



Absa Group Limited

Summary consolidated
financial results for the reporting period
ended 31 December 2019



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

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

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

Together with the GACC, the Board has reviewed and approved the summary consolidated financial results including the reporting changes contained in the announcements released on the Stock Exchange News Services (SENS) on 11 March 2020.

The GACC and the Board are satisfied that the changes disclosed in the SENS result in the fair presentation of the summary consolidated financial statements and comply, in all material respects, with the relevant provisions of the Companies Act, IFRS and interpretations of IFRS, and SAICA's Reporting Guides.

Absa Group Limited

Summary consolidated annual financial results for the reporting period ended 31 December 2019

Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/003934/06
Incorporated in the Republic of South Africa
JSE share code: ABG
ISIN: ZAE000255915

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

The financial information (the summary consolidated financial results and the consolidated and separate financial statements for the year ended 31 December 2019) is available for inspection at the Company's registered office on weekdays from 09:00 to 16:00.

The consolidated and separate financial statements and full audit opinion, including any key audit matters, will be available at <https://www.absa.africa/absafrica/investor-relations/financial-results/> when the Group's consolidated and separate financial statements are released on or about 31 March 2020.

Profit and dividend announcement

for the reporting period ended 31 December

The numbers in the profit commentary represent IFRS results, unless specifically indicated as normalised.

Salient features

Absa Group Limited (the Group) discloses International Financial Reporting Standards (IFRS) financial results and a normalised view, which adjusts for the financial consequences of separating from Barclays PLC.

IFRS basis

- Headline earnings per share (HEPS) increased by 3% to 1 750.1 cents from 1 703.7 cents.
- The Group declared a 1% higher full-year dividend per share of 1 125 cents.
- Diluted HEPS grew 3% to 1 747.6 cents from 1 700.4 cents
- RBB South Africa headline earnings declined 2% to R9.5bn, CIB South Africa declined 6% to R3.2bn and Absa Regional Operations rose 16% to R3.6bn.
- Return on equity (RoE) decreased to 13.1% from 13.4%.
- Revenue increased 5% to R80.1bn and operating expenses rose 4% to R48.8bn, resulting in a 60.9% cost-to-income ratio.
- Pre-provision profit increased 6% to R31.4bn.
- Credit impairments grew 24% to R7.8bn, resulting in a 0.80% credit loss ratio from 0.73%.
- Absa Group's Common Equity Tier 1 (CET 1) ratio of 12.1% remains above regulatory requirements and at the top end of the Board's target range.
- Net asset value (NAV) per share rose 3% to 13 669 cents.

Normalised basis

- Diluted normalised HEPS grew 1% to 1 923.3 cents from 1 910 cents.
- RoE decreased to 15.8% from 16.8%.
- Revenue increased 6% to R80.0bn and operating expenses rose 6% to R46.4bn, resulting in a 58.0% cost-to-income ratio.
- Pre-provision profit increased 5% to R33.6bn.
- Absa Group's normalised CET 1 ratio of 11.8% remains above regulatory requirements and at the top end of the Board's target range.
- NAV per share rose 5% to 12 605 cents.

Normalised reporting

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

Normalisation adjusts for the following items: R195m of interest earned on Barclays PLC's separation contribution (2018: R330m); hedging revenue linked to separation activities of R36m (2018: R525m); operating expenses of R2 410m (2018: R3 161m) and R113m of other expenses (2018: R194m), plus a R538m tax impact of the aforementioned (2018: R484m) items. In total, these adjustments added R 1 739m to the Group's normalised headline earnings during the period (2018: R1 986m). Since normalisation occurs at a Group level, it does not affect divisional disclosures.

Constant currency

Constant currency (CCY) pro forma financial information has been presented to illustrate the impact of changes in the Group's major foreign currencies, namely the Botswana Pula, Ghanaian Cedi, Kenyan Shilling, Mauritius Rupee, Mozambique Metical, Seychelles Rupee, Tanzanian Shilling, Uganda Shilling, United States Dollar and Zambia Kwacha. The constant currency pro forma financial information has been prepared for illustrative purposes only and, because of its nature, the CCY pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows. In determining the CCY pro forma financial information, amounts denoted in the above listed currencies for the current period and prior period have been converted to the presentation currency using the spot exchange rate as at 31 December 2018. The CCY pro forma financial information is the responsibility of the Directors.

Overview of results

Absa Group's headline earnings grew 3% to R14 526m from R14 142m and diluted HEPS rose 3% to 1 747.6 cents from 1 700.4 cents. The Group's RoE was 13.1% from 13.4% and its return on assets was 1.07% from 1.17%. Revenue grew 5% to R80 120bn, with net interest income and non-interest income rising 6% and 3% respectively. The Group's net interest margin (on average interest-bearing assets) decreased to 4.50% from 4.65%, largely due to lower deposit margins. Gross loans and advances to customers grew 9% to R947bn, while deposits due to customers rose 12% to R826bn. With operating expenses growing 4%, the cost-to-income ratio decreased to 60.9% from 61.2%, and pre-provision profit grew 6% to R31.4bn. In CCY, pre-provision profit increased 4%. Credit impairments grew 24% to R7.8bn, resulting in a 0.80% credit loss ratio from 0.73%. The Group's NAV per share increased 3% to 13 669 cents and it has declared a 1% higher full year dividends per share of 1 125 cents.

Profit and dividend announcement

for the reporting period ended 31 December

RBB South Africa's headline earnings declined 2% to R9 510m primarily due to 38% higher credit impairments. CIB South Africa's earnings fell 6% to R3 230m, given 4% lower revenue. Total CIB headline earnings increased 3% to R5 946m, largely due to 48% lower credit impairments. Absa Regional Operations' headline earnings grew 16% to R3 635m, or 12% in CCY, with RBB and CIB increasing 22% and 15% respectively.

South African earnings declined 3% to R12 657m, while Africa Regions (includes RBB ARO, CIB ARO, Head Office ARO and Insurance ARO) rose 17% to R3 608m, or 13% in CCY, to account for 22% of Group earnings.

Operating environment

The global economy slowed in the current year, driven by weakness in global trade and investment. The International Monetary Fund (IMF) estimated global growth at 2.9% in 2019, marking the slowest growth since the global financial crisis. Inflation was generally low across advanced and emerging economies due to weak economic activity. The combination of low inflation and slowing economic growth prompted major central banks to cut interest rates and monetary policy is likely to remain accommodative.

