposure arising on such contracts.

The absolute value of all contracts is also not indicative of the Bank's net exposure to, or position in, any of the markets that the Bank trades in.

51.3 Derivative financial instruments

The Bank's total derivative asset and liability position as reported on the statement of financial position is as follows:

	Bank					
	2019			2018		
	Assets Rm	Liabilities Rm	Notional contract amounts Rm	Assets Rm	Liabilities Rm	Notional contract amounts Rm
Derivatives held for trading (refer to note 5 and note 16)	57 088	(45 567)	6 841 779	43 723	(35 208)	6 566 740
Derivatives designated as hedging instruments (refer to note 5 and note 16)	3 355	(1 379)	129 154	2 407	(1 343)	229 662
Total derivatives	**60 443**	**(46 946)**	**6 970 933**	46 130	(36 551)	6 796 402

51.4 Derivatives held for trading – detail by market and instrument type

Derivatives held for trading by the Bank related to the various markets and instrument types the Bank trades in are as follows:

	Bank					
	2019			2018		
	Assets Rm	Liabilities Rm	Notional contract amounts Rm	Assets Rm	Liabilities Rm	Notional contract amounts Rm
Foreign exchange derivatives	**12 611**	**(11 916)**	**626 069**	8 006	(8 410)	645 784
Forwards	1 938	(1 988)	76 757	703	(1 111)	54 054
Futures	0	0	40 393	0	—	9 673
Swaps	8 917	(9 306)	413 020	6 733	(6 722)	471 455
Options	1 756	(622)	95 899	570	(577)	110 602
Interest rate derivatives	**38 530**	**(31 212)**	**5 946 541**	28 677	(22 044)	5 594 558
Forwards	1 162	(1 278)	2 854 684	1 038	(862)	3 353 759
Futures	0	0	730 893	0	—	767 999
Swaps	37 280	(29 903)	2 353 673	27 548	(21 156)	1 461 503
Options	88	(31)	7 291	91	(26)	11 297
Equity derivatives	**5 490**	**(1 832)**	**249 951**	5 380	(3 091)	269 529
Forwards	314	(228)	11 827	734	(99)	10 488
Futures	0	0	80 098	0	—	94 904
Swaps	1 403	(627)	17 332	2 049	(1903)	22 909
Options	3 773	(977)	42 568	2 597	(1 089)	39 387
Options – exchange traded	0	0	86 183	0	—	93 652
Other – OTC	0	0	11 943	0	—	8 189
Commodity derivatives	**302**	**(475)**	**10 297**	1 487	(1 489)	29 200
Forwards	216	(374)	7 354	152	(162)	8 132
Swaps	23	(40)	717	21	(25)	203
Options	63	(61)	2 226	1 314	(1 302)	20 865
Credit derivatives						
Default swaps	155	(132)	8 921	173	(174)	27 669
Derivatives held for trading	**57 088**	**(45 567)**	**6 841 779**	43 723	(35 208)	6 566 740
Note	5	16		5	16	

Forwards, swaps and options in the table above have been traded on a bilateral OTC basis, unless specified otherwise. Futures in the table above have been traded on authorised exchanges.

51. Derivatives (continued)

51.5 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R58 018m** (2018: R44 362m). Additionally, the Bank held **R1 212m** (2018: R4 422m) of collateral against the net derivative asset exposure.

OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association (ISDA) Master Agreement is used by the Bank. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

51.6 Hedge accounting

Risk management strategy

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Bank applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged. The assessment of the effectiveness of hedge relationships are performed on a cumulative life to date basis.

In order to hedge the risks to which the Bank is exposed, the hedging instruments employed are interest rate swaps, inflation swaps, cross-currency swaps and forward foreign exchange contracts. The economic relationship between the hedge instrument and the hedged items is aligned since all hedging instruments are exposed to the same risks as the hedged items, being interest rate risk, inflation risk and/or foreign currency risk.

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate borrowed funds or debt securities held and highly probable forecast investment transactions.

Foreign exchange derivatives, designated as cash flow hedge, primarily hedge the exposure to highly probable forecast foreign denominated expenditure.

Foreign exchange derivatives, designated as net investment hedge, primarily hedges the foreign currency exposure to a net investment in a foreign operation.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers as well as investments in fixed rate debt securities held.

In certain circumstances, items that are designated for hedge accounting purposes are different from the economic hedge owing to the existence of restrictions on the ability to apply hedge accounting to the economic hedge. Specifically, the Bank employs a governed interest rate risk management strategy (hedging programme) through the interest rate cycle to reduce volatility associated with structural balances (i.e. rate insensitive liabilities as well as the endowment associated with equity).

The hedge ratio between the hedged item and the hedging instruments is typically determined with reference to the sensitivity of the hedged item, on designation, to the risk factor, compared to the hedging instrument. In many cases the hedge ratio is directly proportional to the hedged item.

In some hedging relationships, the Bank would designate risk components of hedged items as follows:

(i) Benchmark interest rate risk;

(ii) Inflation risk as a contractually specified component of a debt instrument;

(iii) Spot exchange rate risk for foreign currency denominated financial assets or financial liabilities;

(iv) Spot or forward exchange rate risk for highly probable forecast foreign denominated expenditure or a net investment in a foreign operation;

(v) Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

Sources of ineffectiveness which may affect the Bank's designated hedge relationships are as follows:

(i) Mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences between the hedged risk and the risk exposure of the hedging instrument;

(ii) Changes in credit risk of the hedging instruments;

(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.

51. Derivatives (continued)

51.6 Hedge accounting (continued)

51.6.1 Fair value hedge accounting

Fair value hedges are used by the Bank to protect against changes in fair value of financial instruments due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include investment securities, loans and advances to customers, debt securities and borrowed funds. The profile and timing of hedging instruments designated in fair value hedge relationships based on notional amounts are as follows:

	Bank						
	2019						
	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	**5 685**	**1 042**	**3 130**	**6 681**	**893**	**28 678**	**46 109**
Hedge of investment securities at FVOCI	**—**	**—**	**—**	**143**	**—**	**23 647**	**23 790**
Hedge of loans and advances to customers	**1 444**	**653**	**1 045**	**456**	**713**	**595**	**4 906**
Hedge of debt securities in issue	**2 715**	**50**	**1 720**	**125**	**180**	**4 436**	**9 226**
Hedge of borrowed funds	**1 526**	**339**	**365**	**5 957**	**—**	**—**	**8 187**
Inflation risk-interest rate swaps							
Hedge of investment securities at FVOCI	**200**	**60**	**736**	**600**	**155**	**479**	**2 230**

	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							
Hedge of investment securities at FVOCI	—	200	60	736	600	634	2 230

The average rates or prices set out below relate to the hedging instruments designated in fair value hedging relationships:

	Bank	
	2019 Average price or rate	2018 Average price or rate
Interest rate risk		
Interest rate swaps		
Average fixed interest rate	**8%**	8%
Inflation risk		
Interest rate swaps		
Average fixed interest rate	**3%**	3%

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.

51. Derivatives (continued)

51.6 Hedge accounting (continued)

51.6.1 Fair value hedge accounting (continued)

The following amounts relate to items designated as hedging instruments in fair value hedge relationships:

Bank 2019	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Ineffectiveness recognised in profit or loss Rm
Total	**48 339**	**1 023**	**(1 288)**	**(541)**	**(16)**
Interest rate risk	**46 109**	**1 000**	**(967)**	**(473)**	**14**
Interest rate swaps – hedge of investment securities at FVOCI	23 790	443	(734)	(858)	16
Interest rate swaps – hedge of loans and advances to customers	4 906	—	(233)	(51)	6
Interest rate swaps – hedge of borrowed funds	8 187	268	—	178	5
Interest rate swaps – hedge of debt securities in issue	9 226	289	—	258	(13)
Inflation risk					
Inflation linked swaps – hedge of investment securities classified as FVOCI	2 230	23	(321)	(68)	(30)

2018	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2018 Rm	Ineffectiveness recognised in profit or loss Rm
Total	44 689	1 248	(963)	515	(14)
Interest rate risk	42 459	1 231	(627)	517	(53)
Interest rate swaps – hedge of investment securities at FVOCI	23 015	988	(500)	522	(58)
Interest rate swaps – hedge of loans and advances to customers	2 199	16	(60)	35	2
Interest rate swaps – hedge of borrowed funds	8 020	87	(4)	30	(3)
Interest rate swaps – hedge of debt securities in issue	9 225	140	(63)	(70)	6
Inflation risk					
Inflation linked swaps – hedge of investment securities classified as FVOCI	2 230	17	(336)	(2)	39

The hedging instruments of the Bank are presented within Hedging portfolio assets/liabilities on the statement of financial position. The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the statement of comprehensive income, and the hedging instruments of the Bank are presented within hedging portfolio assets on the statement of financial position.

51. Derivatives (continued)

51.6 Hedge accounting (continued)

51.6.1 Fair value hedge accounting (continued)

The following amounts relate to items that were designated as hedged items in fair value hedge relationships:

	Bank			
	2019 Accumulated fair value adjustment included in the carrying amount of the hedged item			
Hedged item statement of financial position classification and risk category	Carrying value Rm	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	27 620	193	(2)	933
Interest rate risk	23 731	373	(2)	842
Inflation risk	3 889	(180)	—	91
Loans and advances to customers				
Interest rate risk	4 090	77	—	41
Financial liabilities				
Debt securities in issue				
Interest rate risk	(9 815)	(236)	—	(246)
Borrowed funds				
Interest rate risk	(8 409)	(245)	—	(183)

	2018 Accumulated fair value adjustment included in the carrying amount of the hedged item			
Hedged item statement of financial position classification and risk category	Carrying value Rm	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				
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)

51. Derivatives (continued)

51.6 Hedge accounting (continued)

51.6.2 Cash flow hedge accounting

Cash flow hedges are used by the Bank to protect against the potential cash flow variability arising from the Bank exposure to interest rate and foreign currency risk. The financial instruments designated as hedged items include loans and advances to customers, and highly probable forecast foreign denominated expenditure.

The profile and timing of hedging instruments designated in cash flow hedge relationships based on notional amounts are as follows:

	Bank						
	2019						
	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							
Hedge of loans and advances to customers	44 254	20 795	17 532	23 320	13 402	8 223	127 526
Foreign currency risk – forwards							
Hedge of highly probable forecast expenditure	1 610	19	—	—	—	—	1 629

	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							
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							
Hedge of highly probable forecast expenditure	1 177	53	—	—	—	—	1 230

The average rates or prices set out below relate to the hedging instruments designated in cash flow hedging relationships:

	Bank	
	2019 Average price or rate	2018 Average price or rate
Interest rate risk		
Interest rate swaps	8%	8%
Foreign currency risk		
Currency swaps		
Average ZAR – EUR exchange rates	17.87	15.80
Average ZAR – GBP exchange rates	19.37	18.94
Average ZAR – USD exchange rates	15.07	12.97
Average ZAR – CZK exchange rates	1.49	1.50

51. Derivatives (continued)

51.6 Hedge accounting (continued)

51.6.2 Cash flow hedge accounting (continued)

If the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

The following amounts relate to items designated as hedging instruments in cash flow hedge relationships:

	Bank					
	2019					
	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 ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances to customers	**127 526**	**2 324**	**(9)**	**1 564**	**2 140**	**(228)**
Foreign currency risk						
Forwards – hedge of forecast expenditure	**1 628**	**8**	**(82)**	**88**	**(62)**	**3**

	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 ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances to customers	183 744	1 075	(354)	(828)	112	(234)
Foreign currency risk						
Forwards – hedge of forecast expenditure	1 231	83	(26)	93	94	36

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the Statement of Comprehensive Income.

51. Derivatives (continued)

51.6 Hedge accounting (continued)

51.6.2 Cash flow hedge accounting (continued)

The hedging instruments of the Bank are presented within Hedging portfolio assets/liabilities, on the statement of financial position. Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred.

Impact on the income statement and OCI of recycling amounts in respect of cash flow hedges during the period.

	Bank					
	2019			2018		
	Amount recycled from OCI to profit and loss due to continuing hedges Rm	Amount recycled from OCI due to discontinued hedges Rm	Total Rm	Amount recycled from OCI to profit and loss due to continuing hedges Rm	Amount recycled from OCI due to discontinued hedges Rm	Total Rm
Cash flow hedge of interest rate risk	**693**	**78**	**771**	646	(12)	634
Recycled to interest income	604	67	671	555	(10)	545
Recycled to interest expense	89	11	100	91	(2)	89
Cash flow hedge of currency risk						
Recycled to operating expenses	35	—	35	(51)	(33)	(84)
Total	**728**	**78**	**806**	595	(45)	550

The following amounts relate to items designated as hedged items in cash flow hedges:

	Bank					
	2019			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	Change in value used for calculating hedge ineffectiveness 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	(1 607)	1 831	63	433	514	10
Highly probable forecast transactions						
Foreign currency risk	86	(67)	—	(96)	54	(20)

51.6.3 Reconciliation of equity

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (before tax) resulting from hedge accounting:

	Bank	
	2019 Cash flow hedge reserve Rm	2018 Cash flow hedge reserve Rm
Balance on 1 January		
Foreign currency translation movements	**558**	902
Hedging gains/losses for the reporting period	**2 078**	206
Interest rate risk	**2 140**	112
Foreign currency risk	**(62)**	94
Amounts reclassified to profit or loss		
In relation to cash flows affecting profit or loss	**(806)**	(550)
Balance on 31 December	**1 830**	558

52. Consolidated statement of financial position summary – IFRS 9 classification

	2019			
	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	—	—	—	—
Investment securities	1 848	925	—	2 773
Loans and advances to banks	28 220	1 233	—	29 453
Trading portfolio assets	110 924	—	—	110 924
Hedging portfolio assets[2]	—	—	3 355	3 355
Other assets	—	—	—	—
Loans and advances to customers	45 903	21 753	—	67 656
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	186 895	23 911	3 355	214 161
Liabilities				
Deposits from banks	—	48 120	—	48 120
Trading portfolio liabilities	55 968	—	—	55 968
Hedging portfolio liabilities[3]	—	—	1 379	1 379
Other liabilities	—	—	—	—
Deposits due to customers	—	55 438	—	55 438
Debt securities in issue	—	29 362	—	29 362
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	55 968	132 920	1 379	190 267

1 Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.
2 Includes derivative assets to the amount of **R2 333m** (2018: R1 159m) and **R1 023m** (2018: R1 248m) that have been designated as cash flow and fair value hedging instruments respectively.
3 Includes derivative liabilities to the amount of **R91m** (2018: R380m) and **R1 288m** (2018: R963m) 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 include **R599m** (2018: R483) that relate to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

2019

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	Assets/ liabilities outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
—	—	—	—	25 485	—	25 485	—	25 485
38 154	345	26 871	65 370	7 087	—	7 087	—	75 230
—	—	—	—	15 540	—	15 540	—	44 993
—	—	—	—	—	—	—	668	111 592
—	—	—	—	—	—	—	—	3 355
—	—	—	—	19 183	—	19 183	2 545	21 728
—	—	—	—	722 636	4 090	726 726	—	794 382
—	—	—	—	3 685	—	3 685	21	3 706
—	—	—	—	50 460	—	50 460	—	50 460
—	—	—	—	—	—	—	28 894	28 894
38 154	345	26 871	65 370	844 076	4 090	848 166	32 128	1 159 825
—	—	—	—	71 357	—	71 357	—	119 477
—	—	—	—	—	—	—	—	55 968
—	—	—	—	—	—	—	—	1 379
—	—	—	—	11 701	—	11 701	20 637	32 338
—	—	—	—	622 371	—	622 371	—	677 809
—	—	—	—	118 426	9 815	128 241	—	157 603
—	—	—	—	12 873	8 409	21 282	—	21 282
—	—	—	—	—	—	—	2 644	2 644
—	—	—	—	836 728	18 224	854 952	23 281	1 068 500

52. Consolidated statement of financial position summary – IFRS 9 classification (continued)

	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	—	—	—	—
Investment securities	1 361	10 450	—	11 811
Loans and advances to banks	18 580	1 220	—	19 800
Trading portfolio assets	99 968	—	—	99 968
Hedging portfolio assets[2]	—	—	2 407	2 407
Other assets	—	—	—	—
Loans and advances to customers	32 097	13 166	—	45 263
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	152 006	24 836	2 407	179 249
Liabilities				
Deposits from banks	—	54 890	—	54 890
Trading portfolio liabilities	46 280	—	—	46 280
Hedging portfolio liabilities[3]	—	—	1 343	1 343
Other liabilities	—	—	—	—
Deposits due to customers	—	37 849	—	37 849
Debt securities in issue	—	15 888	—	15 888
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	46 280	108 627	1 343	156 250

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.
[2] Includes derivative assets to the amount of **R2 333m** (2018: R1 159m) and **R1 023m** (2018: R1 248m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R91m** (2018: R380m) and **R1 288m** (2018: R963m) 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 include **R599m** (2018: R483m) that relate 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	Assets/ liabilities outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
—	—	—	—	22 679	—	22 679	—	22 679
48 573	326	26 647	75 546	6 219	—	6 219	—	93 576
—	—	—	—	20 733	—	20 733	—	40 533
—	—	—	—	—	—	—	1 303	101 271
—	—	—	—	—	—	—	—	2 407
—	—	—	—	20 065	—	20 065	2 229	22 294
—	—	—	—	687 300	2 637	689 937	—	735 200
—	—	—	—	—	—	—	—	—
—	—	—	—	37 363	—	37 363	—	37 363
—	—	—	—	—	—	—	24 356	24 356
48 573	326	26 647	75 546	794 359	2 637	796 996	27 888	1 079 679
—	—	—	—	73 069	—	73 069	—	127 959
—	—	—	—	—	—	—	—	46 280
—	—	—	—	—	—	—	—	1 343
—	—	—	—	29 641	—	29 641	2 266	31 907
—	—	—	—	567 798	—	567 798	—	605 647
—	—	—	—	134 432	9 722	144 154	—	160 042
—	—	—	—	11 371	8 681	20 052	—	20 052
—	—	—	—	—	—	—	2 763	2 763
—	—	—	—	816 311	18 403	834 714	5 029	995 993

53. Fair value disclosures

53.1 Assets and liabilities held at fair value

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

	Bank							
	2019				2018			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Investment securities	32 732	23 178	12 233	68 143	42 352	35 468	9 537	87 357
Loans and advances to banks	—	29 453	—	29 453	—	19 800	—	19 800
Trading and hedging portfolio assets	41 613	66 410	6 256	114 279	45 107	53 819	3 449	102 375
Debt instruments	40 547	970	210	41 727	43 005	789	445	44 239
Derivative assets	—	56 771	3 672	60 443	—	43 680	2 450	46 130
Commodity derivatives	—	302	—	302	—	1 263	224	1 487
Credit derivatives	—	—	155	155	—	—	173	173
Equity derivatives	—	2 036	3 454	5 490	—	3 433	1 947	5 380
Foreign exchange derivatives	—	12 604	7	12 611	—	7 980	26	8 006
Interest rate derivatives	—	41 829	56	41 885	—	31 004	80	31 084
Equity instruments	520	—	—	520	533	—	—	533
Money market assets	546	8 669	2 374	11 589	1 569	9 350	554	11 473
Loans and advances to customers	—	56 752	10 904	67 656	—	34 602	10 661	45 263
Total financial assets	74 345	175 793	29 393	279 531	87 459	143 689	23 647	254 795
Financial liabilities								
Deposits from banks	—	48 120	—	48 120	—	54 871	19	54 890
Trading and hedging portfolio liabilities	10 401	45 815	1 131	57 347	11 072	35 097	1 454	47 623
Derivative liabilities	—	45 815	1 131	46 946	—	35 097	1 454	36 551
Commodity derivatives	—	475	—	475	—	1 267	222	1 489
Credit derivatives	—	—	132	132	—	—	174	174
Equity derivatives	—	1 125	707	1 832	—	2 313	778	3 091
Foreign exchange derivatives	—	11 901	15	11 916	—	8 391	19	8 410
Interest rate derivatives	—	32 314	277	32 591	—	23 126	261	23 387
Short positions	10 401	—	—	10 401	11 072	—	—	11 072
Deposits due to customers	156	51 440	3 842	55 438	238	34 789	2 822	37 849
Debt securities in issue	1 043	28 319	—	29 362	3	15 885	—	15 888
Total financial liabilities	11 600	173 694	4 973	190 267	11 313	140 642	4 295	156 250
Non-financial assets								
Commodities	668	—	—	668	1 304	—	—	1 304
Investment properties	—	—	—	—	—	—	180	180
Non-recurring fair value adjustments								
Non-current assets held for sale[1]	—	—	—	—	—	—	50	50

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

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53. Fair value disclosures (continued)

53.2 Reconciliation of Level 3 assets and liabilities

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

	Bank			
	2019			
	Trading and hedging portfolio 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	3 449	10 661	—	9 537
Net interest income	—	439	—	88
Gains and losses from banking and trading activities	1 973	(471)	—	1
Gains and losses from investment activities	—	—	—	19
Purchases	1 101	4 602	—	1 378
Sales	(333)	(1 767)	—	(273)
Movement in other comprehensive income	—	—	—	(109)
Issues	—	—	—	—
Settlements	—	—	—	(7)
Transfer to Level 3	962	52	—	2 134
Transfer (out) of Level 3	(896)	(2 612)	—	(535)
Closing balance at the end of the reporting period	6 256	10 904	—	12 233

	2018			
	Trading and hedging portfolio 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	4 741	484	5 946
Net interest income	—	153	—	89
Other income	—	—	—	—
Gains and losses from banking and trading activities	1 240	427	—	26
Gains and losses from investment activities	—	—	—	23
Purchases	1 174	6 617	—	3 181
Sales	(257)	(156)	(18)	(507)
Movement in other comprehensive income	—	—	—	(37)
Issues	—	—	—	—
Settlements	—	—	—	—
Transfer to Level 3	357	—	—	2 928
Transfer (out) of Level 3	(889)	(1 121)	(466)	(1 914)
Step acquisition of subsidiary	—	—	—	(198)
Closing balance at the end of the reporting period	3 449	10 661	—	9 537

53.2.1 Significant transfers between levels

During the 2019 and 2018 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity.

