Absa Group Limited

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

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Absa Group Limited
(1986/003934/06)

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 Group Financial Reporting under the direction and supervision of the Financial Director, J P Quinn CA(SA).

Directors' approval

Statement of directors' responsibilities in relation to financial statements

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

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

To enable the directors to meet these responsibilities:

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

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

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

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

It is the responsibility of the independent external auditor to report on the financial statements. Their report to the shareholders of the Group and the Company is set out on pages 13 to 17 of this report.

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

W E Lucas-Bull
Group Chairman

J P Quinn
Financial Director

Johannesburg
10 March 2020

Group Audit and Compliance Committee report

This report, issued by the GACC, 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 GACC, are set out in the GACC's mandate on the Group's website.

The GACC, 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 GACC, including closed sessions without management, on any matters that they regard as relevant to the fulfilment of the GACC'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 GACC included:

Matter	Committee action, discussions and decisions
1. Control environment	› The Group'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. › 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. › Received confirmation from an Internal Audit review that the Board and Board committees apply the King IV principles on the roles and responsibilities of the Group's governance forums. › 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 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.

Significant matters considered by the Committee included: (continued)

Matter	Committee action, discussions and decisions
4. Compliance	› The Committee approves the Compliance coverage plan which forms 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 Group operates. Review results also provide management and the Compliance function with a view as to how the control environment, attitudes and behaviours are supporting the Group 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 and are mainly related to logical and privileged access management deficiencies, as well as cybersecurity.
7. Fraud management	› Recent incidences of significant fraud risk events highlighted the need for strengthened fraud risk management. › The Committee reviewed the Group'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 Group's 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 Group's defence capability.

External audit

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

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

External audit (continued)

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

- Conducted an accreditation review as requested by the JSE on the quality processes of EY, including the review of reports of the 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 IRBA;
- A submission from EY setting out the terms and conditions on which EY agrees to act as independent auditor of the Group 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 GACC confirmed that:

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

Financial statements and accounting practices

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

- Satisfied itself on the appropriateness of the going concern assumption as the basis of preparation of the interim and annual financial statements.
- Confirmed, through consultation with Internal Audit, that the Group's internal controls support the preparation of consolidated financial reporting information.
- Recommended to the Board for approval:
  - Interim financial results and annual financial statements and reporting thereon on the Stock Exchange News Service (SENS).
  - Reporting changes announced on SENS in respect of the current year.
  - The interim and final dividend proposals for approval by the Board.
- Considered the:
  - 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 Group to ensure they are adhered to.
- Reviewed:
  - Significant accounting and reporting issues, sustainability of the control environment, significant judgemental areas, and recent professional and regulatory pronouncements, and ascertained their impact on the financial statements.
  - The tax governance, tax philosophy and significant tax matters arising during the reporting period, emphasising the importance of managing tax risk on the Separation contributions.
  - Significant matters which are not a normal part of the Group's business, but which are referred to the GACC by the Board or management.

Solvency and liquidity tests

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

Group Audit and Compliance Committee report

Internal Audit and the internal control environment

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

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

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

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

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

Group Audit and Compliance Committee report

Governance, risk management and control effectiveness

The GACC 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 GACC:

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

Quality and integrity of the integrated report

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

- Reviewed stakeholder feedback on the Group's 2018 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 GACC:

- Completed the annual assessment of the suitability for reappointment of the Group's current audit firm and designated individual partner including confirmation that the appointed external auditor is duly accredited on the JSE's list of auditors;
- Determined that the 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 Group.

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

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

The GACC reviewed the Group 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 GACC

C Beggs
Chairman of the GACC

Johannesburg
10 March 2020

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 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

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, insurance, financial services and wealth management products and services. The Group operates in 12 African countries and employs 38 472 people. The address of the registered office of the Group is the 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

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

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

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

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

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

Group Audit and Compliance Committee report

Refer to pages 3 to 7.

Group results

Main business and operations

The Group recorded a increase of 3% in headline earnings to **R14 526m** (2018: R14 142m) for the reporting period. Headline earnings per share (HEPS) increased by 3% to **1 750.1 cents** (2018: 1 703.7 cents) and diluted HEPS by 3% to **1 747.6 cents** (2018: 1 700.4 cents). Refer to note 43 for the breakdown of headline earnings note per segment.

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

Headline earnings were derived from the following activities:

	Group	
	2019 Rm	2018[1] Rm
Retail and Business Banking South Africa (RBB South Africa)	**9 510**	9 722
Corporate and Investment Banking South Africa (CIB South Africa)	**3 230**	3 422
Absa Regional Operations (ARO)	**3 635**	3 140
Head Office, Treasury and other operations in South Africa	**(110)**	(156)
Barclays Separation	**(1 739)**	(1 986)
Headline earnings (refer to note 43)	**14 526**	14 142

[1] Numbers have been restated, refer to note 57.1.

Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
T Abdool-Samad	Independent non-executive director	
C Beggs	Independent non-executive director	
Y Z Cuba	Independent non-executive director	Resigned 4 June 2019
A B Darko *(Ghanaian and British)*	Independent non-executive director	Appointed 15 May 2019
D J Hodge *(British)*	Non-executive director	
M J Husain	Lead Independent non-executive director	
R A Keanly	Independent non-executive director	Appointed 1 September 2019
W E Lucas-Bull	Independent non-executive director, Chairman	
P B Matlare	Deputy Group Chief Executive	
D Mminele *(South African and British)*	Group Chief Executive	Appointed 15 January 2020
M S Merson *(British)*	Independent non-executive director	Appointed 15 May 2019
S J Munyantwali	Non-executive director	Appointed 15 September 2019
D Naidoo	Independent non-executive director	
F Okomo-Okello *(Kenyan)*	Independent non-executive director	
S M Pityana	Independent non-executive director	Appointed 1 May 2019
J P Quinn	Financial Director	
M Ramos	Chief Executive Officer	Retired 28 February 2019
I Rensburg	Independent non-executive director	Appointed 1 October 2019
R van Wyk[1]	Chief Executive Officer	Appointed 1 March 2019, resigned 14 January 2020

Shareholder information

	2019			2018		
	Number of shareholders/ notes holders	Number of shares/notes	% holding	Number of shareholders/ notes holders	Number of shares/notes	% holding
Public and non-public shareholders						
Ordinary shares						
Public						
Barclays Bank PLC (UK)	1	126 145 303	14.88	1	126 145 303	14.88
Public Investment Corporation (SA)	1	53 292 674	6.29	1	53 330 172	6.29
Other	22 827	650 780 797	76.77	23 137	647 591 803	76.39
Non-public		19 343 303	2.28		20 683 401	2.44
Treasury shares[2]		19 122 853	2.26		20 273 811	2.39
Directors and prescribed officers (Refer to note 25.2)[3]		220 450	0.03		409 590	0.05
Total		847 750 679	100		847 750 679	100

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group 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 5 795 000 000 (2018: 2 741 000 000).

[1] René van Wyk was an independent non-executive director until 31 January 2019, and became an executive director on 1 February 2019. He was subsequently appointed as Group Chief Executive Officer on an interim basis, from 1 March 2019 up until the 14 January 2020.

[2] **537 975** shares held by Absa Life Limited (2018: 551 983); **3 004 843** (2018: 1 756 743) shares held in trust for shared-based payments; **678 187** held by Absa Capital Securities (2018: 4 028 035) and **14 901 848** (2018: 13 937 050) shares held by the Absa Empowerment Trust in pursuance of a future Broad-Based Black Economic Empowerment structure.

[3] This disclosure includes prescribed officers as a result of a new JSE listings requirement, and prior period numbers have been included for comparability purposes.

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 Absa Group Ordinary shares awards, the details of which are included in the Directors' and prescribed officers' remuneration note 65.

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

Directors' and prescribed officers' emoluments

The emoluments and services of Directors and prescribed officers are determined by the Group Remuneration Committee (Remco) as disclosed in the Directors' and prescribed officers' remuneration note 65.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 50 to the consolidated financial statements.

Acquisitions and disposals

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

Acquisitions during the current reporting period

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

Acquisitions during the prior reporting period

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

Disposals during the current reporting period

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

Disposals during the prior reporting period

Apart from business classified as 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 prior reporting period. The cash consideration received on disposal of subsidiary included in non-current assets/liabilities held for sale was R1 398m.

Barclays Separation

The Separation programme continues to operate under a robust governance structure that involves the Group Board as well as various mechanisms of oversight and governance frameworks within the organisation. 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 includes:

- Migration of the core banking system for Absa Regional Operations ("ARO") entities from the United Kingdom to South Africa;
- The successful delivery of ARO Digital Channels, which unlocked benefits such as upgraded infrastructure, enhanced monitoring of both infrastructure and applications, a new Mobile Banking user interface and a revamped application for the Groups Uganda, Tanzania and Mozambique operations;
- Delivery of a highly transformative Financial Crime solution for Absa;
- Migration of the human capital management system; and
- Successful replacement and migration of Host Channels for CIB within ARO.

Brand and name change activities continued in 2019. Significant milestones were achieved with the successful rebrand of operations in Nigeria, Uganda and Mozambique. Rebranding of the remaining 7 countries is on track and will be completed before June 2020.

Dividends

- On 11 March 2019, a final dividend of 620 cents per ordinary share was declared. The dividend was announced on 1 March 2019 to the ordinary shareholders registered on 13 April 2019. The dividend was paid on 15 April 2019.
- On 13 August 2019, an interim dividend of 505 cents per ordinary share was declared. The dividend was announced on 31 August 2019 to ordinary shareholders registered on 13 September 2019. The dividend was paid on the 16 September 2019.
- On 11 March 2020, a final dividend of 620 cents per ordinary share was approved. The dividend was announced on 11 March 2020 to ordinary shareholders registered on 17 April 2020. This dividend is payable on 20 April 2019.
- Refer to Note 46 for Common Equity Tier 1 distribution.

Special resolutions

The following special resolutions were passed by the Company's ordinary shareholders at the AGM held on 04 June 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 from 1 June 2019 to and including the last day of the month preceding the date of the next AGM thereafter.

- **Special resolution number 2 – General repurchases**
  Resolved that the Company or any subsidiary of the Company may, subject to the Companies Act, the Company's MOI, the JSE listings requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 months from the date of the resolution, whichever is the earlier, and may be varied by a special resolution at any general meeting of the Company at any time prior to the AGM.

- **Special resolution number 3 – 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 Group 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 share capital of the Company of **R1 760 935 000** (2018: R1 760 935 000) consists of **880 467 500** (2018: 880 467 500) ordinary shares of R2.00 each.

Issued

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

847 750 679 (2018: 847 750 679) ordinary shares of R2.00 each.

No preference shares are currently in issue by the Company.

Independent Auditor's Report

To the shareholders of Absa Group Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Absa Group Limited and its subsidiaries ('the group') and company set out on pages 18 to 233, which comprise 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 52, 62.5.2, 62.7 and Annexure A: Embedded value report of the Life Insurance entities.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group 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.

Level	Key audit matter	How our audit addressed the matter
Absa Group Limited	**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 63) › Note 62.2 – Credit risk (page 155)	

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. › We have also obtained an understanding of the design and tested the operating effectiveness of managements' 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. 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 Group's legal right to the collateral by inspecting legal agreements and bond registration information. › Testing, on a sample basis, the collateral valuation by: ○ assessing the competence and objectivity of the valuation experts engaged by management to perform valuations; ○ testing management controls which support the collateral valuation process; and ○ 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.

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

<table>
<tr><th>Level</th><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td rowspan="2">Absa Group Limited</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 60 – Fair value disclosures (page 144) (consolidated 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>
<tr><td>Absa Group Limited</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 38 – Operating expenses (page 87)
› Note 14 – Goodwill and intangible assets (page 67)
› Note 1.2.2 – Significant judgements and estimates (page 34)</td></tr>
<tr><td></td><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 Group'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.</td><td>We performed, amongst others, the following procedures:

On the impact of changing system 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 Group 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;</td></tr>
</table>

Level	Key audit matter	How our audit addressed the matter
	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.	› 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. 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 Asset. › 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 reperforming 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 page 1 to 12 of the document titled the Group Audit and Compliance Committee Report, the Company Secretary's certificate to the shareholders of Absa Group Limited, the Directors' Report, as required by the Companies Act of South Africa and the directors' approval, which we obtained prior to the date of this report, and the Integrated Report, 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the joint auditor of Absa Group Limited for 26 years and the sole auditor of Absa Group 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

	Note	Group 2019 Rm	Group 2018 Rm
Assets			
Cash, cash balances and balances with central banks	2	**52 532**	46 929
Investment securities	3	**116 747**	135 420
Loans and advances to banks	4	**59 745**	53 140
Trading portfolio assets	5	**158 348**	128 569
Hedging portfolio assets	5	**3 358**	2 411
Other assets	6	**30 343**	30 642
Current tax assets		**1 682**	819
Non-current assets held for sale	7	**3 992**	239
Loans and advances to customers	8	**916 978**	841 720
Reinsurance assets	9	**886**	618
Investments linked to investment contracts	10	**20 042**	18 481
Investments in associates and joint ventures	11	**1 648**	1 310
Investment properties	12	**513**	508
Property and equipment	13	**18 620**	15 835
Goodwill and intangible assets	14	**10 300**	8 672
Deferred tax assets	15	**3 441**	3 431
Total assets		**1 399 175**	1 288 744
Liabilities			
Deposits from banks	16	**117 423**	121 421
Trading portfolio liabilities	17	**59 224**	51 632
Hedging portfolio liabilities	17	**1 379**	1 343
Other liabilities	18	**46 355**	36 662
Provisions	19	**4 064**	4 017
Current tax liabilities		**172**	236
Non-current liabilities held for sale	7	**112**	124
Deposits due to customers	20	**826 293**	736 305
Debt securities in issue	21	**159 794**	160 971
Liabilities under investment contracts	22	**29 700**	29 674
Policyholder liabilities under insurance contracts	23	**4 331**	4 168
Borrowed funds	24	**21 418**	20 225
Deferred tax liabilities	15	**227**	360
Total liabilities		**1 270 492**	1 167 138
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital	25	**1 657**	1 655
Share premium	25	**10 428**	10 205
Retained earnings		**95 386**	91 237
Other reserves	26	**5 807**	6 387
		113 278	109 484
Non-controlling interest – ordinary shares		**4 966**	4 737
Non-controlling interest – preference shares	27.1	**4 644**	4 644
Non-controlling interest – Additional Tier 1 capital	27.2	**5 795**	2 741
Total equity		**128 683**	121 606
Total liabilities and equity		**1 399 175**	1 288 744

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2019 Rm	Group 2018 Rm
Net interest income		**46 501**	43 755
Interest and similar income	28	**97 838**	89 236
Effective interest income		**96 040**	87 634
Other interest income		**1 798**	1 602
Interest expense and similar charges[1]	29	**(51 337)**	(45 481)
Non-interest income		**33 619**	32 760
Net fee and commission income		**23 606**	22 523
Fee and commission income	30	**26 759**	25 675
Fee and commission expense	30	**(3 153)**	(3 152)
Net insurance premium income	31	**7 830**	7 190
Net claims and benefits incurred on insurance contracts	32	**(3 747)**	(3 565)
Changes in investment and insurance contract liabilities	33	**(1 589)**	808
Gains and losses from banking and trading activities	34	**5 408**	5 820
Gains and losses from investment activities	35	**1 600**	(636)
Other operating income	36	**511**	620
Total income		**80 120**	76 515
Impairment losses	37	**(7 816)**	(6 324)
Operating income before operating expenditure		**72 304**	70 191
Operating expenses	38	**(48 767)**	(46 803)
Other expenses		**(2 006)**	(2 026)
Other impairments	39	**(330)**	(434)
Indirect taxation	40	**(1 676)**	(1 592)
Share of post-tax results of associates and joint ventures	11.1	**221**	179
Operating profit before income tax		**21 752**	21 541
Taxation expense	41	**(5 772)**	(6 282)
Profit for the reporting period		**15 980**	15 259
Profit attributable to:			
Ordinary equity holders		**14 256**	13 917
Non-controlling interest – ordinary shares		**937**	801
Non-controlling interest – preference shares		**352**	351
Non-controlling interest – Additional Tier 1 capital		**435**	190
		15 980	15 259
Earnings per share:			
Basic earnings per share (cents)	42.1	**1 717.6**	1 676.5
Diluted earnings per share (cents)	42.2	**1 715.1**	1 673.3

[1] The Group 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 Group achieves consistency with its peers. There is no impact on the 2018 comparative SOCI, as total other interest expense and similar charges was Rnil.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2019 Rm	Group 2018 Rm
Profit for the reporting period		**15 980**	15 259
Other comprehensive income			
Items that will not be reclassified to profit or loss		**(112)**	53
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)		**60**	27
Fair value gains		**77**	38
Deferred tax		**(17)**	(11)
Movement on 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		**(128)**	39
Decrease in retirement benefit surplus	45	**(38)**	(26)
(Decrease)/increase in retirement benefit deficit	45	**(104)**	55
Deferred tax	15	**14**	10
Items that are or may be subsequently reclassified to profit or loss		**(1 034)**	2 215
Movement in foreign currency translation reserve		**(1 387)**	3 052
Differences in translation of foreign operations		**(1 505)**	3 052
Release to profit or loss		**118**	—
Movement in cash flow hedging reserve		**913**	(247)
Fair value gains		**2 081**	265
Amounts transferred within other comprehensive income		**(7)**	(58)
Amount removed from other comprehensive income and recognised in profit or loss		**(806)**	(550)
Deferred tax	15	**(355)**	96
Movement in fair value of debt instruments measured at FVOCI		**(560)**	(590)
Fair value losses		**(811)**	(750)
Release to profit or loss	34	**(20)**	(9)
Deferred tax	15	**271**	169
Total comprehensive income for the reporting period		**14 834**	17 527
Total comprehensive income attributable to:			
Ordinary equity holders		**13 202**	15 816
Non-controlling interest – ordinary shares		**845**	1 170
Non-controlling interest – preference shares		**352**	351
Non-controlling interest – Additional Tier 1 capital		**435**	190
		14 834	17 527

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Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the end of the previous reporting period	827 477	1 655	10 205	91 237	6 387	823
Impact of adopting new accounting standards at 1 January 2019						
IFRS 16	—	—	—	(243)	—	—
Adjusted balance at the beginning of the reporting period	827 477	1 655	10 205	90 994	6 387	823
Total comprehensive income	—	—	—	14 147	(945)	—
Profit for the period	—	—	—	14 256	—	—
Other comprehensive income	—	—	—	(109)	(945)	—
Dividends paid during the reporting period	—	—	—	(9 377)	—	—
Transfer with Non-controlling interest holders	—	—	—	—	—	—
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	—	—	(400)	(62)	—	—
Elimination of the movement in treasury shares held by Group entities	1 151	2	223	—	—	—
Movement in share-based payment reserve	—	—	400	—	49	—
Transfer from share-based payment reserve	—	—	400	—	(400)	—
Value of employee services	—	—	—	—	470	—
Deferred tax	—	—	—	—	(21)	—
Movement in general credit risk reserve	—	—	—	(89)	89	89
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(6)	6	—
Share of post-tax results of associates and joint ventures	—	—	—	(221)	221	—
Balance at the end of the reporting period	828 628	1 657	10 428	95 386	5 807	912
Note	25	25	25			26

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2019

Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – Additional Tier 1 capital Rm	Total equity Rm
(80)	403	3 060	7	877	1 297	109 484	4 737	4 644	2 741	121 606
—	—	—	—	—	—	(243)	(13)	—	—	(256)
(80)	403	3 060	7	877	1 297	109 241	4 724	4 644	2 741	121 350
(548)	913	(1 310)	—	—	—	13 202	845	352	435	14 834
—	—	—	—	—	—	14 256	937	352	435	15 980
(548)	913	(1 310)	—	—	—	(1 054)	(92)	—	—	(1 146)
—	—	—	—	—	—	(9 377)	(613)	(352)	—	(10 342)
—	—	—	—	—	—	—	10	—	—	10
—	—	—	—	—	—	—	—	—	(435)	(435)
—	—	—	—	—	—	—	—	—	3 054	3 054
—	—	—	—	—	—	(462)	—	—	—	(462)
—	—	—	—	—	—	225	—	—	—	225
—	—	—	—	49	—	449	—	—	—	449
—	—	—	—	(400)	—	—	—	—	—	—
—	—	—	—	470	—	470	—	—	—	470
—	—	—	—	(21)	—	(21)	—	—	—	(21)
—	—	—	—	—	—	—	—	—	—	—
—	—	—	6	—	—	—	—	—	—	—
—	—	—	—	—	221	—	—	—	—	—
(628)	1 316	1 750	13	926	1 518	113 278	4 966	4 644	5 795	128 683
26	26	26	26	26	26			27.1	27.2	

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the end of the previous reporting period	832 838	1 666	10 498	92 080	4 370	779
Impact of adopting new accounting standards at 1 January 2018						
IFRS 9	—	—	—	(5 413)	(126)	—
IFRS 15	—	—	—	(44)	—	—
Adjusted balance at the beginning of the reporting period	832 838	1 666	10 498	86 623	4 244	779
Total comprehensive income	—	—	—	13 937	1 879	—
Profit for the period	—	—	—	13 917	—	—
Other comprehensive income	—	—	—	20	1 879	—
Dividends paid during the reporting period	—	—	—	(9 033)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(491)	(66)	—	—
Elimination of the movement in treasury shares held by Group entities	(5 361)	(11)	(293)	—	—	—
Movement in share-based payment reserve	—	—	491	—	40	—
Transfer from share-based payment reserve	—	—	491	—	(491)	—
Value of employee services	—	—	—	—	554	—
Deferred tax	—	—	—	—	(23)	—
Movement in general credit risk reserve	—	—	—	(44)	44	44
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(1)	1	—
Share of post-tax results of associates and joint ventures	—	—	—	(179)	179	—
Balance at the end of the reporting period	827 477	1 655	10 205	91 237	6 387	823
Note	25	25	25			26

Consolidated statement of changes in equity

for the reporting period ended 31 December

2018

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

Consolidated statement of cash flows

for the reporting period ended 31 December

		Group	
	Note	2019 Rm	2018 Rm
Cash flow from operating activities			
Interest received		95 009	86 559
Interest paid		(48 141)	(41 410)
Fees and commission received		26 759	25 685
Fees and commission paid		(3 153)	(3 152)
Insurance premiums and claims		2 540	4 420
Net trading and other income/(expenses)		6 519	3 009
Cash payments to employees and suppliers		(44 476)	(43 882)
Dividends received from banking and trading activities		131	70
Income taxes paid		(6 825)	(6 648)
Cash flow from operating activities before changes in operating assets and liabilities		28 363	24 651
Net (increase)/decrease in trading and hedging portfolio assets		(31 166)	2 484
Net (increase) in loans and advances to customers		(89 564)	(90 910)
Net (increase)/decrease in other assets		(13 357)	1 023
Net decrease/(increase) in investment securities		15 911	(21 507)
Net increase/(decrease) in trading and hedging portfolio liabilities		7 721	(12 196)
Net increase/(decrease) in insurance and investment contracts		138	(982)
Net increase in amounts due to customers and banks		90 347	85 396
Net increase in other liabilities[1]		6 473	25 925
Net cash generated from operating activities		**14 866**	**13 884**
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		103	1 414
Net decrease in investments linked to investment contracts		(1 157)	(1 053)
Dividends received from investments in associates and joint ventures		425	392
Investment in associates and joint ventures	12	(117)	—
Purchase of investment properties		(1)	—
Proceeds from disposal of investment properties	13	2	—
Purchase of property and equipment		(4 168)	(3 373)
Proceeds from disposal of properties and equipment	14	550	137
Purchase of intangible assets		(3 067)	(4 161)
Proceeds from disposal of intangible assets		—	97
Acquisition of businesses and other similar transactions, net of cash	56	—	(30)
Net cash utilised in investing activities		**(7 430)**	**(6 577)**
Cash flow from financing activities			
Sale/(Purchase) of own shares		225	(304)
Purchase of Group shares in respect of equity-settled share-based payment schemes		(462)	(557)
Issue of Additional Tier 1 capital		3 054	1 241
Proceeds from borrowed funds		1 580	6 571
Repayment of borrowed funds		(534)	(3 195)
IFRS 16 lease liability		(1 117)	—
Distributions paid to Additional Tier 1 capital holders		(435)	(190)
Dividends paid		(10 332)	(10 087)
Net cash utilised in financing activities		**(8 021)**	**(6 521)**
Net increase in cash and cash equivalents		(585)	786
Cash and cash equivalents at the beginning of the reporting period		18 494	17 320
Effect of foreign exchange rate movements on cash and cash equivalents		379	388
Cash and cash equivalents at the end of the reporting period	54	**18 288**	**18 494**

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

1. Summary of significant accounting policies

1.1 Introduction

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, interpretations issued by the IFRS Interpretations Committee (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 Group 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 1.21 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 Group.

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 Group's previously reported results. The accounting for any plan amendments, curtailments or settlements being considered after the effective date would need to take into account the impact of this amendment. Adoption of this amendment did not have an impact on the Group.

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 Group.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 is effective on or after 1 January 2019, clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. The interpretation applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. Adoption of the interpretation did not have a material impact on the financial statements of the Group.

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 Group.

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

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

1.2.1 Approach to credit risk and impairment of loans and advances

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

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

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

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under 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 Group is exposed. Integral to this is the calculation of parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and the determination of impairment in terms of IFRS.

The key credit parameters used in this process are:

- probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- loss given default (LGD): an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives, 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 Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications.

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

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

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

1. 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 Group uses two types of PDs, namely:

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

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents as well as the 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. Assets so classified must have well defined weaknesses that exacerbate the PD.
- Default: assets that are classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

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

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

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

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

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

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

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

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

Retail portfolio

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

- Internal risk estimates of PD, EAD and LGD are based on historical experience and are reliant on historical data.
- PDs are assigned at account level, and consist of three elements, namely:
  - a term structure, capturing typical default behaviour by the months since observation;
  - a behavioural model which incorporates client level risk characteristics; and
  - a 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 affected comprise:
  - a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven-year historical average to a PD reflective of the 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 of claim and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. The main adjustments to LGD comprise a 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 judgment with regards to IFRS 9

Definition of a significant increase in credit risk:

The Group uses various quantitative, qualitative and backstop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio 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 Group 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 Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Definition of credit impaired

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

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

In addition, within the Retail portfolios:

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

Determination of the lifetime of a credit exposure

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

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

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that the 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 judgment with regards to IFRS 9

Incorporation of forward looking information into the IFRS 9 modelling

The Group'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 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.

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 signaled 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 (SOE) remain a major source of ongoing macro-economic risks.

Rest of Africa Region

The Rest of Africa economic recovery is under way, 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 (S1)

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 prices 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.

Mild downside scenario: Moderate recession (S3)

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 unfavorable outcomes from both these risk events.

Global stock markets and commodity prices drop sharply, lowering global trade. Additionally, the euro zone 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.

Accounting policies

for the reporting period ended 31 December

1. Summary of significant accounting policies (continued)

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

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

1.2.1.5 Critical areas of judgment with regards to IFRS 9 (continued)

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 after. 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.

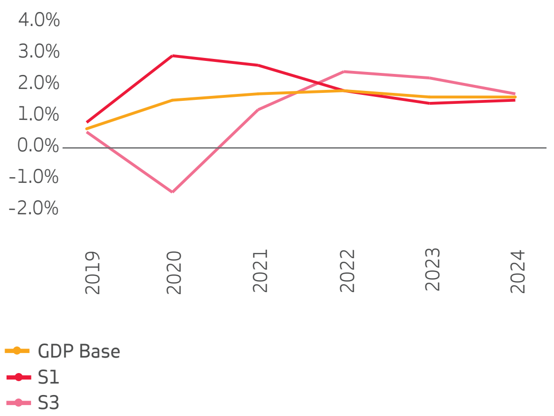
Rest of Africa Region

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.

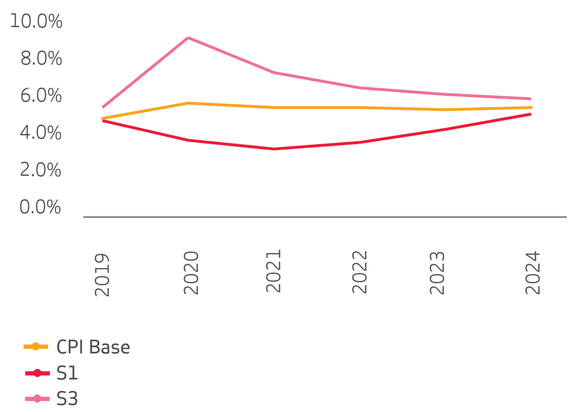
Macro-economic assumptions

The following graphs show the key historical and forecasted assumptions for the three economic scenarios for South Africa:

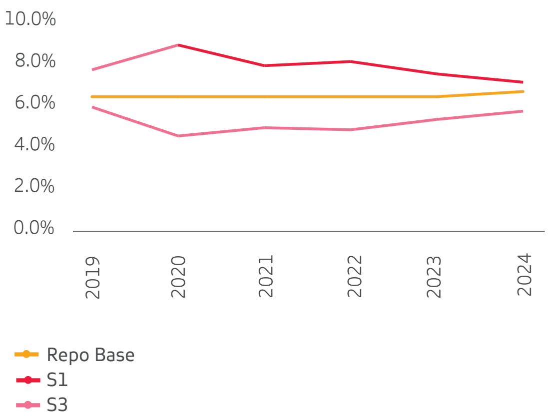
SA Real GDP (%)



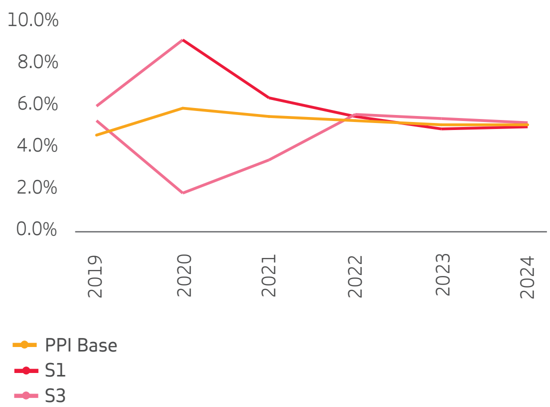
SA CPI (%)



SA Repo Rate (%)



SA PPI (%)



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 CGU. 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 CGU. Growth rates in the impairment calculations range from 0% to 10% (2018: -3% to 13.5%) 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 Group's weighted average cost of capital. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates a number of financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business that is being evaluated. These variables are subject to fluctuations in external market rates and economic conditions which are outside of management's control. As a consequence they may be established through the exercise of significant management judgement. The range of discount rates used in the impairment calculations is 12.86% – 22.5% (2018: 12.65% – 24%).

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

1.2.3 Fair value measurements

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs. Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 Fair Value Measurement (IFRS 13) 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 Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Traded Risk and Valuation Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the GACC. The Traded Risk and Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

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

Investment properties

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

Judgemental inputs on valuation of principal instruments (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.

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

› **Bid-offer valuation adjustments**

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

› **Uncollateralised derivative adjustments**

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

› **Model valuation adjustments**

Valuation models are reviewed under the Group's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of 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 models)	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 yield for debt instruments	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 competitor multiples	**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 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	**7.5% 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 62.7.

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

Definition of a structured entity(SE)

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

Assessment of agent versus principal

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

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

Assessment of sponsored entities

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

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

Refer to notes 50 and 51.

1.2.5 Post-retirement benefits

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

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

Exposure to actuarial risks

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

This risk can be categorised into a number of actuarial risks described below.

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 a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

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

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 each country. To the extent that governments can change that regulatory framework, the subsidiaries are exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 45 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 Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation. Further, a reliable estimate of the amount of the obligation is required to be made. Various assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Group's legal counsel.

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

1.2.7 Income taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and liabilities 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 Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Group 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 Group's Tax Risk Framework.

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

1.2.8 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 Group may consider the share price on the grant date to be the best indication of the grant date fair value. Where management determines this valuation approach to be less appropriate, based on the specific terms and conditions, then a Black Scholes option pricing model is applied. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

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

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

Note 55 includes details of the Group's share awards. Refer to note 18 for the carrying amount of liabilities arising from cash-settled arrangements.

1. Summary of significant accounting policies (continued)

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

1.2.9 Liabilities arising from claims made under short-term insurance contracts

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

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

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

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

1.2.10 Liabilities arising from claims made under life insurance contracts

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

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

1.2.11 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 49.

1.3 Consolidated financial statements of the Group

1.3.1 Subsidiaries

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

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

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

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

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

1. Summary of significant accounting policies (continued)

1.3 Consolidated financial statements of the Group (continued)

1.3.1 Subsidiaries (continued)

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

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

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

1.3.2 Investments in associates and joint ventures

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

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

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

1.3.3 Structured entities

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

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

1.3.4 Common control

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

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

Common control transactions are scoped out of the requirements of IFRS 3 Business Combinations (IFRS 3). The Group has therefore made a policy election to apply 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 Group's segmental reporting is in accordance with IFRS 8 Operating Segments (IFRS 8). Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Operating Decision Maker (CODM). All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office and inter-segment eliminations. Income and expenses directly associated with each segment are included in determining business segment performance.

1. Summary of significant accounting policies (continued)

1.5 Foreign currencies

1.5.1 Foreign currency translations

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

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

1.5.2 Foreign currency transactions

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

At each subsequent reporting date:

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

1.6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the number of basic weighted average number of ordinary shares excluding treasury shares held. 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 Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus/minus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, where transaction costs are expensed upfront.

1.7.2 Day one profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument is 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 Group classifies its financial assets into the following measurement categories:

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

The classification and subsequent measurement of financial assets depends on:

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

Business model assessment

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing of 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 Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

1.7.3.1 Debt instruments

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

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

1.7.3.2 Equity instruments

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

1.7.3.3 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 Group's net interest income, net trading income, and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the statement of financial position. Derivatives are subsequently measured at fair value through profit or loss, with changes in their fair values recognised as 'Gains and losses from banking and trading activities' in profit or loss, except for changes in the fair value of derivatives used to economically hedge the Group's interest rate risk which are recognised as 'Other interest income', or 'interest expense and similar charges' in profit or loss.

1.7.4 Expected credit losses on financial assets

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

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

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

Three-stage approach to ECL

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

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

1. Summary of significant accounting policies (continued)
1.7 Financial instruments (continued)
1.7.4 Expected credit losses on financial assets (continued)
Expected credit loss calculation
The measurement of ECL must reflect:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the EIR); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

As noted, ECL comprises the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECL is calculated (for both 12-month ECLs and lifetime losses ECL) as a function of the EAD; PD and loss given default LGD. These terms are interpreted as follows per the requirements of IFRS 9:
- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible within the next 12 months, or over the remaining life; depending on the stage allocation of the exposure.
- LGD is calculated based on the difference between the contractual cash flows due and the cash flows expected to be received up until the designated point of write-off. These forecast losses are discounted to the reporting date based on the EIR, or, in the case of financial guarantee contracts or loan commitments for which the EIR cannot be determined, a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

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

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

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

Write-off
The gross carrying amount of a financial asset shall be directly reduced (that is, written off)) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a derecognition event for accounting purposes. Depending on the nature of the account, balances are written off when:
- There has been less than one qualifying payment received within the last 12 months; or
- It is no longer economically viable to keep the debt on the statement of financial position.

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

Indicators which suggest that an account is not economically viable to retain on the statement of financial position are as follows (but do not represent an exhaustive list):
- The exposure is unsecured i.e. there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Group pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure;
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding cost and rates and taxes.