South Africa's economy contracted in the third and fourth quarters by 0.8% and 1.4%, respectively, the second recession in two years. The economy has been hit by short-term shocks, persistently weak business sentiment and periods of load shedding. GDP growth for full-year 2019 slowed to 0.2%, the weakest outcome since the 2009 recession. Despite stagnant growth and challenging labour market conditions, household credit extension picked up gradually through the year, reaching 6.1% YoY in December.

Headline inflation surprised on the downside in 2019 and reached a nine-year low of 3.6% YoY in November, reflecting weak demand and persistent slack in the economy, but picked up to 4.0% in December. The South African Reserve Bank (SARB) reduced the repo rate by 25 bps in July 2019, citing the improved inflation outlook. The rand spent much of 2019 trading weaker, but recovered towards the end of the year to finish slightly higher as a favourable turn in global risk appetite helped offset a generally downbeat assessment of South Africa's risks.

Beyond South Africa, economic growth in our Africa Region presence countries slowed to a forecast 5.0% in the current year, compared to 5.6% the previous year. This economic slowdown was mostly in Botswana, Mozambique, Uganda and Zambia, due to a weaker global backdrop and significant weather-related challenges.

Group performance

Statement of financial position

Total assets increased 9% to R1 399bn as at 31 December 2019, largely due to 9% growth in loans and advances to customers.

Gross loans and advances to customers

Gross loans and advances to customers increased 9% to R947bn. RBB South Africa loans rose 7% to R506bn, reflecting 10% growth in instalment credit agreements, 4% higher mortgages, 5% growth in credit cards and a 20% increase in personal and term loans. CIB South Africa's gross loans grew 9% to R300bn, including 27% growth in mortgages and 47% higher reverse repurchase agreements, while term loans rose 2%. Absa Regional Operations' gross loans increased 15% to R116bn (+CCY 21%).

Funding

The Group's liquidity position remains strong, with liquid assets and other sources of liquidity growing 7% to R233bn, which equates to 28% of customer deposits. Its average liquidity coverage ratio for the fourth quarter was 134% from 110%, comfortably above the minimum regulatory hurdle of 100% during the current period. Deposits due to customers grew 12% to R826bn. Loans to deposit and debt securities ratio decreased to 93.0% from 93.8%. Deposits due to customers constituted 75% of total funding from 72%. RBB South Africa's deposits grew 10% to R373bn, with savings and transmission deposits up 11% and fixed deposits up 15%. CIB South Africa's deposits increased 19% to R207bn. Absa Regional Operations' deposits increased 13% to R150bn (+CCY 19%).

Net asset value

The Group's NAV rose 3% to R113bn and its NAV per share grew 3% to 13 669 cents. During the year it generated retained earnings of R14.2bn, from which it paid R9.4bn in ordinary dividends. Its foreign currency translation reserve decreased by R1.3bn.

Capital to risk-weighted assets

Group risk-weighted assets (RWAs) increased 6% to R870bn at 31 December 2019, largely due to 7% higher credit RWAs. The Group remains well capitalised, comfortably above minimum regulatory capital requirements. Its normalised CET 1 and total capital adequacy ratios were 12.1% and 15.8% respectively (from 12.8% and 16.1%). The Group generated 1.8% of CET 1 capital internally during the year. Declaring a 1% higher full-year DPS of 1 125 cents on a dividend cover of 1.6 times took into account the operating environment, the Group's strong capital position, internal capital generation, strategy and growth plans.

Profit and dividend announcement

for the reporting period ended 31 December

Group performance (continued)

Statement of comprehensive income

Net interest income

IFRS net interest income increased 6% to R46 501m from R43 755m (normalised: increased 7% to R43 306m from R43 425m). On a CCY basis, the growth was 6%. Average interest-bearing assets grew 10%. The Group's net interest margin (to average interest-bearing assets) declined to 4.50% from 4.64%, mostly due to a lower deposit margin. Loan pricing decreased 7 bps, primarily due to the Investment Bank and Relationship Banking in SA. Slower growth in Home Loans than overall loans had a positive loan composition impact. Deposit margins decreased, mainly in RBB South Africa, reflecting competitive pricing in Relationship and Everyday Banking. Increased reliance on wholesale funding had an adverse composition effect. Endowment on equity and liabilities after hedging contributed 4 bps less as they grew slower than overall interest-bearing assets. The structural hedge released R595m to the income statement, or 6 bps, from R518m. The after tax cash flow hedging reserve for the programme was R1.1bn, from R0.4bn in 2018. Absa Regional Operations had a negative 1 bps impact due to lower interest rates in a number of markets. IFRS 16 reduced the net interest margin by 3 bps, with an equal reduction in operating expenses. The increased basis differential between prime and JIBAR in SA added 2 bps, while lower average high quality liquid assets increased the margin by 5 bps.

Non-interest income

Non-interest income increased 3% to R33 619m from R32 760m (normalised: increased 3% to R33 655m from R32 235m) to account for 42% of total revenue from 43%. On a CCY basis, the growth was 4%. Net fee and commission income grew 5% to R23 606m, representing 70% of total non-interest income. Within this, cheque account fees increased 2% to R5 497m, electronic banking grew 3% to R5 510m, while credit cards and merchant income rose by 6% and 11% respectively. Net trading excluding hedge accounting fell 4% to R4 980m, reflecting Markets in South Africa decreasing 28%, while Absa Regional Operations increased 25%.

RBB South Africa's non-interest income grew 6% to R23 381m, as Transactional and Deposits rose 9% to R8.9bn, reflecting growth in the active cheque account base. Also within RBB SA, Relationship Banking increased 3% to R6.3bn, Card grew 4% to R3.0bn and the Insurance Cluster rose 7% to R3.2bn. CIB South Africa decreased 18% to R3 762m, due to lower Markets revenue in the Investment Bank. Absa's Regional Operations non-interest income grew 17% to R6 041m (CCY 14%), as CIB increased 22% and RBB 13%.