These transfers have been reflected as if they had taken place at the beginning of the year.

Bank

2019

Investment properties Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
180	23 827	19	1 454	2 822	—	4 295
—	527	—	—	—	—	—
—	1 503	—	276	96	—	372
—	19	—	—	—	—	—
—	7 081	—	—	—	—	—
(180)	(2 553)	—	—	—	—	—
—	(109)	—	—	—	—	—
—	—	—	36	3 808	—	3 844
—	(7)	—	—	(1 887)	—	(1 887)
—	3 148	—	—	—	—	—
—	(4 043)	(19)	(635)	(997)	—	(1 651)
—	29 393	—	1 131	3 842	—	4 973

2018

Investment properties Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
—	12 995	—	944	1 572	488	3 004
—	242	—	—	—	—	—
15	15	—	—	—	—	—
—	1 693	—	(52)	5	—	(47)
—	23	—	—	—	—	—
165	11 137	—	—	—	—	—
—	(938)	—	—	—	—	—
—	(37)	—	—	—	—	—
—	—	19	1 043	2 500	—	3 562
—	—	—	(344)	(766)	—	(1 110)
—	3 285	—	—	—	—	—
—	(4 390)	—	(137)	(489)	(488)	(1 114)
—	(198)	—	—	—	—	—
180	23 827	19	1 454	2 822	—	4 295

53. Fair value disclosures (continued)

53.3 Unrealised gains and losses on Level 3 assets and liabilities

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

	Bank			
	2019			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	**3 197**	**539**	**220**	**3 956**
	2018			
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	2 589	1 027	233	3 849

	Bank		
	2019		
	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	**(520)**	**163**	**(357)**
	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)

53. Fair value disclosures (continued)

53.4 Sensitivity analysis of valuations using unobservable inputs

As part of the Bank's risk management processes, we perform a sensitivity analysis on the significant unobservable parameters, in order to determine the impact of reasonably possible alternative assumptions on the valuation of Level 3 financial assets and liabilities. The assets and liabilities that most impact this sensitivity analysis are those with more illiquid and/or structured portfolios. The alternative assumptions are applied independently and do not take account of any cross-correlation between assumptions that would reduce the overall effect on the valuations.

The following table reflects the reasonable possible variances applied to significant parameters utilised in our valuations:

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value 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:

		2019	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	Absa Group Limited/Absa funding spread	349/(395)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	—/—	(303)/313
Loans and advances to customers	Credit spreads	(692)/760	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	177/(174)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(261)/261	—/—

53. Fair value disclosures (continued)

53.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		2018	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Loans and advances to banks	Absa Group Limited/Absa funding spread	—/—	—/—
Deposits due to customers	Absa Group Limited/Absa funding spread	178/(178)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	—/—	(20)/20
Loans and advances to customers	Credit spreads	(323)/323	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	162/(162)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(224)/224	—/—

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

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

	Bank	
	2019 Rm	2018 Rm
Opening balance at the beginning of the reporting period	**(428)**	(134)
New transactions	**(52)**	(367)
Amounts recognised in profit or loss during the reporting period	**73**	73
Closing balance at the end of the reporting period	**(407)**	(428)

53.6 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

53. Fair value disclosures (continued)

53.7 Assets and liabilities not held at fair value

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

	Bank				
	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	16 587	16 587	16 587	—	—
Coins and bank notes	8 898	8 898	8 898	—	—
Cash, cash balances and balances with central banks	25 485	25 485	25 485	—	—
Investment securities	7 087	7 064	7 064	—	—
Loans and advances to banks	15 540	15 540	3 513	12 027	—
Other assets	19 183	19 183	12 506	3 103	3 574
RBB South Africa	495 786	497 234	—	—	497 234
Home Loans	237 391	237 391	—	—	237 391
Vehicle and Asset Finance	83 740	84 080	—	—	84 080
Everyday Banking	50 701	51 313	—	—	51 313
Card	26 369	26 778	—	—	26 778
Personal Loans	20 857	21 022	—	—	21 022
Transactions and Deposits	3 475	3 513	—	—	3 513
Relationship Banking	123 953	124 449	—	—	124 449
RBB Other	1	1	—	—	1
CIB South Africa	230 111	230 111	—	—	230 111
Head Office, Treasury and other operations in South Africa	829	829	—	—	829
Loans and advances to customers – net of impairment losses	726 726	728 174	—	—	728 174
Loans to group companies	50 460	50 460	—	50 460	—
Non-current assets held for sale	3 685	3 685	—	—	3 685
Total assets (not held at fair value)	848 166	849 591	48 568	65 590	735 433
Financial liabilities					
Deposits from banks	71 357	71 357	11 539	59 752	66
Other liabilities	11 701	11 701	185	10 330	1 186
Call deposits	52 406	52 406	52 406	—	—
Cheque account deposits	159 981	159 981	159 981	—	—
Credit card deposits	1 862	1 862	1 862	—	—
Fixed deposits	157 998	158 421	—	155 693	2 728
Foreign currency deposits	23 975	23 975	—	23 975	—
Notice deposits	68 997	68 997	23 616	45 381	—
Other deposits	722	722	—	719	3
Saving and transmission deposits	156 430	156 430	32 131	2 059	122 240
Deposits due to customers	622 371	622 794	269 996	227 827	124 971
Debt securities in issue	128 241	130 978	—	130 978	—
Borrowed funds	21 282	21 282	—	21 282	—
Total liabilities (not held at fair value)	854 952	858 112	281 720	450 169	126 223

53. Fair value disclosures (continued)

53.7 Assets and liabilities not held at fair value (continued)

	2018				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	13 108	13 108	13 108	—	—
Coins and bank notes	9 571	9 571	9 571	—	—
Cash, cash balances and balances with central banks	22 679	22 679	22 679	—	—
Investment securities	6 219	6 270	6 270	—	—
Loans and advances to banks	20 733	23 191	5 335	17 856	—
Other assets	20 065	20 073	16 585	960	2 528
RBB South Africa[1]	461 664	463 085	2 503	2 111	458 471
Home Loans	227 086	227 086	—	—	227 086
Vehicle and Asset Finance	76 772	77 087	—	—	77 087
Everyday Banking	47 803	48 390	—	—	48 390
Card	26 245	26 652	—	—	26 652
Personal Loans	18 320	18 464	—	—	18 464
Transactions and Deposits	3 238	3 274	—	—	3 274
Relationship Banking	110 003	110 522	2 503	2 111	105 908
CIB South Africa[1]	227 560	227 560	—	—	227 560
Head Office, Treasury and other operations in South Africa	713	713	—	703	10
Loans and advances to customers – net of impairment losses	689 937	691 358	2 503	2 814	686 041
Loans to group companies	37 363	37 363	—	37 363	—
Total assets (not held at fair value)	796 996	800 934	53 372	58 993	688 569
Financial liabilities					
Deposits from banks	73 069	77 174	271	76 903	—
Other liabilities	29 641	29 654	696	23 805	5 153
Call deposits	57 981	57 981	13 796	44 185	—
Cheque account deposits	156 435	156 435	156 377	42	16
Credit card deposits	1 904	1 904	1 904	—	—
Fixed deposits	133 031	133 031	80 024	47 803	5 204
Foreign currency deposits	17 541	17 541	452	16 678	411
Notice deposits	58 367	58 367	18 747	39 597	23
Other deposits	1 473	1 473	1 307	133	33
Saving and transmission deposits	141 066	141 066	140 974	92	—
Deposits due to customers	567 798	567 798	413 581	148 530	5 687
Debt securities in issue	144 154	146 438	108	146 109	221
Borrowed funds	20 052	20 052	—	20 052	—
Total liabilities (not held at fair value)	834 714	841 116	414 656	415 399	11 061

[1] These numbers have been restated, refer 50.1.

54. Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial assets designated at fair value through profit or loss at the reporting date before taking into account collateral held or other credit enhancements:

	Bank		Credit risk mitigation	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Assets				
Investment securities	925	10 450	—	—
Loans and advances to banks	1 233	1 220	1 233	1 156
Loans and advances to customers	21 753	13 166	1 452	313
	23 911	24 836	2 685	1 469

The Bank utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. The value of collateral has been limited to the fair value of the instrument.

Contractual obligation at maturity of financial liabilities designated at fair value through profit and loss

The following table represents the carrying amount of financial liabilities designated at fair value through profit and loss and the amount that the Bank is contractually required to pay to the holder of the obligation at maturity:

	Bank			
	2019		2018	
	Carrying value Rm	Contractual obligation Rm	Carrying value Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	48 120	50 388	54 890	56 663
Deposits due to customers	55 438	67 049	37 849	47 009
Debt securities in issue	29 362	31 275	15 888	17 038
	132 920	148 712	108 627	120 710

(Increase)/decrease in fair value attributable to changes in own credit risk during the reporting period

	Bank	
	2019 Rm	2018 Rm
Liabilities		
Deposits from banks and customers	(61)	(71)
Cumulative adjustments in fair value attributable to changes in own risk		
Liabilities		
Deposits from banks and customers	358	297

The following approach is used in determining changes in fair value due to changes in credit risk for deposits from banks and customers designated at fair value through profit or loss:

- The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as funding issued by the Bank. Most market parameters are either directly observable or are implied by instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

55. Risk management

55.1 Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond to, and monitor risks in the execution of the Bank's strategy. It is essential that the business growth strategy is supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

The approach to managing risk is outlined in the ERMF, which provides the basis for setting policies and standards, and establishing the appropriate risk practices throughout the Bank. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be identified and managed. It also ensures that appropriate responses are in place to protect the Bank and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Bank that are foreseeable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into nine principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and own risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, whilst promoting collaboration and the flow of information between all areas.

The ERMF is reviewed and approved annually by the Board.

Credit risk

The risk of financial loss should the Bank's customers, clients or market counterparts fail to fulfil their contractual obligation.

Risk appetite

Risk appetite and stress testing are key components of the Bank's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Bank is prepared to take in executing its strategy. The Bank's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

Risk appetite key indicators and triggers

The Bank manages its risk profile in a forward-looking manner through a trigger and management action framework, which has been reviewed and strengthened. Key indicators and triggers have been developed to serve as an early warning system. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at the Bank, Business Unit, and product levels, and are regularly monitored by management and reported to the Bank Risk and Capital Management Committee (GRCMC) on a quarterly basis.

Stress testing

Stress testing is a key element of the Bank's integrated planning and risk management processes. Through the use of stress testing and scenario analysis, the Bank is able to assess the performance of the Bank's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Bank's capital planning process and enhance the stress scenarios employed. The Bank takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements including the setting of capital and liquidity buffers.

The GRCMC exercises governance oversight and approval authority over stress testing results.

55. Risk management (continued)

55.2 Credit risk

The following table sets out information about the credit quality of financial instruments to which the impairment requirements in IFRS 9 are applicable:

	Bank			
	2019			
		Stage 1[1]		
Maximum exposure to credit risk	Gross maximum exposure Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Balances with the SARB	16 587	16 587	—	—
Cash, cash balances and balances with central banks	16 587	16 587	—	—
Government bonds	35 153	35 153	—	—
Other	20 321	19 999	—	—
Treasury bills	16 638	13 541	—	—
Investment securities	72 112	68 693	—	—
Loans and advances to banks	15 560	9 380	5 660	—
Accounts receivable	6 923	4 407	2 514	—
Settlement accounts	12 260	12 233	27	—
Other assets	19 183	16 640	2 541	—
RBB South Africa	516 926	38 579	384 525	20 278
Home Loans	242 828	12 528	190 205	7 490
AVAF	86 934	2 120	65 455	6 109
Everyday Banking	59 248	3 449	34 872	6 679
Card	31 097	2 581	19 846	2 066
Personal Loans	23 941	571	13 325	4 150
Transactions and Deposits	4 210	297	1 701	463
Relationship Banking	127 863	20 482	93 993	—
RBB Other	53	—	—	—
CIB South Africa	231 545	125 573	75 263	—
Head Office, Treasury and other operations in South Africa	319	293	17	—
Loans and advances to customers	748 790	164 445	459 805	20 278
Loans and advances to group companies	50 460	50 460	—	—
Off-statement of financial position exposure				
Guarantees	33 523			
Letters of credit	5 303			
Revocable and irrevocable debt facilities	183 524			
Total off-statement of financial position exposure	222 350			

[1] Refer to note 1.2.1.3 for DG bucket definitions.

55. Risk management (continued)

55.2 Credit risk (continued)

	Bank			
	2019			
	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 the SARB	—	—	—	—
Cash, cash balances and balances with central banks	—	—	—	—
Government bonds	—	—	—	—
Other	322	—	—	—
Treasury bills	3 097	—	—	—
Investment securities	3 419	—	—	—
Loans and advances to banks	—	487	33	—
Accounts receivable	—	2	—	—
Settlement accounts	—	—	—	—
Other assets	—	2	—	—
RBB South Africa	592	24 472	11 738	36 741
Home Loans	226	8 367	5 232	18 780
AVAF	4	4 315	3 677	5 254
Everyday Banking	115	3 936	2 829	7 367
Card	38	1 629	1 219	3 717
Personal Loans	22	1 355	1 411	3 107
Transactions and Deposits	55	952	199	543
Relationship Banking	247	7 854	—	5 287
RBB Other	—	—	—	53
CIB South Africa	8 646	16 055	4 204	1 804
Head Office, Treasury and other operations in South Africa	—	9	—	—
Loans and advances to customers	9 238	40 536	15 942	38 545
Loans and advances to group companies	—	—	—	—

[1] Refer to note 1.2.1.3 for DG bucket definitions.

55. Risk management (continued)

55.2 Credit risk (continued)

		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 the SARB	13 109	13 109	—	—
Cash, cash balances and balances with central banks	13 109	13 109	—	—
Government bonds	28 805	28 632	—	—
Other	26 064	24 461	—	—
Treasury bills	26 570	26 570	—	—
Investment securities	81 439	79 663	—	—
Loans and advances to banks	20 753	6 447	11 860	—
Accounts receivable	6 940	1 776	5 163	—
Settlement accounts	13 124	8 940	4 184	—
Other assets	20 064	10 716	9 347	—
RBB South Africa[2]	482 868	31 886	358 321	21 381
Home Loans	232 430	10 416	182 865	6 735
AVAF	79 761	1 461	62 220	5 285
Everyday Banking	55 606	2 692	30 149	9 361
Card	30 859	2 463	16 553	5 280
Personal Loans	20 928	155	12 051	3 505
Transactions and Deposits	3 819	74	1 545	576
Relationship Banking	115 018	17 317	83 087	—
RBB Other	53	—	—	—
CIB South Africa[2]	229 226	118 918	76 700	—
Head Office, Treasury and other operations in South Africa	309	294	6	—
Loans and advances to customers	712 403	151 098	435 027	21 381
Loans and advances to group companies	37 363	37 363	—	—
Off-statement of financial position exposure				
Guarantees	34 479			
Letters of credit	6 828			
Revocable and irrevocable debt facilities	166 198			
Total off-statement of financial position exposure	207 505			

[1] Refer to note 1.2.1.3 for DG bucket definitions.

[2] Numbers have been restated, refer to notes 50.

55. Risk management (continued)

55.2 Credit risk (continued)

	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 the SARB	—	—	—	—
Cash, cash balances and balances with central banks	—	—	—	—
Government bonds	173	—	—	—
Other	1 573	—	—	30
Treasury bills	—	—	—	—
Investment securities	1 746	—	—	30
Loans and advances to banks	189	2 244	13	—
Accounts receivable	—	1	—	—
Settlement accounts	—	—	—	—
Other assets	—	1	—	—
RBB South Africa	3 615	19 962	12 108	35 595
Home Loans	2 223	6 154	5 720	18 317
AVAF	648	2 233	3 160	4 754
Everyday Banking	469	2 515	3 228	7 192
Card	30	720	1 709	4 104
Personal Loans	209	1 152	1 258	2 598
Transactions and Deposits	230	643	261	490
Relationship Banking	275	9 060	—	5 279
RBB Other	—	—	—	53
CIB South Africa	14 786	13 359	2 603	2 860
Head Office, Treasury and other operations in South Africa	1	8	—	—
Loans and advances to customers	18 402	33 329	14 711	38 455
Loans and advances to group companies	—	—	—	—

[1] Refer to note 1.2.1.3 for DG bucket definitions.