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.5 Derecognition of financial assets and financial liabilities

1.7.5.1 Derecognition of financial assets

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

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

1.7.5.1 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 Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

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

1.7.8 Hedge accounting

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

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.8 Hedge accounting (continued)

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

Fair value hedge accounting

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

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

Cash flow hedge accounting

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

Hedges of a net investment in a foreign operation

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

1.7.9 Equity instruments

Equity instruments are instruments that represent a residual interest in the Group'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 Group applies IAS 32 to determine whether funding is either a financial liability (debt) or equity.

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

1.7.11 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 Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

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

1.7.13 Loan commitments

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

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

Impact of IFRS 9 ECL on interest recognition

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

1.9.2 Net trading income

In accordance with 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 Group's trading activities are presented together with the fair value gains and losses on such instruments. Fair value gains or losses may be caused by movements in interest and exchange rates, equity prices and other market variables.

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

1.9.3 Net fee and commission income

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

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. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts

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

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

1.10.1 Insurance contracts

1.10.1.1 Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

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

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

Deferred policy acquisition costs

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

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

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

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

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

Deferred reinsurance acquisition revenues

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

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

Salvage and subrogation reimbursements

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

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

1. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts (continued)

1.10.1 Insurance contracts (continued)

1.10.1.2 Life insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

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

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

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

Benefits are recorded as an expense when they are incurred.

Valuation methodology

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

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

Liability adequacy test

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

1.10.1.3 Reinsurance contracts held

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

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

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

Receivables and payables related to insurance and investment contracts

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

1. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts (continued)

1.10.2 Investment contracts (continued)

1.10.1.3 Reinsurance contracts held (continued)

Philosophy on release of profits on the valuation basis

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

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

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

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

1.10.1.4 Value of business acquired

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

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

1.10.2 Investment contracts

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

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

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

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

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

1.11 Commodities

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

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

1. Summary of significant accounting policies (continued)

1.12 Intangible assets

1.12.1 Goodwill

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

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

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

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

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

1.12.2 Intangible assets other than goodwill

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

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

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

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.

	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. Summary of significant accounting policies (continued)

1.13 Property and equipment

1.13.1 Property and equipment not subject to lease agreements

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

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

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

1.13.2 Property and equipment subject to lease agreements

1.13.2.1 Property and equipment subject to lease agreements (2019)

As lessee

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

Operating leases

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

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

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

1. Summary of significant accounting policies (continued)

1.13 Property and equipment (continued)

1.13.2 Property and equipment subject to lease agreements (continued)

1.13.2.2 Property and equipment subject to lease agreements (2018) (continued)

Operating leases

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

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

1.13.3 Investment properties

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

1.14 Repossessed properties

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

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

1.15 Non-current assets held for sale

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

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

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

1.16 Cash and cash equivalents

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

1.17 Provisions, contingent liabilities and commitments

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

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

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

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

1. Summary of significant accounting policies (continued)

1.18 Employee benefits

1.18.1 Post-retirement benefits

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

Defined contribution schemes

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

Defined benefit schemes

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

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

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

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

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

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

Post-employment medical aid plans

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

1.18.2 Staff costs

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

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

1.18.3 Share-based payments

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

Employee services settled in equity instruments

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

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

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

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

Employee services settled in cash

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

1. Summary of significant accounting policies (continued)

1.19 Tax

1.19.1 Current tax

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

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

1.19.2 Deferred tax

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

1.19.3 Dividends withholding tax

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

1.19.4 Value added tax (VAT)

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

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

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

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

1.20 Treasury shares

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

1.21 Reporting changes overview

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

1.21.1 Implementation of IFRS 16 Leases (IFRS 16).

1.21.2 Changes to reportable segments and business portfolios.

1.21.1 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).

The key changes 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 as opposed to a 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.

The Group 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 Group 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. Significant 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 group determined incremental borrowing rates for each entity, for each currency in which they had lease contracts at the various tenors. The weighted average incremental rate, determined as at 1 January 2019, was between 5% and 23%. 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 Group 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 applicable 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 Group measured the right-of-use asset at an amount equal to the lease liability, adjusted for any existing prepaid or accrued rentals.

1. Summary of significant accounting policies (continued)

1.21 Reporting changes overview

1.21.1 Implementation of IFRS 16 Leases

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

	Share capital and share premium Rm	Retained earnings Rm	Other reserves Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Non-controlling interest – Additional Tier 1 capital Rm	Total equity Rm
Balance reported as at 31 December 2018	11 860	91 237	6 387	109 484	4 737	4 644	2 741	121 606
Impact of adopting IFRS 16	—	(243)	—	(243)	(13)	—	—	(256)
Adjusted balance as at 1 January 2019	11 860	90 994	6 387	109 241	4 724	4 644	2 741	121 350

1.21.1.2 The following table summarises the total impact of IFRS 16 on the Group'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	15 835	3 390	19 225
Other assets	30 642	(9)	30 633
Deferred tax assets	3 431	88	3 519
Total assets	1 288 744	3 469	1 292 213
Liabilities			
Other liabilities[1]	36 662	3 728	40 390
Deferred tax liabilities	360	(3)	357
Total liabilities	1 167 138	3 725	1 170 863
Equity			
Capital and reserves			
Retained earnings	91 237	(243)	90 994
Non-controlling interest – ordinary shares	4 737	(13)	4 724
Total equity	121 606	(256)	121 350
Total liabilities and equity	1 288 744	3 469	1 292 213

1.21.1.3 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	6 020
Discounted using the incremental borrowing rate at 1 January 2019	(1 502)
Lease liabilities recognised	4 518
Reconciling items	
Previously disclosed commitments subject to recognition exemption	(375)
Lease liabilities recognised at 1 January 2019	4 143

1.21.2 Changes to reportable segments and business portfolios

Refer to note 57 for detail.

[1] Includes an amount of **R4 143m** relating to the IFRS 16 lease liability, which is offset by the release of the IAS 17 straight-lining lease liability of **R415m**.

1. Summary of significant accounting policies (continued)

1.22 New standards and interpretations not yet adopted

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

1.22.1 IFRS 17 – *Insurance Contracts*

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

IFRS 17 introduces a general measurement model that measures groups of insurance contracts based on fulfilment cash flows (comprising probability-weighted current estimates of future cash flows and an explicit entity specific adjustment for risk) and a contractual service margin (effectively representing the unearned profit). As a result, no profit may be recognised at inception of an insurance contract, and profit is rather recognised over the coverage period. Losses are however immediately recognised on initial recognition for contracts where fulfilment cash flows are a net outflow.

The premium allocation approach is a simplified measurement model that may be applied when certain conditions are fulfilled. Under the premium allocation approach, the amount relating to remaining service is measured by allocating the premium over the coverage period. The general measurement model has specific modifications applicable to accounting for reinsurance contracts, direct participating contracts and investment contracts with discretionary participation features.

In June 2019, the IASB proposed targeted amendments to IFRS 17 which aim to support implementation of the standard. The amendments include a proposed deferral of the effective date of the standard to reporting periods beginning on or after 1 January 2022. This is a deferral of 1 year compared to the current date published in IFRS 17 of 1 January 2021. The IASB is currently deliberating on the comments received in relation to the proposed amendments with the intention of issuing any resulting amendments to IFRS 17 in mid-2020.

During 2018, the Group's joint insurance programme focused on interpreting the requirements of the new accounting standard, solution design, model prototyping as well as the commencement of an impact assessment. During 2019, the solution design was approved by the relevant governance forums and development activities have commenced on the big data framework which will provide a single source of reconciled insurance data to support the required system and business processes changes. Unpacking of the new concepts within the accounting standard have largely been concluded to support the base case methodologies and interpretations which are being used in the transition and impact assessments that are underway. Planning work on the financial reporting and disclosure implications has been completed and related development activities are scheduled for 2020. The programme is on track to commence with end-to-end solution testing in the second half of 2020 in preparation for parallel run activities that are planned to commence in 2021.

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

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

1.22.3 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.

1.22.4 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.

1.22.5 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.

		Group	
		2019 Rm	2018 Rm
2.	**Cash, cash balances and balances with central banks**		
	Balances with other central banks	**13 180**	11 381
	Balances with the SARB	**16 587**	13 108
	Coins and bank notes	**14 033**	14 252
	Money market assets	**8 736**	8 198
	Gross cash, cash balances and balances with central banks	**52 536**	46 939
	Impairment losses	**(4)**	(10)
		52 532	46 929

Included above are money market assets of **R2 130m** (2018: R1 985m) which are linked to investment contracts (refer to note 22.1).

The minimum reserve balance to be held in cash with the SARB is calculated under the provision of Regulation 27 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.

		Group	
		2019 Rm	2018 Rm
3.	**Investment securities**		
	Government bonds	**36 261**	43 699
	Listed equity instruments	**2 714**	2 404
	Money market assets	**1**	1
	Other debt securities	**47 785**	47 411
	Treasury bills	**27 419**	39 461
	Unlisted equity and hybrid instruments	**2 567**	2 447
	Gross investment securities	**116 747**	135 423
	Impairment losses	**(0)**	(3)
		116 747	135 420

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 **R65m** (2018: R 167m) has been recognised on investment securities at FVOCI.

		Group	
		2019 Rm	2018 Rm
4.	**Loans and advances to banks**		
	Gross loans and advances to banks	**59 769**	53 163
	Impairment losses	**(24)**	(23)
		59 745	53 140

Included above are reverse repurchase agreements of **R26 974m** (2018: R 16 342m) and other collateralised loans of **R372m** (2018: R1 505m) relating to securities borrowed.

5. Trading and hedging portfolio assets

	Group 2019 Rm	Group 2018 Rm
Commodities	668	1 304
Debt instruments	53 365	52 758
Derivative assets (refer to note 58.3 and 58.4)	57 582	44 534
Commodity derivatives	302	1 480
Credit derivatives	155	173
Equity derivatives	5 544	5 389
Foreign exchange derivatives	13 051	8 833
Interest rate derivatives	38 530	28 659
Equity instruments	30 775	15 848
Money market assets	15 958	14 125
Total trading portfolio assets	158 348	128 569
Hedging portfolio assets (refer to note 58.3)	3 358	2 411
	161 706	130 980

Trading portfolio assets with carrying values of **R18 719m** (2018: R42 794m) 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

	Group 2019 Rm	Group 2018 Rm
Accounts receivable and prepayments	12 613	12 995
Deferred costs	237	217
Deferred acquisition costs (refer to note 6.1)	49	47
Other deferred costs	188	170
Inventories	311	290
Cost	311	291
Write-down	—	(1)
Retirement benefit fund surplus (refer to note 45)	473	468
Settlement accounts	16 750	16 726
Gross other assets	30 384	30 696
Impairment losses	(41)	(54)
	30 343	30 642

6.1 Deferred acquisition costs

	Group 2019 Rm	Group 2018 Rm
Balance at the beginning of the reporting period	47	316
Additions	261	291
Disposals/releases/amortisation charge	(261)	(568)
Foreign exchange movement	2	8
Balance at the end of the reporting period	49	47

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

	Group 2019 Rm	Group 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	**239**	1 308
Disposals	(84)	(1 274)
Transfer from loans and advances to customers	3 829	—
Transfer from loans and advances to banks	—	22
Transfer from other assets	—	27
Transfer from investment securities	—	8
Transfer from reinsurance assets	—	73
Transfer from property and equipment (refer to note 13)	21	64
Transfer from deferred tax assets	—	11
Movement in loans and advances to banks	5	—
Movement in other assets	(4)	—
Movement in investment securities	1	—
Movement in reinsurance assets	(15)	—
Movement in property and equipment	(1)	—
Movement in deferred tax assets	1	—
Balance at the end of the reporting period	**3 992**	239
Non-current liabilities held for sale		
Balance at the beginning of the reporting period	**124**	48
Disposals	—	(48)
Transfer to policyholder liabilities under insurance contracts	—	92
Transfer from other liabilities	—	32
Movement in policyholder liabilities under insurance contracts	(13)	—
Movement in other liabilities	1	—
Balance at the end of the reporting period	**112**	124

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

- RBB South Africa disposed of investment property with a carrying amount of **R32m**.
- RBB South Africa transferred a loan book with a carrying amount of **R3 829m** to non-current assets held for sale.
- ARO disposed of property and equipment with a carrying amount of **R2m**.
- 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.
- Some movements occurred on the underlying assets and liabilities of a non-core subsidiary held for sale in Head Office, Treasury and other operations in South Africa: loans and advances to banks (increase of **R5m**), deferred tax assets (increase of **R1m**), investment securities (increase of **R1m**), reinsurance assets (decrease of **R15m**), property and equipment (decrease of **R1m**), other assets (decrease of **R4m)**, other liabilities (increase of **R1m**) and policyholder liabilities under insurance contracts (decrease of **R13m**).

The following movements in non-current assets and non-current liabilities held for sale occurred 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.
- ARO disposed of investment property with a carrying amount of R2m and transferred property and equipment with a carrying value of R11m into non-current assets held for sale.
- Head Office, Treasury and other operations in South Africa, transferred property and equipment with a carrying value of R50m to non-current assets held for sale.
- The following disposals and transfers occurred in the legacy WIMI segment. Following the restructuring of the business segments during the current reporting period, these are disclosed under the Head Office, Treasury and other operations in South Africa:
  - Disposal of a subsidiary with assets of R139m and liabilities of R34m.
  - Disposal of a business line with assets of R14m and liabilities of R14m.
  - Transfer of an entity with a net asset value of R20m to non-current assets and non-current liabilities held for sale. This transfer comprised of loans and advances to banks (R22m), reinsurance assets (R73m), investment securities (R8m), property and equipment (R3m), deferred tax assets (R11m), other assets (R27m), policyholder liabilities under insurance contracts (R92m) and other liabilities (R32m).

	Group 2019 Rm	Group 2018 Rm
8. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**11 920**	12 770
Credit cards	**43 559**	41 511
Foreign currency loans	**39 536**	36 949
Instalment credit agreements[1]	**91 667**	82 887
Finance lease receivables (refer to note 8.1)[1]	**4 467**	3 870
Loans to associates and joint ventures (refer to note 50.4)	**28 490**	28 259
Micro loans	**4 595**	3 970
Mortgages	**315 472**	295 953
Other advances	**15 280**	11 631
Overdrafts	**59 336**	57 112
Overnight finance	**20 179**	19 832
Personal and term loans	**145 551**	128 278
Preference shares	**20 975**	20 440
Reverse repurchase agreements (Carries)	**43 222**	29 414
Wholesale overdrafts	**102 466**	99 011
Gross loans and advances to customers	**946 715**	871 887
Impairment losses	**(29 737)**	(30 167)
	916 978	841 720

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R6 056m** (2018: R3 277m). Included in the above are collateralised loans of **R1 404m** (2018: R1 031m) relating to securities borrowed. The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly.

Other advances include working capital solutions, collateralised loans and specialised products in ARO.

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R4 485m** (2018: R4 928m).

	Group 2019 Gross advances Rm	2019 Unearned finance charges Rm	2019 Net advances Rm	2018[2] Gross advances Rm	2018[2] Unearned finance charges Rm	2018[2] Net advances Rm
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 Group 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 entered into is five years. Under the terms of the agreements, no contingent rentals are payable.

Unguaranteed residual values of finance lease receivables in the previous reporting period **R2 169m** (2018:R1 819m[2]).

Included in the allowance for impairments in the previous reporting period is R23m[2] 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.

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

[2] 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 R103 971m unearned finance charges of R21 084m unguaranteed residual values of R7 847m and allowance for impairment of R3 375m.

	Group 2019 Rm	Group 2018 Rm
9. Reinsurance assets		
Insurance contracts (refer to note 23)		
Life insurance contracts	162	88
Short-term insurance contracts	724	530
	886	618

Included as part of the 'Accounts receivables and prepayments line' in 'Other assets' (refer to note 6) is **R32m** (2018: R54m), relating to amounts receivable from reinsurers for claims made against them.

	Group 2019 Rm	Group 2018 Rm
10. Investments linked to investment contracts		
Debt instruments	816	615
Derivative instruments (refer to note 58.3)	6	43
Listed equity instruments	17 336	15 430
Money market instruments	1 803	2 201
Unlisted equity and hybrid instruments	81	192
	20 042	18 481

	Group 2019 Rm	Group 2018 Rm
11. Investments in associates and joint ventures		
Unlisted investments	1 648	1 310
11.1 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 Group'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

11.2 Associates and joint ventures

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

Group 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

	Group 2019 Rm	Group 2018 Rm
11. Investments in associates and joint ventures (continued)		
11.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Shares at cost	100	100
Share of post-acquisition reserves	1 431	1 210
Additional capital contribution	117	—
	1 648	1 310

	Group 2019 Associates Rm	Group 2019 Joint ventures Rm	Group 2019 Total Rm	2018 Associates Rm	2018 Joint ventures Rm	2018 Total Rm
11.4 Carrying value of associates and joint ventures						
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 investment in associates and joint ventures designated at fair value through profit or loss are presented within listed equity instruments under 'Investment securities' (refer to note 3).

Refer to note 50.4 for additional disclosure of the Group's investments in associates and joint ventures.

	Group 2019 Rm	Group 2018 Rm
12. Investment properties		
Balance at the beginning of the reporting period	508	231
Additions	1	165
Change in fair value (refer to note 36)	12	38
Disposals/Transfers	(2)	—
Foreign exchange movements	(6)	33
Transfer from property, plant and equipment (refer to note 13)	—	41
Balance at the end of the reporting period	513	508

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

	Group					
	2019			2018		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying amount Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying amount Rm
13. Property and equipment						
Computer equipment	9 025	(5 524)	3 501	9 100	(5 411)	3 689
Freehold property	7 264	(1 022)	6 242	7 141	(944)	6 197
Furniture and other equipment	11 918	(6 431)	5 487	11 496	(5 812)	5 684
Leasehold property	523	(387)	136	753	(531)	222
Motor vehicles	100	(67)	33	119	(76)	43
Right-of-use assets (refer to note 44)	4 326	(1 105)	3 221	—	—	—
	33 156	(14 536)	18 620	28 609	(12 774)	15 835

Reconciliation of property and equipment	Group 2019										
	Opening balance Rm	Additions Rm	Disposals Rm	Transfer (to)/from investment properties Rm	Transfers[1] Rm	Transfer (to/from intangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairments charge Rm	Closing balance Rm
Computer equipment	3 689	1 204	(85)	—	31	—	—	(29)	(1 226)	(83)	3 501
Freehold property	6 197	1 145	(106)	—	(741)	(25)	(21)	(72)	(71)	(64)	6 242
Furniture and other equipment	5 684	611	(126)	—	580	—	—	(15)	(1 196)	(51)	5 487
Leasehold property	222	—	(188)	—	130	—	—	(4)	(24)	—	136
Motor vehicles	43	14	(5)	—	—	—	—	(4)	(15)	—	33
Right-of-use assets[2]	—	4 531	(13)	—	—	—	—	(181)	(1 106)	(10)	3 221
	15 835	7 505	(523)	—	—	(25)	(21)	(305)	(3 638)	(208)	18 620
Note		44		12		14	7		38	39	

[1] An amount of **R741m** (2018: R1 519m) of assets under construction that was previously classified as 'Freehold property' has been reclassified as 'Computer equipment' **R31m** (2018: R27m), 'Furniture and other equipment' **R580m** (2018: R1 492m) and 'Leasehold property' **R130m** (2018: R0m 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. Property and equipment (continued)

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

Included in the above additions is **R966m** (2018: 1 155m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R741m (2018: R1 519m) of assets under construction 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.

R0m (2018: R41m) of certain property and equipment was transferred to investment property and **R21m** (2018: R64m) was transferred to non-current assets held for sale due to a change in the use of the assets.

14. Goodwill and intangible assets

	Group 2019 Cost Rm	2019 Accumulated amortisation and/or impairments Rm	2019 Carrying amount Rm	2018 Cost Rm	2018 Accumulated amortisation and/or impairments Rm	2018 Carrying amount Rm
Computer software development costs	**13 657**	**(4 352)**	**9 305**	13 193	(5 542)	7 651
Customer lists and relationships	**667**	**(631)**	**36**	667	(623)	44
Goodwill	**1 052**	**(197)**	**855**	1 088	(233)	855
Other	**200**	**(96)**	**104**	253	(131)	122
	15 576	**(5 276)**	**10 300**	15 201	(6 529)	8 672

14. Goodwill and intangible assets (continued)

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
	Group 2019								
Computer software development costs	**7 651**	**3 113**	**—**	**—**	**(20)**	**(1 342)**	**(122)**	**25**	**9 305**
Customer lists and relationships	**44**	**—**	**—**	**—**	**—**	**(8)**	**—**	**—**	**36**
Goodwill	**855**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**855**
Other	**122**	**—**	**—**	**—**	**—**	**(18)**	**—**	**—**	**104**
	8 672	**3 113**	**—**	**—**	**(20)**	**(1 368)**	**(122)**	**25**	**10 300**
Note			56.1			38	39		

Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combinations Rm	Disposals Rm	Foreign exchange movements Rm	Amortisation Rm	Impairment charge Rm	Transfers Rm	Closing balance Rm
	2018								
Computer software development costs	4 347	4 161	—	(97)	34	(818)	(2)	26	7 651
Customer lists and relationships	53	—	—	—	—	(9)	—	—	44
Goodwill	829	—	34	—	26	—	(34)	—	855
Other	148	—	—	—	2	(19)	—	(9)	122
	5 377	4 161	34	(97)	62	(846)	(36)	17	8 672
Note			56.2			38	39		

The majority of computer software development costs were internally generated with the remainder externally acquired. Included in computer software development costs is **R5 292m** (2018: R5 871m) relating to assets under construction.

R3 147m (2018: R1 038m) 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.

	Group 2019 Rm	Group 2018 Rm
Composition of goodwill		
Absa Vehicle and Management Solutions Proprietary Limited	**112**	112
Absa Asset Management Proprietary Limited	**30**	30
Barclays Bank of Mauritius Limited	**41**	39
Barclays Bank of Ghana Limited	**65**	65
Global Alliance Seguros S.A.	**24**	24
Nile Bank Limited	**101**	102
First Assurance Company Limited	**98**	99
Woolworths Financial Services Proprietary Limited	**364**	364
Absa Instant Life Proprietary Limited	**20**	20
	855	855

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: no impairment loss).

	Group 2019 Rm	Group 2018 Rm
15. Deferred tax		
15.1 Reconciliation of net deferred tax (asset)/liability		
Balance at the beginning of the reporting period	**(3 071)**	(657)
Effects of adopting IFRS 16	**(85)**	—
Effects of adopting IFRS 9	**—**	(2 022)
Deferred tax on amounts charged directly to other comprehensive income and equity	**91**	(299)
Credit to profit and loss (refer to note 41)	**(246)**	(15)
Tax effect of translation and other differences	**97**	(78)
Balance at the end of the reporting period	**(3 214)**	(3 071)
15.2 Deferred tax (asset)/liability		
Tax effects of temporary differences between tax and book value for:		
Deferred tax liability	**227**	360
Prepayments, accruals and other provisions	**73**	162
Capital allowances	**9**	(32)
Cash flow hedge and financial assets at fair value through other comprehensive income	**(1)**	(45)
Fair value adjustments on financial instruments	**143**	464
Impairment of loans and advances	**4**	5
Retirement benefit asset and liabilities	**(1)**	(45)
Share-based payments	**—**	(149)
Deferred tax asset	**(3 441)**	(3 431)
Assessed losses	**(72)**	(172)
Fair value adjustments on financial instruments	**(334)**	110
Cash flow hedge and financial assets at fair value through other comprehensive income	**210**	180
Impairment of loans and advances	**(2 861)**	(2 868)
Lease and rental debtor allowances	**(272)**	(244)
Prepayments, accruals and other provisions	**(1 101)**	(1 463)
Own credit risk	**(75)**	(58)
Capital allowances	**1 080**	1 187
Property allowances	**365**	292
Retirement benefit assets	**54**	45
Share-based payments	**(435)**	(440)
Net deferred tax (asset)/liability	**(3 214)**	(3 071)

15.3 Future tax relief

The Group has estimated tax losses of **R779m** (2018: R1 223m) which are available for set-off against future taxable income. Deferred tax assets of **R45m** (2018: R172m) relating to tax losses carried forward were recognised. The assessed losses in Barclays Bank of Mozambique expire after 5 years of origination. The Group has actual losses that have not been recognised of **R618m** (2018: R608m).

	Group 2019 Rm	Group 2018 Rm
16. Deposits from banks		
Call deposits	**11 628**	7 179
Fixed deposits	**18 579**	16 343
Foreign currency deposits	**33 317**	23 751
Notice deposits	**2 453**	2 452
Other	**8 508**	7 465
Repurchase agreements	**42 938**	64 231
	117 423	121 421

	Group 2019 Rm	Group 2018 Rm
17. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 58.3 and 58.4)	46 023	36 118
Commodity derivatives	475	1 482
Credit derivatives	206	180
Equity derivatives	1 882	3 093
Foreign exchange derivatives	12 249	9 337
Interest rate derivatives	31 211	22 026
Short positions	13 201	15 514
Total trading portfolio liabilities	59 224	51 632
Hedging portfolio liabilities (refer to note 58.3)	1 379	1 343
	60 603	52 975

	Group 2019 Rm	Group 2018 Rm
18. Other liabilities		
Accruals	2 771	2 804
Audit fee accrual	196	82
Cash-settled share-based payment liability (refer to note 55)	339	340
Creditors	14 987	12 194
Deferred income	184	458
Lease liabilities (2019) /Liabilities under finance lease (2018)	3 935	28
Retirement benefit funds and post-retirement medical plan obligations (refer to note 45)	425	317
Settlement balances	23 518	20 439
	46 355	36 662

	Group 2019 Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Undrawn contractually committed and guarantees provision Rm	Total Rm
19. Provisions				
Balance at the beginning of the reporting period	2 214	1 135	668	4 017
Additions	2 182	757	—	2 939
Amounts used	(2 168)	(682)	—	(2 850)
Reversals	(158)	(18)	—	(176)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 62.2)	—	—	134	134
Balance at the end of the reporting period	2 070	1 192	802	4 064

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 53 for the gross amounts as well as note 62.2 for detailed reconciliations of the expected credit losses).

Provisions expected to be recovered or settled within 12 months after the reporting date amount to **R2 238m** (2018: R2 125m).

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

	Group 2019 Rm	Group 2018 Rm
20. Deposits due to customers		
Call deposits	**82 773**	80 007
Cheque account deposits	**204 344**	199 528
Credit card deposits	**1 862**	1 904
Fixed deposits	**225 187**	180 341
Foreign currency deposits	**41 567**	35 597
Notice deposits	**68 997**	58 367
Other deposits	**1 526**	3 447
Repurchase agreements	**20 145**	12 793
Savings and transmission deposits	**179 892**	164 321
	826 293	736 305

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

	Group 2019 Rm	Group 2018 Rm
21. 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	**46 539**	53 809
Other	**1 140**	696
Promissory notes	**1 120**	1 257
Senior notes	**39 111**	30 442
Structured notes and bonds	**102**	101
	159 794	160 971

	Group 2019 Rm	Group 2018 Rm
22. Liabilities under investment contracts		
Net balance at the beginning of the reporting period	**29 674**	30 585
Change in investment contracts (refer to note 33)	**1 570**	(632)
Cash inflows on investment contracts	**3 317**	3 049
Policyholder benefits on investment contracts	**(4 934)**	(3 452)
Other	**73**	124
Net balance at the end of the reporting period	**29 700**	29 674
Intercompany eliminations[1]	**30**	25
Gross balance at the end of the reporting period	**29 730**	29 699

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

	Group 2019 Total assets/ (liabilities) backing the investment contracts Rm	Group 2019 Intercompany eliminations[1] Rm	Group 2019 Net assets/ (liabilities) attributable to external policyholders Rm
22.1 Assets and liabilities backing the investment contracts			
Money market assets (refer to note 2)	2 213	(83)	2 130
Investments linked to investment contracts (refer to note 10)	27 594	(7 552)	20 042
Other assets	45	(29)	16
Other liabilities	(125)	90	(35)
Reinsurance asset (refer to note 9)	3	(3)	—
	29 730	(7 577)	22 153

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

	Group 2019 Gross Rm	Group 2019 Reinsurance Rm	Group 2019 Net Rm
23. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 23.1)	1 143	(515)	628
Claims reported and loss adjustment expense	909	(431)	478
Claims incurred but not reported	234	(84)	150
Unearned premiums at the end of the reporting period	983	(209)	774
Balance at the beginning of the reporting period	947	(220)	727
Foreign exchange movement	9	(4)	5
Increase during the reporting period	1 190	(96)	1 094
Release during the reporting period	(1 163)	111	(1 052)
	2 126	(724)	1 402
Long-term insurance contracts (refer to note 23.2)	2 205	(162)	2 043
	4 331	(886)	3 445

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

2 This amount relates to the deferred tax asset recognised on investment contracts. This amount of R111m in 2018 is included as part of the overall deferred tax asset balance per note 15.2.

23. Policyholder liabilities under insurance contracts (continued)

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

	Group 2019 Rm	Group 2018 Rm
Comprising:		
Unit-linked insurance contracts	**1 663**	1 482
Gross	**2 122**	1 684
Reinsurance (refer to note 9)	**(459)**	(202)
Non-unit-linked insurance contracts	**1 782**	2 068
Gross	**2 209**	2 484
Reinsurance (refer to note 9)	**(427)**	(416)
	3 445	3 550

23. Policyholder liabilities under insurance contracts (continued)

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

	Group 2019 Gross Rm	Group 2019 Reinsurance Rm	Group 2019 Net Rm
Balance at the beginning of the reporting period	**1 033**	**(310)**	**723**
Foreign exchange movements	**(12)**	**3**	**(9)**
Cash paid for claims settled during the reporting period	**(1 621)**	**67**	**(1 554)**
Increase in claims arising from the current reporting period's claims outstanding	**1 460**	**(388)**	**1 072**
Increase in claims arising from the previous reporting period's claims outstanding	**283**	**113**	**396**
Balance at the end of the reporting period (refer to note 23)	**1 143**	**(515)**	**628**

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

23.2 Reconciliation of gross long-term insurance contracts

	Group 2019 Rm	Group 2018[1] Rm
Balance at the beginning of the reporting period	**2 188**	2 284
Change in insurance contract liabilities (refer to note 33)	**19**	(176)
Insurance premium income (refer to note 31)	**5 066**	4 522
Claims and benefits incurred (refer to note 32)	**(1 994)**	(1 718)
Experience variances and change in assumptions	**(3 053)**	(2 980)
Other	**21**	(39)
Foreign exchange movements	**(23)**	119
Balance at the end of the reporting period (refer to note 23)	**2 205**	2 188
Recoverable from reinsurers (refer to note 9)	**162**	88
Net liabilities	**2 043**	2 100
Unit-linked liabilities	**1 219**	1 184
Non-linked liabilities	**824**	916
	2 205	2 188

[1] The current year reconciliation has been updated in order to provide more succinct relevant information relating to the gross-long term insurance contract liability. Prior year disclosures have been updated accordingly.

24. Borrowed funds

			Group 2019 Rm	Group 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
Subordinated callable notes issued by Absa Group Limited				
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
Subordinated callable notes issued by other subsidiaries				
National Bank of Commerce 16.44% fixed rate note	29 January 2024	xxiv	**—**	34
Barclays Bank of Botswana Limited, bank rate +2.25%	14 November 2023	xxv	**136**	139
Other				
Accrued interest			**1 162**	1 222
Fair value adjustments			**245**	63
Foreign exchange movement			**621**	613
			21 418	20 225

Included in interest paid on the statement of cash flows is **R2 018m** (2018: R1 646m) 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 Group Limited on 5 February 2020. Interest is paid semi-annually in arrears on 5 February and 5 August. Absa Group Limited has an option to exercise the redemption on any interest payment date after 5 February 2020. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 4 September 2020. Interest is paid semi-annually in arrears on 4 March and 4 September. Absa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

24. Borrowed funds (continued)

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

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

viii. The 12.43% fixed rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid semi-annually in arrears on 5 May and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 11 April 2024. Interest is paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October. Absa Group 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 Group 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 Group Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 November 2023. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 5 February 2020. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 February 2020. No step-up will apply on the coupon rate, should Absa Group 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 Absa Group Limited on 4 September 2020. Interest is paid quarterly in arrears on 4 March, 4 June, 4 September and 4 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 4 September 2020. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

24. Borrowed funds (continued)

xxi. The three-month JIBAR plus 3.15% floating rate notes may be redeemed in full at the option of Absa Group Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September and 30 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 30 September 2022. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xxiii. The 6.25% fixed rate reset callable USD notes with a nominal amount of USD 400m may be redeemed in full at the option of Absa Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on 27 April 2023. The reset margin is 3.523% per annum.

xxiv. The 16.44% fixed rate notes issued by National Bank of Commerce, with a nominal amount of TZS 5000m, were redeemed in full on 29 January 2019.

xxv. The Botswana Bank repo rate + 2.25% floating rate notes issued by Barclays Bank of Botswana Limited, with a nominal amount of BWP 100m, may be redeemed in full on 14 February 2020. The interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November.

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

Note xxiii is listed on the London Stock Exchange.

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

25. Share capital and premium

25.1 Ordinary share capital

	Group	
	2019 Rm	2018 Rm
Authorised		
880 467 500 (2018: 880 467 500) ordinary shares of R2.00 each	**1 761**	1 761
Issued		
847 750 679 (2018: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696
19 122 853 (2018: 20 273 811) treasury shares held by Group entities	**(39)**	(41)
	1 657	1 655
Total issued capital		
Share capital	**1 657**	1 655
Share premium	**10 428**	10 205
	12 085	11 860

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 Group.

Shares issued

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

25. Share capital and premium (continued)

25.2 Treasury shares

The Absa Group Limited Share Incentive Trust holds treasury shares of **3 004 843** (2018: 1 756 743) which is utilised by the Group as a vehicle from which share incentive awards are granted.

The Absa Empowerment Trust holds treasury shares of **14 901 848** (2018: 13 937 050) which is an independent empowerment trust whose subsidiary owns Absa Group Limited shares to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure.

Absa Life Limited and Absa Capital Securities Proprietary Limited jointly holds treasury shares of 1 216 162 (2018: 4 580 018) which are held in the entities share portfolios.

The afore-mentioned entities are consolidated by the Group and the shares held by these entities are therefore accounted for as treasury shares and eliminated against the Group's share capital and share premium.

25.3 Directors' interests in the Group's ordinary shares

	Direct number of shares		Indirect number of shares		Total direct and indirect number of shares	
		Beneficial		Beneficial		Beneficial
	2019	2018	2019	2018	2019	2018
Present directors						
C Beggs	**2 000**	2 000	**—**	—	**2 000**	2 000
Y Z Cuba[1]	**—**	1 000	**—**	—	**—**	1 000
M J Husain	**1 000**	1 000	**—**	—	**1 000**	1 000
W E Lucas-Bull	**1 000**	1 000	**4 625**	4 625	**5 625**	5 625
PB Matlare	**17 950**	10 404	**—**	—	**17 950**	10 404
J P Quinn	**47 815**	28 788	**—**	—	**47 815**	28 788
M Ramos[2]	**—**	248 279	**—**	—	**—**	248 279
Prescribed officers						
A Rautenbach	**93 371**	57 160	**—**	—	**93 371**	57 160
N Nqweni[3]	**—**	15 519		—	**—**	15 519
C Russon	**52 689**	39 815	**—**	—	**52 689**	39 815
	215 825	404 965	**4 625**	4 625	**220 450**	409 590

There was no movement in shareholding between the reporting date and the date of approval of the financial statements.

No directors hold any non-beneficial interests in the Group's ordinary shares.