Impairment losses on loans and advances

Credit impairments rose 24% to R7 816m from R6 324m, which increased the Group's credit loss ratio on gross loans and advances to customers and banks to 0.80% from 0.73%. However, this was at the bottom end of the expected through-the-cycle charge of 0.75% to 1.0%. RBB South Africa's credit impairments increased 38% to R6 253m, resulting in a 1.18% credit loss ratio from 0.92%. Home Loans' charge grew 61% to R182m resulting in a 0.08% credit loss ratio from 0.05%. Vehicle and Asset Finance credit impairments grew 8% to R1 099m, improving its credit loss ratio to 1.34% from 1.37%. Card's credit loss ratio increased to 5.46% from 3.47%, given 72% higher credit impairments of R2 536m, while Personal Loans' charge rose 46% to R1 610m increasing its credit loss ratio to 7.16% from 5.51%. Both reflected new business strain under IFRS 9 and higher stage 3 coverage. Relationship Banking's credit impairments grew 16% to R322m, increasing its credit loss ratio to 0.26% from 0.25%. CIB South Africa's credit impairments decreased 63% to R367m from R998m, due to a large single name exposure in the base. Its credit loss ratio improved to 0.11% from 0.36%. Absa Regional Operations' credit charge increased 53% to R1 213m from R794m, increasing its credit loss ratio to 0.98% from 0.78%. Within this, RBB's charge increased 37% to R1 120m, a 2.10% credit loss ratio, while CIB's grew materially to R173m or a 0.30% credit loss ratio.

Operating expenses

Operating expenses grew 4% to R48 767m from R46 803m, resulting in a 60.9% cost-to-income ratio from 61.2%. Staff costs grew 6% and accounted for 53.9% of total operating expenses. Salaries rose 8% and total incentives fell 5%. Headcount decreased 6% to 38 472, largely due to reductions in South Africa. Non-staff costs grew 5%. Professional fees reduced 9%, while telephone and postage increased 13% and printing and stationary decreased 5%. Operating leases on properties decreased 89%, while depreciation increased 55%, both due to the impact of IFRS 16. Property costs were flat, given optimisation of the real estate portfolio. Marketing costs decreased 11% reflecting lower product campaign and advertising spend. Total IT-related spend grew 18% to R9 323m and constituted 19% of Group operating expenses. Amortisation of intangible assets rose 62%, while cash transportation increased 3%.

RBB South Africa costs grew 4% to R28 581m, reflecting a multi-year transformation plan leveraging digital capabilities. CIB South Africa expenses grew 6% to R6 503m, due to investment in systems and technology after separating from Barclays PLC. Absa Regional Operations' expenses increased 12% (+CCY 8%) to R10 753m given incremental costs following separation from Barclays PLC partially offset by optimising its branch network. CIB ARO increased 20% and RBB Regional Operations grew 9%.

Taxation

The Group's taxation expense decreased 8% to R5 772m, resulting in a 26.5% effective tax rate from 29.2%.

Profit and dividend announcement

for the reporting period ended 31 December

Segment performance

RBB South Africa

Headline earnings declined 2% to R9 510m, due to 38% higher credit impairments as pre-provision profits increased 7%. Revenue grew 5% to R49 572m, with non-interest income increasing 6%. Costs rose 4% to R28 581m, resulting in a decrease of its cost-to-income ratio from 58.4% to 57.7%. Credit loss ratio increased to 1.18% from 0.92%. RBB South Africa generated a return on regulatory capital (RoRC) of 21.4% and constituted 58% of total normalised headline earnings excluding the Group centre.

Relationship Banking headline earnings grew 7% to R3 672m, reflecting 6% pre-provision profit growth, partially offset by 16% higher credit impairments. Despite 9% growth in pre-provision profit, Everyday Banking headline earnings fell 13% to R3 500m, given 50% higher credit impairments. Within this, Transactional and Deposits headline earnings grew 9%, while Card and Personal Loans fell 40% and 25% respectively due to higher credit impairments. Home Loans headline earnings rose 1% to R1 588m, largely due to 5% higher pre-provision profits. Insurance Cluster earnings increased 10% to R1 273m, with Life Insurance up 11% and short-term insurance growing 6%. Vehicle and Asset Finance headline earnings rose 41% on 12% higher pre-provision profits.

CIB South Africa

Headline earnings decreased 6% to R3 230m, as pre-provision profits fell 15% as 6% higher costs exceeded 4% lower revenue, resulting in a 58.9% cost-to-income ratio. Credit impairments fell 63%, given a large single name in the base. Corporate earnings grew 2% to R1 223m, given 6% higher pre-provision profits and flat credit impairments. Investment Bank earnings decreased 10% to R2 007m, due to 12% lower revenue. CIB South Africa contributed 19.7% of total normalised headline earnings excluding the Group centre and generated a 13.4% RoRC.

Total CIB earnings, including CIB Absa Regional Operations, increased 3% (+CCY1%) to R5 946m. Pre-provision profits declined 4%, as revenue grew 3% and costs 10%. Credit impairments fell 48%, resulting in a 0.14% credit loss ratio. Total CIB contributed 37% of headline earnings excluding the Group centre and produced an 18.2% RoRC.

Absa Regional Operations

Headline earnings grew 16%, or 12% in CCY, to R3 635m, largely due to 17% higher pre-provision profits. Revenue grew 14% to R18 605m, including 17% higher non-interest income. Costs rose 12% to R10 753m, resulting in a 57.8% cost-to-income ratio. RBB earnings increased 22% to R798m, or 19% in CCY, as higher pre-provision profits rose 26% to outweigh 37% higher credit impairments. CIB earnings grew 15%, or 10% in CCY, to R2 716m due to 15% revenue growth. Absa Regional Operations accounted for 22% of total headline earnings excluding the Group centre and produced a 19.0% RoE.

Prospects

The Group projects 0.9% real growth for South Africa in 2020. We expect a continued difficult environment for the consumer, while heightened uncertainty will continue to dampen business confidence and investment. Downside risks are significant and include the risk of protracted load shedding, a sharper global slowdown due to the coronavirus outbreak and the impact of a potential sovereign credit rating downgrade from Moody's. The South African Reserve Bank decreased the repo rate by 25 bps in January and financial markets are currently pricing in a high probability of two further 25 bps rate cuts during 2020.

In our Africa regions markets, we see real GDP growth improving to 5.6% during 2020. Continued infrastructure investment, improved mining output and agriculture should help support growth, although there is risk to the downside, including negative country-specific and idiosyncratic shocks, as well as the potential for a coronavirus-led deterioration in the global outlook dampening Africa's economic outlook.