55. Risk management (continued)

55.2 Credit risk (continued)

The following table sets out information about the credit quality of financial instruments which are classified at fair value through profit or loss:

	Bank			
	2019			
Maximum exposure to credit risk	Carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Investment securities	1 443	943	500	—
Government bonds	924	924	—	—
Other	519	19	500	—
Loans and advances to banks	29 453	16 406	13 047	—
Trading portfolio assets	110 404	100 418	9 937	49
Debt instruments	41 727	41 649	78	—
Derivative assets	57 088	48 315	8 724	49
Money market assets	11 589	10 454	1 135	—
Hedging portfolio assets	3 355	—	3 355	—
Derivatives designated as cash flow hedging instruments	2 333	—	2 333	—
Derivatives designated as fair value hedging instruments	1 022	—	1 022	—
Loans and advances to customers	67 656	33 399	34 026	231
Total	212 311	151 166	60 865	280

	2018			
Maximum exposure to credit risk	Carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Investment securities	10 954	10 457	497	—
Government bonds	8 420	8 420	—	—
Other	2 534	2 037	497	—
Loans and advances to banks	19 800	15 846	3 954	—
Trading portfolio assets	99 436	88 958	10 373	105
Debt instruments	44 239	34 612	9 565	62
Derivative assets	43 724	43 681	—	43
Money market assets	11 473	10 665	808	—
Hedging portfolio assets	2 407	—	2 407	—
Derivatives designated as cash flow hedging instruments	1 159	—	1 159	—
Derivatives designated as fair value hedging instruments	1 248	—	1 248	—
Loans and advances to customers	45 263	27 402	17 721	140
Total	177 860	142 663	34 952	245

55. Risk management (continued)

55.2 Credit risk (continued)

Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions:

Bank

Geographical concentration of risk	2019 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	—	—	—	16 587	16 587
Investment securities	3 274	—	—	70 281	73 555
Loans and advances to banks	6 468	13 039	17 275	8 231	45 013
Trading portfolio assets	967	13 257	5 385	90 795	110 404
Hedging portfolio assets	—	—	—	3 355	3 355
Other assets	111	671	236	18 165	19 183
Loans and advances to customers	9 323	12 008	10 536	784 578	816 445
Loans and advances to group companies	—	—	18 531	31 929	50 460
Subject to credit risk	20 143	38 975	51 963	1 023 921	1 135 002
Off-statement of financial position exposures					
Guarantees	705	4 405	2 301	26 112	33 523
Letters of credit	838	28	3 504	933	5 303
Revocable and irrevocable debt facilities	—	—	—	183 524	183 524
Subject to credit risk	1 543	4 433	5 805	210 569	222 350

	2018 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	—	—	—	13 109	13 109
Investment securities	3 076	—	—	89 317	92 393
Loans and advances to banks	4 069	14 730	6 189	15 565	40 553
Trading portfolio assets	2 851	22 015	5 380	69 189	99 435
Hedging portfolio assets	—	—	—	2 407	2 407
Other assets	1 903	2 588	46	15 527	20 064
Loans and advances to customers	9 560	8 874	9 556	729 677	757 667
Loans and advances to group companies	—	—	11 997	25 366	37 363
Subject to credit risk	21 459	48 207	33 168	960 157	1 062 991
Off-statement of financial position exposures					
Guarantees	839	5 438	2 258	25 944	34 479
Letters of credit	273	81	4 608	1 866	6 828
Revocable and irrevocable debt facilities	—	—	—	166 198	166 198
Subject to credit risk	1 112	5 519	6 866	194 008	207 505

55. Risk management (continued)

55.2 Credit risk (continued)

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for financial instruments that are credit impaired at the reporting date are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset and off-statement of financial position exposure as described in note 1.2.1.

The Bank offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Bank has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying amount and the undrawn facility of the related credit exposure where a loan is possibly over-collateralised.

The Bank may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

During the period there were no changes in the Bank's collateral policies.

Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

55. Risk management (continued)

55.2 Credit risk (continued)

	2019				
	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	45 013	—	—	—	—
Debt instruments	41 727	—	—	—	—
Derivative assets	57 087	—	—	—	—
Money market assets	11 589	—	—	—	—
Trading portfolio assets	110 403	—	—	—	—
RBB South Africa	634 874	18	24 000	26	24
Home Loans	294 915	—	17 349	—	—
AVAF	88 585	—	3 985	—	—
Everyday Banking	94 596	—	—	—	—
Card	61 161	—	—	—	—
Personal Loans	24 466	—	—	—	—
Transactions and Deposits	8 969	—	—	—	—
Relationship Banking	156 725	18	2 666	26	24
RBB Other	53	—	—	—	—
CIB South Africa	364 775	187	150	—	40
Head Office, Treasury and other operations in South Africa	319	—	—	—	—
Loans and advances to customers	999 968	205	24 150	26	64
Off-balance sheet					
Guarantees	33 523	—	1	—	—
Letters of credit	5 303	—	—	—	—
Total off-statement of financial position exposure	38 826	—	1	—	—

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.

Bank

	2019							
	Collateral – credit impaired financial assets							
	Unsecured Rm	Total maximum exposure credit impaired financial assets[1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm	Total maximum exposure not credit impaired financial assets[1] Rm
	—	—	350	—	—	26 013	18 650	45 013
	—	—	—	—	—	—	41 727	41 727
	—	—	74	—	1 212	43 992	11 809	57 087
	—	—	—	—	—	—	11 589	11 589
	—	—	74	—	1 212	43 992	65 125	110 403
	13 703	37 771	201	426 764	853	272	169 013	597 103
	1 492	18 841	—	255 389	—	—	20 685	276 074
	1 267	5 252	—	45 237	—	—	38 096	83 333
	8 278	8 278	—	—	—	—	86 318	86 318
	4 592	4 592	—	—	—	—	56 569	56 569
	3 119	3 119	—	—	—	—	21 347	21 347
	567	567	—	—	—	—	8 402	8 402
	2 613	5 347	201	126 138	853	272	23 914	151 378
	53	53	—	—	—	—	—	—
	1 428	1 805	9 393	46 873	—	40 771	265 933	362 970
	—	—	—	—	—	—	319	319
	15 131	39 576	9 594	473 637	853	41 043	435 265	960 392
	247	248	11	3 905	636	21	28 702	33 275
	—	—	—	—	—	—	5 303	5 303
	247	248	11	3 905	636	21	34 005	38 578

55. Risk management (continued)

55.2 Credit risk (continued)

		2018 Collateral – credit impaired financial assets			
	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	40 553	—	—	—	—
Debt instruments	44 238	—	—	—	—
Derivative assets	43 724	—	—	—	—
Money market assets	11 473	—	—	—	—
Trading portfolio assets	99 435	—	—	—	—
RBB South Africa[2]	596 576	18	23 138	38	108
Home Loans	282 884	—	16 938	—	—
AVAF	81 168	—	3 474	—	—
Everyday Banking	93 486	—	—	—	—
Card	63 555	—	—	—	—
Personal Loans	21 488	—	—	—	—
Transactions and Deposits	8 443	—	—	—	—
Relationship Banking	138 985	18	2 726	38	108
RBB Other	53	—	—	—	—
CIB South Africa[2]	326 987	340	4	—	—
Head Office, Treasury and other operations in South Africa	309	—	—	—	—
Loans and advances to customers	923 872	358	23 142	38	108
Off-balance sheet					
Financial guarantee contracts	34 478	—	—	—	—
Letters of credit	6 828	—	—	—	—
Total off-statement of financial position exposure	41 306	—	—	—	—

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 revocable and irrevocable debt facilities.

[2] Numbers have been restated, refer to note 50.

		2018					
		Collateral – credit impaired financial assets					
Unsecured Rm	Total maximum exposure credit impaired financial assets [1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm	Total maximum exposure not credit impaired financial assets [1] Rm
—	—	93	—	—	21 300	19 160	40 553
—	—	—	—	—	—	44 238	44 238
—	—	123	—	4 422	33 196	5 983	43 724
—	—	—	—	—	—	11 473	11 473
—	—	123	—	4 422	33 196	61 694	99 435
13 266	36 568	388	356 170	2 756	1 405	199 289	560 008
1 461	18 399	—	242 568	—	—	21 917	264 485
1 280	4 754	—	37 989	—	—	38 425	76 414
8 002	8 002	—	—	—	—	85 484	85 484
4 883	4 883	—	—	—	—	58 672	58 672
2 609	2 609	—	—	—	—	18 879	18 879
510	510	—	—	—	—	7 933	7 933
2 470	5 360	388	75 613	2 756	1 405	53 463	133 625
53	53	—	—	—	—	—	—
2 516	2 860	18 240	10 318	—	31 617	263 952	324 127
—	—	—	—	—	—	309	309
15 782	39 428	18 628	366 488	2 756	33 022	463 550	884 444
16	16	7	742	972	2	32 741	34 463
—	—	—	—	—	—	6 828	6 828
16	16	7	742	972	2	39 569	41 291

55. Risk management (continued)

55.2 Credit risk (continued)

Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

	Bank 2019 Rm	Bank 2018[1] Rm
Assets written off during financial period still subject to enforcement activities	7 447	6 315

Reconciliation of impairment loss allowance

Bank 2019				
		Lifetime expected credit losses ('LEL')		
Investment securities at amortised cost and FVOCI	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	24	3	10	37
Asset moved/Allowance transferred to stage 1	1	(1)	—	—
Asset moved/Allowance transferred to stage 2	—	—	—	—
Asset moved/Allowance transferred to stage 3	—	—	—	—
Current period provision	(18)	(2)	(10)	(30)
Balance at the end of the reporting period	7	—	—	7

2018				
		Lifetime expected credit losses ('LEL')		
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	9	—	—	9
Asset moved/Allowance transferred to stage 1	0	(0)	—	—
Asset moved/Allowance transferred to stage 2	(1)	1	—	—
Asset moved/Allowance transferred to stage 3	—	(0)	0	—
Current period provision	16	2	10	28
Balance at the end of the reporting period	24	3	10	37

[1] The above numbers have changed as the reconciliation of interest in suspense in the prior period did not appropriately take write-offs into account. This resulted in an increase of R1 078m in amounts written off, an increase of R1 130m in net change in interest and a decrease of R53m in the current period provision.

55. Risk management (continued)

55.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Bank

Loans and advances to banks at amortised cost	2019 Stage 1 Rm	2019 Lifetime expected credit losses ('LEL') Stage 2 Rm	2019 Lifetime expected credit losses ('LEL') Stage 3 Rm	2019 Total expected credit losses Rm
Balance at the beginning of the reporting period	7	13	—	20
Asset moved/Allowance transferred to stage 1	1	(1)	—	—
Current period provision	9	(9)	—	—
Balance at the end of the reporting period	17	3	—	20

	2018 Stage 1 Rm	2018 Lifetime expected credit losses ('LEL') Stage 2 Rm	2018 Lifetime expected credit losses ('LEL') Stage 3 Rm	2018 Total expected credit losses Rm
Balance at the beginning of the reporting period	4	22	—	26
Asset moved/Allowance transferred to stage 1	1	(1)	—	—
Current period provision	2	(8)	—	(6)
Balance at the end of the reporting period	7	13	—	20

Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to **R0m** (2018: R0m).

Bank

Loans and advances to customers at amortised cost and undrawn facilities	2019 Stage 1 Rm	2019 Lifetime expected credit losses ('LEL') Stage 2 Rm	2019 Lifetime expected credit losses ('LEL') Stage 3 Rm	2019 Total expected credit losses Rm
Balance at the beginning of the reporting period	3 103	3 559	16 215	22 877
Asset moved/Allowance transferred to stage 1	1 282	(818)	(464)	—
Asset moved/Allowance transferred to stage 2	(247)	664	(417)	—
Asset moved/Allowance transferred to stage 3	(201)	(1 045)	1 246	—
Current period provision	(344)	1 544	4 904	6 104
Amounts written off	—	—	(7 447)	(7 447)
Transfer to non-current assets held for sale	(101)	(208)	(499)	(808)
Net change in interest	—	—	1 857	1 857
Balance at the end of the reporting period	3 492	3 696	15 395	22 583

55. Risk management (continued)

55.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

	2018			
		Lifetime expected credit losses ('LEL')		
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	3 314	3 222	14 865	21 401
Asset moved/Allowance transferred to stage 1	1 263	(837)	(426)	—
Asset moved/Allowance transferred to stage 2	(179)	556	(377)	—
Asset moved/Allowance transferred to stage 3	(121)	(869)	990	—
Current period provision	(1 174)	1 487	6 087	6 400
Amounts written off	—	—	(6 315)	(6 315)
Transfer to non-current assets held for sale	—	—	—	—
Net change in interest	—	—	1 391	1 391
Balance at the end of the reporting period	3 103	3 559	16 215	22 877

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 amount of the provision recognised as at December 2019 is **R522m** (2018: R404m). The credit risk inherent in the undrawn component of irrevocable lending facilities is managed and monitored by the Bank together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the ECL on loans and advances. As a result, the total credit loss is recognised in the ECL allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision on the face of the statement of financial position.
- The current period provision of **R6 104m** (2018: R6 400m[1]) 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 transfer of **R808m** to non-current assets held for sale relates to the disposal of a loan portfolio within Retail.
- The Bank did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios as well as single name exposures within the Wholesale portfolio.
- 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 **R1 857m** (2018: R 1391m[1]) disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

	Bank			
	2019			
		Lifetime expected credit losses ('LEL')		
Guarantees and letters of credit	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	24	48	2	74
Asset moved/Allowance transferred to stage 1	35	(35)	—	—
Asset moved/Allowance transferred to stage 2	—	—	—	—
Asset moved/Allowance transferred to stage 3	—	(1)	1	—
Current period provision	(27)	2	28	3
Balance at the end of the reporting period	32	14	31	77

[1] The above numbers have changed as the reconciliation of interest in suspense in the prior period did not appropriately take write-offs into account. This resulted in an increase of R1 078m in amounts written off, an increase of R1 130m in net change in interest and a decrease of R53m in the current period provision.

55. Risk management (continued)

55.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

	2018			
		Lifetime expected credit losses ('LEL')		
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	16	10	—	26
Asset moved/Allowance transferred to stage 1	1	(1)	—	—
Asset moved/Allowance transferred to stage 2	(1)	1	—	—
Asset moved/Allowance transferred to stage 3	—	(1)	1	—
Current period provision	8	39	1	48
Balance at the end of the reporting period	24	48	2	74

Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL.

	Bank	
	2019 Rm	2018 Rm
Financial assets modified during the period		
Loans and advances to customers		
Amortised cost before modification	**3 001**	2 566
Net modification loss	**(117)**	(7)

55. Risk management (continued)

55.3 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Bank's equity investment risk objective is to balance the portfolio composition in line with the Bank's risk appetite, with selective exits as appropriate.

Approach

The Bank's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Bank's equity investments are held in CIB and RBB.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Bank has adopted the market-based simple risk-weighted approach to calculate risk weighted assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Bank applies a 300% risk weighting to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1.06. Investments in financial entities are treated in line with the principles embodied in Basel III and the Regulations relating to Banks, whereby the risk weightings are subject to the aggregate value of the Bank's shareholding in those investments and also in relation to the Bank's capital.

Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis. Equity hedge structures were in place for the shareholders' equity investment portfolio in previous reporting periods. This assisted to hedge downside risk on equities if market values decrease with more than 6% and resulted in counterparties sharing in positive returns if market values increased by between 2% and 4%. No equity hedge structures were in place at the reporting date.

	Bank									
	2019					2018				
	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
Listed equity investments	(50)	(6)	1 119	50	6	(27)	(6)	651	27	6
Unlisted equity investments	(16)	(11)	556	16	11	(16)	(11)	533	16	11
Total Bank equity investments	**(66)**	**(17)**	**1 675**	**66**	**17**	(43)	(17)	1 184	43	17

55. Risk management (continued)

55.4 Market risk

Traded market risk

Traded market risk is the risk of loss to the Bank arising from potential adverse changes in the value of the firm's assets and liabilities held in the trading book from fluctuations in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities or asset correlations.

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.

Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, providing risk management solutions, generating revenues from assuming and managing risk, and execution of syndications.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as 'Interest rate risk in the banking book' as part of the Treasury Risk Framework.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy;
- budgeted revenue growth;
- statistical modelling measures; and
- risk equated to capital projection under normal and stressed market conditions.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk (VaR) based measures including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting;
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Bank uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 99%.

55. Risk management (continued)

55.4 Market risk (continued)

Traded 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 99th 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 have 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 Bank. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the rest of Africa is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Bank. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

VaR estimates have a number of limitations:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentiles.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

sVaR uses a similar methodology to VaR, but is based on a 1-year period of financial stress which is reviewed quarterly and assumes a 10-day holding period and a worst case loss. The period of stress for AGL is currently the 2008/2009 financial crisis.

Loss thresholds, tail risk metrics, position and sensitivity reporting and stress testing are used to complement VaR in the management of traded market risk.

55. Risk management (continued)

55.4 Market risk (continued)

Traded market risk (continued)

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 **R51.12m** (2018: R47.65m) for the reporting period, which is a 7% increase on the prior year balance. This was principally due to an increase in risk positioning compounded by risk being adverse to historic market movements. In addition, the lack of volume across all markets created a challenging environment for the business to exit risk obtained through client facilitation.

	Bank							
	2019				2018			
	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	**37.58**	**57.51**	**25.66**	**35.84**	46.03	97.18	21.63	37.15
Foreign exchange risk	**15.99**	**49.55**	**5.36**	**5.36**	20.64	68.82	6.47	10.28
Equity risk	**30.97**	**78.64**	**15.52**	**31.25**	20.15	41.18	5.58	27.47
Commodity risk	**1.09**	**4.02**	**0.23**	**1.03**	1.00	2.94	0.34	0.80
Inflation risk	**6.80**	**22.70**	**3.00**	**6.32**	17.31	41.93	7.74	13.15
Credit spread risk	**5.01**	**8.91**	**3.39**	**4.17**	9.92	12.50	2.32	6.27
Diversification effect	**(46.32)**	**(136.55)**	**(16.81)**	**(38.08)**	(67.40)	(175.48)	(17.74)	(51.97)
Total DVaR[2]	**51.12**	**84.78**	**36.35**	**45.89**	28.31	52.66	16.52	31.59
Expected shortfall[2]	**65.96**	**118.83**	**39.46**	**51.50**	60.01	126.15	32.08	59.32
Regulatory VaR[3]	**51.12**	**84.78**	**36.35**	**45.89**	47.65	89.07	26.33	43.15
Regulatory sVaR[3]	**98.84**	**170.88**	**59.34**	**100.88**	86.60	191.68	48.49	64.14

Other market risks

The Bank maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Bank may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Bank policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises in the Wealth segment.

55.5 Treasury risk

Treasury risk comprises liquidity risk, capital risk and interest rate risk in the banking book.

- **Liquidity risk:** The risk that the Bank is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that the Bank has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- **Interest rate risk in the banking book (IRRBB):** The risk that the Bank is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

[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. Management revised the VaR confidence interval used for internal risk management purposes from 95% to 99% in April 2019 to align with regulatory reporting requirements. The prior year disclosure has been restated accordingly. For comparative purposes, 95% VaR was **R32.04m** for the reporting period (R31.59m December 2018).

[3] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. The sVaR period is subject to quarterly review for appropriateness.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.1 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events.

Liquidity risk is monitored at a Bank level under a single Bank framework. The Liquidity Risk Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite (LRA) set by the local Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Each geographic entity is required to be self-sustaining from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

Strategy

The Bank's liquidity risk management objectives are:

- manage the funding position and High Quality Liquid Asset (HQLA) position in line with Board-approved liquidity risk appetite framework and regulatory requirements;
- build and maintain adequate liquidity buffers to ensure the Bank remains continuously compliant with the liquidity coverage ratio and net stable funding ratio;
- grow and diversify the funding base to support asset growth and other strategic initiatives while optimising the funding cost;
- grow core Retail, Business Bank, Corporate and Public Sector deposits faster than wholesale funding;
- work with regulatory authorities and other stakeholders on resolution planning, and Deposit Insurance Scheme;
- manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- balance the above objectives against the long-term impacts on the Bank's cost of funding.