26. Other reserves

26.1 General credit risk reserve

The general credit risk reserve consists of the following:

For some African subsidiaries, the IFRS 9 expected credit losses allowance is less than the regulatory provision, which results in a shortfall. An additional general credit risk reserve has been created and maintained through a transfer of distributable reserves, which eliminates the shortfall.

26.2 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 measured at FVOCI, the cumulative amount recognised in other comprehensive income is released to profit or loss. Since the cumulative net change in the fair value of equity instruments designated as at FVOCI is not recycled to profit or loss upon derecognition, the Group recognises the cumulative net change in fair value of these instruments in retained earnings.

[1] Resigned on 4 June 2019.
[2] Retired on 28 February 2019.
[3] Resigned on 31 October 2019.

26. Other reserves (continued)

26.3 Cash flow hedging reserve

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

26.4 Foreign currency translation reserve

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

26.5 Foreign insurance subsidiary regulatory reserve

The foreign insurance subsidiary regulatory reserve is calculated on the basis of the following minimum percentages of profits recorded in each reporting period for that subsidiary:

- 20% until the value of the reserves represents half of the minimum capital required under the foreign insurance subsidiary's legislation.
- 10% from the time the amount specified in the preceding paragraph has been attained.

26.6 Share-based payment reserve

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

26.7 Associates' and joint ventures' reserve

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

26.8 Retained earnings

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

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

	Group 2019 Rm	Group 2018 Rm
27. Non-controlling interest		
27.1 Preference shares		
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 only subsidiary that gives rise to a significant non-controlling interest is Absa Bank Limited. Whilst Absa Group Limited holds 100% of the voting rights in Absa Bank Limited, Absa Bank Limited has preference shares in issue that are disclosed as non-controlling interests.

The preference shares have a dividend rate of 70% of the prime overdraft lending rate. The holders of the preference shares shall not be entitled to voting rights unless a declared preference dividend remains in arrears and unpaid after six months from the due date thereof, or if a resolution is proposed by Absa Bank Limited which directly affects the rights attached to the preference shares or the interest of the shareholders. Payment of dividends and principal is at the discretion of the Group. The shareholders only have rights to the share capital and share premium linked to the shares, in the event of insolvency, and to any dividend that is declared, but unpaid.

As at the reporting date, there were no preference dividends that have been declared but remain unpaid. Refer to the consolidated financial statements of Absa Bank Limited for detailed information regarding the financial position and financial performance of Absa Bank Limited.

		Group 2019 Rm	Group 2018 Rm
27.2 Additional Tier 1 capital			
Subordinated callable notes issued by Absa Group Limited			
Interest rate	**Date of issue**		
Three month JIBAR + 5.65%	11 September 2017	1 500	1 500
Three month JIBAR + 4.75%	9 October 2018	1 241	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 Group 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.

	Group 2019 Rm	Group 2018 Rm
28. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	24	19
Interest on hedging instruments	331	201
Investment securities	10 463	9 993
Loans and advances to banks	2 283	1 581
Loans and advances to customers	84 737	77 442
Corporate overdrafts and specialised finance loans	1 053	939
Credit cards	6 480	5 762
Foreign currency loans	1 625	1 400
Instalment credit agreements and finance lease receivables	9 777	8 481
Loans to associates and joint ventures	2 031	1 894
Microloans	643	600
Mortgages	27 288	25 324
Other advances	556	768
Overdrafts	5 543	4 814
Overnight finance	2 250	2 134
Personal and term loans	16 513	15 693
Preference shares	1 570	1 386
Wholesale overdrafts	9 408	8 247
	97 838	89 236
Classification of interest and similar income		
Interest on hedging instruments	331	201
Cash flow hedges (refer to note 58.7)	671	545
Fair value hedging instruments	(340)	(344)
Interest on financial assets held at amortised cost	88 679	80 852
Interest on financial assets held at FVOCI	7 030	6 580
Interest on financial assets measured at fair value through profit or loss	1 798	1 603
Cash, cash balances and balances with central banks	17	13
Investment securities	158	353
Loans and advances to customers	1 623	1 237
	97 838	89 236

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

	Group 2019 Rm	Group 2018 Rm
29. Interest expense and similar charges		
Interest expense and similar charges are paid on:		
Borrowed funds	2 140	1 982
Debt securities in issue	12 617	11 544
Deposits due to customers	34 642	30 910
Call deposits	5 616	5 263
Cheque account deposits	3 535	3 379
Credit card deposits	7	9
Fixed deposits	12 411	10 073
Foreign currency deposits	269	224
Notice deposits	5 085	4 247
Other deposits due to customers	771	1 111
Savings and transmission deposits	6 948	6 604
Deposits from banks	1 776	1 224
Call deposits	446	443
Fixed deposits	768	535
Foreign currency deposits	343	—
Other	219	246
Interest on hedging instruments	(187)	(179)
Interest incurred on finance leases	349	—
	51 337	45 481
Classification of interest expense and similar charges		
Interest on hedging instruments	(187)	(178)
Cash flow hedges (refer to note 58.7)	(100)	(89)
Fair value hedging instruments	(87)	(89)
Interest on financial liabilities measured at amortised cost	51 524	45 659
	51 337	45 481

	Group 2019 Rm	Group 2018 Rm
30. Net fee and commission income		
Consulting and administration fees	548	480
Credit-related fees and commissions	20 695	19 755
Cheque accounts	5 497	5 401
Credit cards	2 923	2 770
Electronic banking	5 510	5 335
Other	4 752	4 170
Savings accounts	2 013	2 079
Insurance commission received	784	830
Investment, markets execution and investment banking fees	400	477
Merchant income	2 289	2 066
Other fee and commission income	535	423
Trust and other fiduciary services[1]	1 508	1 644
Portfolio and other management fees	1 168	1 321
Trust and estate income	340	323
Fee and commission income	26 759	25 675
Fee and commission expense	(3 153)	(3 152)
Brokerage fees	(89)	(108)
Cheque processing fees	(122)	(120)
Clearing and settlement charges	(823)	(730)
Insurance commission paid	(994)	(1 113)
Notification fees	(216)	(180)
Other	(831)	(826)
Valuation fees	(78)	(75)
	23 606	22 523

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

	Group 2019 Rm	Group 2018 Rm
30.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	5 497	5 401
Credit cards	2 923	2 770
Electronic banking	5 510	5 335
Other	4 752	4 170
Savings accounts	2 013	2 079
Fee and commission income	20 695	19 755
Fee and commission expense	(1 812)	(1 781)
	18 883	17 974

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 reporting period (31 December 2018: R218m).

31. Net insurance premium income

	Group 2019 Rm	Group 2018 Rm
Gross insurance premiums	8 944	8 266
Life insurance contracts	5 066	4 522
Short-term insurance contracts	3 878	3 744
Premiums ceded to reinsurers	(1 114)	(1 076)
Reinsurance on life insurance contracts	(602)	(545)
Reinsurance on short-term insurance contracts	(512)	(531)
	7 830	7 190
Comprising (net of reinsurance)		
Life	4 464	3 977
Credit life	1 712	1 716
Funeral business	1 067	941
Home mortgage protection	597	587
Group life	212	39
Bank embedded cover	15	21
Other	861	673
Short-term	3 366	3 213
Commercial business	91	(2)
Personal business	3 275	3 215
	7 830	7 190

32. Net claims and benefits incurred on insurance contracts

	Group 2019 Rm	Group 2018 Rm
Gross claims and benefits incurred on insurance contracts	4 869	4 045
Life insurance claims and benefits	1 994	1 718
Short-term insurance claims and benefits	2 875	2 327
Reinsurance recoveries	(1 122)	(480)
Reinsurance recoveries on life insurance contracts	(401)	(336)
Reinsurance recoveries on short-term insurance contracts	(721)	(144)
	3 747	3 565
Comprising (net of reinsurance)		
Life	1 593	1 382
Credit life	423	408
Funeral business	302	221
Home mortgage protection	416	402
Group life	156	33
Bank embedded cover	3	3
Other	293	315
Short-term	2 154	2 183
Commercial business	6	88
Personal business	2 148	2 095
	3 747	3 565

	Group 2019 Rm	Group 2018 Rm
33. Changes in investment and insurance contract liabilities		
Change in insurance contract liabilities (refer to note 23.2)	19	(176)
Change in investment contract liabilities (refer to note 22)[1]	1 570	(632)
	1 589	(808)

	Group 2019 Rm	Group 2018 Rm
34. Gains and losses from banking and trading activities		
Net gains on investments	297	341
Debt instruments designated at FVTPL	117	220
Equity instruments mandatorily measured at FVTPL	160	112
Unwind from reserves for debt instruments measured at FVOCI	20	9
Net trading result	5 221	4 971
Net trading income excluding the impact of hedge accounting	4 980	5 183
Ineffective portion of hedges	241	(212)
Cash flow hedges	225	(198)
Fair value hedges	16	(14)
Other (losses)/gains	(110)	508
	5 408	5 820
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	4 980	5 183
Losses on financial instruments designated at FVTPL	(6 867)	(1 992)
Net gains on financial assets designated at FVTPL	9 173	1 384
Net losses on financial liabilities designated at FVTPL	(16 040)	(3 376)
Gains on financial instruments mandatorily measured at FVTPL	11 847	7 175
Other (losses)/gains	(110)	508
Losses on financial instruments designated at FVTPL	(62)	(91)
(Losses)/gains on financial instruments mandatorily measured at FVTPL	(48)	599

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

35. Gains and losses from investment activities

	Group 2019 Rm	Group 2018 Rm
Net gains/(losses) on investment activities	1 583	(580)
Policyholder insurance contracts	275	47
Policyholder investment contracts[1]	865	(1 027)
Shareholder funds	443	400
Other gains/(losses)	17	(56)
	1 600	(636)
Classification of gains/(losses) from investment activities		
Gains/(losses) on financial instruments designated at fair value through profit and loss	1 586	(581)
Other	(3)	1
	1 583	(580)

36. Other operating income

	Group 2019 Rm	Group 2018 Rm
Foreign exchange differences, including amounts recycled from other comprehensive income	(134)	35
Income from investment properties	18	47
Change in fair value (refer to note 12)	12	38
Rentals	6	9
Revenue arising from contracts with customers	117	90
Income from maintenance contracts	33	39
Profit on sale of investment property	1	—
Profit/(loss) on sale of property and equipment	27	(14)
Profit on disposal of developed properties	31	34
Gross sales	143	142
Cost of sales	(112)	(108)
Profit on sale of repossessed properties	25	31
Gross sales	57	57
Cost of sales	(32)	(26)
Rental income	36	48
Sundry income[2]	474	400
	511	620

37. Impairment losses

	Group 2019 Rm	Group 2018 Rm
Impairment losses raised during the reporting period	8 523	7 250
Stage 1 expected losses	(578)	(4 346)
Stage 2 expected losses	1 876	7 451
Stage 3 expected losses	7 225	4 145
Losses on modifications	119	22
Recoveries of loans and advances previously written off	(826)	(948)
	7 816	6 324

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

	Group 2019 Rm	Group 2018 Rm
38. Operating expenses		
Administration fees	579	469
Amortisation of intangible assets (refer to note 14)	1 368	846
Auditors' remuneration	378	356
Audit fees – current reporting period	331	280
Audit fees – underprovision	12	6
Audit-related fees	19	18
Other services	16	52
Cash transportation	1 304	1 266
Depreciation (refer to note 13)	3 638	2 354
Equipment costs	358	370
Rentals	101	104
Maintenance	257	266
Information technology	3 793	3 292
Marketing costs	1 743	1 962
Operating lease expenses on properties	177	1 607
Other (includes fraud losses, travel and entertainment costs)	2 887	2 779
Printing and stationery	344	362
Professional fees	2 463	2 700
Property costs	1 826	1 816
Staff costs	26 262	24 761
Bonuses	2 085	2 196
Deferred cash and share-based payments (refer to note 55)	671	771
Other	1 075	984
Salaries and current service costs on post-retirement benefit funds	21 981	20 384
Training costs	450	426
TSA direct costs	469	820
Telephone and postage	1 178	1 043
	48 767	46 803

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totalling **R96m** (2018: R270m). 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.

	Group 2019 Rm	Group 2018 Rm
39. Other impairments		
Goodwill (refer to note 14)	—	34
Intangible assets (refer to note 14)[1]	122	2
Property and equipment (refer to note 13)[2]	208	398
	330	434

[1] Management has impaired certain software assets totaling **R122m** (2018: R2m) for which the value in use is determined to be zero.

[2] Management have decided to dispose of certain property and equipment classified as held for sale under IFRS 5 resulting in an impairment of **R208m** (2018: R398m). As the property and equipment 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.

	Group 2019 Rm	Group 2018 Rm
40. Indirect taxation		
Training levy	201	211
VAT net of input credits	1 475	1 381
	1 676	1 592

	Group 2019 Rm	Group 2018 Rm
41. Taxation expense		
Current		
Foreign and other taxation	407	385
Current tax	6 029	5 785
Current tax – previous reporting period	(418)	127
	6 018	6 297
Deferred		
Deferred tax (refer to note 15)	(246)	(15)
Capital allowances	17	(112)
Impairment gains/(losses)	(202)	474
Provisions	(89)	(194)
Movements in prepayments, acruals and other provisions	(178)	50
Assessed losses	—	8
Fair value and similar adjustments through profit and loss	127	(239)
Fair value and similar adjustments in relation to prior year	57	—
Share-based payments	7	(144)
Retirement benefit fund liability	15	142
	5 772	6 282
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	21 752	21 541
Share of post-tax results of associates and joint ventures (refer to note 11)	(221)	(179)
	21 531	21 362
Tax calculated at a tax rate of 28%	6 029	5 981
Effect of different tax rates in other countries	52	34
Expenses not deductible for tax purposes[1]	602	940
Recognition of previously unrecognised deferred tax assets	37	—
Dividend income	(447)	(434)
Non-taxable interest[2]	(315)	(181)
Other income not subject to tax	(3)	(124)
Other	(177)	(56)
Items of capital in nature	(6)	38
	5 772	6 282

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

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

	Group 2019 Rm	2018[1] Rm
42. Earnings per share		
42.1 Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period.		
Basic earnings attributable to ordinary equity holders	14 256	13 917
Weighted average number of ordinary shares in issue (million)	830.0	830.1
Issued shares at the beginning and end of the reporting period (million)	847.8	847.8
Treasury shares held by Group entities (million)	(17.8)	(17.7)
Basic earnings per share (cents)	1 717.6	1 676.5
42.2 Diluted earnings per share		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares.		
Diluted earnings attributable to ordinary equity holders	14 256	13 917
Diluted weighted average number of ordinary shares in issue (million)	831.2	831.7
Weighted average number of ordinary shares in issue (million)	830.0	830.1
Adjustments for share options issued at no value (million)	1.2	1.6
Diluted earnings per share (cents)	1 715.1	1 673.3

The dilution represents the effective discount between the average option price and the average market price at which option holders can convert the options into ordinary shares. This includes options issued in respect of Absa Group Limited's Share Incentive Trust.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. The Group has one category of potential dilutive ordinary shares, namely share options. The number of shares that could have been acquired at fair value (determined as the average annual quoted market share price of the Company's shares) for the share options outstanding are calculated based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as per the above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference between the number of shares that could have been acquired at fair value and the number of shares that would have been issued assuming the exercise of the share options, are shares that would be obtained at no value.

Shares that are issued contingent on the happening of an event, are only included as potential dilutive ordinary shares when all of the conditions of the contingent event are deemed to have been met, based on the information available at the reporting date.

In calculating the diluted earnings per share in respect of share options to employees and other share-based payment arrangements, the Group adjusts the exercise price, which impacts the weighted average shares issued at no value, of potential ordinary shares to include the fair value of services that will be recognised as an expense in a future period.

43. Headline earnings

	Group 2019 Gross Rm	Group 2019 Net Rm	Group 2018 Gross Rm	Group 2018 Net Rm
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		14 256		13 917
Total headline earnings adjustment:		270		225
IAS 36 – Goodwill impairment (refer to note 39)	—	—	34	34
IFRS 5 – Profit on disposal of non-current assets held for sale	(19)	(15)	(142)	(80)
IAS 16 – (Profit)/loss on disposal of property and equipment (refer to note 36)	(27)	(21)	5	2
IAS 21 – Recycled foreign currency translation reserve	118	81	—	—
IAS 36 – Impairment of property and equipment (refer to note 39)	208	153	398	297
IAS 36 – Impairment of intangible assets (refer to note 39)	122	88	2	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 36)	(12)	(9)	(38)	(29)
IAS 40 – Profit on sale of investment property (refer to note 36)	(1)	(1)	—	—
Headline earnings/diluted headline earnings		**14 526**		14 142
Headline earnings per ordinary share (cents)		**1 750.1**		1 703.7
Diluted headline earnings per share (cents)		**1 747.6**		1 700.4

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

44. Leases

	Group 2019 Rm
The following amounts have been recognised in the statement of comprehensive income in respect of leases for which the Group is the lessee:	
Depreciation charge for right-of-use assets (refer to notes 13)	1 106
Property	1 093
Computer equipment	8
Motor vehicles	5
Interest expense on lease liabilities (refer to note 29)	349
Expense related to short-term leases	230
Expense related to low-value assets	45
Variable lease payments	17
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 13)	3 221
Property	3 161
Computer equipment	21
Motor vehicles	39
Total additions to right-of-use assets recognised during the year (refer to note 13)	4 531
Total cash outflow included in the statement of cash flows related to leases	1 466
Maturity analysis of lease liabilities – contractual undiscounted cash flows:	
Less than one year	1 217
Between one and five years	2 698
More than five years	815
Total undiscounted lease liabilities	4 730
Lease liabilities included in the statement of financial position (refer to note 18)	3 935

The Group'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 Group. Leases are negotiated for an average term of three to five years although this differs depending on the jurisdiction and 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 Group will exercise the extension option. Most leases in the Group have fixed escalations with a limited number of inflation linked leases in jurisdictions outside of South Africa.

	Group 2019 Rm	Group 2018 Rm
45. Retirement benefit obligations		
Surplus disclosed in 'Other assets'		
Absa Pension Fund defined benefit plan (refer to notes 6 and 45.1.1)	466	466
Other defined benefit plans of subsidiaries (refer to notes 6 and 45.2.1)	7	2
	473	468
Obligations disclosed in 'Other liabilities'		
Subsidiaries' post-retirement medical aid plans (refer to notes 18 and 45.3)	230	194
Other defined benefit plans of subsidiaries (refer to notes 18 and 45.2.1)	195	123
	425	317
Statement of comprehensive income charge included in staff costs		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 45.1.6)	(33)	(23)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 45.2.6)	27	37
Other defined benefit plans of subsidiaries in a surplus position (refer to note 45.2.6)	11	4
Subsidiaries' post-retirement medical aid plans	40	38
	45	56
Recognised in other comprehensive income		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 45.1.6)	34	24
Other defined benefit plans of subsidiaries in a deficit position (refer to note 45.2.6)	71	(40)
Other defined benefit plans of subsidiaries in a surplus position (refer to note 45.2.6)	4	3
Subsidiaries' post-retirement medical aid plans	33	(16)
	142	(29)

The Group operates a number of pension fund schemes (defined benefit schemes and defined contribution schemes) and post-retirement medical aid plans. The most significant schemes operated by the Group are the Absa Pension Fund and the Barclays Bank Kenya Pension Fund. Apart from these, the Group operates a number of smaller pension and post-retirement medical aid plans. The benefits provided under these schemes, the approach to funding, and the legal basis of the plans reflect their local environments.

45.1 The Absa Pension Fund

The Absa Pension Fund (the Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the Fund be carried out at least once every three years. The most recent statutory valuation of the Fund was effected on 31 March 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 in accordance with the applicable laws and the rules of the Fund. In carrying out this objective, the board must take all reasonable steps to ensure that the interests of members in terms of the rules of the Fund and the provisions of this Act are protected at all times, that they act with due care, diligence and good faith; and avoid conflicts of interest. The board must act independently and with impartiality in respect of all members and beneficiaries. The members of the board have a fiduciary duty to members and beneficiaries in respect of accrued benefits or any amount accrued to provide a benefit, as well as a fiduciary duty to the Fund, to ensure that the Fund is financially sound and is responsibly managed and governed in accordance with the rules and the PF Act.

Members who joined the fund before 1 July 2015 have the choice to receive either a conventional annuity or a living annuity from the Fund or to purchase a pension from a registered insurer. Members who joined the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

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

	Group Absa Pension Fund 2019	Group Absa Pension Fund 2018
45. Retirement benefit fund obligations (continued)		
45.1 Absa Pension Fund (continued)		
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 Group has measured the liability for the defined contribution portion of the Fund at the fair value of the assets upon which the benefits are based.

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

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

	Group 2019 Rm	Group 2018 Rm
45.1.1 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

	Group 2019 Rm	Group 2018 Rm

45. Retirement benefit fund obligations (continued)

45.1 Absa Pension Fund (continued)

45.1.2 Reconciliation of movement in the funded obligation

	2019 Rm	2018 Rm
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)/decrease 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)

45.1.3 Reconciliation of movement in the plan assets

	2019 Rm	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	951
Return on plan assets in excess of interest	(309)	(1 183)
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

45.1.4 Reconciliation of movement in the irrecoverable surplus

	2019 Rm	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)

45. Retirement benefit fund obligations (continued)

45.1 Absa Pension Fund (continued)

45.1.5 Nature of the pension fund assets

Plan assets relating to the defined benefit plan

	Group 2019 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
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

	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	19 475
Quoted fair value	2 601	12 425	2 140	17 167
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

	Group 2019 Rm	Group 2018 Rm
45. Retirement benefit fund obligations (continued)		
45.1 Absa Pension Fund (continued)		
45.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest income	**(46)**	(45)
Current service cost	**13**	22
	(33)	(23)
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**	1 183
Changes in the irrecoverable surplus in excess of interest	**(112)**	(631)
	34	24
45.1.7 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

	Group 2019 Reasonable possible change Rm	Group 2019 Increase/(decrease) on defined benefit obligation Rm
45.1.8 Sensitivity analysis of the significant actuarial assumptions		
Increase in discount rate (%)	**0.5**	**(255)**
Increase in inflation (%)	**0.5**	**295**
Increase in life expectancy (years)	**1**	**220**

	2018 Reasonable possible change Rm	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

45.1.9 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.

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans

Defined benefit structure

The benefits provided by the defined benefit structures are based on a formula, taking into account years of membership and remuneration levels. For funds where a minimum pension increase of the lower of CPI or a fixed percentage (which varies by fund) is guaranteed, additional discretionary pension increases may be granted at the discretion of the Group. For funds where a minimum increase is not guaranteed, the trustees may decide on increases in pensions subject to affordability.

The majority of the defined benefit liability relates to deferred pensioners and pensioners. There is not a significant number of active members accruing additional defined benefit liabilities.

Liabilities in respect of the defined benefit structures are calculated based on assumptions in respect of expected death, withdrawals, early retirement, family statistics, rate of increase in pensionable remuneration and medical allowances and administration costs based on past experience.

Defined contribution structure

The benefits provided by the defined contribution structures are determined by accumulated retirement funding contributions and the return on investments.

The defined contribution information has not been included in the defined benefit disclosures; this presentation is different to that of the Absa Pension Fund due to the different plan rules of the Absa Pension Fund.

The nature of the plan rules governing the Absa Regional Operations pension funds is such that any optionality is not considered significant and is therefore not included in the valuation or disclosure of the defined benefit obligations.

The funds are governed by legislation applicable in the various countries in which the funds are based. The funds are operated on a pre-funded basis. That is, assets are accumulated on a monthly basis with the aim that sufficient funding exists to meet the benefits payable under all modes of exit. Actuarial funding valuations are performed every three years regardless whether or not these are required by legislation. The most recent actuarial valuations of the funds were carried out as at 31 March 2019. Contributions are generally determined by the Employer in consultation with the Actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R200m** (2018: R201m). Surpluses and deficits are dealt with in a manner which is consistent with the funds' rules and applicable legislation. Minimum funding requirements are limited to the deficits of the funds.

The Pension Fund plans across Africa Regional Operations are administered by separate funds that are legally separated from the individual companies. The boards of trustees of the funds are responsible for the overall management of the funds.

Statutory valuations are carried out on the defined benefit funds every three years. Based on the results of the valuation, a contribution rate is recommended by the actuary. The power of deciding what the final applicable contribution rate should be rests with the employer on advice from the actuary, in some cases with the agreement of the Trustees. Where pension increases are granted in excess of that which can be afforded by the Fund, the employer must agree to such an increase and will make an additional contribution to fund this. In addition, should the valuation disclose a deficit and regulations require special additional contributions to be made to the Funds, the employer will need to make such contributions in line with a funding plan approved by the relevant country's Regulator.

Within the Africa Regional Operations funds, the asset allocation is determined taking into account legislative constraints, the available opportunity set of securities in the country across the different asset classes, fund manager offerings in the country, diversification across different asset classes and region (where applicable) and the nature and term of the liabilities. The asset investment strategy is set to target a return which is based on the actuarial assumptions used in the Fund valuation, over a 5 – 7 year term.

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans (continued)

The retirement liabilities shown relate to employees and pensioners who are members of various funds, details of which are shown in the following table

	Group 2019						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	3	85	—	7	221	597
Defined benefit deferred pensioners	—	832	43	14	8	72	—
Defined benefit pensioners	187	1 481	9	663	3	278	1 026
Defined contribution active members	—	2 098	2 098	829	221	574	1 270
Duration of the scheme (years)	10	7	12	3	15	17	8
Expected contributions to the plan for the next 12 months (Rm)	—	4.6	—	6.1	2.0	15.1	2.7

	2018						
	Barclays Bank of Botswana	Barclays Bank of Kenya	Kenya First Assurance	Barclays Bank of Zambia	Barclays Bank of Seychelles	Barclays Bank of Mauritius	Barclays Bank of Mozambique
Membership							
Defined benefit active members	—	6	76	—	8	221	—
Defined benefit deferred pensioners	—	895	25	11	6	72	632
Defined benefit pensioners	187	1 503	8	404	3	278	1 001
Defined contribution active members	1 165	2 098	2 098	883	214	574	836
Duration of the scheme (years)	11	7	13	3	15	17	10
Expected contributions to the plan for the next 12 months (Rm)	—	4.6	2.9	5.2	0.2	15.8	—

	Group 2019 Rm	2018 Rm
45.2.1 Defined benefit plan reconciliations		
Present value of funded defined benefit obligations	(2 438)	(2 540)
Fair value of the defined benefit plan assets	2 434	2 551
Funded defined benefit plan status	(4)	11
Irrecoverable surplus (effect of asset ceiling)	(184)	(132)
Net deficit arising from defined benefit obligation	(188)	(121)
45.2.2 Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	(2 540)	(2 251)
Actuarial losses	63	156
Actuarial (losses)/gains – changes in financial assumptions	(14)	56
Actuarial gains – experience adjustments	77	100
Benefits paid	199	193
Current service costs	(29)	(29)
Interest expense	(267)	(331)
Past service costs including curtailments	(2)	(0)
Foreign exchange differences	138	(278)
Balance at the end of the reporting period	(2 438)	(2 540)

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans (continued)

45.2.3 Reconciliation of movement in the plan assets

	Group 2019 Rm	Group 2018 Rm
Balance at the beginning of the reporting period	2 551	2 137
Benefits paid	(199)	(193)
Employer contributions	40	131
Interest income on plan assets	282	343
Remeasurement – return on plan assets in excess of interest	(110)	(129)
Acquisition in a business combination	1	1
Foreign exchange differences	(131)	261
Balance at the end of the reporting period	2 434	2 551

45.2.4 Reconciliation of movement in the irrecoverable surplus

	Group 2019 Rm	Group 2018 Rm
Balance at the beginning of the reporting period	(132)	(110)
Interest on irrecoverable surplus	(22)	(24)
Changes in the irrecoverable surplus in excess of interest	(28)	10
Foreign exchange differences	(2)	(8)
Balance at the end of the reporting period	(184)	(132)

45.2.5 Nature of the defined benefit plan assets

	Group 2019 Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	263	527	414	1 204
Unquoted fair value	712	59	394	1 165
Own transferable financial instruments	—	26	—	26
Own occupied or used property	—	—	39	39
	975	612	847	2 434

	2018 Fair value of plan assets: Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	270	501	505	1 276
Unquoted fair value	536	17	633	1 186
Own transferable financial instruments	—	3	—	3
Own occupied or used property	—	—	86	86
	806	521	1 224	2 551

The 'Other instruments' category of plan assets for the ARO comprises both cash and property investments.

	Group 2019 Rm	Group 2018 Rm
45. Retirement benefit fund obligations (continued)		
45.2 Other subsidiaries plans (continued)		
45.2.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest expense	7	12
Current service cost	29	29
Past service cost including curtailments	2	—
	38	41
Recognised in other comprehensive income:		
Actuarial losses/(gains) – changes in financial assumptions	14	(56)
Actuarial gains – experience adjustments	(77)	(100)
Remeasurement – return on the plan assets in excess of interest	110	129
Changes in the irrecoverable surplus in excess of interest	28	(10)
	75	(37)
45.2.7 The actuarial assumptions (weighted averages) include:		
Discount rate (%)	10.7	11.8
Inflation (%)	6.5	7.9
Future pension increases (%)	4.9	5.8
Future salary increases (%)	5.1	5.9
Average life expectancy in years of pensioner retiring at 60 – male	17.9	18.0
Average life expectancy in years of pensioner retiring at 60 – female	21.6	21.7

	Group 2019	
	Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
45.2.8 Sensitivity analysis of significant assumptions (weighted averages)		
Significant actuarial assumption		
Increase in discount rate (%)	0.5	(118)
Increase in inflation (%)	0.5	60
Increase in life expectancy (years)	1	64

	2018	
	Reasonable possible change	Increase/ (decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	0.5	(120)
Increase in inflation (%)	0.5	66
Increase in life expectancy (years)	1	64

45. Retirement benefit fund obligations (continued)

45.2 Other subsidiaries plans (continued)

45.2.9 Sensitivity analysis

The sensitivity analysis presented in this note may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth.

45.3 Post-retirement medical aid plans

Certain of the Group's subsidiaries subsidise either medical aid contributions or actual incurred medical costs after retirement. The accrued and future liabilities in respect of these post-retirement medical costs are valued either annually, or every three years, on the reporting date, and projected thereafter. These liabilities were actuarially valued based on the healthcare benefits currently provided to staff using appropriate mortality and withdrawal assumptions, as well as appropriate medical inflation and discount rates.

The present value of the post-retirement medical aid plan liabilities is **R230m** (2018: R194m) and the fair value of related plan assets is **R2m** (2018: R3m).

	Group 2019 Rm	Group 2018 Rm
46. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(13 August 2019: 505 cents per share (cps)** (6 August 2018: 490 cps)	**4 280**	4 154
Final dividend **(11 March 2020: 620 cps)** (11 March 2019: 620 cps)	**5 256**	5 256
	9 536	9 410
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend **(13 August 2019: 505 cps)** (6 August 2018: 490 cps)	**4 196**	4 076
Final dividend **(11 March 2020 :620 cps)** (11 March 2019: 620 cps)	**5 137**	5 130
	9 333	9 206
Dividends declared to non-controlling 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: 3 469.31507 cps)** (11 March 2019: 3 518.6986 cps)	**172**	174
	350	349
Distributions declared to Additional Tier 1 capital note holders		
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 (net of treasury shares)[2]		
Final dividend **(15 April 2019: 620 cps)** (16 April 2018: 595 cps)	**5 130**	4 962
Interim dividend **(16 September 2019: 505 cps)** (17 September 2018: 490 cps)	**4 247**	4 071
	9 377	9 033

[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.

[2] The dividends paid on treasury shares are calculated on payment date.

	Group 2019 Rm	Group 2018 Rm
46. Dividends per share (continued)		
Dividends paid to non-controlling preference equity holders		
Final dividend **(15 April 2019: 3 518.6986 cps)** (16 April 2018: 3 588.01 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		
Distribution		
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

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

47.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R92 511m** (2018: R 77 469m) of which **R55 248m** (2018: R 46 354m) have been sold or repledged.

47.2 Repurchase agreements and securities lent

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

Group 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	**23 712**	**(23 079)**	**23 712**	**(23 079)**	**633**
Equity instruments	**4 381**	**(1 102)**	**4 381**	**(1 102)**	**3 279**

Group 2018	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	52 946	(51 415)	52 946	(51 415)	1 531
Equity instruments	3 434	(1 085)	3 434	(1 085)	2 349

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

[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.

48. Transfer of financial assets

Transfer of financial assets involving structured entities

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

48.1 Transfer of financial assets that does not result in derecognition

	Group				
	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 Group.

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

48.2 Transfer of financial assets that results in partial derecognition

The Group invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise of 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.

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

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

49. Offsetting financial assets and financial liabilities

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

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

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

	Group							
	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	67 966	(9 813)	58 153	(43 982)	(1 212)	12 959	2 793	60 946
Reverse repurchase agreements and other similar secured lending	71 972	—	71 972	—	(71 972)	—	—	71 972
Total assets	139 938	(9 813)	130 125	(43 982)	(73 184)	12 959	2 793	132 918
Derivative financial liabilities	(56 310)	10 213	(46 097)	43 982	—	(2 115)	(1 306)	(47 402)
Repurchase agreements and other similar secured borrowings	(64 256)	—	(64 256)	—	64 256	—	—	(64 256)
Total liabilities	(120 566)	10 213	(110 353)	43 982	64 256	(2 115)	(1 306)	(111 658)

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

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

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

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

49. 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	2 626	46 988
Reverse repurchase agreements and other similar secured lending	48 291	—	48 291	—	(48 291)	—	—	48 291
Total assets	98 975	(6 322)	92 653	(33 074)	(52 713)	6 866	2 626	95 279
Derivative financial liabilities	(42 398)	7 415	(34 983)	33 074	—	(1 909)	(2 477)	(37 460)
Repurchase agreements and other similar secured borrowings	(79 651)	—	(79 651)	—	79 651	—	(85)	(79 736)
Total liabilities	(122 049)	7 415	(114 634)	33 074	79 651	(1 909)	(2 562)	(117 196)

Offsetting and collateral arrangements

Derivative assets and liabilities

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

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

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

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 62.

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

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

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

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

50. Related parties

Maria Ramos announced her retirement as the CEO of Absa Group Limited effective from 28 February 2019. The Board appointed Rene van Wyk as Absa's Chief Executive Officer with effect from 1 March 2019.

Related parties – 2018

There were no one-off significant transactions with related parties of Absa Group Limited during the prior reporting period.

50.1 Transactions with key management personnel

IAS 24 Related Party Disclosures (IAS 24), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee (Exco), including those acting in capacity of decision makers even when not formerly appointed to the Exco. A number of banking and insurance transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions. The outstanding balances at the reporting date with related parties and related party transactions conducted during the reporting period are as follows:

	Group	
	2019 Rm	2018 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	3	9
Non-deferred cash payments[1]	17	19
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	49	58
Share-based payments	18	33
	88	121
Other key management personnel		
Deferred cash payments	9	18
Non-deferred cash payments[1]	21	37
Post-employment benefit contributions	2	2
Salaries and other short-term benefits	48	57
Share-based payments	42	75
	121	188

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

50. Related parties (continued)

50.1 Transactions with key management personnel (continued)

	Group 2019 Transactions with key management Rm	Group 2019 Transactions with entities controlled by key management Rm	Group 2018 Transactions with key management Rm	Group 2018 Transactions with entities controlled by key management Rm
Loans				
Balance at the beginning of the reporting period	87	11	20	15
(Discontinuance)/inception of related-party relationships[1]	(31)	—	25	—
Loans issued and interest earned	22	0	82	(10)
Loans repaid	(30)	0	(40)	6
Balance at the end of the reporting period	48	11	87	11
Interest income	(5)	0	(6)	(1)
Deposits				
Balance at the beginning of the reporting period	27	6	28	7
(Discontinuance)/inception of related-party relationships[1]	(17)	(6)	(9)	—
Deposits received	104	0	190	17
Deposits repaid and interest paid	(111)	0	(182)	(18)
Balance at the end of the reporting period	3	0	27	6
Interest expense	1	0	1	0
Guarantees	114	25	109	24
Other investments				
Balance at the beginning of the reporting period	134	44	121	48
(Discontinuance)/inception of related-party relationships[1]	(48)	—	(33)	—
Value of new investments/contributions	56	—	27	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

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 were appointed/resigned during the reporting period.