On the basis described above our current assumptions, and excluding any major unforeseen political, macroeconomic or regulatory developments, we forecast reasonably similar balance sheet growth, although loans could grow faster than deposits, particularly in CIB. The Group continues to expect better loan growth from ARO in CCY than from South Africa. Our net interest margin is expected to be similar to 2019, given positive mix impacts from higher growth in retail unsecured lending and ARO, partially offset by low margin deposit growth and slightly lower policy rates. Costs will remain well controlled and we are targeting positive operating Jaws, in part due to non-recurring costs in the base. The Group's credit loss ratio is expected to increase slightly, but remain in the bottom half of our through-the-cycle target range. There is increased risk of further strain in our SA retail portfolios. Our RoE is likely to be similar to 2019. We still believe that an RoE target of 18% to 20% is appropriate for our Group, although we do not envisage achieving it until 2022 at the earliest, which is heavily dependent on the state of SA's economy. However, we expect to see consistent progression on our cost-to-income ratio. Lastly, our CET 1 ratio should remain at the top end of our Board target range and we remain comfortable with our dividend cover at current levels.

Profit and dividend announcement

for the reporting period ended 31 December

Declaration of ordinary dividend number 67

Shareholders are advised that a final ordinary dividend of 620 cents per ordinary share was declared on 11 March 2020, for the period ended 31 December 2019. The ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 17 April 2020. The directors of Absa Group Limited confirm that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

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

- › The dividend has been declared out of income reserves.
- › The local dividend tax rate is twenty per cent (20%).
- › The gross local dividend amount is 620 cents per ordinary share for shareholders exempt from the dividend tax.
- › The net local dividend amount is 496 cents per ordinary share for shareholders liable to pay the dividend tax.
- › Absa Group Limited currently has 847 750 679 ordinary shares in issue (includes 19 122 853¹ treasury shares).
- › Absa Group Limited's income tax reference number is 9150116714.

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

Last day to trade cum dividend	Tuesday, 14 April 2020
Shares commence trading ex-dividend	Wednesday, 15 April 2020
Record date	Friday, 17 April 2020
Payment date	Monday, 20 April 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 15 April 2020 and Friday, 17 April 2020, both dates inclusive. On Monday, 20 April 2020, the dividend will be electronically transferred to the bank accounts of certificated shareholders. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will also be credited on Monday, 20 April 2020.

On behalf of the Board

N R Drutman

Group Company Secretary

Johannesburg
11 March 2020

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

⁽¹⁾ Includes shares to be utilised when establishing a BBBEE structure.

IFRS summary consolidated financial results

for the reporting period ended 31 December

IFRS financial results

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

The information disclosed in the SENS is derived from the information contained in the audited annual consolidated financial statements which include the audit report detailing the key audit matters and does not contain full or complete disclosure details. Any investment decisions by shareholders should be based on consideration of the audited annual consolidated financial statements, which is available on request. The presentation and disclosures of the summary consolidated financial results comply with IAS 34 Interim Financial Reporting (IAS 34).

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

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 foreseeable future. For this reason, the information in this report has been prepared on a going concern basis.

Accounting policies

The accounting policies applied in preparing the summary consolidated financial statements are the same as those in place for the Group's annual consolidated financial statements for the reporting period ended 31 December 2018 except for:

- › Changes of the Group's operating segments and business portfolios, which have been presented in the report overview note 14;
- › Adoption of new IFRS, specifically IFRS 16 Leases (IFRS 16) and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23);
- › Amendments to IAS 19 Employment Benefit (IAS 19); and
- › Change in presentation of interest expense in the statement of comprehensive income (SOC).

Standards issued not yet effective

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.

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 2023. The Board will consider the recommendation on the effective date of IFRS 17, and recommendation to extend the temporary exemption from applying IFRS 9, during its meeting in the week of 16 March 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 and development activities have commenced.

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.

IFRS summary consolidated financial results

for the reporting period ended 31 December

Auditors' report

Ernst & Young Inc. (EY), the Group's independent auditor, has audited the annual consolidated financial statements of the Group from which management prepared the summary consolidated financial results. The auditor has expressed an unmodified audit opinion on the consolidated annual financial statements. The summary consolidated financial results comprise: the summary consolidated statement of financial position at 31 December 2019, summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the reporting period then ended and selected explanatory notes (on pages 10 to 45). The audit report on the consolidated annual financial statements as well as the independent reporting accountants' report on the normalised financial results and the constant currency pro forma financial information is available for inspection at the Group's registered office.

The summary consolidated statements (on pages 10 to 45) for the year ended 31 December 2019 have been audited by EY, who expressed an unmodified opinion thereon. A copy of the auditor's report on the summary consolidated financial statements is available for inspection at the Group's registered office.

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 transfer being 1 February 2020.

The estimates and judgements applied to determine the financial position at 31 December 2019 have been included as part of the accounting policies of the Group. 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 the 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 other 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 audited summary consolidated financial results.

On behalf of the Board

W E Lucas-Bull
Group Chairman

Johannesburg
11 March 2020

J P Quinn
Financial Director

Summary consolidated IFRS salient features

for the reporting period ended 31 December

	2019	2018
Statement of comprehensive income (Rm)		
Income	80 120	76 515
Operating expenses	48 767	46 803
Profit attributable to ordinary equity holders	14 256	13 917
Headline earnings ⁽¹⁾	14 526	14 142
Statement of financial position		
Loans and advances to customers (Rm)	916 978	841 720
Total assets (Rm)	1 399 175	1 288 744
Deposits due to customers (Rm)	826 293	736 305
Loans to deposits and debt securities ratio (%)	93.0	93.8
Average loans to deposits and debt securities ratio (%) ⁽²⁾	87.5	88.9
Financial performance (%)		
Return on equity (RoE)	13.1	13.4
Return on average assets (RoA)	1.07	1.17
Return on risk-weighted assets (RoRWA)	1.72	1.86
Stage 3 loans ratio on gross loans and advances	4.79	5.10
Operating performance (%)		
Net interest margin on average interest-bearing assets	4.50	4.65
Credit loss ratio on gross loans and advances to customers and banks	0.80	0.73
Non-interest as a percentage of total income	42.0	42.8
Cost-to-income ratio	60.9	61.2
Jaws	1	(4)
Effective tax rate	26.5	29.2
Share statistics (million)		
Number of ordinary shares in issue	847.8	847.8
Number of shares in issue (excluding treasury shares)	828.7	827.5
Weighted average number of ordinary shares in issue	830.0	830.1
Diluted weighted average number of ordinary shares in issue	831.2	831.7
Share statistics (cents)		
Basic earnings per ordinary share (EPS)	1 717.6	1 676.5
Diluted basic earnings per ordinary share (DEPS)	1 715.1	1 673.3
Headline earnings per ordinary share (HEPS)	1 750.1	1 703.7
Diluted headline earnings per ordinary share (DHEPS)	1 747.6	1 700.4
Dividend per ordinary share relating to income for the reporting period	1 125	1 110
Dividend cover times (times)	1.6	1.5
NAV per ordinary share	13 669	13 233
Tangible NAV per ordinary share	12 426	12 185
Capital adequacy (%)		
Absa Group Limited	15.8	16.1
Absa Bank Limited	16.7	16.5
Common Equity Tier 1 (%)		
Absa Group Limited	12.1	12.8
Absa Bank Limited	11.9	12.3