Approach

The efficient management of liquidity is essential for safeguarding the Bank's depositors, preserving market confidence and maintaining the Bank's brand. The Bank considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the Liquidity Risk Framework, which is designed to meet the following objectives:

- to maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the LRA as expressed by the Board;
- to maintain market confidence;
- to set limits to control liquidity risk within and across lines of business and legal entities;
- to set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- to maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

The Bank applies a three-step risk management process:

- **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

Stress and scenario testing

Under the Liquidity Framework, the Bank has established the liquidity risk appetite (LRA), which is the level of liquidity risk the Bank chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Bank undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the Contingency Funding Plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Bank's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.1 Liquidity risk (continued)

Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- the roles and responsibilities of senior management in a crisis situation;
- authorities for invoking the plan;
- communications and organisation;
- an analysis of a realistic range of market-wide and Bank-specific liquidity stress tests; and
- scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

The Bank maintains a range of early warning indicators (EWIs). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Bank CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Bank's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. The Bank continues to work with the regulator on recovery and resolution planning.

Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the 'on demand' time bucket at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	Bank					
	2019					
	Carrying value (excluding impairment losses on amortised cost instruments)					
Discounted maturity[1]	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	25 485	—	—	—	—	25 485
Investment securities	4 289	19 776	23 985	27 180	(0)	75 230
Loans and advances to banks	10 734	32 861	1 418	—	(20)	44 993
Trading and hedging portfolio assets[2]	110 925	191	2 346	817	—	114 279
Derivative assets	57 089	191	2 346	817	—	60 443
Non-derivative assets	53 836	—	—	—	—	53 836
Other financial assets	12 546	6 637	—	—	—	19 183
Loans and advances to customers	107 999	139 300	325 621	243 525	(22 063)	794 382
Non-current asset held for sale	3 685	—	—	—	—	3 685
Loans to group companies	27 774	11 096	11 098	653	(161)	50 460
Financial assets	303 437	209 861	364 468	272 175	(22 244)	1 127 697
Non-financial assets						32 128
Total assets						1 159 825
Liabilities						
Deposits from banks	28 903	71 851	18 638	85	—	119 477
Trading and hedging portfolio liabilities[2]	55 979	112	446	811	—	57 347
Derivative liabilities	45 577	112	446	811	—	46 946
Non-derivative liabilities	10 401	—	—	—	—	10 401
Other financial liabilities	21 633	5 232	—	—	—	26 865
Deposits due to customers	397 185	217 229	51 479	11 916	—	677 809
Debt securities in issue	1 036	81 147	62 630	12 790	—	157 603
Borrowed funds	—	4 360	12 779	4 143	—	21 282
Financial liabilities	504 736	379 931	145 972	29 745	—	1 060 383
Non-financial liabilities						8 117
Total liabilities						1 068 500
Equity						91 325
Total equity and liabilities						1 159 825
Net liquidity position of financial instruments	(201 299)	(170 070)	218 496	242 430	(22 244)	67 314

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in note 44.
[2] Includes hedging portfolio assets and liabilities, which was separately disclosed in the prior reporting period.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.1 Liquidity risk (continued)

	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	22 679	—	—	—	—	22 679
Investment securities	5 289	27 161	26 991	34 142	(7)	93 576
Loans and advances to banks	8 104	32 090	256	103	(20)	40 533
Trading and hedging portfolio assets[1]	99 968	513	727	1 167	—	102 375
Derivative assets	43 724	513	727	1 167	—	46 131
Non-derivative assets	56 244	—	—	—	—	56 244
Other financial assets	13 382	6 682	—	—	—	20 064
Loans and advances to customers	100 528	123 181	305 185	228 773	(22 467)	735 200
Non current asset held for sale	—	50	—	—	—	50
Loans to group companies	10 150	12 707	12 870	1 636	—	37 363
Financial assets	260 100	202 384	346 029	265 821	(22 494)	1 051 840
Non-financial assets						27 839
Total assets						1 079 679
Liabilities						
Deposits from banks	48 987	65 335	13 495	142	—	127 959
Trading and hegding portfolio liabilities[1]	46 280	143	569	630	—	47 622
Derivative liabilities	35 208	143	569	630	—	36 550
Non-derivative liabilities	11 072	—	—	—	—	11 072
Other financial liabilities	24 354	5 259	—	—	—	29 613
Deposits due to customers	375 589	181 793	44 163	4 102	—	605 647
Debt securities in issue	1 557	86 786	60 173	11 526	—	160 042
Borrowed funds	—	3	17 009	3 040	—	20 052
Financial liabilities	496 767	339 320	135 409	19 440	—	990 936
Non-financial liabilities						5 057
Total liabilities						995 993
Equity						83 686
Total equity and liabilities						1 079 679
Net liquidity position of financial instruments	(236 667)	(136 936)	210 620	246 381	(22 494)	60 904

[1] Includes hedging portfolio assets and liabilities, which was separately disclosed in prior reporting period.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.1 Liquidity risk (continued)

Bank

Undiscounted maturity[1] (statement of financial position value with impact of future interest)	2019 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	28 903	72 765	21 771	140	(4 102)	119 477
Trading and hedging portfolio liabilities	55 979	116	557	1 484	(788)	57 347
Derivative liabilities	45 577	116	557	1 484	(788)	46 946
Non-derivative liabilities	10 401	—	—	—	—	10 401
Other financial liabilities	21 633	5 246	—	—	(14)	26 865
Deposits due to customers	397 185	221 356	63 544	24 364	(28 640)	677 809
Debt securities in issue	1 036	83 894	77 328	23 250	(27 905)	157 603
Borrowed funds	—	4 449	16 114	8 708	(7 989)	21 282
Financial liabilities	504 736	387 826	179 314	57 946	(69 438)	1 060 383
Non-financial liabilities						8 117
Total liabilities						1 068 500
Off-statement of financial position						
Financial guarantee contracts	38 811	—	—	—	—	38 811
Loan commitments	114 859	66 353	—	—	—	181 212

Undiscounted maturity (statement of financial position value with impact of future interest)	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	48 987	66 158	16 435	262	(3 883)	127 959
Trading and hedging portfolio liabilities[2]	46 280	146	774	1 289	(866)	47 623
Derivative liabilities	35 208	146	774	1 289	(866)	36 551
Non-derivative liabilities	11 072	—	—	—	—	11 072
Other financial liabilities	24 354	5 273	—	—	(14)	29 613
Deposits due to customers	375 589	186 330	57 399	9 559	(23 230)	605 647
Debt securities in issue	1 557	90 374	76 937	23 458	(32 284)	160 042
Borrowed funds	—	3	21 161	5 334	(6 446)	20 052
Financial liabilities	496 767	348 138	173 275	38 613	(65 857)	990 936
Non-financial liabilities						5 057
Total liabilities						995 993
Off-statement of financial position						
Financial guarantee contracts	34 479	—	—	—	—	34 479
Loan commitments	99 968	66 230	—	—	—	166 198

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in note 44.

[2] Includes hedging portfolio assets and liabilities, which was separately disclosed in prior reporting period.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.2 Capital management

Capital risk is the risk that the Bank has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

The Bank's capital management strategy, which is in line with and in support of the Bank's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Bank's risk appetite.

The Bank's capital management priorities are to:

- Maintain an optimal mix of high quality capital while continuing to generate sufficient capital to support profitable growth and a sustainable dividend.
- Continue to manage the capital position of the Bank and its subsidiaries, throughout the period of the separation from Barclays PLC.
- Continuously monitor and assess regulatory developments that may affect the capital position, such as: the standard entitled Basel III: Finalising post-crisis reforms published by the Basel Committee on Banking Supervision in December 2017 and the proposed amendments to the regulations relating to Banks.
- Contribute at an industry level to the development of a financial conglomerate supervisory framework in South Africa by providing comment on the publication of an amendment to the Financial Sector Regulation Act (FSRA) by the National Treasury in September 2018, for public comment, which outlined the requirements for the establishment of a resolution framework in South Africa.

Various processes play a role in ensuring that the Bank's capital management priorities are met, including:

- The Internal Capital Adequacy Assessment Process (ICAAP);
- Stress testing; and
- Recovery and resolution planning.

The capital management process in the Bank encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Rest of Africa). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Bank ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Bank's capital target ranges for the current reporting period were set after considering the following:

- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and its impact on the integrated plan, including the capital position of the Bank;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis.

Capital adequacy ratios (unaudited)

Bank	2019[1]	2018	2019 Board target ranges %	2019 Minimum regulatory capital requirements[2] %	2018 Board target ranges %	2018 Minimum regulatory capital requirements %
Statutory capital ratios (includes unappropriated profits) (%)						
Common Equity Tier 1	**11.9**	12.3	**11.0-12.0**		10.0 – 11.5	7.4
Tier 1	**13.1**	13.1	**12.0-13.0**		11.75 – 13.25	8.9
Total	**16.7**	16.5	**14.5-15.5**		14.25 – 15.75	11.1
Capital supply and demand for the reporting period (Rm)						
Qualifying capital	**97 787**	93 842				
Total RWA	**601 900**	569 503				

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 Bank complied in full with all externally imposed capital requirements (2018: the same).

[1] Includes the contribution amounts received from Barclays PLC as part of the separation.

[2] The 2018 minimum regulatory capital requirements of 11.5% (2018: 11.13%) include the capital conservation buffer which is phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.3 Interest rate risk in banking book (IRRBB)

Approach

IRRBB is the risk that the Bank's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Bank.

The Bank's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to local treasury or 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 Rest of Africa treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.

Key assumptions

Embedded optionality risk may also give rise to IRRBB:

- Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Bank is unable to collect full market-related compensation. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- Recruitment risk arises when the Bank commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Processes are in place to enable robust management of these additional forms of IRRBB.

Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

Re-pricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

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 Absa Regional Operations is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Absa Regional Operations and is monitored against formal internal limits.

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.3 Interest rate risk in banking book (IRRBB) (continued)

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics (position and sensitivity limits), as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily for Bank Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Bank Treasury.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Bank's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Re-pricing profile

The re-pricing profile of the Bank's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

	Bank			
	2019			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Banking book[1]				
Interest rate sensitivity gap	186 385	(31 703)	(50 187)	(21 713)
Derivatives[2]	(80 011)	14 485	4 221	61 305
Net interest rate sensitivity gap	106 374	(17 218)	(45 966)	39 592
Cumulative interest rate gap	106 374	89 156	43 190	82 782
Cumulative gap as a percentage of the Bank's total assets (%)	9.2	7.8	3.8	7.2

	2018			
Expected repricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Banking 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 the Bank's total assets (%)	3.3	3.7	4.0	7.7

Impact on earnings

The following table shows the impact on AEaR/NII sensitivity for 100 and 200 bps up and down movements in market interest rates for the Bank's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R3.17bn** (2018: R2.15bn). A similar increase would result in an increase in projected 12-month net interest income of **R2.92bn** (2018: R1.88bn). AEaR increased from 6.9% to 10% of the Bank's net interest income.

[1] Includes exposures held in the CIB banking book.
[2] Derivatives for interest rate risk management purposes (net nominal value).

55. Risk management (continued)

55.5 Treasury risk (continued)

55.5.3 Interest rate risk in banking book (IRRBB) (continued)

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Bank			
	2019 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	**(3 171)**	**(1 415)**	**1 467**	**2 928**
Percentage of the Bank's net interest income (%)	**(10.1)**	**(4.5)**	**4.7**	**9.3**
Percentage of the Bank's equity (%)	**(3.6)**	**(1.6)**	**1.7**	**3.3**
	2018 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(2 148)	(912.0)	947.0	1 884
Percentage of the Bank's net interest income (%)	(6.9)	(2.9)	3.1	6.1
Percentage of the Bank's equity (%)	(2.5)	(1.1)	1.1	2.2

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower available-for-sale reserves reflecting higher or lower fair values of available-for-sale financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and available-for-sale portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate available-for-sale financial assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the available-for-sale reserves is mainly due to the increase in the net directional risk.

Sensitivity of reserves to market interest rate movements

	Bank					
	2019			2018		
	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						
Available-for-sale reserve	**(254)**	**(465)**	**(222)**	(365)	(604)	(282)
Cash flow hedging reserve	**(2 056)**	**(2 288)**	**(1 992)**	(2 030)	(2 130)	(1 928)
	(2 310)	**(2 753)**	**(2 214)**	(2 396)	(2 688)	(2 291)
As a percentage of Bank equity (%)	**(2.6)**	**(3.0)**	**(2.4)**	(2.8)	(3.2)	(2.7)

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.

55. Risk management (continued)

55.6 Foreign exchange risk

The Bank is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Bank's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Bank's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The bank has a **Rnil** carrying value (2018: Rnil) of foreign currency net investments.

56. Going concern

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

57. Events after the reporting period

The Bank has announced the appointment of Daniel Mminele as its new Group Chief Executive, effective 15 January 2020.

Absa Bank Limited entered into an agreement in October 2019 to sell its Edcon loan book. The conditions precedent to this sale were fulfilled in January 2020, with the effective date of the transfer being 1 February 2020.

The estimates and judgements applied to determine the financial position at 31 December 2019 have been included in note 1.2. The estimates applied, most specifically as they relate to the calculation of impairment of loans and advances, were based on a range of forecast economic conditions as at that date. The outbreak of coronavirus has resulted in disruption to business activity globally and recent market volatility, since mid-January 2020. The impact of the coronavirus will be closely monitored and assessed for its impact on the business.

Apart from the above, the directors are not aware of any other events (as defined by IAS 10 Events after the Reporting Period), after the reporting date of 31 December 2019 and the date of authorisation of these audited consolidated financial results.

58. Directors' and prescribed officers' remuneration

As a subsidiary of the Group, the Bank is governed by the Absa Group Remuneration Committee (RemCo).

The RemCo's mandate includes ensuring that the remuneration policy and related practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Bank strives to promote remuneration practices that foster sustainable high performance and accordingly, the Bank rewards both short and longer term performance. All elements of remuneration are benchmarked against the relevant markets, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures rigorous focus on business imperatives including, importantly, financial performance. The outcomes of this are a primary input to variable remuneration decisions. Risk management is carefully considered.

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58. Directors' and prescribed officers' remuneration (continued)

Tables for 2019 total awarded remuneration

Executive directors	René van Wyk[3] 2019 R	René van Wyk[3] 2018 R	Maria Ramos[4] 2019 R	Maria Ramos[4] 2018 R
Salary	9 166 667	—	1 606 548	8 607 951
Role-based pay	—	—	—	4 875 000
Medical aid	—	—	21 036	115 788
Retirement benefits	—	—	25 482	166 486
Other employee benefits	—	—	2 130 211	49 210
Total fixed remuneration	9 166 667	—	3 783 277	13 814 435
Non-deferred cash award	6 000 000	—	—	7 950 000
Deferred cash award[1]	—	—	—	3 975 000
Deferred share award[1]	—	—	—	3 975 000
Total short-term incentive[2]	6 000 000	—	—	15 900 000
Face value of long-term incentive award (on-target award)[2]	—	—	—	—
Total awarded remuneration[2]	15 166 667	—	3 783 277	29 714 435

Prescribed officers	Nomkhita Nqweni[6] 2019 R	Nomkhita Nqweni[6] 2018 R	Arrie Rautenbach[7] 2019 R	Arrie Rautenbach[7] 2018 R
Salary	—	4 847 120	6 465 313	3 709 282
Role-based pay	—	1 875 000	—	1 194 444
Medical aid	—	59 064	144 288	96 337
Retirement benefits	—	225 143	157 676	120 632
Other employee benefits	—	46 765	492 096	335 929
Total fixed remuneration	—	7 053 092	7 259 373	5 456 624
Non-deferred cash award	—	3 000 000	5 500 000	5 652 500
Deferred cash award[1]	—	1 500 000	—	2 826 250
Deferred share award[1]	—	1 500 000	5 500 000	2 826 250
Total short-term incentive[2]	—	6 000 000	11 000 000	11 305 000
Face value of long-term incentive award (on-target award)[2]	—	8 000 000	12 000 000	10 250 000
Total awarded remuneration[2]	—	21 053 092	30 259 373	27 011 624

Board appointment dates and contract terms

Maria Ramos was appointed to the Board on 1 March 2009 and retired on 28 February 2019. Jason Quinn was appointed to the Board on 1 September 2016. 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 and ceased as a prescribed officer on 31 December 2018. 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. All executive directors and prescribed officers have a notice period of six months.

Daniel Mminele will receive a long-term incentive award, effective 1 April 2020, of R15 000 000 (which is the on-target value of award), and which will be subject to the relevant Group performance targets over the period 2020 – 2022.

1 At the time of publication in 2018, the split of the deferred awards was applied on a 50%:50% basis between cash and shares. Peter Matlare, Arrie Rautenbach and Mike Harvey subsequently elected to receive 100% of their deferral in Absa shares and this is reflected in the "Outstanding share-based and long-term incentive" table below. All deferral in respect of the short-term incentive award made for 2019 performance will only be in shares, with no cash election. Deferred awards disclosed in 2019 will be granted in April 2020. Deferred awards disclosed in 2018 were granted in March 2019.

2 The structure of the remuneration table has been changed in the current year (with appropriate comparatives disclosed) to provide a sub-total for "Total short-term incentives" (previously disclosed as "variable remuneration"), and to include the "Face value of long-term incentive award (on target award)" and a new total "Total awarded remuneration". Short-term incentives are not defined as incentives that are settled in the next 12 months after reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's remuneration policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period (three years). In contrast to this, the long-term incentives relate to awards which have future Group performance criteria that will determine the final vesting outcome, in addition to a continued service condition. Total awarded remuneration disclosed in 2019 includes the fixed remuneration paid during 2019, the total short-term incentive in respect of 2019 performance (with cash payment in March 2020 and the deferred award to be granted in April 2020) and the face value of the long-term incentive to be granted in April 2020. Amounts disclosed in 2018 follow the same principle, in respect of the prior reporting year. This is in line with the Remuneration Committee's decision-making approach.

3 René van Wyk was appointed as an executive director on 1 February 2019, and as Group Chief Executive on 1 March 2019. The remuneration received as a non-executive director from 1 January to 31 January 2019 is set out in the table on non-executive directors' remuneration.