50. Related parties (continued)

50.2 Subsidiaries and consolidated structured entities

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

			Group	
Name	Nature of business	Country of incorporation	2019 % holding	2018 % holding
Absa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	100	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	100	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	Isle of Man	100	100
Absa Stockbrokers and Portfolio Management Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	100	100
Absa Securities United Kingdom Limited	Solicitation, syndication, selling and arranging of equity and debt products.	United Kingdom	100	100
Barclays Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	100	100
Barclays Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	69	69
Barclays Bank Moçambique S.A. (BBM)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	99	99
Barclays Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	68	68
Barclays Bank Mauritius Limited	Provides retail and corporate banking.	Mauritius	100	100
Barclays Bank Seychelles Limited	Provides retail and corporate banking.	Seychelles	100	100
Barclays Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	100	100
Barclays Bank Uganda Limited	Provides retail and corporate banking.	Uganda	100	100
Barclays Bank of Zambia PLC	Provides retail and corporate banking.	Zambia	100	100
Barclays Securities Nigeria Limited	Licence for issuing house and underwriter.	Nigeria	100	100
Barclays Stockbrokers Nigeria Limited	Stockbroking, financial consulting, investment advisors and managers.	Nigeria	100	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	55	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	50	50
Absa Bank Limited and its subsidiaries	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	100	100
Absa Representative Office (Nigeria) Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria	100	100
Absa Vehicle Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	100	100
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	n/a	n/a
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	100	100

A full list of subsidiaries and consolidated SE's is available, on request, at the registered address of the Group.

During the 2019 financial year, the re-branding process was successfully completed in relation to the following subsidiaries namely Mozambique, Nigeria, Uganda. In addition, the re-branding process for the resulting subsidiaries in Botswana, Zambia, Kenya, Tanzania, Mauritius and Ghana is on track and will be completed before June 2020.

50. Related parties (continued)

50.2 Subsidiaries and consolidated structured entities (continued)

Name	Nature of business	Country of incorporation	Group 2019 % holding	Group 2018 % holding
Absa Financial Services and its subsidiaries	Holding company of financial service-related entities.	South Africa	**100**	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	**100**	100
Absa Fund Managers (RF) Proprietary Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	**100**	100
Absa Alternative Asset Management Proprietary Limited	Asset management.	South Africa	**100**	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	**100**	100
Absa Insurance Risk Management Services Limited	Providers short-term insurance and other related insurance products.	South Africa	**100**	100
Barclays Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that Absa's offerings to various market segments in Botswana.	Botswana	**100**	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Trust Limited	Trust administrative services.	South Africa	**100**	100
Barclays Life Zambia Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	**100**	100
Global Alliance Seguros, S.A.	Provides non-life insurance in Mozambique.	Mozambique	**100**	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products.		**100**	**100**
Instant Life Proprietary Limited	Provides life assurance products through cell arrangements.	South Africa	**75**	75
Share trusts				
Absa Group Employee Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Absa Empowerment Trust	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Newshelf 1405 (RF) Proprietary Limited	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Structured entities				
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
NewFunds Collective Investment Scheme	Collective Investment Scheme.	South Africa	**n/a**	n/a
iMpumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed Commercial Paper and medium-term notes.	South Africa	**n/a**	n/a
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 (SE's) is available, on request, at the registered address of the Group.

50. Related parties (continued)

50.2 Subsidiaries and consolidated structured entities (continued)

	Group 2019 Rm	Group 2018 Rm
Subsidiaries' aggregate profits and losses after taxation	**13 188**	12 139

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

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

Regulatory requirements

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

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

The minimum amount of RC required to be maintained by the Group was **R100.1bn** (2018: R91bn).

Contractual requirements

Certain of the Group's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Group has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2019 was **R10.6bn** and **R10.5bn** respectively (2018: R13.5bn and R9.9bn respectively).

Protective rights of non-controlling interests

Absa Bank Limited has issued equity preference shares in issue, which are non-controlling interests of the Group. Under the terms of these instruments, the preference shareholders will not be entitled to vote at any meeting of Absa Bank Limited, unless the preference dividend is declared, but remains in arrear and unpaid after six months from the due date. Alternatively, voting rights will be granted if a resolution of Absa Bank Limited is proposed which directly affects the rights attached to the Absa Bank Limited preferences shares, which shall include any resolutions for the winding up of the Absa Bank Limited or for the reduction of its share capital or share premium accounts.

The particulars of these instruments are shown in note 27.

50. Related parties (continued)

50.4 Associates, joint ventures and retirement benefit fund

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

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

	Group		
	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 Group	—	7 149	7 149
Value of Absa defined contribution pension fund investments managed by the Group	—	19 561	19 561
Value of Absa Group Limited shares held by defined benefit pension fund	—	8	8
Value of other Absa Group Limited securities held by defined benefit pension fund	—	27	27
Statement of financial position			
Other assets	—	473	473
Loans and advances to customers (refer to note 8)	28 490	—	28 490
Other liabilities	—	425	425
Statement of comprehensive income			
Interest income from joint ventures and associates and on pension plan assets[1]	2 031	1 184	3 215
Interest expense on defined benefit obligation[1]	—	(961)	(961)
Fee and commission income	158	—	158
Fee and commission expense	(114)	—	(114)
Current service costs (refer to note 45)[1]	—	(42)	(42)
Past service curtailments	—	(2)	(2)
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 Group	—	7 055	7 055
Value of Absa defined contribution pension fund investments managed by the Group	—	19 474	19 474
Value of Absa Group Limited shares held by defined benefit pension fund	—	—	—
Value of other Absa Group Limited securities held by defined benefit pension fund	—	34	34
Statement of financial position			
Other assets	—	468	468
Loans and advances to customers (refer to note 8)	28 259	—	28 259
Other liabilities	—	317	317
Statement of comprehensive income			
Interest income from joint ventures and associates and on pension plan assets[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 45)[1]	—	(51)	(51)
Past service curtailments	—	—	—
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 operating expenses note. Such amounts have no effect on the net interest income of the Group.

50. Related parties (continued)

50.4 Associates, joint ventures and retirement benefit fund

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

		Group	
Name	Nature of business	2019 Ownership %	2018 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	25	25
Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	25	25
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 Group.

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

51. Structured entities

Exchange-traded funds

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

Securitisation vehicles

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

51. Structured entities (continued)

Fund management

The Group manages a number of unit trust funds, ranging from lower risk fixed income funds to higher risk specialist equity funds, which are either managed solely by the Group or form part of the Group's multi-management offering. Unit trusts are regulated by the Financial Sector Conduct Authority and the Collective Investment Schemes Control Act. The Group's interest is generally restricted to fund service and asset management fees, which are based on assets under management. The Group may hold direct interests in a number of the funds; however, the magnitude of such interest varies with sufficient regularity. Whether the Group consolidates any of these funds through its direct interest depends on the magnitude of the interest held therein, as well as on the Group's ability to direct the relevant activities of the fund, either directly or indirectly. The Group earns management fee income from its involvement in the funds, as well as unrealised gains and losses as a result of revaluations of the units held directly in the funds.

Structured investment vehicles

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

Preference share funding vehicles

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

Funding vehicles

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

51.1 Consolidated structured entities

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

			Group	
Name	Nature of support	Reason for providing support	2019 Rm	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 Group has consolidated The Absa Foundation Trust since 2006 and new ETFs since 2017.

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

51. Structured entities (continued)

51.2 Unconsolidated structured entities

The level of risk that the Group is exposed to is determined by the nature and purpose of it holding an interest in the entity.

Owing to the large number of SEs in which the Group holds an interest, information about such entities has been aggregated according to the purpose for which the entity was established.

	Group						
	2019						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Investment securities	—	303	506	—	1 384	—	2 193
Debt securities	—	—	506	—	—	—	506
Equity securities	—	303	—	—	1 384	—	1 687
Loans and advances to customers	20 660	—	—	767	—	32	21 459
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	341	—	—	341
	20 660	303	506	1 108	1 384	32	23 993
Liabilities							
Derivatives held for trading	—	—	—	—	—	—	—
Interest rate derivatives (carrying value)	—	—	—	—	—	—	—
Interest rate derivatives (notional value)[1]	—	—	—	—	—	—	—
Maximum exposure to loss[2]	20 660	303	506	1 108	1 384	32	23 993
Total size of entities[3]	128 375	144 040	506	1 998	29 346	32	304 297

[1] There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interest in unconsolidated structured assets.

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

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

51. Structured entities (continued)

51.2 Unconsolidated structured entities (continued)

	2018						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Investment securities	—	163	503	—	497	—	1 163
Debt securities	—	—	503	—	—	—	503
Equity securities	—	163	—	—	497	—	660
Loans and advances to customers	18 127	—	—	2 541	—	68	20 736
Derivatives held for trading	—	—	—	3	—	—	3
Interest rate derivatives (carrying value)	—	—	—	3	—	—	3
Interest rate derivatives (notional value)	—	—	—	280	—	—	280
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	350	—	—	350
	18 127	163	503	2 894	497	68	22 252
Liabilities							
Derivatives held for trading	—	—	—	10	—	—	10
Interest rate derivatives (carrying value)	—	—	—	10	—	—	10
Interest rate derivatives (notional value)	—	—	—	703	—	—	703
Deposits due to customers	—	—	—	1 118	—	—	1 118
	—	—	—	1 128	—	—	1 128
Maximum exposure to loss[2]	18 127	163	503	2 894	497	68	22 252
Total size of entities[3]	89 587	101 189	503	4 139	19 257	68	214 743

The Group did not incur losses related to the Group's interests in unconsolidated structured entities in the current financial reporting period (2018: Rnil).

Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current financial reporting period (2018: Rnil) to unconsolidated structured entities.

51.3 Sponsored entities

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

Assets transferred to unconsolidated sponsored structured entities

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

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

	Group (Unaudited) 2019 Rm	Group (Unaudited) 2018 Rm
52. Assets under management and administration		
Alternative asset management and exchange-traded funds	**70 249**	78 025
Deceased estates	**2 474**	2 874
Other	**24 506**	24 282
Portfolio management	**17 962**	21 840
Trusts	**5 346**	4 024
Unit trusts	**215 830**	206 006
	336 367	337 051

	Group 2019 Rm	Group 2018 Rm
53. Contingencies, commitments and similar items		
Guarantees	**45 325**	46 529
Irrevocable debt facilities	**174 827**	199 062
Irrevocable equity facilities	**7**	8
Letters of credit	**10 463**	14 838
Other	**1**	63
	230 623	260 500
Authorised capital expenditure		
Contracted but not provided for	**1 174**	1 337

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

	Group 2019 Rm	Group 2018 Rm
Operating lease payments due		
No later than one year	—	1 408
Later than one year and no later than five years	—	3 905
Later than five years	—	707
	—	6 020

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

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

Irrevocable 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.

53. Contingencies, commitments and similar items (continued)

Legal matters

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

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

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

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

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

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 Group's control. Some of these are likely to have an impact on the Group's businesses, systems and earnings.

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

The Group'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.

Income taxes

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

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

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

	Group 2019 Rm	Group 2018 Rm
54. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	14 033	14 252
Loans and advances to banks[2]	4 255	4 242
	18 288	18 494
55. Deferred cash and share-based payments		
Share-based payments expense	509	577
Equity-settled arrangements:		
Absa Group Limited Long-Term Incentive Plan (LTIP)	214	123
Absa Group Limited Joiners Share Value Plan (JSVP)	27	37
Absa Group Limited Share Value Plan (SVP)	207	272
Absa Group Limited Share Incentive Awards (SIA)	(4)	(14)
Absa Group Limited Retention Share Value Plan (SVP Cliff)	0	3
Absa Group Limited Restricted Share Value Plan (RSVP)	23	112
Cash-settled arrangements:		
Absa Group Limited Long-Term Incentive Plan (LTIP)	18	7
Absa Group Limited Joiners Share Award Plan (JSAP)	9	9
Absa Group Limited Share Value Plan (SVP)	4	11
Absa Group Limited Role Based Pay (RBP)	0	(1)
Absa Group Limited Restricted Share Value Plan (RSVP)	11	18
Deferred cash expense		
Absa Group Limited cash value plan (CVP)	162	194
Total deferred cash and share-based payments (refer to note 38)	671	771
Total carrying amount of liabilities for cash-settled arrangements (refer to note 18)	339	340
Total carrying amount of the equity-settled share-based payment (refer to the statement of changes in equity)	926	877

Following regulatory deconsolidation from Barclays PLC in July 2018, the Group is no longer required to comply with the UK Prudential Regulatory Authority Remuneration Rulebook which required material risk takers to have a deferral period of five years. The Group has subsequently reassessed the vesting periods for incentive awards and has reduced the vesting period for affected populations to three years, which is aligned with local market practice. This modification in the vesting period resulted in an increase in the share-based payment expense for the prior year of R38m.

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 Group retains the obligation to settle in cash certain LTIP awards that are prohibited from being equity-settled. The award will be issued by Absa Group Limited. 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 Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period.

[1] Includes coins and bank notes.

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

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

Absa Group Limited Share Value Plan

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

Absa Group Limited Restricted Share Value Plan

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

Absa Group Limited Role Base Pay

The Role Based Pay (RBP) is a cash settled share scheme for Code staff. It limits the maximum level of variable compensation that may be paid to certain employees to 1x fixed pay, or 2x fixed pay with shareholder approval. The cash element will be paid at the same time as the salaries and the share element will be delivered quarterly, with the shares subject to a holding period. Dividends accumulate and are reinvested over the vesting period.

Number of awards '000

	2019					2018				
	Opening balance	Granted	Forfeited	Exercised	Closing balance	Opening balance	Granted	Forfeited	Exercised	Closing balance
Equity-settled:										
LTIP	8 197	6 935	(664)	(3)	14 465	8 783	—	(581)	(5)	8 197
JSVP	398	151	(69)	(218)	262	358	288	(24)	(224)	398
SVP	2 991	1 418	(284)	(1 367)	2 758	2 842	1 676	(151)	(1 376)	2 991
SIA	74	—	(25)	(49)	—	502	—	(131)	(297)	74
RSVP	1 348	—	(106)	(878)	364	2 016	—	(79)	(589)	1 348
SVP Cliff	22	—	(4)	(13)	5	541	—	(27)	(492)	22
Cash-settled:										
LTIP	701	313	(93)	—	921	755	—	(54)	—	701
JSVP	27	12	—	(14)	25	12	21	—	(6)	27
SVP	53	9	(1)	(19)	42	58	15	—	(20)	53
SIA	—	—	—	—	—	—	10	—	(10)	—
RSVP	232	—	—	(126)	106	305	—	—	(73)	232
SVP Cliff	—	—	—	—	—	30	—	—	(30)	—
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.

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

	Weighted average share price at the exercise date (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2019	2018	2019	2018	2019	2018
Equity-settled:						
LTIP	**144.69**	144.69	**1.57**	1.58	**156.06**	—
JSVP	**152.04**	163.70	**0.85**	1.60	**161.76**	158.40
SVP	**167.66**	161.00	**0.91**	1.56	**167.12**	194.43
SIA	**198.50**	198.50	—	0.16	—	198.50
RSVP	**144.22**	153.00	**0.92**	1.10	—	—
SVP Cliff	**145.97**	181.57	**0.34**	1.65	—	—
Cash-settled:						
LTIP	—	—	**1.29**	1.58	**153.69**	—
JSVP	**151.14**	161.68	**1.22**	2.22	**155.94**	178.67
SVP	**166.68**	198.50	**0.74**	1.45	**167.12**	198.45
SIA	—	154.00	—	—	—	198.50
RSVP	**160.78**	152.41	**0.75**	1.13	—	—
SVP Cliff	—	198.50	—	—	—	—
RBP	**165.25**	162.08	**0.30**	1.82	—	—

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

	Group			
	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	**473**	111	—	584

	2018			
	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	**215**	455	—	670

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

Deferred cash

Absa Group Limited Cash Value Plan

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

56. Acquisitions and disposals of businesses and other similar transactions (continued)

56.1 Acquisitions of businesses during the current reporting period (continued)

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

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

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

56.1.2 Disposals of businesses during the current reporting period

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

56.2.1 Acquisitions of businesses during the previous reporting period

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

56.2.2 Disposals of businesses during the previous reporting period

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

57. Segment report

57.1 Summary of segments

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

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

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

57. Segment report (continued)

57.1 Summary of segments (continued)

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

Reportable segments

- **RBB South Africa:**
  - **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 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 and digital 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 the Business units and associated products, where a named relationship exists and was formed to provide customers with a single 'warm-body' relationship manager rather than multiple touch points with the Group. 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 an orderly manner.
  - **Insurance Cluster:**
    - **Life Insurance** – offers life insurance, covering death, disability and retrenchment, as well as funeral and life wrapped investment products.
    - **Short-term Insurance** – provides short-term insurance solutions to the retail and commercial market segments. A direct-to-client short-term solution, Absa idirect, is also available to the retail market
  - **Retail and Business Banking Other (RBB Other):** includes investment spend, cost associated with the restructure, holding companies and related consolidation entries and allocated shareholder overhead expenses.
- **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 sales, trading and research activities across all major asset classes and products in our presence markets, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
    - **Banking** – structures innovative solutions 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.
- **ARO:**
  - **RBB ARO:** offers a comprehensive suite of retail and business banking products and services to individual and commercial customers on the African continent outside of South Africa.
  - **CIB ARO:** offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. CIB ARO includes the following sub-divisions:
    - **Corporat**e – provides corporate banking solutions spanning financing and transactional banking requirements, trade and working capital, and a full suite of cash management solutions, including payments and liquidity products. These services are provided across our combined pan-African institutional and corporate client base, including public sector.
    - **Investment Bank comprising:**
      - Markets – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
      - Banking – structures innovative solutions to meet clients' strategic advisory, financing and risk management requirements across various sectors.

57. Segment report (continued)

57.1 Summary of segments (continued)

Other reconciling stripes

- **Head Office, Treasury and other operations in South Africa:** consists of various non-banking activities.
- **Barclays separation effects:** Barclays PLC contributed R12.1 billion to the Group in June 2017, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time. The separation process will increase the capital base of the Group in the near term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclay's separation effects' in its segment results.

Changes to reportable segments and business portfolios

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

A. Wealth, Investment Management and Insurance (WIMI) has been removed from the Group's segmental disclosures to align with how the operations are now managed:
   - Life Insurance and Short-term Insurance are disclosed as the Insurance Cluster in RBB South Africa.
   - Wealth, Distribution and Fiduciary services have moved to the Relationship Banking segment in RBB South Africa.
   - WIMI Other is part of Retail and Business Banking Other in RBB South Africa.
   - Investment Management is reported in Head office, Treasury and other operations in South Africa.
   - Terminating lines are reported in Head office, Treasury and other operations in 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 ARO, 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
   - Insurance Cluster
     - Life Insurance
     - Short-term Insurance
   - 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 Group.

	Group		
	2019		
	South Africa and other international operations Rm	Africa Regions Rm	Total Rm
57.2 Segment report per geographical segment			
Net interest income – external	33 907	12 594	46 501
Non-interest income – external	27 144	6 475	33 619
Total assets	1 179 039	220 136	1 399 175
	2018[1]		
	South Africa and other international operations Rm	Africa Regions Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	32 572	11 183	43 755
Non-interest income – external	27 214	5 546	32 760
Total assets	1 094 362	194 382	1 288 744

[1] These numbers have been restated, refer to note 57.1.

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57. Segment report (continued)

	RBB South Africa		CIB South Africa		ARO	
	2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm
Statement of comprehensive income (Rm)						
Net interest income	26 191	25 140	7 278	6 913	12 564	11 153
Non-interest income	23 381	22 060	3 762	4 574	6 041	5 154
Total income	49 572	47 200	11 040	11 487	18 605	16 307
Impairment losses	(6 253)	(4 522)	(367)	(998)	(1 213)	(794)
Operating expenses	(28 581)	(27 552)	(6 503)	(6 130)	(10 753)	(9 625)
Depreciation and amortisation	(1 948)	(1 173)	(166)	(94)	(736)	(516)
Other operating expenses	(26 633)	(26 379)	(6 337)	(6 036)	(10 017)	(9 109)
Other expenses	(814)	(861)	(113)	(50)	(367)	(200)
Other impairments	(147)	(105)	(6)	—	(1)	—
Indirect taxation	(667)	(756)	(107)	(50)	(366)	(200)
Share of post-tax results of associates and joint ventures	196	154	13	14	—	—
Operating profit before income tax	14 120	14 419	4 070	4 323	6 272	5 688
Tax expenses	(3 922)	(4 158)	(534)	(695)	(1 903)	(1 984)
Profit for the reporting period	10 198	10 261	3 536	3 628	4 369	3 704
Profit attributable to:						
Ordinary equity holders	9 416	9 643	3 226	3 422	3 661	3 159
Non-controlling interest – ordinary shares	306	283	—	—	708	545
Non-controlling interest – preference shares	212	217	140	134	—	—
Non-controlling interest – additional Tier 1 capital	264	118	170	72	—	—
	10 198	10 261	3 536	3 628	4 369	3 704
Headline earnings	9 510	9 722	3 230	3 422	3 635	3 140
Statement of financial position (Rm)						
Loans and advances to customers	506 478	471 655	298 229	273 169	111 465	96 214
Loans and advances to banks	14 411	13 563	41 881	38 027	14 847	11 278
Investment securities	31 436	49 326	42 382	39 391	35 675	36 043
Other assets	364 739	317 447	246 060	181 952	56 000	48 382
Total assets	917 064	851 991	628 552	532 539	217 987	191 917
Deposits due to customers	372 564	338 235	207 461	173 832	150 388	133 656
Debt securities in issue	—	—	16 612	11 565	2 855	1 363
Other liabilities	528 014	500 847	398 398	340 009	42 248	34 087
Total liabilities	900 578	839 082	622 471	525 406	195 491	169 106

[1] These numbers have been restated, refer to note 57.1.

Notes to the consolidated financial statements

for the reporting period ended 31 December

Head Office, Treasury and other operations in South Africa		Total before Barclays separation effects		Barclays separation effects		Group	
2019 Rm	2018[1] Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
273	219	46 306	43 425	195	330	46 501	43 755
471	447	33 655	32 235	(36)	525	33 619	32 760
744	666	79 961	75 660	159	855	80 120	76 515
17	(10)	(7 816)	(6 324)	—	—	(7 816)	(6 324)
(520)	(335)	(46 357)	(43 642)	(2 410)	(3 161)	(48 767)	(46 803)
(1 814)	(1 352)	(4 664)	(3 135)	(342)	(65)	(5 006)	(3 200)
1 294	1 017	(41 693)	(40 507)	(2 068)	(3 096)	(43 761)	(43 603)
(599)	(721)	(1 893)	(1 832)	(113)	(194)	(2 006)	(2 026)
(165)	(329)	(319)	(434)	(11)	—	(330)	(434)
(434)	(392)	(1 574)	(1 398)	(102)	(194)	(1 676)	(1 592)
12	11	221	179	—	—	221	179
(346)	(389)	24 116	24 041	(2 364)	(2 500)	21 752	21 541
49	71	(6 310)	(6 766)	538	484	(5 772)	(6 282)
(297)	(318)	17 806	17 275	(1 826)	(2 016)	15 980	15 259
(300)	(321)	16 003	15 903	(1 747)	(1 986)	14 256	13 917
2	3	1 016	831	(79)	(30)	937	801
—	—	352	351	—	—	352	351
1	—	435	190	—	—	435	190
(297)	(318)	17 806	17 275	(1 826)	(2 016)	15 980	15 259
(110)	(156)	16 265	16 128	(1 739)	(1 986)	14 526	14 142
806	682	916 978	841 720	—	—	916 978	841 720
(11 394)	(9 728)	59 745	53 140	—	—	59 745	53 140
7 254	10 660	116 747	135 420	—	—	116 747	135 420
(365 775)	(292 509)	301 024	255 272	4 681	3 192	305 705	258 464
(369 109)	(290 895)	1 394 494	1 285 552	4 681	3 192	1 399 175	1 288 744
95 880	90 582	826 293	736 305	—	—	826 293	736 305
140 327	148 043	159 794	160 971	—	—	159 794	160 971
(682 093)	(599 520)	286 567	275 423	(2 162)	(5 561)	284 405	269 862
(445 886)	(360 895)	1 272 654	1 172 699	(2 162)	(5 561)	1 270 492	1 167 138

57. Segment report (continued)

	Home Loans		Vehicle and Asset Finance		Everyday Banking	
	2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm	2019 Rm	2018[1] Rm
Statement of comprehensive income (Rm)						
Net interest income	4 072	3 882	2 320	2 170	12 872	12 216
Non-interest income	467	467	530	518	12 241	11 357
Total income	4 539	4 349	2 850	2 688	25 113	23 573
Impairment losses	(182)	(113)	(1 099)	(1 022)	(4 653)	(3 108)
Operating expenses	(1 979)	(1 919)	(1 493)	(1 474)	(14 867)	(14 157)
Depreciation and amortisation	(6)	—	(25)	(28)	(128)	(109)
Other operating expenses	(1 973)	(1 919)	(1 468)	(1 446)	(14 739)	(14 048)
Other	(38)	(31)	(30)	(24)	(173)	(171)
Other impairments	—	—	(3)	—	(15)	(2)
Indirect taxation	(38)	(31)	(27)	(24)	(158)	(170)
Share of post-tax results of associates and joint ventures	—	—	179	138	—	—
Operating profit before income tax	2 340	2 286	407	306	5 420	6 137
Tax expenses	(636)	(647)	(55)	(52)	(1 503)	(1 729)
Profit for the reporting period	1 704	1 639	352	254	3 917	4 408
Profit attributable to:						
Ordinary equity holders	1 588	1 565	296	212	3 489	4 024
Non-controlling interest – ordinary shares	—	—	—	—	299	286
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	3 917	4 408
Headline earnings	1 588	1 565	299	212	3 500	4 024
Statement of financial position (Rm)						
Loans and advances to customers	237 391	227 086	83 740	76 772	61 386	57 779
Loans and advances to banks	417	771	—	43	12 044	9 567
Investment securities	12 311	12 684	4 267	4 193	3 714	3 576
Other assets	12 576	8 479	3 218	2 657	231 330	208 683
Total assets	262 695	249 020	91 225	83 665	308 474	279 605
Deposits due to customers	1 508	1 542	—	—	227 212	205 624
Other liabilities	259 113	246 287	90 027	83 350	76 735	70 880
Total liabilities	260 621	247 829	90 027	83 350	303 947	276 504

[1] These numbers have been restated, refer to note 57.1.

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Relationship Banking 2019 Rm	Relationship Banking 2018[1] Rm	Insurance Cluster 2019 Rm	Insurance Cluster 2018[1] Rm	Retail and Business Banking Other 2019 Rm	Retail and Business Banking Other 2018[1] Rm	RBB South Africa 2019 Rm	RBB South Africa 2018[1] Rm
7 538	7 245	27	27	(638)	(400)	26 191	25 140
6 349	6 155	3 208	3 012	586	551	23 381	22 060
13 887	13 400	3 235	3 039	(52)	151	49 572	47 200
(322)	(277)	—	—	3	(2)	(6 253)	(4 522)
(8 175)	(8 003)	(1 224)	(1 115)	(843)	(884)	(28 581)	(27 552)
(278)	(274)	(59)	(61)	(1 452)	(701)	(1 948)	(1 173)
(7 897)	(7 729)	(1 165)	(1 054)	609	(183)	(26 633)	(26 379)
(102)	(142)	(134)	(141)	(337)	(352)	(814)	(861)
(17)	(52)	—	(6)	(112)	(45)	(147)	(105)
(85)	(90)	(134)	(135)	(225)	(307)	(667)	(756)
17	16	—	—	—	—	196	154
5 305	4 994	1 877	1 783	(1 229)	(1 087)	14 120	14 419
(1 460)	(1 456)	(598)	(637)	330	363	(3 922)	(4 158)
3 845	3 538	1 279	1 146	(899)	(724)	10 198	10 261
3 673	3 419	1 272	1 149	(902)	(726)	9 416	9 643
—	—	7	(3)	—	—	306	283
76	77	—	—	1	2	212	217
96	42	—	—	2	—	264	118
3 845	3 538	1 279	1 146	(899)	(724)	10 198	10 261
3 672	3 439	1 273	1 162	(822)	(680)	9 510	9 722
123 960	110 017	—	—	1	1	506 478	471 655
170	301	1 326	2 216	454	665	14 411	13 563
6 615	12 314	3 460	3 422	1 069	13 137	31 436	49 326
68 048	58 432	32 003	30 839	17 564	8 357	364 739	317 447
198 793	181 064	36 789	36 477	19 088	22 160	917 064	851 991
143 833	131 057	—	—	11	12	372 564	338 235
49 728	45 824	33 515	33 014	18 896	21 493	528 014	500 847
193 561	176 881	33 515	33 014	18 907	21 505	900 578	839 082

57. Segment report (continued)

Disaggregation of non-interest income

The following table disaggregates non-interest income splitting it into income received from contracts with customers by major service lines and per reportable segment, and other items making up non-interest income:

	Group					
	2019					
	RBB South Africa Rm	CIB South Africa Rm	ARO Rm	Head Office, Treasury and other operations in SA Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	20 408	2 341	3 549	461	—	26 759
Consulting and administration fees	348	92	97	11	—	548
Transactional fees and commissions	16 104	1 640	2 979	(28)	—	20 695
Cheque accounts	5 334	138	25	—	—	5 497
Credit cards	2 719	—	204	—	—	2 923
Electronic banking	4 377	1 020	113	—	—	5 510
Other[1]	1 680	482	2 618	(28)	—	4 752
Savings accounts	1 994	—	19	—	—	2 013
Merchant income	2 097	—	184	8	—	2 289
Trust and other fiduciary services fees	238	3	5	1 262	—	1 508
Other fees and commissions	204	257	178	(105)	—	534
Insurance commissions received	1 371	—	102	(688)	—	785
Investment banking fees	46	349	4	1	—	400
Other income from contracts with customers	88	—	24	7	(2)	117
Other non-interest income, net of expenses	2 886	1 421	2 467	3	(34)	6 743
Total non-interest income	23 382	3 762	6 040	471	(36)	33 619

	2018[2]					
	RBB South Africa Rm	CIB South Africa Rm	ARO Rm	Head Office, Treasury and other operations in SA Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	19 485	2 343	3 171	676	—	25 675
Consulting and administration fees	245	101	54	80	—	480
Transactional fees and commissions	15 428	1 576	2 756	(5)	—	19 755
Cheque accounts	5 270	115	16	—	—	5 401
Credit cards	2 608	—	162	—	—	2 770
Electronic banking	4 163	1 082	91	(1)	—	5 335
Other[1]	1 324	378	2 473	(5)	—	4 170
Savings accounts	2 063	1	14	1	—	2 079
Merchant income	1 902	—	164	—	—	2 066
Trust and other fiduciary services fees	213	1	5	1 425	—	1 644
Other fees and commissions	202	230	104	(113)	—	423
Insurance commissions received	1 454	—	86	(710)	—	830
Investment banking fees	41	435	2	(1)	—	477
Other income from contracts with customers	99	—	3	(12)	—	90
Other non-interest income, net of expenses	2 476	2 231	1 980	(217)	525	6 995
Total non-interest income	22 060	4 574	5 154	447	525	32 760

[1] Includes fees on mortgage loans and foreign currency transactions.
[2] Numbers have been restated, refer to note 57.1 for further details.

58. Derivatives

58.1 Derivative financial instruments

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

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

At the reporting date, the Group did not have any compound financial instruments with multiple embedded derivatives in issue.

The Group trades the following derivative instruments:

Foreign exchange derivatives

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

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

Interest rate derivatives

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

Credit derivatives

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

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

Equity derivatives

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

Commodity derivatives

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

58.2 Notional amount

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

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

58. Derivatives (continued)

58.3 Derivative financial instruments

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

	Group 2019 Assets Rm	2019 Liabilities Rm	2019 Notional contract amount Rm	2018 Assets Rm	2018 Liabilities Rm	2018 Notional contract amount Rm
Derivatives held for trading (refer to note 5 and note 17)	57 582	(46 023)	6 834 352	44 534	(36 118)	6 569 930
Derivatives designated as hedging instruments (refer to note 5 and note 17)	3 358	(1 379)	129 339	2 411	(1 343)	229 662
Other	6	—	253	43	—	838
Total derivatives	**60 946**	**(47 402)**	**6 963 944**	46 988	(37 461)	6 800 430

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

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

	Group 2019 Assets Rm	2019 Liabilities Rm	2019 Notional contract amount Rm	2018 Assets Rm	2018 Liabilities Rm	2018 Notional contract amount Rm
Foreign exchange derivatives	13 051	(12 249)	618 586	8 833	(9 337)	648 979
Forwards	2 339	(2 310)	64 434	1 183	(1 744)	55 723
Futures	0	0	40 393	0	—	9 673
Swaps	8 957	(9 317)	417 860	7 081	(7 014)	472 983
Options	1 755	(622)	95 899	569	(579)	110 600
Interest rate derivatives	38 530	(31 211)	5 946 541	28 659	(22 026)	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	(29 902)	2 353 673	27 530	(21 138)	1 461 503
Options	88	(31)	7 291	91	(26)	11 297
Equity derivatives	5 544	(1 882)	250 104	5 389	(3 093)	287 988
Forwards	314	(228)	11 888	734	(101)	10 486
Futures	0	0	80 098	—	0	94 905
Swaps	1 403	(677)	17 283	2 050	(1 903)	22 910
Options	3 827	(977)	42 617	2 605	(1 089)	39 387
Options – exchange traded	—	—	86 183	0	—	93 652
Other – OTC	—	—	12 035	0	—	26 648
Commodity derivatives	302	(475)	10 203	1 480	(1 482)	29 200
Forwards	225	(374)	7 363	152	(162)	8 132
Swaps	13	(40)	614	14	(18)	203
Options	64	(61)	2 226	1 314	(1 302)	20 865
Default swaps	155	(206)	8 918	173	(180)	9 205
Derivatives held for trading	57 582	(46 023)	6 834 352	44 534	(36 118)	6 569 930
Note	5	17		5	17	

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

58. Derivatives (continued)

58.5 Derivative held for investment purposes

Derivatives held for Investment purposes for the 2019 period had a notional value of **R253m** (2018: R838m) and an asset value of **R6m** (2018: R43m).

58.6 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R58 153m** (2018: R44 362m). Additionally, the Group 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 Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

58.7 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 Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged. The assessment of the effectiveness of hedge relationships are performed on a cumulative life to date basis.