⁽¹⁾ After allowing for R352m (2018: R351m) profit attributable to preference equity holders and R435m (2018: R190m) profit attributable to Additional Tier 1 capital holders.

⁽²⁾ The average loans to deposit and debt securities in issue ratio has been added. The ratio is based on loans and advances to customers, loans and advances to banks and deposits due to customers, deposits from banks and debt securities, and is calculated on a daily weighted average instead of the balances at reporting date. This ratio will be applied going forward.

Summary consolidated statement of financial position

as at 31 December

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

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	2019 Rm	2018 Rm
Net interest income		46 501	43 755
Interest and similar income		97 838	89 236
Effective interest income		96 040	87 634
Other interest income		1 798	1 602
Interest expense and similar charges ⁽¹⁾		(51 337)	(45 481)
Non-interest income	4	33 619	32 760
Net fee and commission income		23 606	22 523
Fee and commission income		26 759	25 675
Fee and commission expense		(3 153)	(3 152)
Net insurance premium income		7 830	7 190
Net claims and benefits incurred on insurance contracts		(3 747)	(3 565)
Changes in investment and insurance contract liabilities		(1 589)	808
Gains and losses from banking and trading activities		5 408	5 820
Gains and losses from investment activities		1 600	(636)
Other operating income		511	620
Total income		80 120	76 515
Impairment losses		(7 816)	(6 324)
Operating income before operating expenses		72 304	70 191
Operating expenses		(48 767)	(46 803)
Other expenses		(2 006)	(2 026)
Other impairments	5	(330)	(434)
Indirect taxation		(1 676)	(1 592)
Share of post-tax results of associates and joint ventures		221	179
Operating profit before income tax		21 752	21 541
Taxation expense		(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)		1 717.6	1 676.5
Diluted earnings per share (cents)		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 nil.

Summary consolidated statement of other comprehensive income

for the reporting period ended 31 December

	2019 Rm	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	(38)	(26)
(Increase)/decrease in retirement benefit deficit	(104)	55
Deferred tax	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	(355)	96
Movement in fair value of debt instruments measured at FVOCI	(560)	(590)
Fair value losses	(811)	(750)
Release to profit or loss	(20)	(9)
Deferred tax	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

Summary 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	Fair value through other compre- hensive income reserve Rm
Balance at the end of the previous reporting period	827 477	1 655	10 205	91 237	6 387	823	(80)
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	(80)
Total comprehensive income	—	—	—	14 147	(945)	—	(548)
Profit for the period	—	—	—	14 256	—	—	—
Other comprehensive income	—	—	—	(109)	(945)	—	(548)
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	(628)

2019										
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	
403	3 060	7	877	1 297	109 484	4 737	4 644	2 741	121 606	
—	—	—	—	—	(243)	(13)	—	—	(256)	
403	3 060	7	877	1 297	109 241	4 724	4 644	2 741	121 350	
913	(1 310)	—	—	—	13 202	845	352	435	14 834	
—	—	—	—	—	14 256	937	352	435	15 980	
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	—	—	—	—	—	
1 316	1 750	13	926	1 518	113 278	4 966	4 644	5 795	128 683	

Summary 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	Fair value through other compre- hensive income reserve Rm
Balance at the end of the previous reporting period	832 838	1 666	10 498	92 080	4 370	779	445
Impact of adopting new accounting standards at 1 January 2018							
IFRS 9	—	—	—	(5 413)	(126)	—	(22)
IFRS 15	—	—	—	(44)	—	—	—
Adjusted balance at the beginning of the reporting period	832 838	1 666	10 498	86 623	4 244	779	423
Total comprehensive income	—	—	—	13 937	1 879	—	(503)
Profit for the period	—	—	—	13 917	—	—	—
Other comprehensive income	—	—	—	20	1 879	—	(503)
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	(80)

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
650	431	6	837	1 222	108 614	4 500	4 644	1 500	119 258
—	—	—	—	(104)	(5 539)	(230)	—	—	(5 769)
—	—	—	—	—	(44)	—	—	—	(44)
650	431	6	837	1 118	103 031	4 270	4 644	1 500	113 445
(247)	2 629	—	—	—	15 816	1 170	351	190	17 527
—	—	—	—	—	13 917	801	351	190	15 259
(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	—	—	—	—	—
403	3 060	7	877	1 297	109 484	4 737	4 644	2 741	121 606

Summary consolidated statement of cash flows

for the reporting period ended 31 December

	Note	2019 Rm	Restated 2018 Rm
Net cash generated from operating activities		14 866	13 884
Income taxes paid		(6 825)	(6 648)
Net cash generated from other operating activities		21 691	20 532
Net cash utilised in investing activities		(7 430)	(6 577)
Purchase of property and equipment		(4 168)	(3 373)
Purchase of intangible assets ⁽¹⁾		(3 067)	(4 161)
Proceeds from sale of non-current assets held for sale		103	1 414
Net cash utilised in other investing activities ⁽¹⁾		(298)	(457)
Net cash utilised in financing activities		(8 021)	(6 521)
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)
Dividends paid		(10 332)	(10 087)
Net cash utilised in other financing activities		(1 789)	(1 051)
Net (decrease)/increase in cash and cash equivalents		(585)	786
Cash and cash equivalents at the beginning of the reporting period	1	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	2	18 288	18 494

Notes to the summary consolidated statement of cash flows

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

Cash, cash balances and balances with central banks ⁽²⁾	14 252	13 518
Loans and advances to banks ⁽³⁾	4 242	3 802
	18 494	17 320

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

Cash, cash balances and balances with central banks ⁽²⁾	14 033	14 252
Loans and advances to banks ⁽²⁾	4 255	4 242
	18 288	18 494

⁽¹⁾ In order to provide more transparent disclosures, the summary consolidated statement of cash flows has been expanded to include the purchase of intangible assets separately rather than including it in the total net cash utilised in other investing activities. Comparatives have been restated accordingly.