David Hodnett[5]		Jason Quinn		Total	
2019 R	2018 R	2019 R	2018 R	2019 R	2018 R
—	2 481 271	**5 428 393**	5 269 074	**16 201 608**	16 358 296
—	1 868 280	**—**	—	**—**	6 743 280
—	55 658	**106 812**	98 436	**127 848**	269 882
—	66 993	**417 706**	418 519	**443 188**	651 998
—	1 904 475	**56 402**	40 321	**2 186 613**	1 994 006
—	6 376 677	**6 009 313**	5 826 350	**18 959 257**	26 017 462
—	—	**5 750 000**	5 898 000	**11 750 000**	13 848 000
—	—	**—**	2 949 000	**—**	6 924 000
—	—	**5 750 000**	2 949 000	**5 750 000**	6 924 000
—	—	**11 500 000**	11 796 000	**17 500 000**	27 696 000
—	—	**12 000 000**	10 000 000	**12 000 000**	10 000 000
—	6 376 677	**29 509 313**	27 622 350	**48 459 257**	63 713 462

Charles Russon[7]		Temi Ofong[6, 7]		Mike Harvey[6, 7]		Total	
2019 R	2018 R	2019 R	2018 R	2019 R	2018 R	2019 R	2018 R
5 611 628	874 952	—	2 295 879	—	2 493 695	**12 076 941**	14 220 928
—	—	—	1 433 333	—	1 433 333	**—**	5 936 110
180 432	25 751	—	38 649	—	83 581	**324 720**	303 382
160 851	25 007	—	95 207	—	95 168	**318 527**	561 157
56 402	5 615	—	183 152	—	17 257	**548 498**	588 718
6 009 313	931 325	—	4 046 220	—	4 123 034	**13 268 686**	21 610 295
4 175 000	4 178 000	—	5 160 750	—	5 160 750	**9 675 000**	23 152 000
—	2 089 000	—	2 580 375	—	2 580 375	**—**	11 576 000
4 175 000	2 089 000	—	2 580 375	—	2 580 375	**9 675 000**	11 576 000
8 350 000	8 356 000	—	10 321 500	—	10 321 500	**19 350 000**	46 304 000
9 150 000	7 000 000	—	6 300 000	—	6 300 000	**21 150 000**	37 850 000
23 509 313	16 287 325	—	20 667 720	—	20 744 534	**53 768 686**	105 764 295

[4] Maria Ramos retired from the Group effective 28 February 2019. Values for 2019 are inclusive of amounts to this date.

[5] David Hodnett resigned as a member of the Board and the Executive Committee effective 15 May 2018. He remained an employee of the Group until 28 February 2019, and his total pension contribution for 2019 was R26 840.

[6] Nomkhita Nqweni ceased to be a prescribed officer on 31 December 2018. She remained an employee of the Group until 31 October 2019, and her total pension contribution for 2019 was R197 548. Temi Ofong and Mike Harvey ceased to be prescribed officers on 31 October 2018 and their pension contributions were R162 024 and R162 086, respectively.

[7] Fixed remuneration amounts shown for Arrie Rautenbach, Charles Russon, Temi Ofong and Mike Harvey were pro-rated based on the term of directorship for 2018. Full year amounts for 2019 are shown for Arrie Rautenbach and Charles Russon.

58. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based and 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.

	2019			
	Number of shares under award at 1 January 2019	Number of shares/cash awarded during 2019	Share price on award R	Number of shares/cash released during 2019
Executive directors				
Maria Ramos[1]				
Share value plan 2016 – 2018[2]	18 772	—	—	—
Share value plan 2017 – 2019	18 998	—	—	—
Share value plan 2018 – 2020	22 822	—	—	—
Role-based pay March 2016	1 855	—	—	—
Role-based pay June 2016	1 863	—	—	—
Role-based pay September 2016	1 858	—	—	—
Role-based pay December 2016	1 705	—	—	—
Role-based pay March 2017	3 430	—	—	—
Role-based pay June 2017	3 726	—	—	—
Restricted award – Share value plan 2016	18 430	—	—	—
Restricted award – Share value plan 2017	56 893	—	—	—
Long-term incentive award 2017	165 870	—	—	—
Total	316 222	—		—
Jason Quinn[3]				
Share value plan 2016 – 2018	1 828	—	—	1 828
Share value plan 2017 – 2019	6 334	—	—	3 167
Share value plan 2018 – 2020	12 172	—	—	4 057
Share value plan 2019 – 2021	—	17 028	173.18	—
Restricted award – Share value plan 2016	6 911	—	—	6 911
Restricted award – Share value plan 2017	21 334	—	—	14 222
Long-term incentive award 2017	96 758	—	—	—
Long-term incentive award 2019	—	86 615	173.18	—
Total	145 337	103 643		30 185
Prescribed officers				
Arrie Rautenbach[4]				
Share value plan 2016 – 2018	7 264	—	—	7 264
Share value plan 2017 – 2019	11 399	—	—	5 700
Share value plan 2018 – 2020	27 388	—	—	9 130
Share value plan 2019 – 2021	—	32 638	173.18	—
Restricted award – Share value plan 2016	11 519	—	—	11 519
Restricted award – Share value plan 2017	35 558	—	—	23 705
Long-term incentive award 2017	103 669	—	—	—
Long-term incentive award 2019	—	88 780	173.18	—
Total	196 797	121 418		57 318
Charles Russon[5]				
Share value plan 2016 – 2018	6 852	—	—	6 852
Share value plan 2017 – 2019	10 132	—	—	5 066
Share value plan 2018 – 2020	24 344	—	—	8 114
Share value plan 2019 – 2021	—	12 062	173.18	—
Restricted award – Share value plan 2016	11 519	—	—	11 519
Restricted award – Share value plan 2017	35 558	—	—	23 705
Long-term incentive award 2017	93 302	—	—	—
Long-term incentive award 2019	—	60 630	173.18	—
Total	181 707	72 692		55 256

[1] Maria Ramos' outstanding share-based and long-term awards only includes transactions (awards and vestings) between 1 January 2019 and 28 February 2019 being the period during which she was an executive director of the Group. The closing balance is therefore as at 28 February 2019.
[2] The scheduled vesting date of 1 March 2019 rescheduled to 13 March 2019 due to the vesting date falling within a prohibited period.
[3] Jason Quinn's outstanding share-based and long-term awards includes awards received prior to being appointed as an executive director in 2016.
[4] Arrie Rautenbach's outstanding share-based and long-term awards include awards received prior to becoming a prescribed officer on 9 April 2018.
[5] Charles Russon's outstanding share-based and long-term awards includes awards received prior to becoming a prescribed officer on 5 November 2018.

2019					
Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed (forfeited) in 2019	Number of shares under award/option at 31 December 2019	Last scheduled vesting date
—	—	—	—	18 772	2019/03/13
—	—	—	—	18 998	2020/03/01
—	—	—	—	22 822	2021/03/01
—	—	—	—	1 855	2019/03/01
—	—	—	—	1 863	2019/06/01
—	—	—	—	1 858	2019/09/01
—	—	—	—	1 705	2019/12/01
—	—	—	—	3 430	2020/03/01
—	—	—	—	3 726	2020/06/01
—	—	—	—	18 430	2019/09/30
—	—	—	—	56 893	2020/09/30
—	—	—	—	165 870	2020/07/31
	—	—	—	316 222	
166.68	304 691	68 505	—	—	2019/03/13
166.68	527 876	75 173	—	3 167	2020/03/01
166.68	676 221	45 504	—	8 115	2021/03/01
—	—	—	—	17 028	2022/03/18
158.50	1 095 394	197 491	—	—	2019/09/30
158.50	2 254 187	321 438	—	7 112	2020/09/30
—	—	—	—	96 758	2020/07/31
—	—	—	—	86 615	2024/03/18
	4 858 369	708 111	—	218 795	
166.68	1 210 764	272 688	—	—	2019/03/13
166.68	950 076	135 511	—	5 699	2020/03/01
166.68	1 521 788	102 342	—	18 258	2021/03/01
—	—	—	—	32 638	2022/03/18
158.50	1 825 762	329 205	—	—	2019/09/30
158.50	3 757 243	535 730	—	11 853	2020/09/30
—	—	—	—	103 669	2020/07/31
—	—	—	—	88 780	2024/03/18
	9 265 633	1 375 476	—	260 897	
166.68	1 142 091	257 354	—	—	2019/03/13
166.68	844 401	120 510	—	5 066	2020/03/01
166.68	1 352 442	91 007	—	16 230	2021/03/01
—	—	—	—	12 062	2022/03/18
158.50	1 825 762	329 205	—	—	2019/09/30
158.50	3 757 243	535 730	—	11 853	2020/09/30
—	—	—	—	93 302	2020/07/31
—	—	—	—	60 630	2024/03/18
	8 921 939	1 333 806	—	199 143	

Notes to the consolidated financial statements

for the reporting period ended 31 December

58. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based and long-term incentives (continued)

	2018			
	Number of shares under award at 1 January 2018	Number of shares/cash awarded during 2018	Share price on award R	Number of shares/cash 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		—
Jason Quinn[3]				
Share value plan 2015 – 2017	1 586	—	—	1 586
Share value plan 2016 – 2018[1]	3 654	—	—	1 826
Share value plan 2017 – 2019[1]	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[1]	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

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 and long-term incentive includes awards until his resignation as an executive director on 15 May 2018.
3 Jason Quinn's share-based and long-term incentive includes awards received prior to being appointed as an aexecutive director in 2016.
4 Due to different vesting dates different share prices are used to calculate the value of the release.

2018					
Market price on release date[4] R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2018	Number of shares under award/option 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	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	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based and long-term incentives (continued)

	2018			
	Number of shares under award at 1 January 2018	Number of shares/cash awarded during 2018	Share price on award R	Number of shares/cash released during 2018
Prescribed officers				
Nomkhita Nqweni[1]				
Share value plan 2015 – 2017	2 538	—	—	2 538
Share value plan 2016 – 2018	14 524	—	—	7 260
Share value plan 2017 – 2019	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	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[2]				
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[3]				
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
Mike Harvey[4]				
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[4]				
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] Includes awards received prior to Nomkhita Nqweni becoming a prescribed officer on 1 October 2015.
[2] Arrie Rautenbach's outstanding share-based and long-term incentive includes the period he was a prescribed officer from 9 April to 31 December 2018.
[3] Charles Russon's outstanding share-based and long-term incentive includes the period he was a prescribed officer from 5 November to 31 December 2018.
[4] Mike Harvey and Temi Ofong's outstanding share-based and long-term incentive includes incentives for the period they were prescribed officers (9 April to 31 October 2018).
[5] Due to different vesting dates different share prices are used to calculate the value of the release.

2018					
Market price on release date[5] R	Value of release R	Value of dividend released R	Number of shares/options lapsed in 2018	Number of shares under award/option at 31 December 2018	Last scheduled vesting date
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	
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	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based awards (continued)

	2019				
	Value under award at 1 January 2019 R	Maximum potential value at 1 January 2019 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
Executive directors					
Maria Ramos[1]					
Cash value plan 2017 – 2019	3 000 000	3 450 000	—	—	—
Cash value plan 2018 – 2020	4 500 000	4 500 000	—	—	—
Total	7 500 000	7 950 000	—	—	—
Jason Quinn[2]					
Cash value plan 2016 – 2018	266 667	346 667	—	266 667	—
Cash value plan 2017 – 2019	1 000 000	1 150 000	—	500 000	—
Cash value plan 2018 – 2020	2 400 000	2 400 000	—	800 000	—
Cash value plan 2019 – 2021	—	—	2 949 000	—	—
Total	3 666 667	3 896 667	2 949 000	1 566 667	—
Prescribed officers					
Arrie Rautenbach[3]					
Cash value plan 2017 – 2019	1 800 000	2 070 000	—	900 000	—
Total	1 800 000	2 070 000	—	900 000	—
Charles Russon[4]					
Cash value plan 2017 – 2019	1 600 000	1 840 000	—	800 000	—
Cash value plan 2019 – 2021	—	—	2 089 000	—	—
Total	1 600 000	1 840 000	2 089 000	800 000	—

[1] Maria Ramos' outstanding cash-based awards only includes transactions (awards and vestings) between 1 January 2019 and 28 February 2019 being the period during which she was an executive director of the Group. The closing balance is therefore as at 28 February 2019.

[2] Jason Quinn's outstanding cash-based incentive awards includes awards prior to being appointed as executive director in 2016.

[3] Arrie Rautenbach's outstanding cash-based awards includes awards received prior to becoming a prescribed officer on 9 April 2018.

[4] Charles Russon's outstanding cash-based awards includes awards received prior to becoming a prescribed officer on 5 November 2018.

2019						
Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit lapsed/forfeited in the year R	Value under award at 31 December 2019 R	Maximum potential value at 31 December 2019 R	Last scheduled vesting date
—	—	—	450 000	3 000 000	3 000 000	2020/03/01
—	—	—	—	4 500 000	4 500 000	2021/03/01
—	—	—	450 000	7 500 000	7 500 000	
—	—	80 000	—	—	—	2019/03/01
—	—	—	—	500 000	650 000	2020/03/01
—	193 333	—	—	1 600 000	1 793 333	2021/03/01
—	294 900	—	—	2 949 000	3 243 900	2022/03/18
—	488 233	80 000	—	5 049 000	5 687 233	
—	—	—	—	900 000	1 170 000	2020/03/01
—	—	—	—	900 000	1 170 000	
—	—	—	—	800 000	1 040 000	2020/03/01
—	208 900	—	—	2 089 000	2 297 900	2022/03/18
—	208 900	—	—	2 889 000	3 337 900	

58. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based long-term awards (continued)

	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[1]	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	—
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[4]					
Cash value plan 2017 – 2019[1]	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] Jason Quinn's cash-based awards includes awards received prior to being appointed as an executive director in 2016.

[4] Nomkhita Nqweni and Arrie Rautenbach's outstanding cash-based awards includes 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 awards includes awards for the period they were prescribed officers from 9 April to 31 October 2018.

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	
—	—	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	

58. Directors' and prescribed officers' remuneration (continued)

Group Chairman and non-executive directors' fees

	2019					
			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]	660 368	1 658 364	120 934	—	—	**2 439 666**
Colin Beggs[2]	700 749	2 014 276	190 260	—	255 064	**3 160 349**
Mark Merson[1, 3]	661 702	1 490 412	120 934	—	424 047	**2 697 095**
Mohamed Husain	660 368	1 340 785	190 260	—	—	**2 191 413**
René van Wyk[4]	46 497	131 314	15 406	—	—	**193 217**
Wendy Lucas-Bull (Chairman)[5]	6 372 932	114 913	—	—	—	**6 487 845**
Total	9 102 616	6 750 064	637 794	—	679 111	**17 169 585**

	2018					
			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
Colin Beggs[2]	671 199	1 667 087	181 655	53 250	226 074	2 799 265
Mohamed Husain	612 075	1 171 753	181 655	—	—	1 965 483
Paul O'Flaherty[6]	462 668	1 214 701	150 844	—	—	1 828 213
René van Wyk	651 491	1 742 826	181 655	—	—	2 575 972
Tasneem Abdool-Samad[7]	573 318	246 970	29 205	639 525	—	1 489 018
Trevor Munday[8]	227 757	276 492	73 013	—	—	577 262
Wendy Lucas-Bull (Chairman)[5]	6 084 715	66 939	—	—	—	6 151 654
Total	9 283 223	6 386 768	798 027	692 775	226 074	17 386 867

[1] Alex Darko and Mark Merson joined the Absa Bank Board on 15 May 2019.

[2] Colin Beggs is a 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] Mark Merson is the Chairman of Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported in Other).

[4] René van Wyk changed his status from non-executive to executive director effective 1 February 2019.

[5] The fee applicable to Wendy Lucas-Bull, the Group Chairman, covers chairmanship of the Absa Group, Absa Bank and Absa Financial Services as well as the 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 sell-down which will remain in place until completion of the Separation which is anticipated to be June 2020).

[6] Paul O'Flaherty resigned from the Absa Bank Board effective 5 November 2018.

[7] Tasneem Abdool-Samad resigned from the Absa Bank Board on 31 January 2018 and joined the Group Board on 1 February 2018 and Group Compliance and Audit Committee on 1 April 2018. Within Absa Financial Services, she is the Chairman of the Audit Risk and Compliance Committee and is a member of the Board and Actuarial Committee

[8] Trevor Munday retired from the Absa Bank Board effective 15 May 2018.

[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).

Company financial statements

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Company statement of financial position

as at 31 December

	Note	Company 2019 Rm	2018 Rm
Assets			
Cash, cash balances and balances with central banks	2	**25 485**	22 679
Investment securities	3	**72 077**	90 904
Loans and advances to banks	4	**44 984**	40 527
Trading portfolio assets	5	**111 594**	101 278
Hedging portfolio assets	5	**3 355**	2 407
Other assets	6	**21 546**	22 232
Current tax assets		**1 197**	351
Non-current assets held for sale	7	**3 706**	50
Loans and advances to customers	8	**780 432**	725 220
Loans to group companies	9	**59 550**	48 008
Investments in associates and joint ventures	10	**217**	100
Subsidiaries	11	**109**	344
Property and equipment	12	**15 581**	13 600
Goodwill and intangible assets	13	**8 751**	7 134
Deferred tax assets	14	**1 482**	1 511
Total assets		**1 150 066**	1 076 345
Liabilities			
Deposits from banks	15	**119 477**	127 959
Trading portfolio liabilities	16	**55 965**	46 276
Hedging portfolio liabilities	16	**1 379**	1 343
Other liabilities	17	**30 930**	31 543
Provisions	18	**2 519**	2 590
Deposits due to customers	19	**678 580**	607 742
Debt securities in issue	20	**151 290**	158 063
Borrowed funds		**21 282**	20 052
Total liabilities		**1 061 422**	995 568
Equity			
Capital and reserves			
Attributable to equity holders:			
Ordinary share capital	21	**304**	304
Ordinary share premium	21	**36 880**	36 880
Preference share capital	21	**1**	1
Preference share premium	21	**4 643**	4 643
Additional Tier 1 capital	21	**5 795**	2 741
Retained earnings	22	**37 934**	33 605
Other reserves	22	**3 087**	2 603
Total equity		**88 644**	80 777
Total liabilities and equity		**1 150 066**	1 076 345

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2019 Rm	Company 2018 Rm
Net interest income		**31 413**	29 556
Interest and similar income	23	**80 534**	73 161
Effective interest income		**79 136**	71 830
Other interest income		**1 398**	1 331
Interest expense and similar charges[1]	24	**(49 121)**	(43 605)
Non-interest income		**21 526**	21 729
Net fee and commission income		**18 941**	18 409
Fee and commission income	25	**20 541**	19 698
Fee and commission expense	25	**(1 600)**	(1 289)
Gains and losses from banking and trading activities	26	**1 484**	3 177
Gains and losses from investment activities	27	**3**	1
Other operating income	28	**1 098**	142
Total income		**52 939**	51 285
Impairment losses	29	**(6 029)**	(5 079)
Operating income before operating expenses		**46 910**	46 206
Operating expenses	30	**(34 992)**	(34 237)
Other expenses		**(1 508)**	(1 574)
Other impairments	31	**(372)**	(429)
Indirect taxation	32	**(1 136)**	(1 145)
Operating profit before income tax		**10 410**	10 395
Taxation expense	33	**(2 283)**	(2 399)
Profit for the reporting period		**8 127**	7 996
Profit attributable to:			
Ordinary equity holders		**7 340**	7 455
Preference equity holders		**352**	351
Additional Tier 1 capital		**435**	190
		8 127	7 996
Earnings per share:			
Basic earnings per share (cents)	34	**1 637.3**	1 663.0
Diluted earnings per share (cents)	34	**1 637.3**	1 663.0

[1] The Company has elected to change its accounting policy to no longer present other interest expense and similar charges separately from interest expense calculated using the effective interest method. This results in more relevant information as in this manner the Company achieves consistency with its peers. This does not impact the prior reporting period's results, as total other interest expense and similar charges was Rnil.