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

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

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

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

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

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

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

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

(i) Benchmark interest rate risk;
(ii) Inflation risk as a contractually specified component of a debt instrument;
(iii) Spot exchange rate risk for foreign currency denominated financial assets or financial liabilities;
(iv) Spot or forward exchange rate risk for highly probable forecast foreign denominated expenditure or a net investment in a foreign operation;
(v) Components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

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

(i) Mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences between the hedged risk and the risk exposure of the hedging instrument;
(ii) Changes in credit risk of the hedging instruments;
(iii) If a hedge accounting relationship becomes overhedged. This might occur in hedges of net investments if the net asset value designated at the start of the period falls below the amount of the hedging instrument.

No other source of ineffectiveness has arisen during the period.

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.1 Fair value hedge accounting

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

	Group 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

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

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.1 Fair value 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 fair value hedge relationships:

	Group				
	2019				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Ineffectiveness recognised in profit and 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)

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 Group are presented within and Hedging portfolio assets on the Statement of Financial Position

	2018				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Ineffectiveness recognised in profit and 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 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 Group are presented within and Hedging portfolio assets on the Statement of Financial Position.

58. Derivatives (continued)
58.7 Hedge accounting (continued)
58.7.1 Fair value hedge accounting (continued)

Hedged item statement of financial position classification and risk category	Group 2019 Accumulated fair value adjustment included in the carrying amount of the hedged item 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)

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

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.2 Cash flow hedge accounting

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

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

	Group						
	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:

	Group	
	2019 Average price or rate %	2018 Average price or rate %
Interest rate risk		
Interest rate swaps		
Average fixed interest rate	8%	8%
Foreign currency risk		
Average ZAR – EUR exchange rates	17.87	15.85
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	1.48

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:

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.2 Cash flow hedge accounting (continued)

	Group					
	2019					
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective-ness recognissed 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	(66)	3

	2018					
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2019 Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective-ness recognissed in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances to customers	183 744	1 079	(354)	(828)	112	(234)
Foreign currency risk						
Forwards – hedge of forecast expenditure	1 230	84	(26)	93	94	36

The hedging instruments of the Group are presented within Hedging portfolio assets/liabilities, on the Statement of Financial Position.

Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred.

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

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.2 Cash flow hedge accounting (continued)

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

	Group					
	2019			2018		
	Amount recycled from OCI to profit or loss due to continuing hedges Rm	Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm	Amount recycled from OCI to profit or loss due to continuing hedges Rm	Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm
Cash flow hedge of interest rate risk	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:

	Group					
	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 ineffectivness Rm	Cash flow hedge reserve in respect of continued hedges Rm	Cash flow hedge reserve in respect of discontinued hedges Rm
Loans and advances to customers						
Interest rate risk	(1 607)	1 831	63	433	514	10
Highly probable forecast transactions						
Foreign currency risk	86	(67)	—	(96)	54	(20)

58. Derivatives (continued)

58.7 Hedge accounting (continued)

58.7.3 Hedges of net investments in foreign operations

Net investment hedges are used by the Group to protect against the potential risk arising from the Group's exposure to foreign currency risk in relation to its investment in foreign operations.

At 31 December 2019, the Group held the following foreign currency forward exchange contracts as hedging instruments in a net investment hedge.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	Group						
	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 ineffectiveness recognised in profit or loss Rm	Presentation of hedge ineffectiveness in profit or loss Rm
Foreign currency risk							
Forwards	—[1]	—	—	7	7	—	—

	2018						
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used to calculate hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffectiveness recognised in profit or loss Rm	Presentation of hedge ineffectiveness in profit or loss Rm
Foreign currency risk							
Forwards	—[2]	—	—	58	58	—	—

The hedging instruments of the Group are presented within hedging portfolio assets/liabilities on the Statement of Financial Position.

Hedge accounting has not been applied to any forecast transactions that have not subsequently occurred.

[1] As at 31 December 2019 all net investment hedges had expired. The nominal of items designated as hedging instrument that have expired during the financial year was R433m.

[2] As at 31 December 2018 all net investment hedges had expired. The nominal of items designated as hedging instrument that have expired during the prior financial year was R257m.

58. Derivatives (continued)

58.7 Hedge accounting (2019) (continued)

58.7.4 Reconciliation of equity

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

	Group					
	2019			2018		
	Cash flow hedge reserve Rm	Net investment hedge reserve Rm	Foreign currency translation reserve Rm	Cash flow hedge reserve Rm	Net investment hedge reserve Rm	Foreign currency translation reserve Rm
Balance at the beginning of the year	558	—	58	902	—	—
Foreign currency translation movements	—	—	—	—	—	—
Hedging (losses)/gains for the reporting period	2 074	7	—	206	58	—
Interest rate risk	2 140	—	—	112	—	—
Foreign currency risk	(66)	7	—	94	58	—
Amounts reclassified to profit or loss						
In relation to cash flows affecting profit or loss	(806)	—	—	(550)	—	—
Amounts transferred within OCI	—	(7)	7	—	(58)	58
Balance at the end of the year	1 826	—	65	558	—	58

59. 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	6 463	—	—	6 463
Investment securities	7 197	925	—	8 122
Loans and advances to banks	28 220	1 233	—	29 453
Trading portfolio assets	157 680	—	—	157 680
Hedging portfolio assets[2]	—	—	3 358	3 358
Other assets	20	—	—	20
Loans and advances to customers	45 903	21 753	—	67 656
Investments linked to investment contracts	20 042	—	—	20 042
Non-current assets held for sale	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	265 525	23 911	3 358	292 794
Liabilities				
Deposits from banks	—	40 680	—	40 680
Trading portfolio liabilities	59 224	—	—	59 224
Hedging portfolio liabilities[3]	—	—	1 379	1 379
Other liabilities	—	52	—	52
Deposits due to customers	—	56 690	—	56 690
Debt securities in issue	—	28 948	—	28 948
Liabilities under investment contracts	—	29 700	—	29 700
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	59 224	156 070	1 379	216 673

[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 332m** (2018: R1 163m) 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 **R802m** (2018: R667m) that relates 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	Outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
	2 273	—	—	2 273	43 796	—	43 796	—	52 532
	72 474	901	26 871	100 246	8 379	—	8 379	—	116 747
	—	—	—	—	30 292	—	30 292	—	59 745
	—	—	—	—	—	—	—	668	158 348
	—	—	—	—	—	—	—	—	3 358
	—	—	—	—	26 883	—	26 883	3 440	30 343
	—	—	—	—	845 232	4 090	849 322	—	916 978
	—	—	—	—	—	—	—	—	20 042
	—	—	—	—	3 865	—	3 865	127	3 992
	—	—	—	—	—	—	—	37 090	37 090
	74 747	901	26 871	102 519	958 447	4 090	962 537	41 325	1 399 175
	—	—	—	—	76 743	—	76 743	—	117 423
	—	—	—	—	—	—	—	—	59 224
	—	—	—	—	—	—	—	—	1 379
	—	—	—	—	18 876	—	18 876	27 427	46 355
	—	—	—	—	769 603	—	769 603	—	826 293
	—	—	—	—	121 031	9 815	130 846	—	159 794
	—	—	—	—	—	—	—	—	29 700
	—	—	—	—	13 009	8 409	21 418	—	21 418
	—	—	—	—		—		8 906	8 906
	—	—	—	—	999 262	18 224	1 017 486	36 333	1 270 492

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

	2018			
		Fair value through profit or loss		
	Mandatorily held at fair value Rm	Designated at fair value Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	5 803	—	—	5 803
Investment securities	6 670	10 450	—	17 120
Loans and advances to banks	18 580	1 220	—	19 800
Trading portfolio assets	127 265	—	—	127 265
Hedging portfolio assets[2]	—	—	2 411	2 411
Other assets	2	—	—	2
Loans and advances to customers	32 097	13 166	—	45 263
Investments linked to investment contracts	18 481	—	—	18 481
Non-current assets held for sale	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	208 898	24 836	2 411	236 145
Liabilities				
Deposits from banks	—	45 770	—	45 770
Trading portfolio liabilities	51 632	—	—	51 632
Hedging portfolio liabilities[3]	—	—	1 343	1 343
Other liabilities	—	47	—	47
Deposits due to customers	—	39 092	—	39 092
Debt securities in issue	—	15 589	—	15 589
Liabilities under investment contracts	—	29 674	—	29 674
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	51 632	130 172	1 343	183 147

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.
[2] Includes derivative assets to the amount of **R2 332m** (2018: R1 163m) 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 **R802m** (2018: R667m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

2018								
Fair value through other comprehensive income				Amortised cost				
Debt instruments Rm	Equity instruments Rm	Hedged items[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
2 368	—	—	2 368	38 758	—	38 758	—	46 929
83 489	804	26 647	110 940	7 360	—	7 360	—	135 420
—	—	—	—	33 340	—	33 340	—	53 140
—	—	—	—	—	—	—	1 304	128 569
—	—	—	—	—	—	—	—	2 411
—	—	—	—	27 466	—	27 466	3 174	30 642
—	—	—	—	793 820	2 637	796 457	—	841 720
—	—	—	—	—	—	—	—	18 481
—	—	—	—	—	30	30	209	239
—	—	—	—	—	—	—	31 193	31 193
85 857	804	26 647	113 308	900 744	2 667	903 411	35 880	1 288 744
—	—	—	—	75 651	—	75 651	—	121 421
—	—	—	—	—	—	—	—	51 632
—	—	—	—	—	—	—	—	1 343
—	—	—	—	32 547	—	32 547	4 068	36 662
—	—	—	—	697 213	—	697 213	—	736 305
—	—	—	—	135 660	9 722	145 382	—	160 971
—	—	—	—	—	—	—	—	29 674
—	—	—	—	11 544	8 681	20 225	—	20 225
—	—	—	—	—	—	—	8 905	8 905
—	—	—	—	952 615	18 403	971 018	12 973	1 167 138

60. Fair value disclosures

60.1 Assets and liabilities held at fair value

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

	Group							
	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								
Cash, cash balances and balances with central banks	2 674	6 062	—	8 736	2 142	6 029	—	8 171
Investment securities	37 726	56 444	14 198	108 368	52 990	63 079	11 991	128 060
Loans and advances to banks	—	29 453	—	29 453	—	19 800	—	19 800
Trading and hedging portfolio assets	71 868	82 914	6 256	161 038	61 083	65 144	3 449	129 676
Debt instruments	40 547	12 608	210	53 365	43 666	8 647	445	52 758
Derivative assets	—	57 268	3 672	60 940	—	44 495	2 450	46 945
Commodity derivatives	—	302	—	302	—	1 256	224	1 480
Credit derivatives	—	—	155	155	—	—	173	173
Equity derivatives	—	2 090	3 454	5 544	—	3 442	1 947	5 389
Foreign exchange derivatives	—	13 044	7	13 051	—	8 807	26	8 833
Interest rate derivatives	—	41 832	56	41 888	—	30 990	80	31 070
Listed equity instruments – Held for Trading (HFT)	30 775	—	—	30 775	15 848	—	—	15 848
Money market assets	546	13 038	2 374	15 958	1 569	12 002	554	14 125
Other assets	—	20	—	20	—	2	—	2
Loans and advances to customers	—	56 752	10 904	67 656	—	34 602	10 661	45 263
Investment linked to investment contracts	16 985	2 976	81	20 042	17 230	1 059	192	18 481
Total financial assets	129 253	234 621	31 439	395 313	133 445	189 715	26 293	349 453
Financial liabilities								
Deposits from banks	—	40 680	—	40 680	—	45 751	19	45 770
Trading and hedging portfolio liabilities	13 201	46 271	1 131	60 603	15 514	36 007	1 454	52 975
Derivative liabilities	—	46 271	1 131	47 402	—	36 007	1 454	37 461
Commodity derivatives	—	475	—	475	—	1 260	222	1 482
Credit derivatives	—	74	132	206	—	6	174	180
Equity derivatives	—	1 175	707	1 882	—	2 315	778	3 093
Foreign exchange derivatives	—	12 234	15	12 249	—	9 318	19	9 337
Interest rate derivatives	—	32 313	277	32 590	—	23 108	261	23 369
Short positions	13 201	—	—	13 201	15 514	—	—	15 514
Other liabilities	—	33	19	52	—	2	45	47
Deposits due to customers	156	52 077	4 457	56 690	238	36 031	2 823	39 092
Debt securities in issue	1 043	27 905	—	28 948	3	15 586	—	15 589
Liabilities under investment contracts	—	29 700	—	29 700	—	29 674	—	29 674
Total financial liabilities	14 400	196 666	5 607	216 673	15 755	163 051	4 341	183 147
Non-financial assets								
Commodities	668	—	—	668	1 304	—	—	1 304
Investment properties	—	—	513	513	—	—	508	508
Non-recurring fair value measurements								
Non-current assets held for sale[1]	—	—	126	126	—	—	239	239
Non-current liabilities held for sale[1]	—	—	112	112	—	—	124	124

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

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60. Fair value disclosures (continued)

60.2 Reconciliation of Level 3 assets and liabilities

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

	Group				
	2019				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	**3 449**	**—**	**10 661**	**—**	**11 991**
Net interest income	—	—	439	—	88
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	1 973	—	(471)	—	36
Gains and losses from investment activities	—	—	—	—	19
Purchases	1 101	—	4 602	—	1 401
Sales	(333)	—	(1,767)	—	(836)
Movement in other comprehensive income	—	—	—	—	(95)
Issues	—	—	—	—	—
Settlements	—	—	—	—	(7)
Transferred to/(from) assets/liabilities	—	—	—	—	
Transfer to Level 3	962	—	52	—	2 134
Transfer (out) of Level 3	(896)	—	(2 612)	—	(533)
Inter business transfer in/(out)	—	—	—	—	—
Step acquisition of subsidiary	—	—	—	—	—
Closing balance at the end of the reporting period	**6 256**	**—**	**10 904**	**—**	**14 198**

	2018				
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm
Opening balance at the beginning of the reporting period	1 824	2	4 741	484	7 601
Net interest income	—	—	153	—	89
Other income	—	—	—	—	—
Gains and losses from banking and trading activities	1 240	—	427	—	199
Gains and losses from investment activities	—	—	—	—	23
Purchases	1 174	—	6 617	—	3 815
Sales	(257)	—	(156)	(18)	(516)
Movement in other comprehensive income	—	—	—	—	(41)
Issues	—	—	—	—	—
Settlements	—	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—	—
Transfer to Level 3	357	—	—	—	2 928
Transfer (out) of Level 3	(889)	(2)	(1 121)	(466)	(1 914)
Step acquisition of subsidiary	—	—	—	—	(193)
Closing balance at the end of the reporting period	3 449	—	10 661	—	11 991

60.2.1 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.

Group

2019								
Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
508	192	26 801	19	1 454	45	2 823	—	4 341
—	—	527	—	—	—	—	—	—
12	—	12	—	—	—	—	—	—
—	—	1 538	—	276	—	96	—	372
—	—	19	—	—	—	—	—	—
1	—	7 105	—	—	—	—	—	—
(2)	(111)	(3 049)	—	—	—	—	—	—
(6)	—	(101)	—	—	—	2	—	2
—	—	—	—	36	8	4 850	—	4 894
—	—	(7)	—	—	—	(2 317)	—	(2 317)
—	—	3 148	—	—	—	—	—	—
—	—	(4 041)	(19)	(635)	—	(997)	—	(1 651)
—	—	—	—	—	(34)	—	—	(34)
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
513	81	31 952	—	1 131	19	4 457	—	5 607

2018								
Investment properties Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
231	—	14 883	—	945	5	1 572	488	3 010
—	—	242	—	—	—	—	—	—
38	—	38	—	—	—	—	—	—
—	—	1 866	—	(52)	—	5	—	(47)
—	—	23	—	—	—	—	—	—
165	192	11 963	—	—	—	—	—	—
—	—	(947)	—	—	—	—	—	—
33	—	(8)	—	—	—	1	—	1
—	—	—	19	1 042	40	2 501	—	3 602
—	—	—	—	(344)	—	(766)	—	(1 110)
41	—	41	—	—	—	(1)	—	(1)
—	—	3 285	—	—	—	—	—	—
—	—	(4 392)	—	(137)	—	(489)	(488)	(1 114)
—	—	(193)	—	—	—	—	—	—
508	192	26 801	19	1 454	45	2 823	—	4 341

60. Fair value disclosures (continued)

60.3 Unrealised gains and losses on Level 3 assets and liabilities

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

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

	Group		
	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)

60. Fair value disclosures (continued)

60.4 Sensitivity analysis of valuations using unobservable inputs

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

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

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

		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 and investments linked to investment contracts	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	—/—

60. Fair value disclosures (continued)

60.4 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 banks	Absa Group Limited/ Absa funding spread	—/—	—/—
Deposits due to customers	Absa Group Limited/ Absa funding spread	178/(178)	—/—
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	—/—	(20)/20
Loans and advances to customers	Credit spreads	(323)/323	—/—
Other assets	Credit spreads	—/—	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	162/(162)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(224)/224	—/—
Other liabilities	Volatility, credit spreads	—/—	—/—

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

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

	Group	
	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)

60.6 Third-party credit enhancements

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

60. Fair value disclosures (continued)

60.7 Assets and liabilities not held at fair value

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

	Group				
	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 176	13 176	13 176	—	—
Balances with the SARB	16 587	16 587	16 587	—	—
Coins and bank notes	14 033	14 033	14 033	—	—
Cash, cash balances and balances with central banks	43 796	43 796	43 796	—	—
Investment securities	8 379	8 356	7 120	736	500
Loans and advances to banks	30 292	30 292	16 979	12 885	428
Other assets	26 883	26 883	17 228	3 366	6 289
RBB South Africa	506 478	507 926	—	—	507 926
Home Loans	237 391	237 391	—	—	237 391
Vehicle and Asset Finance	83 740	84 080	—	—	84 080
Everyday Banking	61 386	61 998	—	—	61 998
Card	37 054	37 463	—	—	37 463
Personal loans	20 857	21 022	—	—	21 022
Transactional and deposits	3 475	3 513	—	—	3 513
Relationship Banking	123 960	124 456	—	—	124 456
RBB Other	1	1	—	—	1
CIB South Africa	230 573	230 573	—	—	230 573
Absa Regional Operations	111 465	111 465	—	—	111 465
Head Office, Treasury and other operations in South Africa	806	806	—	—	806
Loans and advances to customers – net of impairment losses	849 322	850 770	—	—	850 770
Non-current assets held for sale	3 865	3 865	—	—	3 865
Total assets (not held at fair value)	962 537	963 962	85 123	16 987	861 852
Financial liabilities					
Deposits from banks	76 743	76 786	17 359	59 334	93
Other liabilities	18 876	18 892	444	12 517	5 931
Call deposits	82 773	82 773	82 773	—	—
Cheque account deposits	204 187	204 187	204 187	—	—
Credit card deposits	1 862	1 862	1 862	—	—
Fixed deposits	189 121	189 544	318	155 692	33 534
Foreign currency deposits	41 567	41 567	60	23 975	17 532
Notice deposits	68 997	68 997	23 616	45 381	—
Other deposits	943	943	218	719	6
Repurchase agreements	261	261	—	—	261
Saving and transmission deposits	179 892	179 892	55 593	2 059	122 240
Deposits due to customers	769 603	770 026	368 627	227 826	173 573
Debt securities in issue	130 846	133 583	—	130 801	2 782
Borrowed funds	21 418	21 418	—	21 418	—
Total liabilities (not held at fair value)	1 017 486	1 020 705	386 430	451 896	182 379

60. Fair value disclosures (continued)

60.7 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 other central banks	11 371	11 374	11 374	—	—
Balances with the SARB	13 108	13 108	13 108	—	—
Coins and bank notes	14 252	14 252	14 252	—	—
Money market assets	27	27	27	—	—
Cash, cash balances and balances with central banks	38 758	38 761	38 761	—	—
Investment securities	7 359	7 414	6 270	667	477
Loans and advances to banks	33 339	35 669	12 263	17 461	5 945
Other assets	27 468	27 356	20 570	1 318	5 468
RBB South Africa[1]	471 655	473 081	2 503	2 111	468 467
Home Loans	227 086	227 086	—	—	226 953
Vehicle and Asset Finance	76 772	77 087	—	—	77 106
Everyday Banking	57 779	58 520	—	—	59 007
Card	36 219	36 780	—	—	37 201
Personal loans	18 321	18 465	—	—	18 482
Transactional and deposits	3 239	3 275	—	—	3 325
Relationship Banking	110 017	110 387	2 503	2 111	105 773
RBB Other	1	1	—	—	1
CIB South Africa[1]	227 907	227 907	—	—	227 907
Absa Regional Operations[1]	96 213	96 473	5 922	657	89 894
Head Office, Treasury and other operations in South Africa	681	681	—	671	10
Loans and advances to customers – net of impairment losses	796 456	798 142	8 425	3 439	786 278
Non-current assets held for sale	30	30	—	—	30
Total assets (not held at fair value)	903 410	907 372	86 289	22 885	798 198
Financial liabilities					
Deposits from banks	75 651	79 757	661	79 025	71
Other liabilities	32 614	32 826	4 283	19 717	8 826
Call deposits	80 007	80 007	35 823	44 184	—
Cheque account deposits	199 053	199 053	184 356	13 711	986
Credit card deposits	1 904	1 904	1 904	—	—
Fixed deposits	155 184	155 184	80 128	69 242	5 814
Foreign currency deposits	35 597	35 597	452	34 256	889
Notice deposits	58 367	58 367	18 747	39 597	23
Other deposits	2 779	2 779	2 272	397	110
Saving and transmission deposits	164 321	164 321	140 974	21 722	1 625
Deposits due to customers	697 212	697 212	464 656	223 109	9 447
Debt securities in issue	145 382	147 666	108	146 615	943
Borrowed funds	20 225	20 225	—	20 225	—
Total liabilities (not held at fair value)	971 084	977 686	469 708	488 691	19 287

[1] Numbers have been restated, refer 57.1

61. Credit risk of financial instruments designated at fair value

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

	Group		Credit risk mitigation	
	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 Group utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. 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 or loss

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

	Group			
	2019		2018	
	Carrying amount Rm	Contractual obligation Rm	Carrying amount Rm	Contractual obligation Rm
Liabilities				
Deposits from banks	40 680	42 597	45 770	46 284
Other liabilities	52	52	47	47
Deposits due to customers	56 690	68 562	39 092	49 515
Debt securities in issue	28 948	30 858	15 589	16 704
Liabilities under investment contracts	29 700	29 700	29 674	29 674
	156 070	171 769	130 172	142 224

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

	Group	
	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 own credit risk for deposits from banks and customers designated at fair value through profit or loss:

- The carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Absa Group issued funding. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

62. Risk management

62.1 Effective risk management and control are essential for sustainable and profitable growth

The role of risk management is to evaluate, respond and monitor risks in the execution of our strategy. It is essential that business growth plans are supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making.

The approach to managing risk is outlined in the ERMF, which creates the context for setting policies and standards, and establishing the right practices throughout the Group. It defines the risk management process and sets out the activities, tools, techniques and organisational arrangements to ensure that material risks can be optimally identified and managed. It also ensures that appropriate responses are in place to protect the Group and prevent detriment to its stakeholders.

The ERMF includes those risks taken by the Group that are probable, and material enough to merit establishing specific group-wide control frameworks. These are known as key risks and are grouped into five principal risks.

The three lines of defence operating model, which has been defined in the ERMF, enables the appropriate assignment of risk management activities between those parties that:

- Originate and take risk, and implement controls (first line);
- Oversee and challenge the first line, providing independent risk management activity and support controls (second line); and
- Provide assurance that risk processes are fit for purpose, and that they are being carried out as intended (third line).

The ERMF enables businesses and functions to be organised along the three lines by formalising independence and challenge, whilst promoting collaboration and the flow of information between all areas.

Credit risk

The risk of financial loss should the Group's customers, clients or market counterparts fail to fulfil their contractual obligation.

Risk appetite

Risk appetite and stress testing are key components of the Group's management of risk and are embedded as part of the strategic planning process. The risk appetite statement describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. The Group's risk appetite framework combines a top-down view of capacity to take risk with a bottom-up view of the risk profile associated with each business area's plans.

Risk appetite key indicators and triggers

The Group manages its risk profile in a forward-looking manner through a trigger and management action framework. Key indicators and triggers have been developed to serve as an early warning system in the event of deteriorating circumstances. The indicators include, inter alia, economic indices directly correlated with risk measures and key financial indicators. The indicators and triggers have been implemented at Group, business unit, country, and product levels, and are routinely monitored by management and reported to the GRCMC on a quarterly basis.

Stress testing

Stress testing is a key element of the Group's integrated planning process. Through the use of stress testing and scenario analysis, the Group is able to assess the performance of the Group's portfolios in the expected economic environment and also evaluate the impact of adverse economic conditions.

Actual market stresses, which have been experienced throughout the financial system in recent years, have been used to inform the Group's capital planning process and enhance the stress scenarios employed. The Group takes into account the results of all such stress testing when assessing the Group's internal and regulatory capital requirements including the setting of capital buffers.

GRCMC exercises governance oversight and approval authority over stress testing results.

62. Risk management (continued)

62.2 Credit risk

The following table sets out information about the credit quality of financial instruments to which the impairment requirements in IFRS 9 are applicable'.

	Group			
	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 other central banks	13 181	4 843	8 085	—
Balances with the SARB	16 587	16 587	—	—
Money market assets	2 272	1 966	306	—
Cash, cash balances and balances with central banks	32 040	23 396	8 391	—
Government bonds	35 338	35 181	157	—
Other	44 966	33 888	9 362	—
Treasury bills	27 419	21 237	2 595	—
Investment securities	107 723	90 306	12 114	—
Loans and advances to banks	30 316	17 957	11 779	—
Accounts receivable	10 175	6 814	3 340	—
Settlement accounts	16 748	11 581	5 167	—
Other assets	26 923	18 395	8 507	—
RBB South Africa	530 280	45 624	385 659	20 319
Home Loans	242 826	11 081	191 335	7 531
AVAF	86 933	2 120	65 455	6 109
Everyday Banking	72 596	11 934	34 873	6 679
Card	44 445	11 066	19 847	2 066
Personal loans	23 940	571	13 324	4 150
Transactional and deposits	4 211	297	1 702	463
Relationship Banking	127 872	20 489	93 996	—
RBB Other	53	—	—	—
CIB South Africa	232 008	126 035	75 175	89
ARO	116 474	10 308	91 676	230
Head Office, Treasury and other operations in South Africa	296	270	17	—
Loans and advances to customers	879 058	182 237	552 527	20 638
Off-statement of financial position exposure				
Guarantees	45 325			
Letters of credit	10 463			
Revocable and irrevocable debt facilities	224 197			
Total off statement of financial position exposure	279 985			

[1] Refer to note 1.2.1.3 for DG bucket definitions.

62. Risk management (continued)

62.2 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 other central banks	11 380	3 290	6 552	—
Balances with the SARB	13 109	13 109	—	—
Money market assets	2 395	2 059	336	—
Cash, cash balances and balances with central banks	26 884	18 458	6 888	—
Government bonds	28 805	28 632	—	—
Other	50 116	36 871	10 802	—
Treasury bills	38 577	34 935	2 606	—
Investment securities	117 498	100 438	13 408	—
Loans and advances to banks	33 364	15 815	14 376	—
Accounts receivable	10 796	5 327	5 468	—
Settlement accounts	16 725	12 540	4 185	—
Other assets	27 521	17 867	9 653	—
RBB South Africa[2]	494 398	37 235	359 660	21 566
Home Loans	232 417	8 704	184 204	6 777
AVAF	79 761	1 461	62 220	5 285
Everyday Banking	68 166	10 323	30 149	9 504
Card	43 404	10 083	16 553	5 423
Personal loans	20 943	166	12 051	3 505
Transactional and deposits	3 819	74	1 545	576
Relationship Banking	114 001	16 747	83 087	—
RBB Other	53	—	—	—
CIB South Africa[2]	229 574	119 265	76 700	—
ARO[2]	102 374	13 734	73 908	207
Head Office, Treasury and other operations in South Africa	278	263	6	—
Loans and advances to customers	826 624	170 497	510 274	21 773
Off-statement of financial position exposure				
Guarantees	46 528			
Letters of credit	14 838			
Revocable and irrevocable debt facilities	199 062			
Total off statement of financial position exposure	260 428			

[1] Refer to note 1.2.1.3 for DG bucket definitions.

[2] Numbers have been restated, refer to notes 57.

62. Risk management (continued)

62.2 Credit risk (continued)

	Group			
	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 other central banks	—	253	—	—
Balances with the SARB	—	—	—	—
Money market assets	—	—	—	—
Cash, cash balances and balances with central banks	—	253	—	—
Government bonds	—	—	—	—
Other	322	1 394	—	—
Treasury bills	3 097	490	—	—
Investment securities	3 419	1 884	—	—
Loans and advances to banks	—	537	43	—
Accounts receivable	19	2	—	—
Settlement accounts	—	—	—	—
Other assets	19	2	—	—
RBB South Africa	593	26 714	11 788	39 583
Home Loans	227	8 414	5 282	18 956
AVAF	4	4 315	3 677	5 253
Everyday Banking	115	6 132	2 829	10 034
Card	38	3 825	1 219	6 384
Personal loans	22	1 355	1 411	3 107
Transactional and deposits	55	952	199	543
Relationship Banking	247	7 853	—	5 287
RBB Other	—	—	—	53
CIB South Africa	8 646	16 056	4 204	1 803
ARO	—	5 692	2 961	5 607
Head Office, Treasury and other operations in South Africa	—	9	—	—
Loans and advances to customers	9 239	48 471	18 953	46 993

62. Risk management (continued)

62.2 Credit risk (continued)

Maximum exposure to credit risk	2018			
	Stage 2[1]			Stage 3[1]
	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
Balances with other central banks	—	1 265	273	—
Balances with the SARB	—	—	—	—
Money market assets	—	—	—	—
Cash, cash balances and balances with central banks	—	1 265	273	—
Government bonds	173	—	—	—
Other	1 573	840	—	30
Treasury bills	—	1 036	—	—
Investment securities	1 746	1 876	—	30
Loans and advances to banks	189	2 970	14	—
Accounts receivable	—	1	—	—
Settlement accounts	—	—	—	—
Other assets	—	1	—	—
RBB South Africa	3 614	21 815	12 235	38 273
Home Loans	2 218	6 195	5 802	18 517
AVAF	648	2 233	3 160	4 754
Everyday Banking	473	4 774	3 273	9 670
Card	30	2 979	1 754	6 582
Personal loans	213	1 152	1 258	2 598
Transactional and deposits	230	643	261	490
Relationship Banking	275	8 613	—	5 279
RBB Other	—	—	—	53
CIB South Africa	14 787	13 359	2 603	2 860
ARO	—	5 152	3 339	6 034
Head Office, Treasury and other operations in South Africa	1	8	—	—
Loans and advances to customers	18 402	40 334	18 177	47 167

62. Risk management (continued)

62.2 Credit risk (continued)

The following table sets out information about the credit quality of financial instruments to which are classified at fair value through profit or loss:

	2019			
Maximum exposure to credit risk	Gross carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Cash, cash balances and balances with central banks	6 463	6 463	—	—
Money market assets	6 463	6 463	—	—
Investment securities	3 743	2 813	929	—
Government bonds	925	925	—	—
Other	2 818	1 888	929	—
Loans and advances to banks	29 453	16 406	13 047	—
Trading portfolio assets	126 905	100 471	26 385	49
Debt instruments	53 364	41 649	11 715	—
Derivative assets	57 582	48 368	9 165	49
Money market assets	15 959	10 454	5 505	—
Hedging portfolio assets	3 358	—	3 358	—
Derivatives designated as cash flow hedging instruments	2 336	—	2 336	—
Derivatives designated as fair value hedging instruments	1 022	—	1 022	—
Other assets	20	20	—	—
Accounts receivable	20	20	—	—
Loans and advances to customers	67 656	33 399	34 026	231
Reinsurance assets	886	886	—	—
Insurance contracts	886	886	—	—
Investment linked to investment contracts	2 625	2 625	—	—
Debt instruments	816	816	—	—
Derivative instruments	6	6	—	—
Money market assets	1 803	1 803	—	—
Total	241 109	163 083	77 745	280

62. Risk management (continued)

62.2 Credit risk (continued)

Maximum exposure to credit risk	2018 Gross carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Cash, cash balances and balances with central banks	5 803	5 803	—	—
Money market assets	5 803	5 803	—	—
Investment securities	13 073	12 576	497	—
Government bonds	8 420	8 420	—	—
Other	4 653	4 156	497	—
Loans and advances to banks	19 800	19 800	—	—
Trading portfolio assets	111 332	90 185	21 042	105
Debt instruments	52 657	34 904	17 691	62
Derivative assets	44 556	44 513	—	43
Money market assets	14 119	10 768	3 351	—
Hedging portfolio assets	2 411	4	2 407	—
Derivatives designated as cash flow hedging instruments	1 163	4	1 159	—
Derivatives designated as fair value hedging instruments	1 248	—	1 248	—
Other assets	2	2	—	—
Accounts receivable	2	2	—	—
Loans and advances to customers	45 263	27 402	17 721	140
Reinsurance assets	618	342	276	—
Insurance contracts	618	342	276	—
Investment linked to investment contracts	2 859	2 859	—	—
Debt instruments	615	615	—	—
Derivative instruments	43	43	—	—
Money market assets	2 201	2 201	—	—
Total	201 160	158 972	41 943	245

62. Risk management (continued)

62.2 Credit risk (continued)

Concentration of credit risk

Concentration of credit risk exists when a number of counterparties are located in a geographical region, such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions:

	Group				
	2019				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	—	15 566	22 937	38 503
Investment securities	3 274	2 238	33 570	72 384	111 466
Loans and advances to banks	10 088	15 089	25 075	9 517	59 769
Trading portfolio assets	967	13 257	21 833	90 848	126 905
Hedging portfolio assets	—	—	3	3 355	3 358
Other assets	112	672	2 540	23 619	26 943
Loans and advances to customers	12 448	14 142	120 831	799 294	946 715
Reinsurance assets	—	—	598	288	886
Investments linked to investment securities	—	—	—	2 625	2 625
Subject to credit risk	26 889	45 398	220 016	1 024 867	1 317 170
Off-statement of financial position exposures					
Guarantees	705	4 405	14 103	26 112	45 325
Letters of credit	838	28	8 664	933	10 463
Revocable and irrevocable debt facilities	26	1	30 004	194 166	224 197
Subject to credit risk	1 569	4 434	52 771	221 211	279 985

62. Risk management (continued)

62.2 Credit risk (continued)

Geographical concentration of risk	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	—	—	13 835	18 849	32 684
Investment securities	5 522	—	34 148	90 902	130 572
Loans and advances to banks	6 811	18 711	9 488	18 153	53 163
Trading portfolio assets	2 851	22 015	17 344	69 207	111 417
Hedging portfolio assets	—	—	4	2 407	2 411
Other assets	1 903	2 597	3 237	19 786	27 523
Loans and advances to customers	11 450	10 513	107 129	742 795	871 887
Reinsurance assets	—	—	393	225	618
Investments linked to investment securities	—	—	—	2 859	2 859
Subject to credit risk	28 537	53 836	185 578	965 183	1 233 134
Off-statement of financial position exposures					
Guarantees	839	5 438	14 307	25 944	46 528
Letters of credit	273	81	12 618	1 866	14 838
Revocable and irrevocable debt facilities	23	46	23 094	175 900	199 063
Subject to credit risk	1 135	5 565	50 019	203 710	260 429

IFRS disclosures in terms of credit mitigation

The financial effect and forms of collateral and credit enhancements for financial instruments that are credit impaired at the reporting date are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset and off-statement of financial position exposure as described in note 1.2.1.

The Group offsets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying amount and the undrawn facility of the related credit exposure where a loan is possibly over-collateralised.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount of this collateral and the value of this collateral is not reported.