⁽²⁾ Includes coins and bank notes.

⁽³⁾ Includes call advances, which are used as working capital by the Group.

Notes to the summary consolidated financial results

for the reporting period ended 31 December

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

The following movements in non-current assets and non-current liabilities held for sale occurred during the current 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 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:
 - o Disposal of a subsidiary with assets of R139m and liabilities of R34m.
 - o Disposal of a business line with assets of R14m and liabilities of R14m.
 - o 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).

Notes to the summary consolidated financial results

for the reporting period ended 31 December

2. Loans and advances

	Carrying amount of financial assets measurement at fair value through profit or loss Rm	Stage 1 Gross carrying amount Rm	ECL allowance Rm	ECL coverage %
RBB South Africa	—	451 601	3 202	0.71
Home Loans	—	209 949	293	0.14
Vehicle and Asset Finance	—	73 684	608	0.83
Everyday Banking	—	53 486	1 436	2.68
Card	—	32 979	875	2.65
Personal Loans	—	18 046	467	2.59
Transactions and Deposits	—	2 461	94	3.82
Relationship Banking	—	114 482	865	0.76
RBB Other	—	—	—	—
CIB South Africa	67 656	201 299	503	0.25
ARO	—	102 214	812	0.79
Head Office, Treasury and other operations in South Africa	—	287	(229)	—
Loans and advances to customers	—	287	12	4.18
Reclassification to provisions ⁽¹⁾	—	—	(241)	—
Loans and advances to customers	67 656	755 401	4 288	0.57
Loans and advances to banks	29 453	29 736	21	0.07
Total loans and advances to customers and banks	97 109	785 137	4 309	0.55

⁽¹⁾ This represents the ECL allowance on undrawn facilities which has resulted in the ECL allowance on loans and advances exceeding the carrying amount of the drawn exposure. To the extent that such occurs, a 'provision' is recognised on the Group's statement of financial position.

2019						
Stage 2			Stage 3			Net carrying amount Rm
Gross carrying amount Rm	ECL allowance Rm	ECL coverage %	Gross carrying amount Rm	ECL allowance Rm	ECL coverage %	
39 097	3 937	10.07	39 583	16 664	42.10	506 478
13 923	235	1.69	18 956	4 909	25.90	237 391
7 996	622	7.78	5 253	1 963	37.37	83 740
9 077	2 555	28.15	10 034	7 220	71.96	61 386
5 083	1 745	34.33	6 384	4 772	74.75	37 054
2 788	489	17.54	3 107	2 128	68.49	20 857
1 206	321	26.62	543	320	58.93	3 475
8 101	525	6.48	5 287	2 520	47.66	123 960
—	—	—	53	52	98.11	1
28 905	316	1.09	1 803	615	34.11	298 229
8 654	951	10.99	5 607	3 247	57.91	111 465
9	(269)	—	—	(12)	—	806
9	—	—	—	—	—	284
—	(269)	—	—	(12)	—	522
76 665	4 935	6.44	46 993	20 514	43.65	916 978
580	3	0.52	—	—	—	59 745
77 245	4 938	6.39	46 993	20 514	43.65	976 723

Notes to the summary consolidated financial results

for the reporting period ended 31 December

2. Loans and advances (continued)

	Carrying amount of financial assets measurement at fair value through profit or loss Rm	Stage 1		
		Gross carrying amount Rm	ECL allowance Rm	ECL coverage %
RBB South Africa⁽¹⁾	—	418 460	2 923	0.70
Home Loans	—	199 683	289	0.14
Vehicle and Asset Finance	—	68 966	450	0.65
Everyday Banking	—	49 976	1 453	2.91
Card	—	32 055	880	2.75
Personal Loans	—	15 710	520	3.31
Transactions and Deposits	—	2 211	53	2.40
Relationship Banking	—	99 835	731	0.73
RBB Other	—	—	—	—
CIB South Africa	45 263	196 995	415	0.21
ARO	—	86 819	879	1.01
Head Office, Treasury and other operations in South Africa	—	269	(195)	—
Loans and advances to customers	—	269	6	2.23
Reclassification to provisions ⁽²⁾	—	—	(201)	—
Loans and advances to customers	45 263	702 543	4 022	0.57
Loans and advances to banks	19 800	30 190	9	0.03
Total loans and advances to customers and banks	65 063	732 733	4 031	0.55

⁽¹⁾ These numbers have been restated, refer to the reporting changes overview in note 14.3.

⁽²⁾ This represents the ECL allowance on undrawn facilities which has resulted in the ECL allowance on loans and advances exceeding the carrying amount of the drawn exposure. To the extent that such occurs, a 'provision' is recognised on the Group's statement of financial position.

2018⁽¹⁾

Stage 2			Stage 3			Net carrying amount Rm
Gross carrying amount Rm	ECL allowance Rm	ECL coverage %	Gross carrying amount Rm	ECL allowance Rm	ECL coverage %	
37 665	3 906	10.37	38 273	15 914	41.58	471 655
14 215	238	1.67	18 516	4 801	25.93	227 086
6 041	734	12.15	4 754	1 805	37.97	76 772
8 520	2 398	28.15	9 670	6 536	67.59	57 779
4 767	1 754	36.79	6 582	4 551	69.14	36 219
2 619	452	17.26	2 598	1 634	62.89	18 321
1 134	192	16.93	490	351	71.63	3 239
8 889	536	6.03	5 279	2 719	51.51	110 017
—	—	—	54	53	98.15	1
30 749	305	0.99	2 860	1 978	69.16	273 169
8 491	842	9.92	6 034	3 409	56.50	96 214
9	(191)	—	—	(18)	—	682
9	—	—	—	—	—	272
—	(191)	—	—	(18)	—	410
76 914	4 862	6.32	47 167	21 283	45.12	841 720
3 173	14	0.44	—	—	—	53 140
80 087	4 876	6.09	47 167	21 283	45.12	894 860

Notes to the summary consolidated financial results

for the reporting period ended 31 December

3. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: **R1 580m** (2018: R6 571m) of subordinated notes were issued and **R534m** (2018: R3 195m) were redeemed.