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2019 Rm	Company 2018 Rm
Profit for the reporting period		**8 127**	7 996
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(59)**	(10)
Fair value (losses)/gains on equity instruments measured at FVOCI		**9**	20
Fair value gains		**11**	28
Deferred tax		**(2)**	(8)
Movement of liabilities designated at FVTPL due to changes in own credit risk		**(44)**	(13)
Fair value losses		**(61)**	(71)
Deferred tax		**17**	58
Movement in retirement benefit fund assets and liabilities		**(24)**	(17)
Decrease in retirement benefit surplus		**(34)**	(24)
Deferred tax	14	**10**	7
Items that are or may be subsequently reclassified to profit or loss		**446**	(235)
Movement in cash flow hedging reserve		**916**	(247)
Fair value gains		**2 078**	207
Amount removed from other comprehensive income and recognised in profit or loss		**(806)**	(550)
Deferred tax		**(356)**	96
Movement in fair value of debt instruments measured at FVOCI		**(470)**	12
Fair value gains/(losses)		**(634)**	27
Release to profit or loss		**(20)**	(9)
Deferred tax	14	**184**	(6)
Total comprehensive income for the reporting period		**8 514**	7 751
Total comprehensive income attributable to:			
Ordinary equity holders		**7 727**	7 210
Preference equity holders		**352**	351
Additional Tier 1 capital		**435**	190
		8 514	7 751

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Company statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the end of the previous reporting period	**448 301**	**304**	**36 880**	**1**	**4 643**
Impact of adopting new accounting standards at 1 January 2019					
IFRS 16	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	**448 301**	**304**	**36 880**	**1**	**4 643**
Total comprehensive income	—	—	—	—	352
Profit for the period	—	—	—	—	352
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(352)
Distributions paid during the reporting period	—	—	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Intercompany recharge	—	—	—	—	—
Value of employee services	—	—	—	—	—
Deferred tax	—	—	—	—	—
Balance at the end of the reporting period	**448 301**	**304**	**36 880**	**1**	**4 643**
Note	21	21	21	21	21

Company statement of changes in equity

for the reporting period ended 31 December

Company

2019

Additional Tier 1 capital Rm	Retained earnings Rm	Total other reserves Rm	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
2 741	33 605	2 603	(15)	403	1 422	793	80 777
—	(198)	—	—	—	—	—	(198)
2 741	33 407	2 603	(15)	403	1 422	793	80 579
435	7 280	447	(469)	916	—	—	8 514
435	7 340	—	—	—	—	—	8 127
—	(60)	447	(469)	916	—	—	387
—	(2 500)	—	—	—	—	—	(2 852)
(435)	—	—	—	—	—	—	(435)
3 054	—	—	—	—	—	—	3 054
—	(253)	—	—	—	—	—	(253)
—	—	37	—	—	—	37	37
—	—	(372)	—	—	—	(372)	(372)
—	—	429	—	—	—	429	429
—	—	(20)	—	—	—	(20)	(20)
5 795	37 934	3 087	(484)	1 319	1 422	830	88 644
21			22	22	22	22	

Company statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Preference share capital Rm	Preference share premium Rm
Balance at the end of the previous reporting period	448 301	304	36 880	1	4 643
IFRS 9	—	—	—	—	—
IFRS 15	—	—	—	—	—
Adjusted balance at the beginning of the reporting period	448 301	304	36 880	1	4 643
Total comprehensive income	—	—	—	—	351
Profit for the period	—	—	—	—	351
Other comprehensive income	—	—	—	—	—
Dividends paid during the reporting period	—	—	—	—	(351)
Distributions paid during the reporting period	—	—	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	—	—	—
Movement in share-based payment reserve	—	—	—	—	—
Transfer from share-based payment reserve	—	—	—	—	—
Value of employee services	—	—	—	—	—
Deferred tax	—	—	—	—	—
Balance at the end of the reporting period	448 301	304	36 880	1	4 643
Note	21	21	21	21	21

Company statement of changes in equity

for the reporting period ended 31 December

2018

Additional Tier 1 capital Rm	Retained earnings Rm	Total other reserves Rm	Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Capital reserve Rm	Share-based payment reserve Rm	Total equity Rm
1 500	35 950	2 908	85	650	1 422	751	82 186
—	(3 852)	(132)	(132)	—	—	—	(3 984)
—	(44)	—	—	—	—	—	(44)
1 500	32 053	2 776	(47)	650	1 422	751	78 157
190	7 425	(215)	32	(247)	—	—	7 751
190	7 455	—	—	—	—	—	7 996
—	(30)	(215)	32	(247)	—	—	(245)
—	(5 700)	—	—	—	—	—	(6 051)
(190)	—	—	—	—	—	—	(190)
1 241	—	—	—	—	—	—	1 241
—	(173)	—	—	—	—	—	(173)
—	—	42	—	—	—	42	42
—	—	(429)	—	—	—	(429)	(429)
—	—	497	—	—	—	497	497
—	—	(26)	—	—	—	(26)	(26)
2 741	33 605	2 603	(15)	403	1 422	793	80 777
21			22	22	22	22	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2019 Rm	2018 Rm
Cash flow from operating activities			
Interest received		**79 265**	72 038
Interest paid		**(46 032)**	(39 538)
Fees and commission received		**20 541**	19 698
Fees and commission paid		**(1 600)**	(1 289)
Net trading and other income/(expenses)		**2 422**	1 272
Cash payments to employees and suppliers		**(30 504)**	(32 645)
Dividends received from banking and trading activities		**110**	69
Income taxes paid		**(3 043)**	(3 122)
Cash flow from operating activities before changes in operating assets and liabilities		**21 159**	16 483
Net (increase)/decrease in trading and hedging portfolio assets		**(11 290)**	1 318
Net increase in loans and advances to customers		**(67 332)**	(78 972)
Net decrease/(increase) in investment securities		**18 202**	(15 515)
Net increase in other assets		**(14 456)**	(1 669)
Net increase/(decrease) in trading and hedging portfolio liabilities		**10 740**	(13 245)
Net increase in amounts due to customers and banks		**58 821**	72 264
Net (decrease)/increase in other liabilities		**(10 401)**	26 518
Net cash generated from operating activities		**5 443**	7 182
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		**50**	—
Purchase of property and equipment	12	**(2 617)**	(2 637)
Proceeds from disposal of properties and equipment		**169**	139
Purchase of intangible assets		**(2 881)**	(4 031)
Investments in associates and joint ventures		**(117)**	—
Dividends received from investing activities		**3**	2
Disposal of subsidiaries, net of cash		**182**	198
Net cash utilised in investing activities		**(5 211)**	(6 329)
Cash flow from financing activities			
Purchase of Group shares in respect of equity-settled share-based payment schemes		**(253)**	(172)
Issue of Additional Tier 1 capital		**3 054**	1 241
Distributions paid to Tier 1 capital holders		**(435)**	(190)
Proceeds from borrowed funds		**1 580**	6 432
Repayment of borrowed funds		**(500)**	(3 195)
IFRS 16 lease liability		**(938)**	—
Dividends paid		**(2 852)**	(6 051)
Net cash generated from/(utilised in) financing activities		**(344)**	(1 935)
Net (decrease) in cash and cash equivalents		**(112)**	(1 082)
Cash and cash equivalents at the beginning of the reporting period		**9 958**	11 040
Cash and cash equivalents at the end of the reporting period	41	**9 846**	9 958

1. Accounting policies

The financial statements of Absa Bank Limited (the Company) are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Bank. For detailed accounting policies and the effects of adopting IFRS 16 refer to the Bank's financial statements.

	Company	
	2019 Rm	2018 Rm
2. Cash, cash balances and balances with central banks		
Balances with the SARB	**16 587**	13 108
Coins and bank notes	**8 898**	9 571
	25 485	22 679

The minimum reserve balance to be held in cash with the SARB is calculated under the provision of Regulation 27 and cannot be utilised in the normal course of business. 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 from the fifteenth business day of the month, up to and including the fourteenth business day of the following month based on the latest BA 310 return submitted to the SARB.

	Company	
	2019 Rm	2018 Rm
3. Investment securities		
Government bonds	**36 078**	43 445
Listed equity instruments	**115**	111
Other debt securities	**18 696**	20 250
Treasury bills	**16 638**	26 570
Unlisted equity and hybrid instruments	**550**	530
Gross investment securities	**72 077**	90 906
Impairment losses	**(0)**	(2)
	72 077	90 904

Government bonds of **R4 673m** (2018: R10 152m) which relate to repurchase agreements have been pledged with the SARB and other central banks.

Impairment losses relate to expected credit losses raised on investment securities held at amortised cost. Expected credit losses of **R6m** (2018: R34.4m) has been recognised on investment securities at FVOCI.

	Company	
	2019 Rm	2018 Rm
4. Loans and advances to banks		
Gross loans and advances to banks	**45 004**	40 547
Impairment losses	**(20)**	(20)
	44 984	40 527

Included above are reverse repurchase agreements of **R26 783m** (2018: R16 342m) and other collateralised loans of **R372m** (2018: R1 505m) relating to securities borrowed.

	Company 2019 Rm	2018 Rm
5. Trading and hedging portfolio assets		
Commodities	**668**	1 304
Debt instruments	**41 727**	44 238
Derivative assets (refer to note 47)	**57 080**	43 720
Commodity derivatives	**302**	1 487
Credit derivatives	**155**	173
Equity derivatives	**5 490**	5 380
Foreign exchange derivatives	**12 611**	8 006
Interest rate derivatives	**38 522**	28 674
Equity instruments	**530**	543
Money market assets	**11 589**	11 473
Total trading portfolio assets	**111 594**	101 278
Hedging portfolio assets (refer to note 47)	**3 355**	2 407
	114 949	103 685

Trading portfolio assets with carrying values of **R18 719m** (2018: R42 705m) and **R4 381m** (2018: R3 434m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

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

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

	Company 2019 Rm	2018 Rm
6. Other assets		
Accounts receivable and prepayments	**8 614**	8 474
Deferred costs	**181**	165
Inventories	**25**	2
Cost	**25**	3
Write-down	**—**	(1)
Retirement benefit fund surplus (refer to note 48)	**466**	466
Settlement accounts	**12 260**	13 125
Gross other assets	**21 546**	22 232
Impairment losses	**0**	0
	21 546	22 232

	Company 2019 Rm	2018 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	**50**	—
Disposals	**(50)**	—
Transfer from loans and advances to customers	**3 685**	—
Transfer from property and equipment (refer to note 12)	**21**	50
Balance at the end of the reporting period	**3 706**	50

The following movements in non-current assets occurred during the current financial reporting period:

- Retail and Business Banking South Africa transferred a loan book with a carrying amount of **R3 685m** to non-current assets held for sale.
- Head Office, Treasury and other operations in South Africa disposed of property and equipment with a carrying amount of **R50m.**
- Head Office, Treasury and other operations in South Africa transferred property and equipment with a carrying amount of **R21m** to non-current assets held for sale.

The following movement in non-current assets occurred during the prior reporting period:

- Head Office, Treasury and other operations in South Africa transferred property and equipment with a carrying amount of R50m to non-current assets held for sale.

	Company 2019 Rm	Company 2018 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**11 920**	12 770
Credit cards	**32 866**	31 577
Foreign currency loans	**39 075**	36 462
Instalment credit agreements included finance lease receivables[1]	**90 171**	82 054
Loans to associates and joint ventures (refer to note 41.5 of the Bank's financial statements)	**28 490**	28 259
Microloans	**4 595**	3 970
Mortgages	**306 974**	287 854
Other advances	**11 757**	11 276
Overdrafts	**50 035**	50 648
Overnight finance	**19 717**	19 486
Personal and term loans	**47 481**	38 959
Preference shares	**20 627**	20 007
Reverse repurchase agreements (carries)	**43 222**	29 414
Wholesale overdrafts	**95 501**	94 633
Gross loans and advances to customers	**802 431**	747 369
Impairment losses	**(21 999)**	(22 149)
	780 432	725 220

Included above are collateralised loans of **R1 404m** (2018: R888m) relating to securities borrowed.

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

Other advances include working capital solutions and collateralised loans.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R3 267m** (2018: R3 884m).

	Company 2019 Rm	Company 2018 Rm
9. Loans to group companies		
Gross loans to group companies	**59 711**	48 273
Impairment losses	**(161)**	(265)
	59 550	48 008

	Company 2019 Rm	Company 2018 Rm
10. Investments in associates and joint ventures		
Unlisted investments	**217**	100
10.1 Movement in carrying value of associates and joint ventures		
Balance at the beginning of the reporting period	**100**	100
Additional contribution	**117**	—
Balance at the end of the reporting period	**217**	100

	Company 2019 Rm	Company 2018 Rm
11. Subsidiaries		
Shares at cost	**109**	344
	109	344

The decrease in shares at cost is due to the deregistration of a subsidiary.

Refer to note 41.3 of the Bank's financial statements for the list of significant subsidiaries.

[1] In the prior year, detailed disclosures were provided for instalment credit agreements and finance lease receivables. These disclosures are only required for finance lease receivables. The Company's finance lease receivables are deemed to be insignificant and therefore the disclosures have no longer been presented.

	Company					
	2019			2018		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying value Rm
12. Property and equipment						
Computer equipment	7 847	(4 701)	3 146	8 052	(4 648)	3 404
Freehold property	5 542	(413)	5 129	5 593	(367)	5 226
Furniture and other equipment	8 713	(3 931)	4 782	8 253	(3 283)	4 970
Motor vehicles	4	(2)	2	2	(2)	—
Right-of-use-assets	3 412	(890)	2 522	—	—	—
	25 518	(9 937)	15 581	21 900	(8 300)	13 600

Company 2019 — Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfers to intangibles Rm	Transfers to non-current assets held for sale Rm	Depre-ciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	3 404	1 013	(94)	1	—	—	(1 106)	(72)	3 146
Freehold property	5 226	743	(69)	(679)	—	(21)	(7)	(64)	5 129
Furniture and other equipment	4 970	158	(4)	678	—	—	(969)	(51)	4 782
Motor vehicles	—	2	—	—	—	—	—	—	2
Right-of-use-assets	—	3 412	—	—	—	—	(880)	(10)	2 522
	13 600	5 328	(167)	—	—	(21)	(2 962)	(197)	15 581
Note							30	31	

2018 — Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfers[1] Rm	Transfers to intangibles Rm	Transfers to non-current assets held for sale Rm	Depre-ciation Rm	Impairment charge Rm	Closing balance Rm
Computer equipment	3 533	1 150	(129)	27	2	—	(1 092)	(87)	3 404
Freehold property	5 747	1 205	(2)	(1 499)	—	(24)	(19)	(182)	5 226
Furniture and other equipment	4 231	282	(25)	1 472	—	(26)	(835)	(129)	4 970
	13 511	2 637	(156)	—	2	(50)	(1 946)	(398)	13 600
Note							30	31	

Included in the above additions is **R722m** (2018: R1 155m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R679m (2018: R1 499m) of assets under construction relating to computer equipment and furniture and other equipment was brought in to use during the reporting period. **R8m** (2018: R340m) of assets under construction relating to freehold property was brought in to use during the reporting period.

R21m (2018: R50m) of certain property and equipment was transferred to non-current assets held for sale due to a change in the use of the assets.

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

[1] An amount of **R679m** (2018: R1 499m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R1m** (2018: R27m) and 'Furniture and other equipment' **R678m** (2018: R1 472m) in accordance with the nature of these assets.

	Company					
	2019			2018		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying amount Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying amount Rm
13. Goodwill and intangible assets						
Computer software development costs	**10 897**	**(2 175)**	**8 722**	10 608	(3 510)	7 098
Customer lists and relationships	**410**	**(410)**	**—**	410	(410)	—
Other	**70**	**(41)**	**29**	123	(87)	36
	11 377	**(2 626)**	**8 751**	11 141	(4 007)	7 134

	Company					
	2019					
Reconciliation of intangible assets	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	**7 098**	**2 881**	**(1 136)**	**(121)**	**—**	**8 722**
Other	**36**	**—**	**(7)**	**—**	**—**	**29**
	7 134	**2 881**	**(1 143)**	**(121)**	**—**	**8 751**
Note			30	31		

	2018					
Reconciliation of intangible assets	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
Computer software development costs	3 696	4 031	(639)	(1)	11	7 098
Other	54	—	(7)	—	(11)	36
	3 750	4 031	(646)	(1)	—	7 134
Note			30	31		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R5 016m** (2018: R5 743m) relating to assets under construction.

R3 075m (2018: R994m) of assets under construction relating to computer software was brought into use during the reporting period.

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

	Company 2019 Rm	Company 2018 Rm
14. Deferred tax		
14.1 Reconciliation of net deferred tax (asset)/liability		
Balance at the beginning of the reporting period	(1 511)	373
Effects of adoption IFRS 16	(77)	—
Effects of adoption IFRS 9	—	(1 436)
Deferred tax on amounts charged directly to other comprehensive income and equity	168	(121)
Charge to profit or loss (refer to note 34)	(106)	(322)
Tax effect of translation and other differences	44	(5)
Balance at the end of the reporting period	(1 482)	(1 511)
Deferred tax (asset)/liability		
Tax effects of temporary differences between tax and book value for:		
Deferred tax asset	(1 482)	(1 511)
Prepayments, accruals and other provisions	(313)	(419)
Capital allowances	1 080	1 132
Property allowances	208	188
Cash flow hedge and financial assets at fair value through other comprehensive income	236	180
Own credit risk	(75)	(58)
Share-based payments	(304)	(312)
Fair value adjustments on financial instruments	(263)	(251)
Impairment of loans and advances	(1 907)	(1 865)
Lease and rental debtor allowances	(272)	(244)
Retirement benefit asset and liabilities	128	138
Net deferred tax (asset)/liability	(1 482)	(1 511)

	Company 2019 Rm	Company 2018 Rm
15. Deposits from banks		
Call deposits	12 056	7 457
Fixed deposits	26 502	25 907
Foreign currency deposits	33 329	24 180
Notice deposits	2 453	2 452
Other	2 225	3 817
Repurchase agreements	42 912	64 146
	119 477	127 959

16. Trading and hedging portfolio liabilities

	Company 2019 Rm	Company 2018 Rm
Derivative liabilities (refer to note 46)	**45 564**	35 204
Commodity derivatives	**475**	1 489
Credit derivatives	**132**	174
Equity derivatives	**1 832**	3 091
Foreign exchange derivatives	**11 916**	8 410
Interest rate derivatives	**31 209**	22 040
Short positions	**10 401**	11 072
Total trading portfolio liabilities	**55 965**	46 276
Hedging portfolio liabilities (refer to note 46)	**1 379**	1 343
	57 344	47 619

17. Other liabilities

	Company 2019 Rm	Company 2018 Rm
Accruals	**1 603**	1 728
Audit fee accrual	**136**	10
Cash-settled share-based payment liability (refer to note 51)	**282**	293
Creditors	**7 084**	11 996
Deferred income	**220**	224
Lease liabilities (2019)/Liabilities under finance leases (2018)	**3 220**	28
Settlement balances	**18 385**	17 264
	30 930	31 543

18. Provisions

	Company 2019 Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Undrawn contractually committed and guarantees provision Rm	Total Rm
Balance at the beginning of the reporting period	1 626	481	483	2 590
Additions	1 518	428	—	1 946
Amounts used	(1679)	(427)	—	(2 106)
Reversals	(27)	—	—	(27)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 53)	—	—	116	116
Balance at the end of the reporting period	1 438	482	599	2 519

Provisions expected to be recovered or settled within 12 months after the reporting date were **R1 450m** (2018: R1 438m).

Sundry provisions include amounts with respect to conduct and fraud cases, litigation and onerous contracts.