During the period there were no changes in the Group's collateral policies.

Collateral includes:

- Guarantees and/or letters of credit from third parties.
- Credit default swaps and other credit derivatives.
- Credit insurance.
- Physical collateral including fixed charges over property.
- Cash collateral.
- Other forms including master netting agreements, put options, and highly liquid securities held under reverse repo agreements.

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62. Risk management (continued)

62.2 Credit risk (continued)

	Group				
	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	59 769	—	—	—	—
Debt instruments	53 365	—	—	—	—
Derivative assets	57 582	—	—	—	—
Money market assets	15 958	—	—	—	—
Trading portfolio assets	126 905	—	—	—	—
RBB South Africa	658 698	18	24 001	26	24
Home Loans	294 916	—	17 349	—	—
AVAF	88 585	—	3 985	—	—
Everyday Banking	118 409	—	1	—	—
Card	84 974	—	—	—	—
Personal loans	24 466	—	—	—	—
Transactional and deposits	8 969	—	1	—	—
Relationship Banking	156 735	18	2 666	26	24
RBB Other	53	—	—	—	—
CIB South Africa	365 236	187	150	—	40
ARO	146 683	86	1 742	4	561
Head Office, Treasury and other operations in South Africa	295	—	—	—	—
Loans and advances to customers	1 170 912	291	25 893	30	625
Off-balance sheet					
Guarantees	45 325	0	10	0	4
Letters of credit	10 463	—	3	—	—
Total off-statement of financial position exposure	55 788	0	13	0	4

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.

2019							
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	33 406	59 769
—	—	—	—	—	—	53 365	53 365
—	—	74	—	1 212	43 992	12 304	57 582
—	—	—	—	—	—	15 958	15 958
—	—	74	—	1 212	43 992	81 627	126 905
18 610	42 679	201	426 764	853	272	187 929	616 019
1 671	19 020	—	255 389	—	—	20 507	275 896
1 267	5 252	—	45 237	—	—	38 096	83 333
13 006	13 007	—	—	—	—	105 402	105 402
9 321	9 321	—	—	—	—	75 653	75 653
3 119	3 119	—	—	—	—	21 347	21 347
566	567	—	—	—	—	8 402	8 402
2 613	5 347	201	126 138	853	272	23 924	151 388
53	53	—	—	—	—	—	—
1 427	1 804	9 393	46 873	—	40 771	266 395	363 432
3 386	5 779	10 156	38 345	1 647	7 377	83 379	140 904
—	—	—	—	—	—	295	295
23 423	50 262	19 750	511 982	2 500	48 420	537 998	1 120 650
255	269	1 187	5 384	1 266	187	37 032	45 056
5	8	94	1 077	483	174	8 627	10 455
260	277	1 281	6 461	1 749	361	45 659	55 511

62. Risk management (continued)

62.2 Credit risk (continued)

Analysis of credit risk mitigation and collateral	Gross maximum exposure[1] Rm	2018 Collateral – credit impaired financial assets: Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Loans and advances to banks	53 163	—	—	—	—
Debt instruments	52 760	—	—	—	—
Derivative assets	44 533	—	—	—	—
Money market assets	14 125	—	—	—	—
Trading portfolio assets	111 418	—	—	—	—
RBB South Africa	618 752	18	23 336	38	108
Home Loans	282 883	—	17 136	—	—
AVAF	81 168	—	3 474	—	—
Everyday Banking	115 650	—	—	—	—
Card	85 719	—	—	—	—
Personal loans	21 488	—	—	—	—
Transactional and deposits	8 443	—	—	—	—
Relationship Banking	138 998	18	2 726	38	108
RBB Other	53	—	—	—	—
CIB South Africa	326 299	340	4	—	—
ARO	125 621	150	1 926	10	876
Head Office, Treasury and other operations in South Africa	278	—	—	—	—
Loans and advances to customers	1 070 950	508	25 266	48	984
Off-balance sheet					
Guarantees	46 528	—	2	—	2
Letters of credit	14 838	—	—	—	—
Total off-statement of financial position exposure	61 366	—	2	—	2

For financial assets not listed in the table above, no credit mitigation or collateral was held during the reporting period.

[1] Included in the gross maximum exposure is the exposure for revocable and irrevocable debt facilities.

2018							
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	31 770	53 163
—	—	—	—	—	—	52 760	52 760
—	—	123	—	4 422	33 196	6 792	44 533
—	—	—	—	—	—	14 125	14 125
—	—	123	—	4 422	33 196	73 677	111 418
17 840	41 340	388	358 162	2 756	1 405	214 701	577 412
1 465	18 601	—	244 560	—	—	19 722	264 282
1 280	4 754	—	37 989	—	—	38 425	76 414
12 572	12 572	—	—	—	—	103 078	103 078
9 453	9 453	—	—	—	—	76 266	76 266
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	53 476	133 638
53	53	—	—	—	—	—	—
2 516	2 860	18 240	10 318	—	31 617	263 264	323 439
3 348	6 310	11 775	30 448	1 757	7 417	67 914	119 311
—	—	—	—	—	—	278	278
23 704	50 510	30 403	398 928	4 513	40 439	546 157	1 020 440
18	22	819	1 509	2 282	25	41 871	46 506
—	—	513	720	1 019	617	11 969	14 838
18	22	1 332	2 229	3 301	642	53 840	61 344

62. Risk management (continued)

62.2 Credit risk (continued)

Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

	Group 2019 Rm	2018[1] Rm
Assets written off during financial period still subject to enforcement activities	9 423	8 355

Reconciliation of impairment loss allowance

The following tables show reconciliations from the opening to closing balance of the loss allowances by classes of financial assets:

Group 2019		Lifetime expected credit losses ('LEL')		
Cash, cash balances and balances with central banks at amortised cost	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	2	8	—	10
Asset moved/allowance transferred to stage 1	2	(2)	—	—
Asset moved/allowance transferred to stage 2	(0)	0	—	—
Current period provision	0	(6)	—	(6)
Foreign exchange movements	—	—	—	—
Balance at the end of the reporting period	4	0	—	4

2018		Lifetime expected credit losses ('LEL')		
Cash, cash balances and balances with central banks at amortised cost	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	3	7	—	10
Asset moved/allowance transferred to stage 1	—	—	—	—
Asset moved/allowance transferred to stage 2	(1)	1	—	—
Current period provision	(1)	(3)	—	(4)
Foreign exchange movements	1	3	—	4
Balance at the end of the reporting period	2	8	—	10

[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 R856m in amounts written off, an increase of R1 325m in net change in interest and a decrease of R470m in the current period provision.

62. Risk management (continued)

62.2 Credit risk (continued)

Investment securities at amortised cost and FVOCI	Group 2019 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	**59**	**101**	**10**	**170**
Asset moved/allowance transferred to stage 1	94	(94)	—	—
Asset moved/allowance transferred to stage 2	(8)	8	—	—
Current period provision	(90)	(3)	(10)	(102)
Foreign exchange movements	(6)	3	—	(3)
Balance at the end of the reporting period	**50**	**15**	**—**	**65**

Investment securities at amortised cost and FVOCI	2018 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	65	118	—	183
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Asset moved/allowance transferred to stage 2	—	(0)	0	—
Current period provision	(7)	(16)	10	(13)
Foreign exchange movements	—	—	—	—
Balance at the end of the reporting period	59	101	10	170

Loans and advances to banks at amortised cost	Group 2019 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	**9**	**14**	**—**	**23**
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Current period provision	10	(10)	0	(0)
Foreign exchange movements	1	0	—	1
Balance at the end of the reporting period	**21**	**3**	**0**	**23**

Loans and advances to banks at amortised cost	2018 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	40	27	—	67
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Current period provision	(25)	1	—	(24)
Foreign exchange movements	(7)	(13)	—	(20)
Balance at the end of the reporting period	9	14	—	23

62. Risk management (continued)

62.2 Credit risk (continued)

Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to **R42m** (2018: R54m).

Loans and advances to customers at amortised cost and undrawn facilities	Group 2019 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Lifetime expected credit losses ('LEL') Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	4 268	5 067	21 329	30 664
Asset moved/allowance transferred to stage 1	1 593	(1 038)	(555)	—
Asset moved/allowance transferred to stage 2	(419)	855	(436)	—
Asset moved/allowance transferred to stage 3	(238)	(1 287)	1 525	—
Current period provision	(449)	1 890	6 640	8 081
Amounts written off	—	—	(9 423)	(9 423)
Foreign exchange movements	(49)	(39)	(168)	(256)
Transfer to non-current assets held for sale	(107)	(216)	(514)	(837)
Net change in interest	—	—	2 152	2 152
Balance at the end of the reporting period	4 599	5 232	20 550	30 381

Loans and advances to customers at amortised cost and undrawn facilities	2018 Stage 1 Rm	Lifetime expected credit losses ('LEL') Stage 2 Rm	Lifetime expected credit losses ('LEL') Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	4 636	4 626	20 033	29 295
Asset moved/allowance transferred to stage 1	1 631	(1 144)	(487)	—
Asset moved/allowance transferred to stage 2	(249)	660	(411)	—
Asset moved/allowance transferred to stage 3	(150)	(1 189)	1 339	—
Current period provision	(1 756)	1 950	6 868	7 061
Amounts written off	—	—	(8 355)	(8 355)
Foreign exchange movements	156	164	647	967
Transfer to non-current assets held for sale	—	—	—	—
Net change in interest			1 695	1 695
Balance at the end of the reporting period	4 268	5 067	21 329	30 664

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The reconciliation above includes the ECL allowance recognised in respect of irrevocable debt facilities, classified as a provision on the face of the statement of financial position. The amount of the provision recognised as at December 2019 is **R645m** (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 **R8 081m** (2018: R7 061m[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 **R837m** to non-current assets held for sale relates to the disposal of a loan portfolio within Retail.
- The Group did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios 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 **R2 152m** (2018: R1 695m[1]) disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

[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 R856m in amounts written off, an increase of R1 325m in net change in interest and a decrease of R470m in the current period provision.

62. Risk management (continued)

62.2 Credit risk (continued)

The net change in interest relates only to stage 3 assets where contractual interest in suspended, and interest income is recognised based on the net carrying value of the exposures. The amount of **R1 499m** (2018:1 695m) disclosed is therefore reflective of the amount of interest not recognized during the current reporting period.

Group				
	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	79	70	22	171
Asset moved/allowance transferred to stage 1	39	(39)	—	—
Asset moved/allowance transferred to stage 2	(8)	8	—	—
Asset moved/allowance transferred to stage 3	—	(1)	1	—
Current period provision	(38)	5	26	(7)
Foreign exchange movements	1	(6)	(1)	(6)
Balance at the end of the reporting period	73	37	48	158

	2018			
		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	100	48	—	148
Asset moved/allowance transferred to stage 1	4	(4)	—	—
Asset moved/allowance transferred to stage 2	(2)	2	—	—
Asset moved/allowance transferred to stage 3	—	(0)	0	—
Current period provision	(31)	54	21	44
Foreign exchange movements	8	(30)	—	(22)
Balance at the end of the reporting period	79	70	22	171

Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL:

	Group	
	2019 Rm	2019 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)

62. Risk management (continued)

62.3 Equity investment risk

Equity investment risk refers to the risk of adverse changes in the value of listed and unlisted equity investments. These investments are longer-term investments held in the banking book for non-trading purposes.

The Group's equity investment risk objective is to balance the portfolio composition in line with the Group's risk appetite, with selective exits as appropriate.

Approach

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and Economic Capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group has adopted the market-based simple risk-weighted approach to calculate Risk Weighted Assets (RWAs) and Regulatory Capital (RC) for equity risk in the banking book. According to this approach, the Group applies a 300% risk weighting to listed exposures and 400% to unlisted exposures in non-financial entities subject to a prescribed scaling factor of 1.06. Investments in financial entities are treated in line with the principles embodied in Basel III and the Regulations relating to Banks, whereby the risk weightings are subject to the aggregate value of the Group's shareholding in those investments and also in relation to the Group's capital.

The Solvency Assessment Management (SAM) regime is equivalent to Solvency II in the UK and went live in 2017. Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes.

Economic capital for equity investment risk in the banking book is based on the investment type and portfolio risk modelling and varies from 35.2% to 100%.

Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis.

62. Risk management (continued)
62.3 Equity investment risk (continued)

	Group									
	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
Insurance activities' listed and unlisted equity investments[1,2]	**(82)**	**—**	**1 646**	**82**	**—**	(88)	—	1 764	88	—
Listed equity investments	(80)	—	1 598	80	—	(85)	—	1 699	85	—
Unlisted equity investments	(2)	—	48	2	—	(3)	—	65	3	—
Group listed and unlisted equity investments, excluding insurance activities' investments	**(137)**	**(45)**	**3 636**	**137**	**45**	(115)	(40)	3 097	115	40
Listed equity investments	(50)	(6)	1 117	50	6	(30)	(5)	716	30	5
Unlisted equity investments	(87)	(39)	2 519	87	39	(85)	(35)	2 382	85	35
Total on Group equity investments	**(219)**	**(45)**	**5 282**	**219**	**45**	(203)	(40)	4 861	203	40

[1] The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.

[2] The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

62. Risk management (continued)

62.4 Market risk

Traded market risk

Traded market risk is the risk of loss to the Group arising from potential adverse changes in the value of the firm's assets and liabilities held in the trading book from fluctuations in market variables including, but not limited to, interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities or asset correlations.

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 Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 99%.

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 Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the rest of Africa is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

62. Risk management (continued)

62.4 Market risk (continued)

Daily value at risk (continued)

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 ten-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 & sensitivity reporting and stress testing are used to complement VaR in the management of traded market risk.

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 a combination of increased volatility feeding into the recent time series, risk positioning being adverse to historic market movements and higher levels of inventory held to facilitate client trades primarily in the offshore interest rate and equity franchise. The model showed resilience in tough trading conditions. Trading revenues increased compared to the previous reporting period and favourable risk-adjusted returns were maintained.

	Group							
	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**	47.65	89.07	26.34	43.15
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 Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Group 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. Group 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.

[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. Consequently these figures are not directly comparable to the 95% risk metrics reported in the rest of the table. The sVaR period is subject to ongoing review for appropriateness.

62. Risk management (continued)

62.5 Treasury risk

Other market risks (continued)

Treasury risk comprises liquidity risk, capital risk and interest rate risk in the banking book.

- **Liquidity risk:** The risk that the Group is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- **Interest rate risk in the banking book (IRRBB):** The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

62.5.1 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Liquidity risk is monitored at a group level under a single group framework. The Liquidity Risk Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite (LRA) set by the local Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Each geographic entity is required to be self-sustaining from a liquidity and funding perspective, and is responsible for implementing appropriate processes and controls to ensure compliance with local LRA, regulatory limits and reporting requirements.

Strategy

The Group's liquidity risk management objectives are:.

- manage the funding position and High Quality Liquid Asset (HQLA) position in line with board-approved liquidity risk appetite framework and regulatory requirements;
- build and maintain adequate liquidity buffers to ensure the bank remains continuously compliant with the liquidity coverage ratio and net stable funding ratio;
- grow and diversify the funding base to support asset growth and other strategic initiatives while optimising the funding cost;
- grow core Retail, Business Bank, Corporate and Public Sector deposits faster than wholesale funding;
- work with regulatory authorities and other stakeholders on resolution planning, and Deposit Insurance Scheme;
- manage the Bank's maturity profile in order to achieve planned liquidity ratios; and
- balance the above objectives against the long-term impacts on the bank cost of funding.

Approach to liquidity risk

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed in line with the Liquidity Risk Framework, which is designed to meet the following objectives:

- to maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the LRA as expressed by the board;
- to maintain market confidence;
- to set limits to control liquidity risk within and across lines of business and legal entities;
- to set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- to project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- to maintain a Contingency Funding Plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

The Group applies a three-step risk management process:

- **Evaluate:** Risk evaluation is carried out by those individuals, teams and departments that are best placed to identify and assess the potential liquidity risks, and include those responsible for delivering the objectives under review.
- **Respond:** The appropriate risk response ensures that liquidity risk is kept within appetite.
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses.

Stress and scenario testing

Under the Liquidity Framework, the Group has established the Liquidity Risk Appetite (LRA), which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to size the liquidity pool.

Each entity within the Group undertakes a range of stress tests appropriate to their business. Stress tests consider both institution-specific and market-wide scenarios separately and on a combined basis. The results of the stress tests are used to develop the contingency funding plan and are taken into account when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the Group's liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.1 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 Group-specific liquidity stress tests; and
- scenario analyses and the extent to which each stress test and scenario can be mitigated by managing the balance sheet.

The Group maintains a range of early warning indicators (EWIs). These assist in informing management on deciding whether the CFP should be invoked. Each operation must adopt and conform to the Group CFP and establish local processes and procedures for managing local liquidity stresses that are consistent with the Group's level plan. The CFPs set out the specific requirements to be undertaken locally in a crisis situation. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. The Group continues to work with the Regulator on recovery and resolution planning.

	Group					
	2019					
	Carrying amount (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	47 734	4 789	13	—	(4)	52 532
Investment securities	9 358	41 394	34 180	31 815	(0)	116 747
Loans and advances to banks	17 921	39 916	1 932	—	(24)	59 745
Trading and hedging portfolio assets	157 681	191	2 350	817	—	161 039
Derivative assets	57 583	191	2 350	817	—	60 941
Non-derivative assets	100 098	—	—	—	—	100 098
Other financial assets	17 471	9 283	189	—	—	26 943
Loans and advances to customers	129 783	214 150	345 297	257 485	(29 737)	916 978
Non-current assets held for sale	145	3 720	—	—	—	3 865
Reinsurance assets	—	570	236	80	—	886
Investments linked to investment contracts	549	4 209	5 898	9 386	—	20 042
Financial assets	380 642	318 222	390 095	299 583	(29 765)	1 358 777
Non-financial assets						40 398
Total assets						1 399 175
Liabilities						
Deposits from banks	25 247	72 337	19 754	85	—	117 423
Trading and hedging portfolio liabilities	59 235	112	446	811	—	60 604
Derivative liabilities	46 034	112	446	811	—	47 403
Non-derivative liabilities	13 201	—	—	—	—	13 201
Other financial liabilities	29 710	8 159	636	—	—	38 505
Non-current liabilities held for sale	—	—	—	—	—	—
Deposits due to customers	471 179	281 204	61 895	12 015	—	826 293
Debt securities in issue	372	83 557	63 075	12 790	—	159 794
Liabilities under investment contracts	5 144	4 053	9 803	10 700	—	29 700
Policyholder liabilities under insurance contracts	542	—	—	3 789	—	4 331
Borrowed funds	195	10 706	3 676	6 841	—	21 418
Financial liabilities	591 624	460 128	159 285	47 031	—	1 258 068
Non-financial liabilities						12 424
Total liabilities						1 270 492
Equity						128 683
Total equity and liabilities						1 399 175
Net liquidity position of financial instruments	(210 982)	(141 906)	230 810	252 552	(29 765)	100 709

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in Note 44.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.1 Liquidity risk (continued)

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
	2018					
	Carrying amount (excluding impairment losses on amortised cost instruments)					
Assets						
Cash, cash balances and balances with central banks	38 814	7 195	690	240	(10)	46 929
Investment securities	6 815	52 782	39 188	36 638	(3)	135 420
Loans and advances to banks	17 199	34 696	1 162	106	(23)	53 140
Trading and hedging portfolio assets[2]	127 266	513	731	1 167	—	129 677
Derivative assets	44 534	513	731	1 167	—	44 534
Non-derivative assets	82 732	—	—	—	—	82 732
Other financial assets	18 341	9 182	—	—	—	27 523
Loans and advances to customers	116 996	164 134	345 053	245 703	(30 166)	841 720
Non-current assets held for sale	—	239	—	—	—	239
Reinsurance assets	—	241	372	5	—	618
Investments linked to investment contracts	412	4 155	5 785	8 129	—	18 481
Financial assets	325 843	273 137	392 981	291 988	(30 202)	1 253 747
Non-financial assets						34 997
Total assets						1 288 744
Liabilities						
Deposits from banks	38 464	67 979	14 381	597	—	121 421
Trading and hedging portfolio assets[2]	51 631	143	569	630	—	52 973
Derivative liabilities	36 117	143	569	630	—	37 459
Non-derivative liabilities	15 514	—	—	—	—	15 514
Other financial liabilities	24 445	7 232	342	614	—	32 633
Non-current liabilities held for sale	—	124	—	—	—	124
Deposits due to customers	459 364	226 363	45 215	5 363	—	736 305
Debt securities in issue	1 844	87 396	60 205	11 526	—	160 971
Liabilities under investment contracts	4 945	3 999	11 227	9 503	—	29 674
Policyholder liabilities under insurance contracts	1 763	—	—	2 405	—	4 168
Borrowed funds	1 126	3 336	14 608	1 155	—	20 225
Financial liabilities	583 583	396 571	146 547	31 793	—	1 158 494
Non-financial liabilities						8 644
Total liabilities						1 167 138
Equity						121 606
Total equity and liabilities						1 288 744
Net liquidity position of financial instruments	(257 740)	(123 436)	246 434	260 195	(30 202)	95 251

[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.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.1 Liquidity risk (continued)

	Group					
	2019					
Undiscounted maturity[1] (statement of financial position value with impact of future interest)	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	25 247	73 260	23 083	140	(4 307)	117 423
Trading and hedging portfolio liabilities	59 235	116	557	1 484	(788)	60 604
Derivative liabilities	46 034	116	557	1 484	(788)	47 403
Non-derivative liabilities	13 201	—	—	—	—	13 201
Other financial liabilities	29 710	8 263	763	—	(231)	38 505
Non-current liabilities held for sale	—	—	—	—	—	—
Deposits due to customers	471 179	286 346	75 985	24 511	(31 728)	826 293
Debt securities in issue	372	86 390	77 850	23 250	(28 068)	159 794
Liabilities under investment contracts	5 144	4 196	11 621	21 908	(13 169)	29 700
Policyholder liabilities under insurance contracts	542	—	—	14 139	(10 350)	4 331
Borrowed funds	195	10 977	7 707	14 173	(11 634)	21 418
Financial liabilities	**591 624**	**469 548**	**197 566**	**99 605**	**(100 275)**	**1 258 068**
Non-financial liabilities						**12 424**
Total liabilities	**—**	**—**	**—**	**—**	**—**	**1 270 492**
Off-statement of financial position						
Financial guarantee contracts	50 738	—	—	—	—	50 738
Loan commitments	153 367	66 412	—	—	—	219 779

	2018					
Undiscounted maturity[1] (statement of financial position value with impact of future interest)	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Deposits from banks	38 464	68 811	17 902	1 675	(5 431)	121 421
Trading and hedging portfolio liabilities[2]	51 630	146	774	1 289	(866)	52 973
Derivative liabilities	36 116	146	774	1 289	(866)	37 459
Non-derivative liabilities	15 514	—	—	—	—	15 514
Other financial liabilities	24 445	7 298	395	1 037	(542)	32 633
Non-current liabilities held for sale	—	127	—	—	(3)	124
Deposits due to customers	459 364	231 383	58 691	11 904	(25 037)	736 305
Debt securities in issue	1 844	91 006	76 977	23 458	(32 314)	160 971
Liabilities under investment contracts	4 945	4 163	14 576	20 703	(14 713)	29 674
Policyholder liabilities under insurance contracts	1 763	—	—	13 592	(11 187)	4 168
Borrowed funds	1 126	3 514	20 356	2 888	(7 659)	20 225
Financial liabilities	583 583	406 446	189 671	76 546	(97 752)	1 158 494
Non-financial liabilities						8 644
Total liabilities						1 167 138
Off-statement of financial position						
Financial guarantee contracts	46 529	—	—	—	—	46 529
Loan commitments	129 017	70 045	—	—	—	199 062

[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.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.2 Capital management

Capital risk is the risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

The Group's capital management strategy, which is in line with and in support of the Group's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Group's risk appetite.

The Group's capital management priorities are to:

- Maintain an optimal mix of high quality capital while continuing to generate sufficient capital to support profitable growth and a sustainable dividend.
- Continue to manage the capital position of the Group and its subsidiaries, throughout the period of the separation from Barclays PLC.
- Continuously monitor and assess regulatory developments that may affect the capital position, such as: The standard entitled Basel III: Finalising post-crisis reforms published by the Basel Committee on Banking Supervision in December 2017 and the proposed amendments to the Regulations relating to Banks.
- Contribute at an industry level to the development of a financial conglomerate supervisory framework in South Africa by providing comment on the publication of an amendment to the Financial Sector Regulation Act (FSRA) by the National Treasury in September 2018, for public comment, which outlined the requirements for the establishment of a resolution framework in South Africa.

Various processes play a role in ensuring that the Group's capital management priorities are met, including:

- The Internal Capital Adequacy Assessment Process (ICAAP);
- Stress testing; and
- Recovery and Resolution Planning.

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Absa Regional Operations). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Group's capital target ranges for the current reporting period were set after considering the following:

- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and its impact on the integrated plan, including the capital position of the Group;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis

Capital adequacy ratios (unaudited)

Group	2019	2018	2019 Board target ranges %	2019 Minimum regulatory capital requirements[1] %	2018 Board target ranges %	2018 Minimum regulatory capital requirements %
Statutory capital ratios (includes unappropriated profits) (%)						
Common Equity Tier 1	**12.1**	12.8	**11.0 – 12.0**	**7.5**	10.0 – 11.5	7.4
Tier 1	**13.0**	13.5	**12.0 – 13.0**	**9.3**	11.75 – 13.25	8.9
Total	**15.8**	16.1	**14.5 – 15.5**	**11.5**	14.25 – 15.75	11.1
Capital supply and demand for the reporting period (Rm)						
Qualifying capital	**138 137**	131 596				
Total RWA	**870 406**	818 592				

Regulatory capital comprises the following:

Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.

Tier 1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.

Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

During the past year, the Group complied in full with all externally imposed capital requirements (2018: the same).

[1] The 2019 minimum regulatory capital requirements of **11.5%** (2018: 11.13%) include the capital conservation buffer which is being phased in between 1 January 2016 and 1 January 2019 but excludes the bank-specific individual capital requirement (Pillar 2b add-on) and the D-SIB add-on.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.3 Interest rate risk in banking book (IRRBB)

Approach

IRRBB is the risk that the Group's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to local treasury or Group Treasury, which is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

Risk mitigation

Risk management strategies considered include:

- strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- the execution of applicable derivative contracts to maintain the Bank's interest rate risk exposure within limits.
  - Where possible, hedge accounting is applied to derivatives that are used to hedge IRRBB. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Bank's accounting policies, are followed.
  - Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Bank's equity, and is managed by Bank Treasury. Interest rate risk also arises in each of the 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 Group is unable to collect full market-related compensation. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Processes are in place to enable robust management of these additional forms of IRRBB.

Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

Re-pricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

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 Rest of Africa 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 Rest of Africa and is monitored against formal internal limits.

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.3 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 Group Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Group Treasury.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Re-pricing profile

The re-pricing profile of the Group's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

	Group			
	2019			
Expected re-pricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	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 Absa Bank Limited's total assets (%)	9.2	7.8	3.8	7.2
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	26 941	(162)	4 327	22 873
Derivatives[2]	22	—	—	21
Net interest rate sensitivity gap	26 963	(162)	4 327	22 894
Cumulative interest rate gap	26 963	26 801	31 128	54 022
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	12.3	12.2	14.2	24.6
Total				
Cumulative interest rate gap	133 337	115 957	74 318	136 804
Cumulative gap as a percentage of the Group's total assets (%)	9.5	8.3	5.3	9.8

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.3 Interest rate risk in banking book (IRRBB) (continued)

Expected re-pricing profile	2018 On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	142 895	(10 598)	(23 052)	(25 602)
Derivatives[2]	(107 518)	15 373	26 632	65 513
Net interest rate sensitivity gap	35 377	4 775	3 580	39 911
Cumulative interest rate gap	35 377	40 152	43 732	83 643
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	3.3	3.7	4.0	7.7
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	21 172	5 038	7 103	21 017
Derivatives[2]	21	—	—	(21)
Net interest rate sensitivity gap	21 193	5 038	7 103	20 996
Cumulative interest rate gap	21 193	26 231	33 334	54 330
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	10.9	13.6	17.2	28.1
Total				
Cumulative interest rate gap	56 570	66 383	77 066	137 973
Cumulative gap as a percentage of the Group's total assets (%)	4.4	5.1	6.0	10.7

Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R3.805bn** (2018: R2.755bn). A similar increase would result in an increase in projected 12-month net interest income of **R3.562bn** (2018: R2.49bn). AEaR increased by 1.9% to 8.2% of the Group's net interest income.

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.3 Interest rate risk in banking book (IRRBB) (continued)

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Group			
	2019 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(3 171)	(1 415)	1 467	2 928
Foreign subsidiaries' bank books (Rm)[2]	(634)	(317)	317	634
Total (Rm)	(3 805)	(1 732)	1 784	3 562
Percentage of the Group's net interest income (%)	(8.2)	(3.7)	3.8	7.7
Percentage of the Group's equity (%)	(3.0)	(1.3)	1.4	2.8

	2018 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(2 148)	(912)	947	1 884
Foreign subsidiaries' bank books (Rm)[2]	(607)	(304)	304	607
Total (Rm)	(2 755)	(1 216)	1 251	2 491
Percentage of the Group's net interest income (%)	(6.3)	(2.8)	2.9	5.7
Percentage of the Group's equity (%)	(2.2)	(1.0)	1.0	2.0

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- higher or lower profit after tax resulting from higher or lower net interest income;
- higher or lower fair value through other comprehensive income reserve reflecting higher or lower fair values of fair value through other comprehensive income financial instruments; and
- higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and fair value through other comprehensive income portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate fair value through other comprehensive income assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the fair value through other comprehensive income reserves is mainly due to the increase in the net directional risk.

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

62. Risk management (continued)

62.5 Treasury risk (continued)

62.5.3 Interest rate risk in banking book (IRRBB) (continued)

Sensitivity of reserves to market interest rate movements

	Group					
	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						
Fair value through other comprehensive income 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)**	(2 395)	(2 734)	(2 210)
As a percentage of Group equity (%)	**(1.8)**	**(2.1)**	**(1.7)**	(1.9)	(2.2)	(1.9)

The sensitivity of reserves to market interest rates movements exhibit very little convexity resulting in a materially equivalent change in value for -100 bps parallel move. Basis risk has been maintained constant.

62.6 Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Functional foreign currency

	Group			
	2019		2018	
	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm
Botswana pula	**2 949**	**147**	2 840	142
Ghana cedi	**4 046**	**202**	3 886	194
Kenya shilling	**6 276**	**314**	7 147	357
Mauritian rupee	**1 547**	**77**	662	33
Mozambican metical	**1 707**	**85**	1 717	86
Namibian dollar	**98**	**5**	95	5
Nigerian naira	**49**	**2**	39	2
Seychelles rupee	**726**	**36**	648	32
Pound sterling	**333**	**17**	412	21
Tanzanian shilling	**2 461**	**123**	2 145	107
Uganda shilling	**1 786**	**89**	1 635	82
United States dollar	**4 653**	**233**	4 427	221
Zambia kwacha	**1 172**	**59**	1 755	88
	27 803	**1 390**	27 408	1 370

1 The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

2 The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month as indicated in footnote 1 above).

62. Risk management (continued)

62.7 Insurance risk management

Definition

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing. Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio;
- Premiums are not invested to adequately match the duration, timing and size of expected claims;
- Unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in the entity; or
- Counterparties to an agreement are unable or unwilling to fulfil their obligations. This is primarily driven by exposure on reinsurance contracts and investments, but can also arise due to outstanding premiums and broker exposure.

Strategy

The Group's insurance risk management objectives are to:

- Pursue profitable growth opportunities within the financial volatility and solvency risk appetite approved by the Board;
- Balance exposure between, and within, life and short-term insurance to allow for better diversification, and optimal risk-adjusted returns; and
- Leverage off the Absa presence and infrastructure across Africa..

Governance

Insurance entities are standalone legal entities within Absa Group and each has its own board. All Absa insurance legal entities fall within Absa Financial Services Ltd (AFS), which is a regulated insurance group. As such, AFS has its own committee structures and governance requirements.

AFS is in the process of addressing final implementation requirements in order to be fully compliant with the GOI Standards, with the last outstanding minor items identified and prioritised.

The following AFS committees oversee all elements of the Insurance Principal Risk Management Framework (IPRMF) as well as all other risks within insurance entities:

Committee	Main objectives
AFS and entity boards	Approve risk appetite, dividends and strategy. Further, the boards are responsible for ultimate ownership of any applicable local regulatory requirements (including the Prudential Standards).
Audit, Risk and Compliance Committee (ARCC)	Committee of the AFS Board. Oversight on behalf of the AFS and entity boards. Oversees internal controls, risk, compliance, internal and external audit matters as well as capital and liquidity management. Recommends dividends to the boards, having regard to the impact on capital adequacy after allowing for stresses and the impact of the actual dividend being declared. May refer duties, or seek input from the GAC, where applicable.
Group Actuarial Committee (GAC)	Committee of the AFS Board. Provides support and assists the ARCC, AFS and entity boards with actuarial and related financial risk matters, capital and liquidity management, without detracting from, or assuming the responsibilities of the ARCC. Also assists the Head of Actuarial Function and Statutory Actuaries in fulfilling their professional and statutory duties.
Insurance Cluster Enterprise Risk Committee (ERC)	The monitoring and conformance of embedment of all Enterprise Risk Management Framework (ERMF) frameworks and policies, including the IPRMF, and assessment of their effectiveness.
	Reviews and challenges the control environment of the entities. Addresses general risk, regulatory and assurance matters. Assesses the risk profile of the organisation against the approved risk appetite. Escalates relevant matters to the insurance board(s) and Absa Group. These committees exist at an AFS group and entity level.
Insurance Balance Sheet and Treasury Management Committee	Setting of financial risk appetite and monitoring the risk profile against appetite. Review of risk assessment metrics and methodologies. Monitors the complete suite of financial risks.
Insurance Actuarial Oversight Committee (IAOC)	Oversight of actuarial technical matters, including data, assumptions, methodologies, actuarial results and reporting, incorporating governance of model risk management. Ensures that the Prudential Standard requirements of the Actuarial Function are complied with.
Insurance Governance Control Forum (IGCF)	The role of the IGCF is to provide independent oversight and challenge of the Insurance Risk control environment of all the insurance business units within AFS. The IGCF is established in line with the requirements of the ERMF which requires the Insurance Principal Risk Officer to establish a Principal Risk Forum where the effectiveness and the adherence to the IPRMF is monitored and challenged. This is required to enable assurance to be provided to the Insurance Principal Risk Officer.

62. Risk management (continued)

62.7 Insurance risk management (continued)

IPRMF and supporting policies

The IPRMF defines the management processes for the collection of related Insurance Risk management activities and is one of the supporting frameworks of the ERMF. The IPRMF is supported by policies and standards which provide more detail on expectations of business areas and employees in order to effectively manage Insurance Risk. AFS's insurance entities are required to comply with the IPRMF and the eight supporting insurance risk policies:

- Insurance Asset Liability Management Policy;
- Insurance Capital and Liquidity Management Policy;
- Insurance Concentration and Credit Policy;
- Insurance Investment Management Policy;
- Insurance Own Risk and Solvency Assessment (ORSA) Policy;
- Insurance Reserving Policy;
- Insurance Underwriting Policy; and
- Reinsurance and Risk Transfer Policy.

Other policies required by the Governance and Operational Standard for Insurers (GOI) 3 such as Operational Risk are addressed in the ERMF under other risk types.