4. Disaggregation of non-interest income

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

	2019					
	RBB South Africa Rm	CIB South Africa Rm	Absa Regional Operations Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	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	Absa Regional Operations Rm	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	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 14.2 for further details.

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5. Other impairments

	2019 Rm	2018 Rm
Goodwill	—	34
Intangible assets ⁽¹⁾	122	2
Property and equipment ⁽²⁾	208	398
	330	434

6. Headline earnings

	2019 Gross Rm	2019 Net ⁽³⁾ Rm	2018 Gross Rm	2018 Net ⁽³⁾ Rm
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Group		14 256		13 917
Total headline earnings adjustments:		270		225
IAS 36 – Goodwill impairment	—	—	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	(27)	(21)	5	2
IAS 21 – Recycled foreign currency translation reserve	118	81	—	—
IAS 36 – Impairment of property and equipment	208	153	398	297
IAS 36 – Impairment of intangible assets	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	(12)	(9)	(38)	(29)
IAS 40 – Profit on disposal of investment property	(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 ordinary share (cents)		1 747.6		1 700.4

⁽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.

⁽³⁾ The net amount is reflected after taxation and non-controlling interest.

Notes to the summary consolidated financial results

for the reporting period ended 31 December

7. Dividends per share

	2019 Rm	2018 Rm
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) ⁽¹⁾		
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	435	190
10 January 2019: 29 981.67 Rands per note (rpn) ⁽²⁾	37	—
12 March 2019: 31 561.64 rpn; 12 March 2018: 31 500 rpn ⁽²⁾	47	47
10 April 2019: 29 342.47 rpn ⁽²⁾	36	—
12 June 2019: 32 263.01 rpn; 12 June 2018: 32 200 rpn ⁽²⁾	49	49
10 July 2019: 29 688.43 rpn ⁽²⁾	37	—
28 August 2019: 29 344.21 rpn ⁽²⁾	49	—
12 September 2019: 32 031.12 rpn; 12 September 2018: 31 675.726 rpn ⁽²⁾	48	47
10 October 2019: 29 659.28 rpn ⁽²⁾	37	—
28 November 2019: 28 525.04 rpn ⁽²⁾	48	—
12 December 2019: 31 059.67 rpn; 12 December 2018: 31 620.63 rpn ⁽²⁾	47	47
	435	190
Dividends paid to ordinary equity holders (net of treasury shares)⁽¹⁾		
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
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	435	190
10 January 2019: 29 981.67 (rpn) ⁽²⁾	37	—
12 March 2019: 31 561.64 rpn; 12 March 2018: 31 500 rpn ⁽²⁾	47	47
10 April 2019: 29 342.47 rpn ⁽²⁾	36	—
12 June 2019: 32 263.01 rpn; 12 June 2018: 32 200 rpn ⁽²⁾	49	49
10 July 2019: 29 688.43 rpn ⁽²⁾	37	—
28 August 2019: 29 344.21 rpn ⁽²⁾	49	—
12 September 2019: 32 031.12 rpn; 12 September 2018: 31 675.726 rpn ⁽²⁾	48	47
10 October 2019: 29 659.28 rpn ⁽²⁾	37	—
28 November 2019: 28 525.04 rpn ⁽²⁾	48	—
12 December 2019: 31 059.67 rpn; 12 December 2018: 31 620.63 rpn ⁽²⁾	47	47
	435	190

⁽¹⁾ The dividends paid on treasury shares are calculated on payment date.

⁽²⁾ 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

Notes to the summary consolidated financial results

for the reporting period ended 31 December

8. Acquisitions and disposals of businesses and other similar transactions

8.1.1 Acquisitions of businesses during the current reporting period

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

8.1.2 Disposals of businesses during the current reporting period

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

8.2.1 Acquisitions of businesses during the previous reporting period

During the prior 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.

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:

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

8.2.2 Disposals of businesses during the previous reporting period

During the prior reporting period apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 1) there were no other disposals of businesses that were finalised during the prior reporting period. The cash consideration received on disposal of subsidiary included in non-current assets/liabilities held for sale was R1 398m.

9. Related parties

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

There were no significant transactions with related parties of Absa Group Limited during the previous reporting period.

10. Contingencies, commitments and similar items

	2019 Rm	2018 Rm
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.		
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

Notes to the summary consolidated financial results

for the reporting period ended 31 December

10. Contingencies, commitments and similar items (continued)

The operating lease commitments in respect of prior periods 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' will no longer be disclosed.

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Irrevocable debt facilities do not include other lending facilities which are revocable but for which an impairment provision has been raised (ie 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.

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.

Notes to the summary consolidated financial results

for the reporting period ended 31 December

10. Contingencies, commitments and similar items (continued)

Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis has resulted in a significant tightening of regulation and changes to regulatory structures 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.

Notes to the summary consolidated financial results

for the reporting period ended 31 December

11. Segment reporting

	2019 Rm	2018 ⁽¹⁾ Rm
11.1 Total headline earnings by segment		
RBB South Africa	9 510	9 722
CIB South Africa	3 230	3 422
ARO	3 635	3 140
Head Office, Treasury and other operations South Africa ⁽²⁾	(1 110)	(156)
Barclays PLC separation effects ⁽³⁾	(1 739)	(1 986)
	14 526	14 142
11.2 Total income by segment		
RBB South Africa	49 572	47 200
CIB South Africa	11 040	11 487
ARO	18 605	16 307
Head Office, Treasury and other operations South Africa ⁽²⁾	744	666
Barclays PLC separation effects ⁽³⁾	159	855
	80 120	76 515
11.3 Total internal income by segment		
RBB South Africa	(9 117)	(9 372)
CIB South Africa	(9 447)	(6 897)
ARO	(3 339)	(566)
Head Office, Treasury and other operations South Africa ⁽²⁾	18 708	16 835
Barclays PLC separation effects ⁽³⁾	195	—
	—	—
11.4 Total assets by segment		
RBB South Africa	917 064	851 991
CIB South Africa	628 552	532 539
ARO	217 987	191 917
Head Office, Treasury and other operations South Africa ⁽²⁾	(369 109)	(290 895)
Barclays PLC separation effects ⁽³⁾	4 681	3 192
	1 399 175	1 288 744
11.5 Total liabilities by segment		
RBB South Africa	900 578	839 082
CIB South Africa	622 471	525 406
ARO	195 491	169 106
Head Office, Treasury and other operations South Africa ⁽²⁾	(445 886)	(360 895)
Barclays PLC separation effects ⁽³⁾	(2 162)	(5 561)
	1 270 492	1 167 138

⁽¹⁾ Operational changes, accounting policy changes, management changes and associated changes to the way in which the chief operating decision maker views the performance of each segment, have resulted in the re-allocation of earnings, assets and liabilities between segments, refer to note 14.2 for further details.