19. Deposits due to customers

	Company 2019 Rm	2018 Rm
Call deposits	**52 438**	58 003
Cheque account deposits	**160 547**	158 002
Credit card deposits	**1 862**	1 904
Fixed deposits	**193 395**	157 613
Foreign currency deposits	**23 975**	17 541
Notice deposits	**68 997**	58 367
Other	**1 052**	2 453
Repurchase agreements	**19 884**	12 793
Savings and transmission deposits	**156 430**	141 066
	678 580	607 742

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

20. Debt securities in issue

	Company 2019 Rm	2018 Rm
Credit linked notes	**9 464**	9 049
Floating rate notes	**57 028**	64 181
Negotiable certificates of deposit	**44 007**	52 613
Other	**458**	420
Promissory notes	**1 120**	1 257
Senior notes	**39 111**	30 442
Structured notes and bonds	**102**	101
	151 290	158 063

	Company 2019 Rm	Company 2018 Rm
21. Share capital and premium		
21.1 Ordinary share capital		
Authorised		
320 000 000 (2018: 320 000 000) ordinary shares of R1.00 each	**320**	320
250 000 000 (2018: 250 000 000) 'A' ordinary shares of R0.01 each	**3**	3
	323	323
Issued		
302 609 369 (2018: 302 609 369) ordinary shares of R1.00 each	**303**	303
145 691 959 (2018: 145 691 959) 'A' ordinary shares of R0.01 each	**1**	1
	304	304
Total issued capital		
Share capital	**304**	304
Share premium	**36 880**	36 880
	37 184	37 184

Authorised shares

There were no changes to the authorised share capital during the current reporting period.

Unissued shares

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

Shares issued

There were no shares issued during the current and prior reporting periods. All shares issued by the Company were paid in full.

	Company 2019 Rm	Company 2018 Rm
21.2 Preference share capital and premium		
Authorised		
30 000 000 (2018: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	**1**	1
Issued		
4 944 839 (2018: 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 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 the Company which directly affects the rights attached to the preference shares or the interest of the holders thereof.

		Company	
		2019 Rm	2018 Rm

21. Share capital and premium (continued)

21.3 Additional Tier 1 capital

Subordinated callable notes issued by Absa Bank Limited

Interest rate	Date of issue	2019 Rm	2018 Rm
Three-month JIBAR + 5.65%	11 September 2017	**1 500**	1 500
Three-month JIBAR + 4.75%	9 October 2018	**1 241**	1 241
Three-month JIBAR + 4.50%	28 May 2019	**1 678**	—
Three-month JIBAR + 4.25%	5 December 2019	**1 376**	—
		5 795	2 741

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Bank Limited (the issuer) on 12 September 2022, 10 October 2023, 28 November 2024 and 5 June 2025, subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the issuer would have become non-viable. In addition, the Additional Tier 1 notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments.

22. Other reserves

22.1 Fair value reserve

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

22.2 Cash flow hedging reserve

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

22.3 Foreign currency translation reserve

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

22.4 Capital reserve

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

22.5 Share-based payment reserve

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

22.6 Retained earnings

Retained earnings 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 own credit risk on liabilities designated at FVTPL; and
- direct shareholder contributions.

	Company 2019 Rm	Company 2018 Rm
23. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	4	4
Interest on hedging instruments	331	406
Investment securities	7 186	7 250
Loans and advances to banks	1 769	1 265
Loans and advances to customers	69 452	62 627
Corporate overdrafts and specialised finance loans	1 063	949
Credit cards	4 856	4 406
Foreign currency loans	1 478	1 262
Instalment credit agreements and finance lease receivables	8 925	7 789
Loans to associates and joint ventures	2 091	1 954
Microloans	668	627
Mortgages	26 380	24 482
Other advances	786	1 026
Overdrafts	4 136	3 566
Overnight finance	2 250	2 134
Personal and term loans	6 292	5 197
Preference shares	1 539	1 257
Wholesale overdrafts	8 988	7 978
Other interest	1 792	1 609
	80 534	73 161
Classification of interest and similar income		
Interest on hedging instruments	331	406
Cash flow hedges	671	545
Fair value hedges	(340)	(139)
Interest on financial assets held at amortised cost	76 034	68 581
Interest on financial assets measured at FVOCI	2 772	2 843
Interest on financial assets measured at FVTPL	1 397	1 331
Investment securities	158	353
Loans and advances to customers	1 239	978
	80 534	73 161

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

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

	Company	
	2019 Rm	2018 Rm

24. Interest expense and similar charges

Interest expense and similar charges are paid on:

	2019 Rm	2018 Rm
Borrowed funds	2 134	2 216
Debt securities in issue	11 950	11 016
Deposits due to customers	32 833	28 690
Call deposits	4 972	4 840
Cheque account deposits	3 158	2 996
Credit card deposits	7	7
Fixed deposits	12 455	9 519
Foreign currency deposits	189	167
Notice deposits	4 986	4 147
Other deposits due to customers	367	693
Savings and transmission deposits	6 699	6 321
Deposits from banks	2 105	1 862
Call deposits	472	471
Fixed deposits	1 290	1 391
Foreign currency deposits	343	—
Interest on hedging instruments	(187)	(179)
Interest incurred on finance leases	286	—
	49 121	43 605

Classification of interest expense and similar charges

	2019 Rm	2018 Rm
Interest on hedging instruments	(187)	(178)
Cash flow hedges	(100)	(89)
Fair value hedges	(87)	(89)
Interest on financial liabilities held at amortised cost	49 308	43 783
	49 121	43 605

	Company 2019 Rm	Company 2018 Rm
25. Net fee and commission income		
Consulting and administration fees	212	204
Credit-related fees and commissions	17 271	16 588
Cheque accounts	5 471	5 385
Credit cards	2 276	2 204
Electronic banking	5 397	5 244
Other	2 132	1 690
Savings accounts	1 995	2 065
Insurance commission received	593	556
Asset management, markets execution and investment banking fees	396	476
Merchant income	1 902	1 721
Other	95	81
Trust and other fiduciary services[1]	72	72
Portfolio and other management fees	63	62
Trust and estate income	9	10
Fee and commission income	20 541	19 698
Fee and commission expense	(1 600)	(1 289)
Brokerage fees	(1)	(1)
Cheque processing fees	(120)	(122)
Clearing and settlement charges	(754)	(687)
Notification fees	(216)	(180)
Insurance commission paid	—	(17)
Other	(431)	(207)
Valuation fees	(78)	(75)
	18 941	18 409

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

	Company 2019 Rm	Company 2018 Rm
25.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	5 471	5 385
Credit cards	2 276	2 204
Electronic banking	5 397	5 244
Other	2 132	1 690
Savings accounts	1 995	2 065
Fee and commission income	17 271	16 588
Fee and commission expense	(1 311)	(1 145)
	15 960	15 443

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.

[1] Includes 'Asset management and other related fees', which was separately disclosed in prior period (2018: R25m).

	Company 2019 Rm	Company 2018 Rm
26. Gains and losses from banking and trading activities		
Net gains on investments	30	174
Debt instruments designated at FVTPL	(2)	113
Equity instruments mandatorily measured at FVTPL	12	52
Unwind from reserves for debt instruments at FVOCI	20	9
Net trading result	1 559	2 498
Net trading income excluding the impact of hedge accounting	1 318	2 710
Ineffective portion of hedges	241	(212)
Cash flow hedges	225	(198)
Fair value hedges	16	(14)
Other (losses)/gains	(105)	505
	1 484	3 177
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	1 318	2 710
Losses on financial instruments designated at FVTPL	(7 178)	(1 740)
Net gains on financial assets designated at FVTPL	9 176	1 384
Net losses on financial liabilities designated at FVTPL	(16 354)	(3 124)
Gains on financial instruments mandatorily measured at FVTPL	8 496	4 450
Other (losses)/gains	(105)	505
Losses on financial instruments designated at FVTPL	(64)	(90)
(Losses)/gains on financial instruments mandatorily measured at FVTPL	(41)	595

	Company 2019 Rm	Company 2018 Rm
27. Gains and losses from investment activities		
Other gains	3	1

	Company 2019 Rm	Company 2018 Rm
28. Other operating income		
Foreign exchange differences, including amounts recycled from other comprehensive income	(6)	21
Income arising from contracts with customers	27	13
Profit/(loss) on disposal of property and equipment	2	(17)
Profit on sale of repossessed properties	25	30
Gross sales	57	56
Cost of sales	(32)	(26)
Rental income	22	35
Sundry income[1]	1 055	73
	1 098	142

[1] 'Sundry income' includes dividend received as well as profit on disposal of non-core assets.

	Company 2019 Rm	Company 2018 Rm
29. Impairment losses		
Impairment losses raised during the reporting period	6 565	5 900
Stage 1 expected losses	(452)	(4 098)
Stage 2 expected losses	1 536	7 487
Stage 3 expected losses	5 481	2 511
Losses on modifications	118	22
Recoveries of loans and advances previously written off	(654)	(843)
	6 029	5 079

	Company 2019 Rm	Company 2018 Rm
30. Operating expenses		
Administration fees	1 079	511
Amortisation of intangible assets (refer to note 13)	1 143	646
Auditors' remuneration	280	257
Audit fees – current reporting period	236	180
Audit fees – under provision	9	6
Audit-related fees	19	18
Other services	16	53
Cash transportation	1 195	1 166
Depreciation (refer to note 12)	2 962	1 946
Equipment costs	182	180
Rentals	68	72
Maintenance	114	108
Information technology	3 328	2 909
Marketing costs	1 320	1 603
Operating lease expenses on properties	85	1 221
Other (includes fraud losses, travel and entertainment costs)	301	540
Printing and stationery	205	227
Professional fees	1 880	2 216
Property costs	1 377	1 394
Staff costs	18 448	17 929
Bonuses	1 461	1 629
Deferred cash and share-based payments (refer to note 51)	588	687
Other	344	401
Salaries and current service costs on post-retirement benefit funds	15 696	14 868
Training costs	359	344
TSA direct costs	469	820
Telephone and postage	738	672
	34 992	34 237

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totalling **R78m** (2018: R255m). Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, redundancy fees, study assistance, staff relocation and refreshment costs.

	Company 2019 Rm	Company 2018 Rm
31. Other impairments		
Intangible assets (refer to note 13)[1]	**121**	1
Property and equipment (refer to note 12)[2]	**197**	398
Equity investments in subsidiaries	**53**	30
	372	429

	Company 2019 Rm	Company 2018 Rm
32. Indirect taxation		
Training levy	**153**	159
VAT net of input credits	**983**	986
	1 136	1 145

	Company 2019 Rm	Company 2018 Rm
33. Taxation expense		
Current		
Foreign and other taxation	**151**	98
South African current tax	**2 665**	2 500
South African current tax – previous reporting period	**(427)**	123
	2 389	2 721
Deferred		
Deferred tax (refer to note 14)	**(106)**	(322)
Capital allowances	**(32)**	(31)
Allowances for loan losses	**(125)**	511
Provisions	**(89)**	(194)
Movements in prepayments, accruals and other provisions	**120**	(554)
Fair value and similar adjustments through profit and loss	**(37)**	(54)
Fair value and similar adjustments in relation to prior year	**57**	—
	2 283	2 399
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	**10 410**	10 395
	10 410	10 395
Tax calculated at a tax rate of 28%	**2 915**	2 911
Effect of different tax rates in other countries	**151**	62
Expenses not deductible for tax purposes[3]	**294**	417
Dividend income	**(697)**	(394)
Non-taxable interest[4]	**(122)**	(53)
Other income not subject to tax	**(123)**	(107)
Non-taxable portion of capital gain	**(18)**	45
Other	**(117)**	(482)
	2 283	2 399

[1] Management has impaired certain software assets totalling **R121m** (2018: R2m) for which the value in use is determined to be zero.

[2] Management has decided to dispose of certain property and equipment resulting in an impairment of **R197m** (2018: R398m). As property will be disposed of, the impairment was calculated based on fair value less costs to sell prior to transferring to non-current assets held for sale.

[3] This includes donations, non-deductible expenses.

[4] This relates to interest earned from certain governments in Africa as well as interest earned on certain capital instruments, which is exempt from tax.

	Company 2019 Rm	Company 2018 Rm
34. Earnings per share		
Basic and diluted 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.		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares. There are no instruments that would have a dilutive impact.		
Basic and diluted earnings attributable to ordinary equity holders of the Company	**7 340**	7 455
Weighted average number of ordinary shares in issue (millions)	**448.3**	448.3
Issued shares at the beginning and end of the reporting period	**448.3**	448.3
Basic earnings per ordinary share/diluted earnings per ordinary share (cents)	**1 637.3**	1 663.0

	Company 2019 Gross Rm	Company 2019 Net Rm	Company 2018 Gross Rm	Company 2018 Net Rm
35. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Company		**7 340**		7 455
Total headline earnings adjustment:		**283**		339
IAS 16 – (Profit)/loss on disposal of property and equipment (refer to note 28)	**(2)**	**—**	17	12
IAS 36 – Impairment of property and equipment (refer to note 31)	**197**	**145**	398	297
IAS 36 – Impairment of investments in subsidiaries (refer to note 31)	**53**	**57**	30	30
IAS 36 – Impairment of intangible assets (refer to note 31)	**121**	**87**	1	—
IFRS 5 – Re-measurement of non-current assets held for sale	**(9)**	**(6)**	—	—
Headline earnings/diluted headline earnings		**7 623**		7 794
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		**1 700.4**		1 738.5

The net amount is reflected after taxation.

	Company 2019 Rm	Company 2018 Rm
36. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(13 August 2019: 446.12851 cents per share (cps)** (6 August 2018: 602.27349 cps)	2 000	2 700
Final dividend **(11 March 2020: 446.129 cps)** (11 March 2019: 111.532 cps)	2 000	500
	4 000	3 200
Dividends declared to preference equity holders (net of treasury shares)		
Interim dividend **(13 August 2019: 3 595.89 cps)** (6 August 2018: 3 542.67 cps)	178	175
Final dividend **(11 March 2020: 3 469.3151 cps)** (11 March 2019: 3 518.6986 cps)	172	174
	350	349
Distributions declared to Additional Tier 1 capital note holders		
Distributions		
10 January 2019: 29 981.67 Rands per note (rpn)[1]	37	—
12 March 2019: 31 561.64 rpn; 12 March 2018: 31 500 rpn[1]	47	47
10 April 2019: 29 342.47 rpn[1]	36	—
12 June 2019: 32 263.01 rpn; 12 June 2018: 32 200 rpn[1]	49	49
10 July 2019: 29 688.43 rpn[1]	37	—
28 August 2019: 29 344.21 rpn[1]	49	—
12 September 2019: 32 031.12 rpn; 12 September 2018: 31 675.726 rpn[1]	48	47
10 October 2019: 29 659.28 rpn[1]	37	—
28 November 2019: 28 525.04 rpn[1]	48	—
12 December 2019: 31 059.67 rpn; 12 December 2018: 31 620.63 rpn[1]	47	47
	435	190
Dividends paid to ordinary equity holders		
Final dividend **(15 April 2019: 109.30149 cps)** (16 April 2018: 669.1928 cps)	500	3 000
Interim dividend **(16 September 2019: 446.12851 cps)** (17 September 2018: 602.27349 cps)	2 000	2 700
	2 500	5 700
Dividends paid to preference equity holders		
Final dividend **(15 April 2019: 3 518.6986 cps)** (16 April 2018: 3 558.01 cps)	174	176
Interim dividend **(16 September 2019: 3 595.89 cps)** (17 September 2018: 3 542.67 cps)	178	175
	352	351
Distributions paid to Additional Tier 1 Capital note holders		
Distributions		
10 January 2019: 29 981.67 rpn[1]	37	—
12 March 2019: 31 561.64 rpn; 12 March 2018: 31 500 rpn[1]	47	47
10 April 2019: 29 342.47 rpn[1]	36	—
12 June 2019: 32 263.01 rpn; 12 June 2018: 32 200 rpn[1]	49	49
10 July 2019: 29 688.43 rpn[1]	37	—
28 August 2019: 29 344.21 rpn[1]	49	—
12 September 2019: 32 031.12 rpn; 12 September 2018: 31 675.726 rpn[1]	48	47
10 October 2019: 29 659.28 rpn[1]	37	—
28 November 2019: 28 525.04 rpn[1]	48	—
12 December 2019: 31 059.67 rpn; 12 December 2018: 31 620.63 rpn[1]	47	47
	435	190

[1] In order to provide more transparent disclosures, the distributions declared and paid to Additional Tier 1 capital holders have been expanded to separately disclose the amount declared/paid at each date rather than including the total for each period. Comparatives have been restated accordingly.

37. Transfer of financial assets that results in partial derecognition

37.1 Transfer of financial assets involving structured entities

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

37.2 Transfer of financial assets that did not result in derecognition

	Company				
	2019				
	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
Investment securities	**892**	**(619)**	**892**	**(619)**	**273**
Loans and advances to customers	**67 619**	**(10 606)**	**67 619**	**(10 606)**	**57 013**

	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
Investment securities	—	—	—	—	—
Loans and advances to customers	60 436	(1 135)	60 436	(1 135)	59 301

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

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

38. Related parties

Refer to note 41 of the Bank's financial statements for the full disclosure of related-party transactions. The following related-party transactions and balances exist for Absa Bank Limited.

	Company	
	2019 Rm	2018 Rm
38.1 Balances and transactions with the parent company		
Transactions		
Net fee and commission income	—	(1)
Interest expense and similar charges	28	(193)
Gains and losses from banking and trading activities	—	(22)
Dividends paid	2 500	5 700
38.2 Balances and transactions with subsidiaries		
The following are balances with and transactions entered into with, subsidiaries:		
Balances		
Loans to group companies	9 090	10 645
Subsidiary shares	109	344
Trading portfolio assets	(8)	(4)
Transactions		
Interest and similar income	(141)	(127)
Interest expense and similar charges	(140)	(166)
Net fee and commission income	0	(2)
Gains and losses from banking and trading activities	(6)	—
Operating expenditure/(recovered expenses)	15	35

Various terms and conditions are agreed upon, taking into account transfer pricing and relevant tax requirements.

	Company	
	2019 Rm	2018 Rm
38.3 Balances and transactions with fellow subsidiaries		
Balances		
Loans and advances to banks	57	176
Trading portfolio assets	7	(2)
Loans to group companies	50 460	37 326
Deposits from banks	(8 553)	(10 335)
Borrowed funds	(18 649)	(17 685)
Transactions		
Interest and similar income	(1 324)	(1 091)
Interest expense and similar charges	2 200	2 357
Net fee and commission income	(535)	(578)
Gains and losses from banking and trading activities	(1 170)	1 052
Gains and losses from investment activities	0	1
Other operating income	(2)	(2)
Operating expenditure/(recovered expenses)	(1 403)	(952)

	Company 2019 (Unaudited) Rm	Company 2018 (Unaudited) Rm
39. Assets under management and administration		
Other	**1 910**	2 038
Portfolio management	**3 144**	3 135
Unit trusts	**1 823**	2 130
	6 877	7 303

	Company 2019 Rm	Company 2018 Rm
40. Contingencies, commitments and similar items		
Guarantees	**41 671**	39 843
Irrevocable debt facilities/other lending facilities	**133 721**	165 738
Letters of credit	**5 303**	6 828
Other	**1**	63
	180 696	212 472
Authorised capital expenditure		
Contracted but not provided for	**187**	589

The Company has capital commitments in respect of computer equipment, software and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.