Insurance Risk Subtypes

The types of Insurance Risk that can occur are broad and varied. The Insurance Risk Subtypes below reflect this broad spectrum of financial risk types inherent to insurance entities. Insurance Risk Subtypes are reviewed at least annually.

- **Capital risk:** The risk that the firm has an insufficient level or inadequate composition of capital to support its normal business activities; and to meet its regulatory capital requirements under normal operating environments and stressed conditions (both actual and as defined for internal planning or regulatory testing purposes).
- **Concentration risk:** Concentration risk arises from insufficient diversification of counterparties i.e. due to concentrations in asset classes, sectors, counterparties, and maturities. Primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on and off balance sheet counterparties (including policyholders with significant exposure).
- **Counterparty default risk:** The risk that a counterparty to an agreement will be unable or unwilling to fulfil its obligations. This is primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on and off balance sheet counterparties.
- **Liquidity risk:** The risk that an entity, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.
- **Market risk:** The exposure to movements in the value of the investment portfolio (including concentration and investment related credit risks) and the risk that assets and liabilities are mismatched:
  - **Asset-liability mismatch risk:** An asset-liability mismatch arises when the assets backing insurance products do not grow as expected or their proceeds do not materialise timeously to match expected insurance policy outflows during and at the end of the policy term.
  - **Investment management risk:** The risk of adverse investment experience impacting the ability of the entity to provide for policy obligations and capital adequacy requirements, as well as the ability to provide shareholders with an acceptable return on assets retained in the business.
- **Reserving risk:** The risk that current reserves are insufficient to cover current and future claims and the expenses associated with the management of those claims.
- **Underwriting risk:** The risk that aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio.

Non-financial risks that insurance legal entities are exposed to are covered by the Absa Group non-financial risk frameworks.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Insurance Risk Management Methodology

The IPRMF applies the three step process evaluate-respond-monitor to insurance risk, comprising of the following elements:

Risk Management Step	Element	Description and purpose of element
Evaluate	Risk Measurement	An insurance entity must quantify all insurance liabilities and assets as required for local regulatory and financial reporting purposes. An insurance entity must quantify the capital adequacy requirements defined for local regulatory, insurance group regulatory (as required) and internal solvency purposes.
	Critical Process Assessment	Critical Process Assessment (CPA) is an integrated process-based risk and control self-assessment tool adopted by the Group. This integrated assessment covers processes end-to-end and specific process enablers such as systems, human resources and external dependencies are also included. Critical processes that underpin insurance risk have been identified and are subjected to the CPA process at least annually.
	Stress and scenario testing	Stress and scenario testing is used to assess plausible risks on a mild, adverse and extreme or stressed bases, to understand the potential impacts on the business, its performance and capital cover results and the suitability of mitigating actions. This method is also used as part of the capital assessment and risk appetite setting process.
	Emerging Risk Assessment	This is part of the Evaluate stage but is covered by the Operational Risk Management Framework (ORMF) for all risks within the ERMF and so is not duplicated in the IPRMF.
	ORSA	Where required by local regulation, the insurance risk management process supports the ORSA; – the internal process undertaken by an insurance entity to assess the adequacy of its risk management and its current and prospective solvency positions.
	Assurance	Assurance is performed for all material risks and key controls; it is performed across the three lines of defence and includes control testing and conformance review, and is designed to provide comfort that material risks and key controls are being effectively managed. Assurance requirements for Insurance Risk operate consistently with other risks in the ERMF and so are not covered further in the IPRMF.
Respond	Insurance Risk Appetite	Risk limits and tolerance thresholds are set for Insurance Risk so that Absa's insurance legal entities take risk decisions which are within Board approved risk appetite. Each business area also operates within defined Insurance Risk limits, with an understanding of the risks it will take and the risks it will avoid. Insurance risk appetite is considered from three perspectives: › Capital adequacy: Defined as the degree of capital headroom required in excess of regulatory minimum requirements in order to satisfy financial solvency expectations of stakeholders (policyholders, regulators, shareholders). › Financial volatility: The level of potential deviation from expected performance that the Group is prepared to sustain at an appropriate near term return period. › Mandates, limits and preferences: A risk management approach that seeks to formally review and control business activities to ensure that they are within Absa's mandate, manage concentration risk in the business and are of an appropriate scale and mix to achieve a targeted risk-adjusted return. Further entity specific key metrics and influencers of risk, with associated limits, should be contained in each entity's risk appetite statements.
	Authorisation/ Delegation of Insurance Risk Activity	Insurance entities which are permitted to conduct insurance business need to meet all the regulatory and Group requirements in order to maintain this permission. This includes a clear set of criteria for the identification of insurance lines of business and product types which each insurance entity is permitted to write.
	Policies for managing Insurance Risk	Insurance Risk policies describe key components of the Insurance Risk life cycle and define clear control principles and requirements which can then be expanded on in the form of standards (as required) to articulate the specific controls required by local practice, regulation or business.
Monitor	Metrics Monitoring	Key Performance Indicators (KPI) and Key Risk Indicators (KRI) are established during the annual Medium Term Plan (MTP) and risk appetite setting process. The levels of these metrics are monitored on at least a quarterly basis to compare the actual risk and performance profiles against their associated planned thresholds and limits.
	Report	The Insurance Risk Profile, together with supporting rationale and responses, are reported to the various committees.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Life insurance risks

Life insurance underwriting activities are undertaken by Absa Life Limited, Barclays Life Botswana Limited (BLB), Barclays Life Zambia Limited (BLZ), Barclays Life Assurance Kenya Limited (BLAK), and Global Alliance Seguros Mozambique (GAM).

The table that follows summarises the main risk exposures per life insurance product line.

Product line	Description of product	Absa Life	BLB	BLZ	BLAK	GAM (Life)	Main risk exposures
Underwritten life	Each life is individually underwritten. Premium rates are differentiated by gender, age, smoker status, socio-economic class and occupation.	✓	×	×	×	×	Mortality, morbidity, lapse
Limited underwritten life	This product family consists of a wide range of individual life products. Underwriting varies from a limited number of underwriting questions to the application of waiting periods, pre-existing condition exclusions and the phasing in of sums insured.	✓	✓	✓	✓	✓	Mortality, morbidity, lapse
Funeral	Funeral insurance provides a benefit in the event of death of the lives assured. Funeral cover usually involves limited underwriting through the application of waiting periods.	✓	✓	✓	✓	✓	Mortality, lapse
Credit life	Credit life insurance is designed to pay off a borrower's debt if the borrower dies, becomes disabled, is diagnosed with a critical illness or is retrenched. Premiums generally do not differ by gender, age or smoker status and demographic shifts might introduce additional insurance risk.	✓	✓	✓	✓	✓	Mortality, morbidity retrenchment, lapse
Group life	Group life insurance covers a group of people under a single insurance contract. Typically, the policyholder is an employer or an entity such as a labour organisation, and the policy covers the employees or members of the group.	✓	✓	✓	✓	✓	Mortality, morbidity, longevity, concentration
Investments	Investment products include endowment and living annuity products where benefits are linked to investments returns	✓	✓	×	×	×	Financial risks taken by the policyholder include investment, longevity and tax
Health	Benefits provided under health insurance include critical illness cover and hospital cash plans which offer defined benefits.	✓	×	✓	×	✓	Morbidity

Underwriting risk

The underwriting process involves underwriting risks on an individual basis in order to apply terms commensurate with the risk. The process is automated for relatively standard risk cases, but experienced underwriters manually assess cases that present increased risk whilst following established underwriting guidelines. The outcome of the underwriting process can be to accept cases at standard terms, accept with increased premiums, accept with specific conditions or events excluded or to decline the application.

The product development process is managed under the Market Conduct Risk Policy and Product Risk Standard. The design of new or amendments to existing products are informed through various types of research, including customer research, competitor analysis and engagement and collaboration with functional and risk subject matter experts. The proposed design is then presented as new, major or minor amendments at the Life Insurance Product Risk Committee, under the mandate of the Insurance Cluster Exco Product Risk Committee, for approval in principle. A subsequent risk assessment process is followed whereby the relevant risk and functional areas review the product proposal and provide their approval and/or in some instances raise pre- or post-launch conditions. All new products and product amendments will either be presented at the Insurance Cluster Exco Product Risk Committee for final sanction (new products and major amendments) or noting (minor amendments) purposes. The ongoing relevance and appropriateness of the products are formally considered at least every one to three years (depending on the risk rating of the product) whilst various forums and committees manage the products and product performance on a regular basis.

Pricing (including re-pricing) is conducted under the requirements of the Insurance Underwriting Policy and Insurance Model Risk Standard. Various reviews and approvals are required before implementing and operationalising new premiums, including independent review by the Head of the Actuarial Function. Annual pricing reviews are also conducted to ensure the premiums remain appropriate and result in profit and claim ratios which are within target ranges as approved by the Insurance Balance Sheet and Treasury Management Committee. The targets aim to balance the interests of shareholders and policyholders whilst having regard to the risk associated by product line.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Underwriting risk (continued)

The experience related to all risks underwritten is reviewed on a regular basis to determine whether underwriting guidelines and rules need to be tightened and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency, expense assumptions) are reviewed to determine changes in trends that are likely to continue in the future.

Effective claims management processes ensure that all valid claims are honoured in line with policy documentation and appropriate allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Reinsurance and reinsurer credit risk

Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses.

Reinsurer credit risk is managed by transacting solely with approved reinsurers and within mandated levels as defined in the counterparty credit risk mandates. Mandates are governed and approved by the Insurance Balance Sheet and Treasury Management Committee. In existing reinsurance agreements, reinsurer credit risk is managed by monitoring counterparty exposures to take corrective actions should the creditworthiness of the counterparty deteriorate materially.

		2019		2018
Standard and Poor's rating[1]	**Description**	**Number of reinsurers Rm**	**Total premiums ceded Rm**	Total premiums ceded Rm
AA- and above	Very strong	4	284	170
A-	Strong	—	—	85
BBB+	Good	1	1	1
Unrated	N/A	1	47	54
Total		6	332	309

The total premiums received in 2019 amounted to **R3.7bn** (2018: R3.4bn).

The individual ratings of the various reinsurers, knowledge of disputes and collection experience are used to determine whether the reinsurance assets should be impaired. As at 31 December 2019, the reinsurance assets were unimpaired (2018: unimpaired).

Reserving risk

Reserving risk arises from weaknesses in the actuarial processes of quantifying reserves, for example inappropriate assumptions, methodology, data or approximations made.

Assumption risk

Assumption risk is the risk that the assumptions used in the most recent valuation are not appropriate. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins prescribed by the Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa (ASSA).

The risk discount rate used to discount future profits includes a margin over assumed investment returns to reflect any risks associated with the emergence of future shareholder cash flows that are not allowed for elsewhere in the valuation. The government bond curve is used to determine the risk free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used, including certain representative points on the risk-free curve, are disclosed in Annexure A: Embedded value report for the Life insurance entities.

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact profits in future years. The business is also sensitive to expense assumptions.

[1] Long Term Financial Strength International Scale Local Currency Ratings.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Sensitivity analysis (South African entities only)

Sensitivity analysis	2019 Potential effect recorded in (profit) or loss Rm	2018 Potential effect recorded in (profit) or loss Rm
Mortality and morbidity +10%	208	173
Lapse rate +10%	(8)	(11)
Renewal and termination expenses +10%	63	49
Expense inflation +1%	67	44
Investment return -1%	13	11

HIV and AIDS risk

The life insurance business is exposed to Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) risk if an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process.

Mortality investigations are performed. The results of these investigations assist in setting the premium and mortality basis for life policies. Additional allowances are included in the valuation basis to allow for a worse than expected AIDS risk experience.

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy or not generating the anticipated profit margins, as a result of adverse lapse experience. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby at least a portion of the commission is recouped. Annual investigations of lapse experience are performed to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

Expense risk

Expense risk refers to the risk of variations in the expenses incurred relative to those allowed for in pricing and reserving bases in servicing insurance obligations, including the risk from the growth in expenses over and above that of inflation. An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- Conducting annual expense investigations based on the most recent operating expenditure incurred;
- Monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- Basing the assumed future inflation rate on observable economic indicators and experience.

Where actual business volumes are lower than those that inform expenses assumptions in pricing and reserving exercises, further expense risk may be introduced.

Retrenchment risk

The life business is exposed to retrenchment risk if an inappropriate allowance has been made for retrenchment inception rates in the pricing and valuation bases.

Concentration risk

The risk of several claims arising simultaneously ('concentration risk') on individual lives is small. The size of individual policies is low and reinsurance is used to cover larger individual exposures. The table below shows the value of benefit insured by benefit band before and after reinsurance for individual insurance business.

Benefit band per life assured (RSA entities only) (R'000)	2019 Number of policies	2019 Gross of reinsurance Total benefits assured Rm	%	2019 Net of reinsurance Total benefits assured Rm	%	2018 Number of policies	2018 Gross of reinsurance Total benefits assured Rm	%	2018 Net of reinsurance Total benefits assured Rm	%
0 – 250	3 305 095	106 318	53	101 602	64	2 996 720	93 841	53	89 011	61
250 – 500	70 206	21 181	11	19 478	12	78 225	25 139	14	22 660	16
500+	60 764	71 417	36	38 090	24	51 682	59 018	33	32 807	23
	3 436 065	198 916	100	159 170	100	3 126 627	177 998	100	144 477	100

In the case of the Group Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Asset-liability mismatch risk

Mismatch risk refers to cashflow matching as well as assets backing liabilities in the balance sheet moving differently from each other. A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. Quarterly meetings are held with asset managers to monitor adherence to the mandated asset durations and targeted levels.

Longevity risk

Longevity risk arises from claims on Group Life products such as pensions and disability income benefit where there is a guarantee to make payments in the event of the survival and/or continued disability, sickness or injury of the policyholder. It is the risk of loss or adverse change in the value of insurance obligations resulting from a decrease in mortality rates. The management of longevity risk includes the monitoring of experience and annual experience investigations; pricing philosophy; and reinsurance. The risk management process is similar to the process covered under underwriting risk.

Non-life insurance risks

Non-life insurance underwriting activities are undertaken by Absa Insurance Company Limited (AIC)[1], Absa Insurance Risk Management Services Limited (AIRMS), Global Alliance Seguros (Mozambique) (GAM) and First Assurance Kenya (FAK).

The table that follows summarises the main risk exposures per non-life insurance product line.

Product line	Description of product	AIC	AIRMS	GAM (ST)	FAK	Main risk exposures
Personal lines	Protects families or individuals against financial losses. This includes Motor and Home cover including personal liability type products.	✓	×	✓	✓	Underwriting; Concentration; Reinsurer default
Commercial lines	A subset of property and liability type insurance that covers businesses, rather than property belonging to an individual.	✓	✓	✓	✓	Underwriting; Concentration; Reinsurer default
Specialist lines	Two types of products: unusual or difficult insurance and higher risk accounts.	×	✓	✓	✓	Underwriting; Investment; Reinsurer default

Underwriting risk

Management monitors loss ratios on a regular basis and identifies areas of the business where claims experience is not in line with expectations, and where this is found, corrective action is taken. The non-life business adopts an agile pricing methodology, enabling quick pricing and product changes to occur as and when the need arises. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Products are regularly compared to those of competitors, and these comparisons are reported at least quarterly. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, this occurs across the portfolio as well as for any specific initiatives. Actions are then derived from this monitoring. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items. Artificial intelligence aids the business in improving processes (improve cost to serve and reduce turnaround time) and driving out fraudulent behaviour.

Non-life insurance underwriting risk is managed through underwriting authority mandates and with oversight by an Underwriting Review Forum, as and when required. A subset of the Underwriting Review Forum is the Pricing Forum, which has representation from Risk, Business, Analytics and Actuarial. This forum ensures that all pricing model monitoring occurs timeously and rigorously, and the actions that follow are commensurate with the risk. This forum monitors lapses, cancellations, new business rates, benchmarking against competitor rates, renewal rates, marketing spend on sales initiatives, fraud prevention, lead generation and quality as well as the risk profile of the business (as measured by expected claim frequency and expected claim severity).

[1] Note that the consolidation of the AIC and Absa idirect Limited licenses was approved by the Prudential Authority effective 1 October 2018.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Reinsurance and reinsurance credit risk

The impact of large individual non-life insurance claims is limited through the purchase of reinsurance that reduces the exposure to large claims. The South African entities have the following reinsurance programme in place:

- Automatic surplus reinsurance cover which provides protection against significant property related claims. By covering against excessive losses, surplus treaty reinsurance provides more security for the equity and solvency coverage and when unusual or major events occur.
- Further large loss cover is bought by purchasing excess-of-loss cover to protect our net retention for large claims occurring in the lines of business: Property; Motor; Engineering; Liability; and Personal Accident.
- Facultative reinsurance cover is bought when the risk exceeds the set underwriting limits.
- Catastrophe Cover is bought to protect the net retention following a catastrophe event. The treaty covers various perils (including Hail and Earthquake) and protection is bought in line with the output from catastrophe models that analyse risks at a location level. The Catastrophe Cover purchased cover losses of up to **R3.0bn** (2018: R3.0bn); the cover has been maintained year-on-year.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A' rating by the Standard and Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and approval has been obtained from the Insurance Balance Sheet and Treasury Management Committee.

Standard & Poor's rating[1]	Description	2019 Number of reinsurers	2019 Total premiums ceded Rm	2018 Total premiums ceded Rm
AA- and above	Very strong	7	33	52
A-	Strong	28	67	97
BBB+	Good	2	3	12
Unrated	N/A	—	—	—
Total		37	103	161

Reserving risk

Reserving risk includes outstanding claims reserves and incurred but not reported claims reserves (including incurred but not enough reported claims reserves).

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the active South Africa entities at the reporting date amounted to **R378m** (2018: R296m). Reserves are calculated for the Rest of Africa entities based on the in-country regulatory requirements.

A stochastic reserving model is applied to calculate the IBN(e)R claim provision for the majority of the exposures. The IBN(e)R claim provision is calculated using well-known actuarial techniques such as basic Chain Ladder and the Bornheuter-Ferguson Method. Where detailed data is not available, the provision is calculated by referencing the experience to date and prior year investigations. The IBN(e)R provision at the reporting date amounted to **R134m** (2018: R114m).

The IBN(e)R provision is determined by taking the following factors, per class of business underwritten, into account: actual and expected claims experience; actual and expected reporting patterns; premium volumes; claim process changes; and seasonality. These factors affect the sensitivity of the IBN(e)R and are taken into account in setting the level of reserves required. These calculations, together with changes in the underlying risk profile of the business, impact the determination of the final balances. Margins are added to the best estimate assumptions in order to allow for uncertainty. The margins are calculated using the 75th percentile method. The margin is equal to the difference between the 75th percentile and the mean claims. This margin protects Absa from volatility in claims experience.

Claims development tables

The presentation of the claims development tables is based on the actual date of the event that caused the claim (incident year basis). The claims development tables represent the development of the actual claims paid.

[1] Long Term Financial Strength International Scale Local Currency Ratings.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Payment development

Non-life insurance claims – gross

Rm		Total actual claims cost	Claims paid in respect of 2019	2018	2017	2016	2013	2012
Reporting year								
	2019	**1 876**	**1 273**	580	12	5	1	5
	2018	**1 572**		1 300	249	17	3	1
	2017	**1 622**			1 313	282	16	9
	2016	**1 888**		—	—	1 582	286	13
	2015	**2 040**		—	—	—	1 595	410
	2014	**2 035**		—	—	—	—	2 035
Cumulative payments to date		**—**	**1 273**	1 880	1 574	1 886	1 901	2 473

Reporting development

Non-life insurance claims provision – gross

Rm		Total claims provision	Financial year during which claims occurred 2019	2018	2017	2016	2013	2012
Reporting year								
	2019	**443**	**261**	121	37	13	4	6
	2018	**412**		366	31	9	4	1
	2017	**555**		—	426	63	22	17
	2016	**515**		—	—	426	48	16
	2015	**395**		—	—	—	333	29
	2014	**251**		—	—	—	—	203

Cash-back reserves

These reserves allow for the cash back bonus which Absa idirect policyholders receive after a specified number of claim-free months. The cash back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. The cash-back reserve provision at the reporting date amounted to **R35.1m** (2018: R32.5m).

Assumption risk

Assumptions are required in order to set premium rates and to assess the eventual cost of liabilities. Absa continually monitors its experience relative to that assumed when setting premiums or valuing liabilities to reduce potential losses because of assumption risk.

Concentration risk

TThe main source of concentration risk is exposure to personal property, personal lines and commercial insurance business. The table below shows the geographical exposure based on the sum assured in each region

	2019 Rm	2019 %	2018 Rm	2018 %
South Africa				
Pretoria	**95 605**	**15. 4**	107 861	15.1
Johannesburg	**85 833**	**13. 8**	98 457	13.8
East Rand	**71 140**	**11. 5**	83 425	11.7
Others	**368 319**	**59. 3**	422 681	59.3
	620 897	**100**	712 424	100

62. Risk management (continued)

62.7 Insurance risk management (continued)

The maximum expected loss for a one in 250-year event is a loss of **R2.3bn** (2018: R2.5bn). This shows a "real" decrease in the catastrophe exposure when compared to the premium growth achieved. The reason for the decrease is due to the declining number of high sum-insured risks in the Property book. Catastrophe cover is purchased to cover losses up to **R3.0bn** (2018: R3.0bn).

Insurance risks applicable to both life and non-life insurance

Insurance-related investment risks

Investment risk relates to the variability in the value of life and non-life shareholder assets and of assets backing policyholder liabilities. Interest rate/equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

For entities outside of South Africa, the shareholder funds are invested in money market type instruments and government bonds. The table below shows the shareholder funds asset allocation for Absa Life excluding the effect of intragroup transactions.

Absa Life shareholder funds – actual asset allocation (%)	2019 %	2018 %
Offshore equities	—	—
Offshore alternatives and cash	—	—
Domestic equities	—	—
Domestic bonds	—	—
Domestic cash and money market instruments	**100**	100
	100	100

The Life insurance shareholders' funds in South Africa were previously invested in a diversified portfolio to provide secure and stable growth over the long term. Due to prolonged volatility in domestic equity and bonds as well as offshore investments, management decided to disinvest from these asset classes in favour of domestic cash investments.

Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the IPRMF. A single investment strategy is maintained for non-life insurance shareholder assets and for assets backing non-life insurance policy holder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

Liquidity risk is managed in the non-life insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds.

Capital management for insurance entities

Regulatory capital

SAM is a risk based regulatory regime established for the prudential regulation of South African Life and Non-life insurers. The Solvency Capital Requirement (SCR) under SAM is determined using prescribed South African Prudential Standards Financial Soundness Standards for Insurers (FSI) methodology which is calibrated to correspond to the value-at-risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period. The solo capital requirements for non-South African insurance entities are based on relevant local regulatory requirements.

The AFS insurance group SCR is aggregated using SAM Deduction and Aggregation approach and is based on the Financial Soundness Standards for Insurance Groups (FSG). For aggregation into the insurance group, all solo insurance entities, including non-South African insurance entities, must apply the FSI methodology.

Current target capital levels and dividend policies for South Africa entities are set with reference to the SAM regulatory reporting regime.

62. Risk management (continued)

62.7 Insurance risk management (continued)

Solvency position

The table below shows the regulatory capital position for the solo insurance entities as at 31 December 2019.

Entity	Country	Type	Solo in-country regulatory capital cover 31 December 2019
Absa Life	South Africa	Life Insurance	1.6
AIC	South Africa	Non-life insurance	1.9
AIRMS	South Africa	Non-life insurance	4.2
BLB	Botswana	Life Insurance	4.7
BLZ	Zambia	Life Insurance	1.2
BLAK	Kenya	Life Insurance	3.2
FAK	Kenya	Non-life insurance	1.3
GAM	Mozambique	Composite insurance	2.1

The SAM solvency position for AFS as an insurance group as at 31 December 2019 will be submitted to the regulator by 30 April 2020. AFS was solvent as at 30 June 2019 with a capital cover of 1.56.

63. Going concern

The Directors assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the reporting period ahead. For this reason, these consolidated financial statements are prepared on a going concern basis.

64. Events after the reporting period

The Group has announced the appointment of Daniel Mminele as its new Group Chief Executive, effective 15 January 2020.

Absa Group 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 judgments 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.

The Directors are not aware of any events (as defined per IAS10 Events after the Reporting Period) after the reporting date of 31 December 2019 and the date of authorisation of these annual consolidated and separate financial statements.

65. Directors' and prescribed officers' remuneration

The Group's Remuneration Committee's (RemCo) mandate includes ensuring that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of remuneration are benchmarked against the market, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures 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.

The Group's remuneration approach complies with the regulatory and statutory provisions relating to remuneration governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa and other relevant jurisdictions in which we conduct business operations.

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65. Directors' and prescribed officers' remuneration (continued)

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. Peter Matlare and Jason Quinn were appointed to the Board on 1 August 2016 and 1 September 2016 respectively. David Hodnett was appointed on 1 March 2010, resigned from the Board on 15 May 2018. Nomkhita Nqweni became a prescribed officer on 1 October 2015 and ceased to be 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.

Notes to the consolidated financial statements

for the reporting period ended 31 December

David Hodnett[5]		Jason Quinn		Peter Matlare		Total	
2019 R	2018 R	2019 R	2018 R	2019 R	2018 R	2019 R	2018 R
—	2 481 271	5 428 393	5 269 074	6 493 177	5 963 759	22 694 785	22 322 055
—	1 868 280	—	—	—	2 625 000	—	9 368 280
—	55 658	106 812	98 436	193 881	198 528	321 729	468 410
—	66 993	417 706	418 519	552 292	480 633	995 480	1 132 631
—	1 904 475	56 402	40 321	19 964	39 154	2 206 577	2 033 160
—	6 376 677	6 009 313	5 826 350	7 259 314	9 307 074	26 218 571	35 324 536
—	—	5 750 000	5 898 000	5 500 000	5 505 000	17 250 000	19 353 000
—	—	—	2 949 000	—	2 752 500	—	9 676 500
—	—	5 750 000	2 949 000	5 500 000	2 752 500	11 250 000	9 676 500
—	—	11 500 000	11 796 000	11 000 000	11 010 000	28 500 000	38 706 000
—	—	12 000 000	10 000 000	—	9 750 000	12 000 000	19 750 000
—	6 376 677	29 509 313	27 622 350	18 259 314	30 067 074	66 718 571	93 780 536

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.

65. 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	—		—
Peter Matlare				
Share value plan 2017 – 2019	5 066	—	—	2 533
Share value plan 2018 – 2020	30 430	—	—	10 144
Share value plan 2019 – 2021	—	31 786	173.18	—
Long-term incentive award 2017	134 770	—	—	—
Long-term incentive award 2019	—	84 449	173.18	—
Total	170 266	116 235		12 677
Jason Quinn[3]				
Share value plan 2016 – 2018[2]	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

[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.

			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	422 200	60 171	—	2 533	2020/03/01
166.68	1 690 802	113 676	—	20 286	2021/03/01
—	—	—	—	31 786	2022/03/18
—	—	—	—	134 770	2020/07/31
—	—	—	—	84 449	2024/03/18
	2 113 002	173 847	—	273 824	
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	

65. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based and long-term incentives (continued)

	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
Prescribed officers				
Arrie Rautenbach[1]				
Share value plan 2016 – 2018[2]	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[3]				
Share value plan 2016 – 2018[2]	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] Arrie Rautenbach's outstanding share-based and long-term awards includes awards received prior to becoming a prescribed officer on 9 April 2018.
[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] 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
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	

65. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based and long-term incentives (continued)

	Number of shares under award at 1 January 2018	Number of shares awarded during 2018	Share price on award R	Number of shares/cash released during 2018
	2018			
Executive directors				
Maria Ramos				
Share value plan 2015 – 2017	15 226	—	—	15 226
Share value plan 2016 – 2018[1]	37 542	—	—	18 770
Share value plan 2017 – 2019[1]	28 497	—	—	9 499
Share value plan 2018 – 2020	—	22 822	197.17	—
Role-based pay March 2014[1]	5 028	—	—	5 028
Role-based pay June 2014[1]	4 184	—	—	4 184
Role-based pay October 2014[1]	3 866	—	—	3 866
Role-based pay December 2014[1]	3 716	—	—	3 716
Role-based pay March 2015[1]	5 155	—	—	5 155
Role-based pay June 2015[1]	5 337	—	—	5 337
Role-based pay September 2015[1]	5 463	—	—	5 463
Role-based pay December 2015[1]	6 096	—	—	6 096
Role-based pay March 2016[1]	4 453	—	—	2 598
Role-based pay June 2016[1]	4 475	—	—	2 612
Role-based pay September 2016[1]	4 463	—	—	2 605
Role-based pay December 2016[1]	4 094	—	—	2 389
Role-based pay March 2017[1]	5 145	—	—	1 715
Role-based pay June 2017[1]	5 589	—	—	1 863
Non-deferred share award 2018	—	15 215	197.17	15 215
Restricted award – Share value plan 2016[1]	55 290	—	—	36 860
Restricted award – Share value plan 2017	56 893	—	—	—
Long-term incentive award 2017	165 870	—	—	—
Total	426 382	38 037		148 197
David Hodnett[2]				
Share value plan 2015 – 2017	14 274	—	—	—
Share value plan 2016 – 2018	35 624	—	—	—
Share value plan 2017 – 2019	27 547	—	—	—
Share value plan 2018 – 2020	—	22 062	197.17	—
Non-deferred share award 2018	—	14 708	197.17	—
Restricted award – Share value plan 2016	48 379	—	—	—
Restricted award – Share value plan 2017	49 781	—	—	—
Long-term incentive award 2017	145 137	—	—	—
Total	320 742	36 770		—
Peter Matlare				
Share value plan 2017 – 2019[1]	7 599	—	—	2 533
Share value plan 2018 – 2020	—	30 430	197.17	—
Non-deferred share award 2018	—	10 143	197.17	10 143
Long-term incentive award 2017	134 770	—	—	—
Total	142 369	40 573		12 676
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 incentives includes awards received prior to being appointed as an executive 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 (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed in 2018	Number of shares under award at 31 December 2018	Last scheduled vesting date
162.55	2 474 986	539 341	—	—	2018/09/01
162.55	3 051 064	569 575	—	18 772	2019/03/01
162.55/154.00	1 511 572	182 136	—	18 998	2020/03/01
—	—	—	—	22 822	2021/03/01
192.54/156.90	878 492	279 354	—	—	2018/12/01
170.33/156.90	684 565	207 527	—	—	2018/12/01
162.94/156.90	618 251	168 797	—	—	2018/12/01
156.90	583 040	171 021	—	—	2018/12/01
192.54/156.90	870 049	228 432	—	—	2018/12/01
170.33/156.90	861 267	209 638	—	—	2018/12/01
162.94/156.90	868 144	212 016	—	—	2018/12/01
156.90	956 462	215 738	—	—	2018/12/01
192.54/156.90	447 294	84 174	—	1 855	2019/03/01
170.33/156.90	424 838	68 150	—	1 863	2019/06/01
162.94/156.90	415 459	66 834	—	1 858	2019/09/01
156.90	374 834	53 503	—	1 705	2019/12/01
192.54/156.90	305 757	29 239	—	3 430	2020/03/01
170.33/156.90	307 306	25 026	—	3 726	2020/06/01
154.00	2 343 110	158 004	—	—	2018/12/01
154.00	5 676 440	582 582	—	18 430	2019/09/30
—	—	—	—	56 893	2020/09/30
—	—	—	—	165 870	2020/07/31
	23 652 930	4 051 087	—	316 222	
—	—	—	—	14 274	2018/09/01
—	—	—	—	35 624	2019/09/01
—	—	—	—	27 547	2022/09/01
—	—	—	—	22 062	2023/09/01
—	—	—	—	14 708	2019/03/01
—	—	—	—	48 379	2022/03/30
—	—	—	—	49 781	2020/09/30
—	—	—	—	145 137	2020/07/31
	—	—	—	357 512	
162.55/154.00	403 069	48 766	—	5 066	2020/03/01
—	—	—	—	30 430	2021/03/01
154.00	1 562 022	105 182	—	—	2018/12/01
—	—	—	—	134 770	2020/07/31
	1 965 091	153 948	—	170 266	
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	

65. 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 awarded during 2018	Share price on award R	Number of shares 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 (pre-tax) R	Value of dividend released R	Number of shares/options lapsed in 2018	Number of shares under award at 31 December 2018	Last scheduled vesting date
162.55	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	

65. 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	—	—	—
Peter Matlare					
Cash value plan 2017 – 2019	800 000	920 000	—	400 000	—
Total	800 000	920 000	—	400 000	—
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 officers on 5 November 2018.

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	
—	—	—	—	400 000	520 000	2020/03/01
—	—	—	—	400 000	520 000	
—	—	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	

65. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based 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	—
Peter Matlare					
Cash value plan 2017 – 2019[1]	1 200 000	1 320 000	—	400 000	—
Total	1 200 000	1 320 000	—	400 000	—
Jason Quinn[3]					
Cash value plan 2015 – 2017	300 000	390 000	—	300 000	—
Cash value plan 2016 – 2018	533 334	613 334	—	266 667	—
Cash value plan 2017 – 2019[1]	1 500 000	1 650 000	—	500 000	—
Cash value plan 2018 – 2020	—	—	2 400 000	—	—
Total	2 333 334	2 653 334	2 400 000	1 066 667	—
Prescribed officers					
Nomkhita Nqweni[4]					
Cash value plan 2015 – 2017	480 000	624 000	—	480 000	—
Cash value plan 2017 – 2019[1]	1 950 000	2 145 000	—	650 000	—
Cash value plan 2018 – 2020	—	—	1 800 000	—	—
Total	2 430 000	2 769 000	1 800 000	1 130 000	—
Arrie Rautenbach					
Cash value plan 2017 – 2019[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]	1 920 000	2 160 000	—	320 000	—
Total	1 920 000	2 160 000	—	320 000	—
Mike Harvey[5]					
Cash value plan 2016 – 2018	566 667	736 667	—	—	—
Cash value plan 2017 – 2019	1 968 000	2 214 000	—	—	—
Total	2 534 667	2 950 667	—	—	—
Temi Ofong[5]					
Cash value plan 2017 – 2019	2 112 000	2 376 000	—	—	—
Cash value plan 2018 – 2020	3 000 000	3 000 000	—	—	—
Total	5 112 000	5 376 000	—	—	—

[1] Change in vesting date from five-year deferral to three-year deferral.
[2] David Hodnett's incentive includes awards until his resignation as executive director on 15 May 2018.
[3] Includes awards received prior to Jason Quinn being appointed as executive director in 2016.
[4] Nomkhita Nqweni and Arrie Rautenbach's outstanding cash-based incentives include awards received prior to becoming prescribed officers on 1 October 2015 and 9 April 2018 respectively.
[5] Mike Harvey and Temi Ofong's outstanding cash-based incentives include awards for the period they were prescribed officers from 9 April to 31 October 2018.

Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit forfeited in the year R	Value under award at 31 December 2018 R	Maximum potential value at 31 December 2018 R	Last scheduled vesting date
—	—	—	—	3 000 000	3 450 000	2020/03/01
—	—	—	—	4 500 000	4 500 000	2021/03/01
—	—	—	—	7 500 000	7 950 000	
—	—	—	—	3 480 000	3 915 000	2022/03/01
—	—	—	—	4 350 000	4 350 000	2023/03/01
—	—	—	—	7 830 000	8 265 000	
—	—	—	—	800 000	920 000	2020/03/01
—	—	—	—	800 000	920 000	
—	—	90 000	—	—	—	2018/03/01
—	—	—	—	266 667	346 667	2019/03/01
—	—	—	—	1 000 000	1 150 000	2020/03/01
—	—	—	—	2 400 000	2 400 000	2021/03/01
—	—	90 000	—	3 666 667	3 896 667	
—	—	144 000	—	—	—	2018/03/01
—	—	—	—	1 300 000	1 495 000	2020/03/01
—	—	—	—	1 800 000	1 800 000	2021/03/01
—	—	144 000	—	3 100 000	3 295 000	
—	—	—	—	1 800 000	2 070 000	2020/03/01
—	—	—	—	1 800 000	2 070 000	
—	—	—	—	1 600 000	1 840 000	2020/03/01
—	—	—	—	1 600 000	1 840 000	
—	—	—	—	566 667	736 667	2019/03/01
—	—	—	—	1 968 000	2 214 000	2020/03/01
—	—	—	—	2 534 667	2 950 667	
—	—	—	—	2 112 000	2 376 000	2020/03/01
—	—	—	—	3 000 000	3 000 000	2021/03/01
—	—	—	—	5 112 000	5 376 000	

65. Directors' and prescribed officers' remuneration (continued)

Group Chairman and non-executive directors' fees

	2019					
	Group		Subsidiary boards and committees			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2019 Total[16] R
Alex Darko[1]	660 368	1 658 364	120 934	—	—	**2 439 666**
Colin Beggs[1,2]	700 749	2 014 276	190 260	—	255 064	**3 160 349**
Dhanasagree (Daisy) Naidoo	652 977	756 673	—	—	—	**1 409 650**
Daniel (Dan) Hodge[3]	584 342	334 510	—	—	—	**918 852**
Francis Okomo-Okello	630 664	131 060	—	—	—	**761 724**
Ihron Rensburg[4]	146 467	33 746	—	—	—	**180 213**
Mark Merson[1,5]	661 702	1 490 412	120 934	—	424 047	**2 697 095**
Mohamed Husain[1]	660 368	1 340 785	190 260	—	—	**2 191 413**
René van Wyk[6]	46 497	131 314	15 406	—	—	**193 217**
Rose Keanly[7]	205 635	52 666	—	—	—	**258 301**
Sipho Pityana[8]	403 772	261 998	—	—	—	**665 770**
Swithin Munyantwali[9]	181 224	39 370	—	—	—	**220 594**
Tasneem Abdool-Samad[10]	674 166	627 642	—	716 698	—	**2 018 506**
Wendy Lucas-Bull (Group Chairman)[11]	6 372 932	114 913	—	—	—	**6 487 845**
Yolanda Cuba[12]	280 780	275 836	—	—	—	**556 616**
Total	12 862 643	9 263 565	637 794	716 698	679 111	**24 159 811**

	2018					
	Group		Subsidiary boards and committees			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2018 Total[16] R
Alex Darko[1]	577 975	1 026 931	—	—	—	1 604 906
Colin Beggs[1,2]	671 199	1 667 087	181 655	53 250	226 074	2 799 265
Dhanasagree (Daisy) Naidoo	597 683	459 050	—	—	—	1 056 733
Daniel (Dan) Hodge[3]	455 277	257 398	—	—	—	712 675
Francis Okomo-Okello	577 975	123 384	—	—	—	701 359
Mark Merson[1]	617 391	458 771	—	—	—	1 076 162
Mohamed Husain[1]	612 075	1 171 753	181 655	—	—	1 965 483
Monwabisi Fandeso[13]	509 165	234 519	—	—	—	743 684
Paul O'Flaherty[14]	462 668	1 214 701	150 844	—	—	1 828 213
René van Wyk[1]	651 491	1 742 826	181 655	—	—	2 575 972
Tasneem Abdool-Samad[10]	573 318	246 970	29 205	639 525	—	1 489 018
Trevor Munday[15]	227 757	276 492	73 013	—	—	577 262
Wendy Lucas-Bull (Group Chairman)[11]	6 084 715	66 939	—	—	—	6 151 654
Yolanda Cuba	577 975	463 598	—	—	—	1 041 573
Total	13 196 664	9 410 419	798 027	692 775	226 074	24 323 959

1 The GACC, GRCMC, RemCo and SEC Chairmen receive fees equal to two and a half times the fee payable to members of these committees. Chairmen of the remaining committees receive fees equal to two times the member fee.
2 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 Daniel Hodge's Fees are paid to Barclays and not to the individual. An additional amount of R18 106, due to ad-hoc meetings, will be paid in 2020.
4 Ihron Rensburg joined the Board on 1 October 2019.
5 Mark Merson is the Chairman of the Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported under other).
6 René van Wyk changed his status from non-executive to executive director effective 1 February 2019.
7 Rose Keanly joined the Board on 1 September 2019.
8 Sipho M Pityana joined the Board on 1 May 2019.
9 Swithin Munyantwali joined the Board on 15 September 2019.
10 Tasneem Abdool-Samad joined the Group Board on 1 February 2018 and GACC on 1 April 2018. Within Absa Financial Services, Tasneem is chairman of the Audit Risk and Compliance Committee and is a member of the Board and the Actuarial Committee.
11 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).
12 Yolanda Cuba retired from the Board effective 4 June 2019.
13 Monwabisi Fandeso resigned from the Board effective 19 November 2018.
14 Paul O'Flaherty resigned from the Board effective 5 November 2018.
15 Trevor Munday retired from the Board effective 15 May 2018.
16 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).

Annexure A: Embedded value report for life insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Barclays Life Botswana Proprietary Limited, Barclays Life Zambia Limited, Global Alliance Seguros S.A., Barclays Life Assurance Kenya, Woolworths Financial Services and Instant Life, including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2019 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

Embedded value

The present value of in-force covered business (PVIF) is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licences.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets and liabilities valued according to IFRS 4. The required capital takes into account the solvency capital requirements as well as internal liquidity requirements, in line with the company's dividend policy.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by the respective life insurance licenses during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	Group	
	2019 Rm	2018 Rm
Free surplus[1]	**1 263**	1 383
Required capital	**608**	487
Covered business adjusted net worth (ANW)	**1 871**	1 860
Present value of in-force business (PVIF)	**4 878**	4 793
Cost of required capital (CoC)	**(209)**	(173)
Total embedded value (EV)	**6 540**	6 481
Value of new business (before CoC)	**768**	717
CoC	**(34)**	(27)
Value of new business (VNB)	**734**	690
Present value of future premiums (gross of reinsurance premiums)[2]	**7 307**	5 111
Value of new business as a percentage of the present value of future premiums[3]		
All business (%)[4]	**10.0**	14
Excluding investment business (%)	**17. 1**	18.6

[1] A full year dividend of **R975m** (2018: R665m) was proposed for the reporting period ended 31 December 2019.

[2] The previously reported 2018 figure was R5 111m, however this excludes Living Annuity premiums. The figure of R6 655m has been updated to include these premiums.

[3] Reported gross of reinsurance premiums.

[4] The previously reported 2018 figure was 13.5% however this excluded Living Annuity premiums. The figure of 10.4% has been updated to include these premiums.

Annexure A: Embedded value report for life insurance entities (unaudited)

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions. These assumptions were based on recent experience investigations.

For Absa Life Limited, the government bond curve is used to determine the risk free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk free rate curve. The economic assumptions used including certain representative points on the risk free curve are as follows (gross of tax where applicable):

	2019 Absa Life Limited Rm	2018 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	**6.77**	6.08
5-year term	**8.00**	8.64
10-year term	**9.59**	9.77
20-year term	**11.18**	10.63
Equity return differential	**3.36**	3.36
Cash return differential	**(2.00)**	(2.00)
Overall investment return differential	**(0.45)**	(0.44)
Risk discount rate differential	**3.15**	3.15

For the non-South African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3.5%, plus a further company risk specific margin of 0.25%. The economic assumptions used including the country-specific risk free rates for the non-South African life insurance entities are as follows (gross of tax where applicable):

	2019				2018			
	Barclays Life Botswana Proprietary Limited Rm	Barclays Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm	Barclays Life Kenya Limited Rm	Barclays Life Botswana Proprietary Limited Rm	Barclays Life Zambia Limited Rm	Global Alliance Seguros S.A. Rm	Barclays Life Kenya Limited Rm
Risk-free rate of return	**4.5**	**17.0**	**15.0**	**9.8**	4.0	19.3	20.0	12.5
Equity return – unhedged	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Cash return	**2.5**	**14.5**	**13.0**	**n/a**	4.0	16.8	18.0	n/a
Overall investment return	**4.0**	**16.8**	**14.0**	**9.8**	2.0	16.8	20.0	12.5
Risk discount rate	**7.9**	**20.4**	**18.4**	**15.9**	7.4	22.7	23.4	15.9
Expense inflation	**3.5**	**7.0**	**10.0**	**9.5**	3.8	7.9	15.0	9.5

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation of Absa Life Limited (South Africa) to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

	Group 2019							
Percentage change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0.9	Equity returns +1%	Mortality/ morbidity x 0.95	Maintenance expenses x 0.9	Lapse/ surrender x 0.9	Initial expenses x 0.9
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
PVIF	(3.6)	4.4	(0.4)	0.1	4.6	2.4	5.3	n/a
CoC	8.8	5.4	0.0	0.0	4.5	0.0	5.3	n/a
EV	(2.9)	3.2	(0.2)	0.1	3.3	1.8	3.8	n/a
VNB	(3.9)	6.8	(0.1)	(0.1)	5.5	2.8	11.1	2.2

Sensitivities (continued)

Percentage change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0.9	Equity returns +1%	Mortality/ morbidity x 0.9	Maintenance expenses x 0.9	Lapse/ surrender x 0.9	Initial expenses x 0.9
	2018							
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
PVIF	(3.8)	3.9	(1.4)	0.2	3.9	2.1	5.1	n/a
CoC	9.3	5.0	0.0	—	3.9	0.0	5.3	n/a
EV	(2.9)	2.8	(1.0)	0.1	2.8	1.5	3.7	n/a
VNB	(3.8)	6.6	(0.1)	(0.1)	3.7	2.4	11.0	2.7

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group 2019 Rm	Group 2018 Rm
Embedded value at the end of the reporting period	5 543	5 605
Dividends accrued or paid	975	665
Embedded value at the beginning of the reporting period	(5 605)	(4 884)
Embedded value earnings	**913**	1 386
Components of embedded value earnings:		
Value of new business at point of sale	620	587
Expected return on covered business (unwinding)	380	415
Operating experience variances	42	(168)
Operating assumption and model changes[1]	(327)	133
Credit life reprice	—	—
Release of gross-up reserve	(9)	(4)
Expected return on ANW	102	116
Embedded value operating return	**808**	1 415
Investment return variances on in-force covered business	(5)	(26)
Investment return variances on ANW	29	(58)
Effect of economic assumption changes	81	54
Embedded value earnings	**913**	1 386
Return on embedded value (%)	**16**	28

Review by the independent actuaries

The embedded value and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte & Touche.

[1] The significant impact in the current year is mainly due to a R(121)m expense assumption update and a R(80)m data refinement, while the prior year is mainly due to a R110m impact that relates to a movement to the new regulatory capital regime.

Company financial statements

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Company statement of financial position

as at 31 December

	Note	Company 2019 Rm	2018 Rm
Assets			
Loans and advances to banks	2	**687**	1 201
Investment securities	3	**5 833**	5 960
Other assets	4	**28**	311
Current tax assets		**90**	23
Deferred tax assets	8	**—**	47
Subsidiaries	5	**75 691**	72 155
Loans to group companies		**4**	—
Total assets		**82 333**	79 697
Liabilities			
Other liabilities	6	**244**	260
Borrowed funds	7	**21 912**	20 310
Deferred tax liabilities	8	**59**	—
Loans from group companies		**—**	473
Total liabilities		**22 215**	21 043
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	9	**1 696**	1 696
Ordinary share premium	9	**23 786**	23 786
Retained earnings		**28 786**	30 373
Other reserves		**55**	58
		54 323	55 913
Additional Tier 1 capital	10	**5 795**	2 741
Total equity		**60 118**	58 654
Total equity and liabilities		**82 333**	79 697

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2019 Rm	Company 2018 Rm
Net interest (expense)/income	11	**(4)**	59
Non-interest income			
Gains and losses from investment activities	12	**8 157**	10 459
Other operating income	13	**499**	320
Total income		**8 652**	10 838
Operating income before operating expenditure		**8 652**	10 838
Operating expenses		**(8)**	(36)
Operating profit before income tax		**8 644**	10 802
Taxation expense	16	**(258)**	(259)
Profit for the reporting period		**8 386**	10 543
Profit attributable to:			
Ordinary equity holders		**7 951**	10 353
Additional Tier 1 capital		**435**	190
		8 386	10 543
Earnings per share			
Basic earnings per share	15	**937.8**	1 221.1
Diluted earnings per share	15	**937.8**	1 221.1

	Company 2019 Rm	Company 2018 Rm
Profit for the reporting period	**8 386**	10 543
Other comprehensive income		
Items that are or may be subsequently reclassified to profit or loss	**(3)**	58
Movement in cash flow hedging reserve	**(3)**	58
Fair value (losses)/gains	**(4)**	58
Deferred tax	**1**	—
Total comprehensive income for the reporting period	**8 383**	10 601
Total comprehensive income attributable to:		
Ordinary equity holders	**7 948**	10 411
Additional Tier 1 capital	**435**	190
	8 383	10 601

Company statement of changes in equity

for the reporting period ended 31 December

Company

2019

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
Balance at the beginning of the reporting period	**847 750**	**1 696**	**23 786**	**30 372**	**58**	**58**	**55 912**	**2 741**	**58 653**
Total comprehensive income	—	—	—	7 951	(3)	(3)	7 948	435	8 383
Profit for the period	—	—	—	7 951	—	—	7 951	435	8 386
Other comprehensive income	—	—	—	—	(3)	(3)	(3)	—	(3)
Dividends paid during the reporting period	—	—	—	(9 537)	—	—	(9 537)	—	(9 537)
Distributions paid during the reporting period	—	—	—	—	—	—	—	(435)	(435)
Issuance of Additional Tier 1 capital	—	—	—	—	—	—	—	3 054	3 054
Balance at the end of the reporting period	**847 750**	**1 696**	**23 786**	**28 786**	**55**	**55**	**54 323**	**5 795**	**60 118**
Note	9	9	9					10	

2018

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
Balance at the beginning of the reporting period	847 750	1 696	23 786	29 218	—	—	54 700	1 500	56 200
Total comprehensive income	—	—	—	10 353	58	58	10 411	190	10 601
Profit for the period	—	—	—	10 353	—	—	10 353	190	10 543
Other comprehensive income	—	—	—	—	58	58	58	—	58
Dividends paid during the reporting period	—	—	—	(9 199)	—	—	(9 199)	—	(9 199)
Distributions paid during the reporting period	—	—	—	—	—	—	—	(190)	(190)
Issuance of Additional Tier 1 capital	—	—	—	—	—	—	—	1 241	1 241
Balance at the end of the reporting period	847 750	1 696	23 786	30 372	58	58	55 912	2 741	58 653
Note	9	9	9					10	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2019 Rm	2018 Rm
Cash flow from operating activities			
Net interest (paid)/received		**(175)**	1 196
Fees and commissions paid		**—**	(1)
Net trading and other income		**(1)**	(2)
Cash payments to employees and suppliers		**491**	323
Dividends received from investment activities		**8 157**	10 481
Income taxes paid		**(218)**	(228)
Cash flow from operating activities before changes in operating assets and liabilities		**8 254**	11 769
Net decrease/(increase) in investment securities		**127**	(5 585)
Net decrease in other assets		**279**	161
Net decrease in debt securities in issue		**—**	(132)
Net (decrease)/increase in other liabilities		**(490)**	52
Net cash generated from operating activities		**8 170**	6 265
Cash flow from investing activities			
Increase in investment in subsidiaries		**(3 536)**	(4 303)
Net cash utilised in investing activities		**(3 536)**	(4 303)
Cash flow from financing activities			
Dividends paid		**(9 537)**	(9 198)
Proceeds from borrowed funds		**2 966**	6 432
Repayment of borrowed funds		**(1 195)**	—
Issue of Additional Tier 1 capital		**3 054**	1 241
Distributions paid to Tier 1 capital holders		**(435)**	(190)
Net cash utilised in financing activities		**(5 147)**	(1 715)
Net increase in cash and cash equivalents		**(513)**	247
Cash and cash equivalents at the beginning of the reporting period		**1 201**	954
Cash and cash equivalents at the end of the reporting period	2	**688**	1 201

Notes to the Company financial statements

for the reporting period ended 31 December

1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

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

Implementation of IFRS 16 Leases (IFRS 16)

The impact of adopting IFRS 16 has not had a significant impact on the separate financial statements of Absa Group Limited and therefore no further disclosures have been provided.

	Company	
	2019 Rm	2018 Rm
2. Loans and advances to banks		
Gross loans and advances to bank	**687**	1 201
	687	1 201

All the aforementioned loans are at variable rates.

	Company	
	2019 Rm	2018 Rm
3. Investment securities		
Debt securities	**5 833**	5 960
	5 833	5 960

	Company	
	2019 Rm	2018 Rm
4. Other assets		
Accounts receivable and prepayments	**28**	311
	28	311

	Company	
	2019 Rm	2018 Rm
5. Subsidiaries		
Equity investments	**59 913**	57 198
Debt instruments	**15 778**	14 957
	75 691	72 155

During the current year, the equity investments increased due to the take up of Additional Tier 1 capital issued by Absa Bank Limited of R3bn.

Refer to note 50.2 of the Group's financial statements for a list of significant subsidiaries.

	Company	
	2019 Rm	2018 Rm
6. Other liabilities		
Unclaimed dividends	**14 987**	12 194
Other	**(14 743)**	(11 934)
	244	260

			Company	
			2019 Rm	2018 Rm

7. Borrowed funds

Subordinated callable notes issued by Absa Group Limited

Interest rate	Final maturity date	Note	2019 Rm	2018 Rm
10.05%	5 February 2025	i	**807**	807
10.835%	19 November 2024	ii	**—**	130
11.365%	4 September 2025	iii	**508**	508
11.40%	29 September 2025	iv	**288**	288
11.74%	20 August 2026	v	**140**	140
11.81%	3 September 2027	vi	**737**	737
12.43%	5 May 2026	vii	**200**	200
Three-month JIBAR + 2.40%	11 April 2029	viii	**1 580**	—
Three-month JIBAR + 2.45%	29 November 2028	ix	**1 500**	1 500
Three-month JIBAR + 3.30%	19 November 2024	x	**—**	370
Three-month JIBAR + 3.50%	5 February 2025	xi	**1 693**	1 693
Three-month JIBAR + 3.50%	4 September 2025	xii	**437**	437
Three-month JIBAR + 3.60%	3 September 2027	xiii	**30**	30
Three-month JIBAR + 4.00%	5 May 2026	xiv	**31**	31
Three-month JIBAR + 4.00%	20 August 2026	xv	**1 510**	1 510
Three-month JIBAR + 4.00%	3 November 2026	xvi	**500**	500
Three-month JIBAR + 3.78%	17 March 2027	xvii	**642**	642
Three-month JIBAR + 3.85%	25 May 2027	xviii	**500**	500
Three-month JIBAR + 3.85%	14 August 2029	xix	**390**	390
Three-month JIBAR + 3.15%	30 September 2027	xx	**295**	295
Three-month JIBAR + 3.45%	29 September 2029	xxi	**1 014**	1 014
USD 6.25%	25 April 2028	xxii	**4 952**	4 932
Other				
Accrued interest			**275**	418
Foreign exchange movements			**621**	613
			18 650	17 685

Non-subordinated debt extended by Absa Group Limited

Three-month JIBAR + 1.31%	11 June 2020	xxiii	**58**	58
Three-month JIBAR + 1.40%	15 January 2021	xxiv	**114**	114
Three-month JIBAR + 1.265%	30 January 2020	xxv	**301**	301
Three-month JIBAR + 1.20%	29 July 2019	xxvi	**—**	516
Three-month JIBAR + 1.12%	29 January 2019	xxvii	**—**	179
Three-month JIBAR + 1.225%	29 January 2024	xxviii	**197**	—
Three-month JIBAR + 1.225%	19 July 2023	xxix	**88**	88
One-month JIBAR	01 August 2021	xxx	**815**	—
Three-month LIBOR + 0.87%	26 March 2020	xxxi	**803**	720
Three-month LIBOR + 0.92%	30 March 2021	xxxii	**164**	144
Three-month LIBOR + 0.89%	27 January 2021	xxxiii	**358**	432
Three-month LIBOR + 1.52%	16 October 2024	xxxiv	**374**	—
Other				
Accrued interest			**77**	73
Foreign exchange movements			**(87)**	—
			3 262	2 625
			21 912	20 310

Included in interest paid on the statement of cash flows is **R1 839m** (2018: R1 117m) which relates to interest on borrowed funds.

7. Borrowed funds (continued)

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

ii. The 10.835% fixed rate notes were redeemed in full at the option of Absa Group Limited on 19 November 2019.

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

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

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

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

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

viii. The three-month JIBAR plus 2.40% floating rate notes may be redeemed in full at the option of Absa Group Limited on 11 April 2024. Interest is paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October. Absa Group 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 Group Limited not exercise the redemption option.

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

x. The three-month JIBAR plus 3.30% floating rate notes were redeemed in full at the option of Absa Group Limited on 19 November 2019.

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

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

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

xiv. The three-month JIBAR plus 4.00% floating rate notes may be redeemed in full at the option of Absa Group Limited on 5 May 2021. Interest is paid quarterly in arrears on 5 February, 5 May, 5 August and 5 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 5 May 2021. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 20 August 2021. Interest is paid quarterly in arrears on 20 February, 20 May, 20 August and 20 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 20 August 2021. No step-up will apply on the coupon rate, should Absa Group 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 Group Limited on 3 November 2021. Interest is paid quarterly in arrears on 3 February, 3 May, 3 August and 3 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 November 2021. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xvii. The three-month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September, 17 December. Absa Group 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 Group Limited not exercise the redemption option.

7. Borrowed funds (continued)

xviii. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August, 25 November. Absa Group 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 Group 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 Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August, 14 November. Absa Group 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 Group Limited not exercise the redemption option.

xx. The three-month JIBAR plus 3.15% floating rate notes may be redeemed in full at the option of Absa Group Limited on 30 September 2022. Interest is paid quarterly in arrears on 30 March, 30 June, 30 September, 30 December. Absa Group 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 Group Limited not exercise the redemption option.

xxi. The three-month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September, 29 December. Absa Group 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 Group Limited not exercise the redemption option.

xxii. The 6.25% fixed rate reset callable USD notes with a nominal amount of USD 400m may be redeemed in full at the option of Absa Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on 27 April 2023. The reset margin is 3.523% per annum.

xxiii. The three-month JIBAR plus 1.31% floating rate notes should be redeemed in full by Absa Group Limited by 11 June 2020. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxiv. The three-month JIBAR plus 1.40% floating rate notes should be redeemed in full at the option of Absa Group Limited by 15 January 2021. Interest is paid first on 31 May 2016 and after that annually 31 May. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxv. The three-month JIBAR plus 1.265% floating rate notes should be redeemed in full by Absa Group Limited by 30 January 2020. Interest is paid semi-annually in arrears on 30 January and 31 July. Absa Group Limited may redeem a portion (being a minimum of R100m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxvi. The three-month JIBAR plus 1.20% floating rate notes have been redeemed in full on 29 July 2019.

xxvii. The three-month JIBAR plus 1.12% floating rate notes have been redeemed in full on 29 January 2019.

xxviii. The three-month JIBAR plus 1.225% floating rate notes are should be redeemed in full by Absa Group Limited by 29 January 2024. Interest is paid semi-annually in arrears on 29 July and 29 January. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxix. The three-month JIBAR plus 1.225% floating rate notes should be redeemed in full by Absa Group Limited on 19 July 2023. Interest is paid annually in arrears on 31 May. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice..

xxx. The one month JIBAR floating notes represents a revolving loan. Draw down of such loan may commence on any date from 1 August 2019. The loan doesn't have any repayment instalments and the repayment of each drawing is only due and payable on 1 August 2021.

xxxi. The three-month LIBOR plus 0.87% floating rate notes should be redeemed in full by Absa Group Limited by 26 March 2020. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxxii. The three-month LIBOR plus 0.92% floating rate notes should be redeemed in full by Absa Group Limited by 30 March 2021. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxxiii. The three-month LIBOR plus 0.89% floating rate notes should be redeemed in full by Absa Group Limited by 27 January 2021. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxxiv. The three-month LIBOR plus 1.52% floating rate notes should be redeemed in full by Absa Group Limited on 16 October 2024. Interest is quarterly in arrears on the 16 January, 16 April, 16 July and 16 October. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

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

Notes xxii is listed on the London Stock Exchange.

Note xxiii to xxxiv have been issued to Absa Bank Limited.

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

	Company 2019 Rm	Company 2018 Rm
8. Deferred tax		
8.1 Reconciliation of net deferred tax (liability)/asset		
Balance at the beginning of the reporting period	**47**	68
Deferred tax on amounts charged directly to other comprehensive income	**(1)**	—
Charge to profit or loss (refer to note 16)	**(105)**	(21)
Balance at the end of the year	**(59)**	47
8.2 Deferred tax (liability)/asset		
Tax effects of temporary differences between tax and book value for:		
Other	**(66)**	112
Exchange differences – unrealised	**7**	(65)
Net deferred tax (liability)/asset	**(59)**	47
9. Share capital and premium		
Ordinary share capital		
Authorised		
880 467 500 (2018: 880 467 500) ordinary shares of R2.00 each	**1 761**	1 761
Issued		
847 750 679 (2018: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696
Total issued capital		
Share capital	**1 696**	1 696
Share premium	**23 786**	23 786
	25 482	25 482

Authorised shares

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

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
10. Additional Tier 1 capital			
Subordinated callable notes issued by Absa Group Limited			
Interest rate	**Date of issue**		
Three-month JIBAR + 5.65%	11 September 2017	**1 500**	1 500
Three-month JIBAR + 4.75%	9 October 2018	**1 241**	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 Group 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.

	Company 2019 Rm	Company 2018 Rm
11. Net interest income/(expense)		
Net interest and similar income/(expense)	(4)	59

	Company 2019 Rm	Company 2018 Rm
12. Gains and losses from investment activities		
Dividends received from subsidiaries	8 157	10 459

	Company 2019 Rm	Company 2018 Rm
13. Other operating income		
Foreign exchange differences	57	83
Sundry income	442	237
	499	320

	Company 2019 Rm	Company 2018 Rm
14. Operating expenses		
Administrative and other expenses	8	36

15. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.

	Company 2019 Rm	Company 2018 Rm
Basic and diluted earnings attributable to ordinary equity holders of the Company	7 951	10 353
Weighted average number of ordinary shares in issue (millions)	847.8	847.8
Issued shares at the beginning and end of the reporting period	847.8	847.8
Basic earnings per share/diluted earnings per ordinary share (cents)	937.8	1 221.1

	Company 2019 Rm	Company 2018 Rm
16. Taxation expense		
Current		
Current tax	(15)	49
Current tax – previous reporting period	19	(9)
Foreign tax	149	198
	153	238
Deferred	105	21
Other	67	—
Exchange difference	38	21
	258	259
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	8 644	10 802
Tax calculated at a tax rate of 28%	2 420	3 024
Expenses not deductible for tax purposes	23	60
Dividend Income	(2 390)	(2 934)
Other income not subject to tax	29	(78)
Items of a capital nature	8	—
South African current taxation prior year	19	(11)
Foreign tax	149	198
	258	259

	Company 2019 Gross Rm	Company 2019 Net Rm	Company 2018 Gross Rm	Company 2018 Net Rm
17. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		7 951		10 353
Headline earnings/diluted headline earnings		7 951		10 353
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		937.8		1 221.1

	Company 2019 Rm	Company 2018 Rm
18. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(13 August 2019: 505 cents per share (cps)** (6 August 2018: 490 cps)	4 280	4 154
Final dividend **(11 March 2020: 620 cps)** (11 March 2019: 620 cps)	5 256	5 256
	9 536	9 410
Distributions declared to Additional Tier 1 capital note holders		
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: 620 cps** (16 April 2018: 595 cents)	5 256	5 044
Interim dividend **(16 September 2019: 505 cps)** (17 September 2018: 490 cents)	4 281	4 155
	9 537	9 199
Distributions paid to Additional Tier 1 capital note holders		
Distribution		
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.

	Company 2019 Rm	Company 2018 Rm
19. Related parties		
Refer to note 50 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related party transactions and balances exist for the Company.		
19.1 Balances and transactions with subsidiaries		
Debit amounts are shown as positive, credit amounts are shown as negative.		
Balances		
Loans and advances to banks	687	1 201
Investment securities	5 833	5 960
Loan to subsidiaries	15 778	14 415
Other assets	—	51
Borrowed funds[1]	(3 262)	(2 625)
Transactions		
Net interest income[1,2]	(1 624)	(1 394)
Operating income[1]	(435)	(190)
Dividends received	(8 157)	(10 661)

20. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 62 of the Group's financial statements.

Credit risk	Company 2019 Gross maximum exposure – Stage 1 Rm	Company 2018 Gross maximum exposure – neither past due nor impaired Rm
Maximum exposure to credit risk		
Loans and advances to banks	687	1 201
Investment securities	5 833	5 960
Loan to group companies	4	—
Other assets	28	311
Subsidiaries	15 778	14 957
	22 330	22 429

[1] During the current reporting period the Company re-assessed the composition of related party balances and restated the prior year numbers in relation to its borrowed funds (2018: R20 310m), interest and similar income (2018: R52m), interest expense and similar charges (2018: R111m) and operating income (2018: Rnil).

[2] During the current reporting period the Company re-assessed the disclosure of its related party transactions relating to interest income and interest expense. Due to such items being of a similar nature, such amounts will be disclosed in aggregate.

20. Risk management (continued)

Treasury risk

Liquidity risk

Analysis of liquidity risk:

Company

2019

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
	Carrying amount (excluding impairment losses on amortised cost instruments)					
Assets						
Investment securities	—	—	—	5 833	—	5 833
Loans and advances to banks	687	—	—	—	—	687
Other financial assets	5	23	—	—	—	28
Loans to group companies	4	—	—	—	—	4
Subsidiaries	3 421	1 294	11 063	—	—	15 778
Financial assets	4 117	1 317	11 063	5 833	—	22 330
Non-financial assets						60 003
Total assets						82 333
Liabilities						
Other financial liabilities	237	7	—	—	—	244
Borrowed funds	1 762	4 045	16 105	—	—	21 912
Financial liabilities	1 999	4 052	16 105	—	—	22 156
Non-financial liabilities						59
Total liabilities						22 215
Equity						60 118
Total equity and liabilities						82 333
Net liquidity position of financial instruments	2 118	(2 735)	(5 042)	5 833	—	174

2018

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
	Carrying amount (excluding impairment losses on amortised cost instruments)					
Assets						
Investment securities	—	—	—	5 960	—	5 960
Loans and advances to banks	1 201	—	—	—	—	1 201
Other financial assets	296	16	—	—	—	312
Subsidiaries	417	885	11 092	2 563	—	14 957
Financial assets	1 914	901	11 092	8 523	—	22 430
Non-financial assets						57 267
Total assets						79 697
Liabilities						
Other financial liabilities	260	—	—	—	—	260
Borrowed funds	—	2 241	15 262	2 807	—	20 310
Loans from group companies	260	—	213	—	—	473
Financial liabilities	520	2 241	15 475	2 807	—	21 043
Non-financial liabilities						—
Total liabilities						21 043
Equity						58 654
Total equity and liabilities						79 697
Net liquidity position of financial instruments	1 394	(1 340)	(4 383)	5 716	—	1 387

20. Risk management (continued)

Company						
	2019					
Undiscounted maturity (statement of financial position value with impact of future interest)	**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						
Other financial liabilities	**237**	**7**	**—**	**—**	**—**	**244**
Borrowed funds	**1 762**	**4 145**	**20 392**	**—**	**(4 387)**	**21 912**
Financial liabilities	**1 999**	**4 152**	**20 392**	**—**	**(4 387)**	**22 156**
Non-financial liabilities						**59**
Total liabilities	**1 999**	**4 152**	**20 392**	**—**	**(4 387)**	**22 215**

	2018					
Undiscounted maturity (statement of financial position value with impact of future interest)	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						
Other financial liabilities	260	—	—	—	—	260
Borrowed funds	—	2 384	19 157	5 133	(6 364)	20 310
Loans from group companies	260	—	241	—	(28)	473
Financial liabilities	520	2 384	19 398	5 133	(6 392)	21 043
Non-financial liabilities						—
Total liabilities	520	2 384	19 398	5 133	(6 392)	21 043

Market risk

Interest rate risk in the banking book

Impact on earnings

	2019 Change in market risk			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Change in projected net interest income (Rm)	**(3)**	**(1)**	**1**	**3**
Percentage of the Company's net interest income (%)	**(67)**	**(33)**	**33**	**67**
With respect to investment securities balance	**200**	**202**	**204**	**206**

Interest rate risk in the banking book

Impact on earnings

	2018 Change in market risk			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(4)	(2)	2	4
Percentage of the Company's net interest income (%)	(15)	(8)	8	15
With respect to investment securities balance	185	187	191	193

21. Fair value disclosures

21.1 Assets and liabilities not held at fair value

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

	Company				
	2019				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Investment securities	5 833	5 833	—	5 833	—
Loans and advances to banks	687	687	—	687	—
Subsidiaries	15 778	15 778	—	15 778	—
Other assets	28	28	—	28	—
Loans to Group companies	4	4	—	4	—
Total financial assets (not held at fair value)	22 330	22 330	—	22 330	—
Financial liabilities					
Other liabilities	239	239	—	239	—
Borrowed funds	21 912	21 912	—	21 912	—
Total financial liabilities (not held at fair value)	22 151	22 151	—	22 151	—

	2018				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Investment securities	5 771	5 771	—	5 771	—
Loans and advances to banks	1 201	1 201	1 201	—	—
Subsidiaries	14 957	14 957	—	14 957	—
Other assets	312	312	—	276	36
Total financial assets (not held at fair value)	22 241	22 241	1 201	21 004	36
Financial liabilities					
Other liabilities	260	260	255	—	5
Borrowed funds	20 310	20 310	—	20 310	—
Total financial liabilities (not held at fair value)	20 570	20 570	255	20 310	5

21. Fair value disclosures (continued)

21.2 Assets and liabilities held at fair value

The Company holds investments in debt instruments which are measured at fair value.

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Company			
	2019			
	Quoted prices for Level 1 Rm	Valuations with reference to observable prices Level 2 Rm	Valuation Reference to unobservable prices Level 3 Rm	Total Rm
Investment securities	—	—	—	—

	2018			
	Quoted prices for Level 1 Rm	Valuations with reference to observable prices Level 2 Rm	Reference to unobservable prices Level 3 Rm	Total Rm
Investment securities	—	189	—	189

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and the fair value of non-fair value items.

22. Derivatives

Hedges of net investments in foreign operations

Net investment hedges are used by the Company to protect against the potential risk arising from the Company's exposures to foreign currency risk in relation to its investment in foreign operations.

During the current reporting period, net gains of **R4m** (2018: R58m) have been recognised in other comprehensive income.

23. Going concern

The Directors assess the Company's future performance and financial position on an ongoing basis and have no reason to believe that the Company will not be a going concern in the reporting period ahead. For this reason, these financial statements are prepared on a going concern basis.

24. 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. 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.

The Directors are not aware of any events (as defined per IAS 10 Events after the Reporting Period) after the reporting date of 31 December 2019 and the date of authorisation of these annual consolidated and separate financial statements.

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