Operating lease payments due		
No later than one year	**—**	981
Later than one year and no later than five years	**—**	2 561
Later than five years	**—**	667
	—	4 209

40. Contingencies, commitments and similar items (continued)

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 Company. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually. Following the implementation of IFRS 16 from 1 January 2019, the disclosure relating to 'Operating lease payments due' will no longer be disclosed.

Guarantees include performance guarantee contracts and financial guarantee contracts.

Financial guarantee contracts represent contracts where the Company undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

Irrevocable debt facilities do not include other lending facilities which are revocable but for which an impairment provision has been raised (i.e. revolving products). The value of these other lending facilities is included in the credit risk disclosure, whereas the above table presents only those gross loan commitments that are contractually committed and are legally irrevocable.

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 **R54m** (2018: R30m) has been raised on guarantees, **R23m** (2018: R43m) has been raised for letters of credit and **R522m** (2018: R409m) on irrevocable debt facilities/other lending facilities.

Refer to note 29 for details regarding the provisions raised for expected credit losses in respect of guarantees, irrevocable debt facilities and letters of credit. Irrevocable equity facilities and other contingencies fall outside the scope of the expected credit losses model of IFRS 9.

Refer to note 46 in the Bank's financial statements for legal proceedings, regulatory matters and income taxes.

	Company	
	2019 Rm	2018 Rm
41. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	**8 898**	9 570
Loans and advances to banks[2]	**948**	388
	9 846	9 958

[1] Includes coins and bank notes.

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

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42. Consolidated statement of financial position summary – IFRS 9 classification

	Company			
	2019			
	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	—	—	—	—
Investment securities	832	925	—	1 757
Loans and advances to banks	28 220	1 233	—	29 453
Trading portfolio assets	110 926	—	—	110 926
Hedging portfolio assets[2]	—	—	3 355	3 355
Other assets	—	—	—	—
Loans and advances to customers	45 903	20 841	—	66 744
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	185 881	22 999	3 355	212 235
Liabilities				
Deposits from banks	—	48 120	—	48 120
Trading portfolio liabilities	55 965	—	—	55 965
Hedging portfolio liabilities[3]	—	—	1 379	1 379
Other liabilities	—	—	—	—
Deposits due to customers	—	55 438	—	55 438
Debt securities in issue	—	28 338	—	28 338
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	55 965	131 896	1 379	189 240

[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 **R2 333m** (2018: R1 159m) and **R1 023m** (2018: R1 248m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R91m** (2018: R380m) and **R1 288m** (2018: R963m) 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 **R599m** that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

Company								
2019								
Fair value through other comprehensive income				Amortised cost			Assets/ liabilities outside the scope of IFRS 9[1]	Total assets and liabilities
Debt instruments Rm	Equity instruments Rm	Hedged item[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Rm	Rm
—	—	—	—	25 485	—	25 485	—	25 485
36 023	339	26 871	63 233	7 087	—	7 087	—	72 077
—	—	—	—	15 531	—	15 531	—	44 984
—	—	—	—	—	—	—	668	111 594
—	—	—	—	—	—	—	—	3 355
—	—	—	—	19 125	—	19 125	2 421	21 546
—	—	—	—	709 598	4 090	713 688	—	780 432
—	—	—	—	3 685	—	3 685	21	3 706
—	—	—	—	59 550	—	59 550	—	59 550
—	—	—	—	—	—	—	27 337	27 337
36 023	339	26 871	63 233	840 061	4 090	844 151	30 447	1 150 066
—	—	—	—	71 357	—	71 357	—	119 477
—	—	—	—	—	—	—	—	55 965
—	—	—	—	—	—	—	—	1 379
—	—	—	—	10 304	—	10 304	20 626	30 930
—	—	—	—	623 142	—	623 142	—	678 580
—	—	—	—	113 137	9 815	122 952	—	151 290
—	—	—	—	12 873	8 409	21 282	—	21 282
—	—	—	—	—	—	—	2 519	2 519
—	—	—	—	830 813	18 224	849 037	23 145	1 061 422

42. Consolidated statement of financial position summary – IFRS 9 classification (continued)

Assets

	2018			
	Fair value through profit or loss			
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Cash, cash balances and balances with central banks	—	—	—	—
Investment securities	820	10 450	—	11 270
Loans and advances to banks	18 580	1 220	—	19 800
Trading portfolio assets	99 974	—	—	99 974
Hedging portfolio assets[2]	—	—	2 407	2 407
Other assets	—	—	—	—
Loans and advances to customers	32 097	13 166	—	45 263
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	151 471	24 836	2 407	178 714

Liabilities

	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Deposits from banks	—	54 890	—	54 890
Trading portfolio liabilities	46 276	—	—	46 276
Hedging portfolio liabilities[3]	—	—	1 343	1 343
Other liabilities	—	—	—	—
Deposits due to customers	—	37 849	—	37 849
Debt securities in issue	—	15 345	—	15 345
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9	—	—	—	—
	46 276	108 084	1 343	155 703

[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 **R2 333m** (2018: R1 159m) and **R1 023m** (2018: R1 248m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R91m** (2018: R380m) and **R1 288m** (2018: R963m) 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.

2018									
Fair value through other comprehensive income				Amortised cost					
Debt instruments Rm	Equity instruments Rm	Hedged item[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Assets/ liabilities outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
—	—	—	—	22 679	—	22 679	—	22 679
46 445	323	26 647	73 415	6 219	—	6 219	—	90 904
—	—	—	—	20 727	—	20 727	—	40 527
—	—	—	—	—	—	—	1 304	101 278
—	—	—	—	—	—	—	—	2 407
—	—	—	—	20 035	—	20 035	2 197	22 232
—	—	—	—	677 320	2 637	679 957	—	725 220
—	—	—	—	48 008	—	48 008	—	48 008
—	—	—	—	—	—	—	23 090	23 090
46 445	323	26 647	73 415	794 988	2 637	797 625	26 591	1 076 345
—	—	—	—	73 069	—	73 069	—	127 959
—	—	—	—	—	—	—	—	46 276
—	—	—	—	—	—	—	—	1 343
—	—	—	—	29 288	—	29 288	2 255	31 543
—	—	—	—	569 893	—	569 893	—	607 742
—	—	—	—	132 997	9 721	142 718	—	158 063
—	—	—	—	11 371	8 681	20 052	—	20 052
—	—	—	—	—	—	—	2 590	2 590
—	—	—	—	816 618	18 402	835 020	4 845	995 568

43. Fair value disclosures

43.1 Assets and liabilities held at fair value

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

	Company							
	2019				2018			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Investment securities	31 715	23 179	10 096	64 990	41 812	35 467	7 406	84 685
Loans and advances to banks	—	29 453	—	29 453	—	19 800	—	19 800
Trading and hedging portfolio assets	41 623	66 402	6 256	114 281	45 117	53 815	3 449	102 381
Debt instruments	40 547	970	210	41 727	43 005	788	445	44 238
Derivative assets	—	56 763	3 672	60 435	—	43 677	2 450	46 127
Commodity derivatives	—	302	—	302	—	1 263	224	1 487
Credit derivatives	—	—	155	155	—	—	173	173
Equity derivatives	—	2 036	3 454	5 490	—	3 433	1 947	5 380
Foreign exchange derivatives	—	12 604	7	12 611	—	7 980	26	8 006
Interest rate derivatives	—	41 821	56	41 877	—	31 001	80	31 081
Equity instruments	530	—	—	530	543	—	—	543
Money market assets	546	8 669	2 374	11 589	1 569	9 350	554	11 473
Loans and advances to customers	—	55 840	10 904	66 744	—	34 602	10 661	45 263
Total financial assets	73 338	174 874	27 256	275 468	86 929	143 684	21 516	252 129
Financial liabilities								
Deposits from banks	—	48 120	—	48 120	—	54 871	19	54 890
Trading and hedging portfolio liabilities	10 401	45 812	1 131	57 344	11 072	35 093	1 454	47 619
Derivative liabilities	—	45 812	1 131	46 943	—	35 093	1 454	36 547
Commodity derivatives	—	475	—	475	—	1 267	222	1 489
Credit derivatives	—	—	132	132	—	—	174	174
Equity derivatives	—	1 125	707	1 832	—	2 313	778	3 091
Foreign exchange derivatives	—	11 901	15	11 916	—	8 391	19	8 410
Interest rate derivatives	—	32 311	277	32 588	—	23 122	261	23 383
Short positions	10 401	—	—	10 401	11 072	—	—	11 072
Deposits due to customers	156	51 440	3 842	55 438	238	34 789	2 822	37 849
Debt securities in issue	9	28 329	—	28 338	3	15 342	—	15 345
Total financial liabilities	10 566	173 701	4 973	189 240	11 313	140 095	4 295	155 703
Non-financial assets								
Commodity	668	—	—	668	1 304	—	—	1 304
Non-current assets held for sale	—	—	—	—	—	—	50	50

43. Fair value disclosures (continued)

43.2 Reconciliation of Level 3 assets and liabilities

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

	Company				
	2019				
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	3 449	10 661	—	7 406	21 516
Net interest income	—	439	—	65	504
Gains and losses from banking and trading activities	1 973	(471)	—	1	1 503
Gains and losses from investment activities	—	—	—	19	19
Purchases	1 101	4 602	—	1 375	7 078
Sales	(333)	(1 767)	—	(273)	(2 373)
Movement in other comprehensive income	—	—	—	(89)	(89)
Settlements	—	—	—	(7)	(7)
Transfer to Level 3	962	52	—	2 134	3 148
Transfer (out) of Level 3	(896)	(2 612)	—	(535)	(4 043)
Closing balance at the end of the reporting period	6 256	10 904	—	10 096	27 256

	2018				
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 824	4 742	484	5 946	12 996
Net interest income	—	153	—	65	218
Gains and losses from banking and trading activities	1 240	427	—	26	1 693
Gains and losses from investment activities	—	—	—	20	20
Purchases	1 174	6 616	—	2 177	9 967
Sales	(257)	(156)	(18)	(507)	(938)
Movement in other comprehensive income	—	—	—	(37)	(37)
Transferred to/(from) assets/liabilities	—	—	—	(198)	(198)
Transfer to Level 3	357	—	—	1 828	2 185
Transfer (out) of Level 3	(889)	(1 121)	(466)	(1 914)	(4 390)
Closing balance at the end of the reporting period	3 449	10 661	—	7 406	21 516

43.2.1 Significant transfers between levels

During the 2019 and 2018 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.

43. Fair value disclosures (continued)

43.2 Reconciliation of Level 3 assets and liabilities (continued)

	Company				
	2019				
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	19	1 454	2 822	—	4 295
Gains and losses from banking and trading activities	—	276	96	—	372
Issues	—	36	3 808	—	3 844
Settlements	—	—	(1 887)	—	(1 887)
Transfer (out) of Level 3	(19)	(635)	(997)	—	(1 651)
Closing balance at the end of the reporting period	—	1 131	3 842	—	4 973

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

43. Fair value disclosures (continued)

43.3 Unrealised gains and losses on Level 3 assets and liabilities

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

	Company				
	2019				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	**3 197**	**—**	**539**	**220**	**3 956**
	2018				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	2 589	—	1 027	233	3 849

	Company		
	2019		
	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	**(520)**	**163**	**(357)**
	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)

43. Fair value disclosures (continued)

43.4 Sensitivity analysis of valuations using unobservable inputs

As part of the Company's risk management processes, we perform a sensitivity analysis on the significant unobservable parameters, in order to determine the impact of reasonably possible alternative assumptions on the valuation of Level 3 financial assets and liabilities. The assets and liabilities that most impact this sensitivity analysis are those with more illiquid and/or structured portfolios. The alternative assumptions are applied independently and do not take account of any cross-correlation between assumptions that would reduce the overall effect on the valuations.

The following table reflects the reasonable possible variances applied to significant parameters utilised in our valuations:

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value 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:

		2019	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	Absa Group Limited/Absa funding spread	349/(395)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	—/—	(303)/313
Loans and advances to customers	Credit spreads	(692)/760	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	177/(174)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(261)/261	—/—

43. Fair value disclosures (continued)

43.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		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 customers	Absa Group Limited/Absa funding spread	178/(178)	—/—
Investment securities	Risk adjustment yield curves, future earnings and marketability discount	—/—	(20)/20
Loans and advances to customers	Credit spreads	(323)/323	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	162/(162)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(224)/224	—/—

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

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

	Company	
	2019 Rm	2018 Rm
Opening balance at the beginning of the reporting period	**(428)**	(134)
New transactions	**(52)**	(367)
Amounts recognised in profit or loss during the reporting period	**73**	73
Closing balance at the end of the reporting period	**(407)**	(428)

43.6 Third-party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

43. Fair value disclosures (continued)

43.7 Assets and liabilities not held at fair value

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

	Company				
	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	16 587	16 587	16 587	—	—
Coins and bank notes	8 898	8 898	8 898	—	—
Cash, cash balances and balances with central banks	25 485	25 485	25 485	—	—
Investment securities	7 087	7 064	7 064	—	—
Loans and advances to banks	15 531	15 531	3 104	12 427	—
Other assets	19 125	19 125	12 509	3 043	3 573
RBB South Africa	489 158	491 703	—	—	491 703
Home Loans	235 924	235 924	—	—	235 924
Vehicle and Asset Finance	83 740	84 080	—	—	84 080
Everyday Banking	51 123	51 735	—	—	51 735
Card	26 790	27 199	—	—	27 199
Personal Loans	20 857	21 022	—	—	21 022
Transactions and Deposits	3 476	3 514	—	—	3 514
Relationship Banking	118 371	119 964	—	—	119 964
CIB South Africa	223 703	223 703	—	—	223 703
Head Office, Treasury and other operations in South Africa	827	827	—	—	827
Loans and advances to customers – net of impairment losses	713 688	716 233	—	—	716 233
Loans to group companies	59 550	59 550	—	59 550	—
Non-current assets held for sale	3 685	3 685	—	—	3 685
Total assets (not held at fair value)	844 151	846 673	48 162	75 020	723 491
Financial liabilities					
Deposits from banks	71 357	71 357	11 539	59 752	66
Other liabilities	10 304	10 304	—	10 271	33
Call deposits	52 438	52 438	52 438	—	—
Cheque account deposits	160 390	160 390	160 390	—	—
Credit card deposits	1 862	1 862	1 862	—	—
Fixed deposits	157 998	158 421	—	155 692	2 729
Foreign currency deposits	23 975	23 975	—	23 975	—
Notice deposits	68 997	68 997	23 616	45 381	—
Other deposits	1 052	1 052	—	1 052	—
Saving and transmission deposits	156 430	156 430	32 131	2 059	122 240
Deposits due to customers	623 142	623 565	270 437	228 159	124 969
Debt securities in issue	122 952	125 688	—	125 688	—
Borrowed funds	21 282	21 282	—	21 282	—
Total liabilities (not held at fair value)	849 037	852 196	281 976	445 152	125 068

43. Fair value disclosures (continued)

43.7 Assets and liabilities not held at fair value (continued)

	2018				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with the SARB	13 108	13 108	13 108	—	—
Coins and bank notes	9 571	9 571	9 571	—	—
Cash, cash balances and balances with central banks	22 679	22 679	22 679	—	—
Investment securities	6 219	6 270	6 270	—	—
Loans and advances to banks	20 727	23 190	4 662	18 528	—
Other assets	20 035	20 045	16 585	932	2 528
RBB South Africa[1]	473 195	474 619	2 503	2 111	470 005
Home Loans	225 534	225 534	—	—	225 534
Vehicle and Asset Finance	76 772	77 087	—	—	77 087
Everyday Banking	48 246	48 839	—	—	48 839
Card	26 688	27 102	—	—	27 102
Personal loans	18 320	18 464	—	—	18 464
Transactions and Deposits	3 238	3 273	—	—	3 273
Relationship Banking	122 643	123 159	2 503	2 111	118 545
CIB South Africa[1]	206 049	206 049	1 030	—	205 019
Head Office, Treasury and other operations in South Africa	713	713	—	703	10
Loans and advances to customers – net of impairment losses	679 957	681 381	3 533	2 814	675 034
Loans to group companies	48 008	48 008	—	48 008	—
Total assets (not held at fair value)	797 625	801 573	53 729	70 282	677 562
Financial liabilities					
Deposits from banks	73 069	77 174	271	76 903	—
Other liabilities	29 288	29 302	529	23 803	4 970
Call deposits	58 003	58 003	13 818	44 185	—
Cheque account deposits	157 528	157 528	157 470	42	16
Credit card deposits	1 904	1 904	1 904	—	—
Fixed deposits	133 031	133 031	80 024	47 803	5 204
Foreign currency deposits	17 541	17 541	452	16 678	411
Notice deposits	58 367	58 367	18 747	39 597	23
Other deposits	2 453	2 453	2 288	133	32
Saving and transmission deposits	141 066	141 066	140 974	92	—
Deposits due to customers	569 893	569 893	415 677	148 530	5 686
Debt securities in issue	142 718	145 003	108	144 674	221
Borrowed funds	20 052	20 052	—	20 052	—
Total liabilities (not held at fair value)	835 020	841 424	416 585	413 962	10 877

[1] These numbers have been restated, refer note 50.1 in the Absa Bank consolidated financial statements.

44. Borrowed funds

Refer to note 21 in the Bank's financial statements.

45. Leases

Refer to note 36 in the Bank's financial statements.

46. Derivatives

Refer to note 51 in the Bank's financial statements.

47. Acquisitions and disposals of businesses and other similar transactions

47.1 Acquisitions and disposals of businesses during the current reporting period

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

47.2 Acquisitions and disposals of businesses during the previous reporting period

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

48. Retirement benefit fund obligations

Refer to note 37 in the Bank's financial statements.

49. Securities borrowed/lent and repurchase/reverse repurchase agreements

Refer to note 39 in the Bank's financial statements.

50. Offsetting financial assets and financial liabilities

Refer to note 42 in the Bank's financial statements.

51. Share-based payments

Refer to note 48 in the Bank's financial statements.

52. Segment report

Refer to note 50 in the Bank's financial statements.

53. Credit risk of financial instruments designated at fair value

Refer to note 54 in the Bank's financial statements.

54. Risk management

The financial risks inherent within the Bank are considered to be substantially the same for the Company and consolidated level. Refer to note 55 in the Bank's financial statements for detailed risk management disclosures.

55. Going concern

The directors assess the Company's future performance and financial position on an ongoing basis and have no reason to believe the Company will not be a going concern in the year ahead. For this reason, these stand-alone financial statements are prepared on a going concern basis.

56. Events after the reporting period

The Company has announced the appointment of Daniel Mminele as its new Group Chief Executive, effective 15 January 2020.

The estimates and judgements applied to determine the financial position at 31 December 2019 have been included in note 1.2 of the Bank's accounting policies. The estimates applied, most specifically as they relate to the calculation of impairment of loans and advances, were based on a range of forecast economic conditions as at that date. The outbreak of coronavirus has resulted in disruption to business activity globally and recent market volatility, since mid-January 2020. The impact of the coronavirus will be closely monitored and assessed for its impact on the business.

Absa Bank Limited entered into an agreement in October 2019 to sell its Edcon loan book. The conditions precedent to this sale were fulfilled in January 2020, with the effective date of the transfer being 1 February 2020.

Apart from the above, the directors are not aware of any other events (as defined by IAS 10 Events after the Reporting Period), after the reporting date of 31 December 2019 and the date of authorisation of these audited financial results.

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