⁽²⁾ Head Office, Treasury and other operations in South Africa represents a reconciling stripe and is not a reporting segment.

⁽³⁾ 'Barclays PLC separation effects' is the reconciling stripe and does not represent a reportable segment.

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12. 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.

	2019		2018	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
Financial assets				
Balances with other central banks	13 176	13 176	11 371	11 374
Balances with the South African Reserve Bank	16 587	16 587	13 108	13 108
Coins and bank notes	14 033	14 033	14 252	14 252
Money market assets	-	-	27	27
Cash, cash balances and balances with central banks	43 796	43 796	38 758	38 761
Investment securities	8 379	8 356	7 359	7 414
Loans and advances to banks	30 292	30 292	33 339	35 669
Other assets	26 883	26 883	27 468	27 356
RBB South Africa ⁽¹⁾	506 478	507 926	471 655	473 081
Home Loans	237 391	237 391	227 086	227 086
Vehicle and Asset Finance	83 740	84 080	76 772	77 087
Everyday Banking	61 386	61 998	57 779	58 520
Card	37 054	37 463	36 219	36 780
Personal Loans	20 857	21 022	18 321	18 465
Transactions and Deposits	3 475	3 513	3 239	3 275
Relationship Banking	123 960	124 456	110 017	110 387
RBB Other	1	1	1	1
CIB South Africa ⁽¹⁾	230 573	230 573	227 907	227 907
ARO ⁽¹⁾	111 465	111 465	96 213	96 473
Head Office, Treasury and other operations in South Africa	806	806	681	681
Loans and advances to customers – net of impairment losses	849 322	850 770	796 456	798 142
Non-current assets held for sale	3 865	3 865	30	30
Total assets (not held at fair value)	962 537	963 962	903 410	907 372
Financial liabilities				
Deposits from banks	76 743	76 786	75 651	79 757
Other liabilities	18 876	18 892	32 614	32 826
Call deposits	82 773	82 773	80 007	80 007
Cheque account deposits	204 187	204 187	199 053	199 053
Credit card deposits	1 862	1 862	1 904	1 904
Fixed deposits	189 121	189 544	155 184	155 184
Foreign currency deposits	41 567	41 567	35 597	35 597
Notice deposits	68 997	68 997	58 367	58 367
Other deposits	943	943	2 779	2 779
Repurchase agreement	261	261	—	—
Saving and transmission deposits	179 892	179 892	164 321	164 321
Deposits due to customers	769 603	770 026	697 212	697 212
Debt securities in issue	130 846	133 583	145 382	147 666
Borrowed funds	21 418	21 418	20 225	20 225
Total liabilities (not held at fair value)	1 017 486	1 020 705	971 084	977 686

⁽¹⁾ These numbers have been restated, refer to note 14.3.

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13. Assets and liabilities held at fair value

13.1 Fair value measurement and valuation processes

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 Valuations Committee and an Independent Valuation Control (IVC) team, which is independent from the front office.

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

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

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

Investment properties

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

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

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

13.2 Fair value measurements

Valuation inputs

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

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

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

Valuation technique using significant unobservable inputs – Level 3

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

Notes to the summary consolidated financial results

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

13.2 Fair value measurements (continued)

Judgemental inputs on valuation of principal instruments

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

Debt securities and treasury and other eligible bills

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

Equity instruments

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

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

Derivatives

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

Loans and advances

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

Deposits, debt securities in issue and borrowed funds

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

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

13.3 Fair value adjustments

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

Bid-offer valuation adjustments

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

Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, the Group's own credit quality, 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 on at least an annual basis.

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

13.4 Fair value hierarchy

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.

Recurring fair value measurements	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
Equity instruments	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
Investments 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 at fair value in terms of their respective standards.

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

13.5 Measurement of assets and liabilities categorised at Level 2

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

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Cash, cash balances and balances with central banks	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Loans and advances to banks	Future cash flows are discounted using market-related interest rates, adjusted for credit inputs, over the contractual period of the instruments (that is, discounted cash flow)	Interest rates and/or money market curves, as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Derivatives		
Commodity derivatives	Discounted cash flow techniques, option pricing models, 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 market standard credit derivative pricing	Interest rate, recovery rate and credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow models, option pricing models and/or futures pricing models	Spot price, interest rate, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models	Interest rate curves, basis curves and/or volatilities
Interest rate derivatives	Discounted cash flow and/or swaption pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatilities
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rate curves, money market curves and/or credit spreads
Investment securities and investments linked to investment contracts	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Deposits from banks	Discounted cash flow models	Interest rate curve, money market curves and/or credit spreads
Deposits due to customers	Discounted cash flow models	Interest rate curve, money market curves and/or credit spreads
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of market traded instruments, interest rate curves and/or credit spreads

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

13.6 Reconciliation of Level 3 assets and liabilities

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

	2019							Total assets at fair value Rm
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	
Opening balance at the beginning of the reporting period	3 449	—	10 661	—	11 991	508	192	26 801
Net interest income	—	—	439	—	88	—	—	527
Other income	—	—	—	—	—	12	—	12
Gains and losses from banking and trading activities	1 973	—	(471)	—	36	—	—	1 538
Gains and losses from investment activities	—	—	—	—	19	—	—	19
Purchases	1 101	—	4 602	—	1 401	1	—	7 105
Sales	(333)	—	(1 767)	—	(836)	(2)	(111)	(3 049)
Movement in other comprehensive income	—	—	—	—	(95)	(6)	—	(101)
Settlements	—	—	—	—	(7)	—	—	(7)
Transferred to/(from) assets/liabilities	—	—	—	—	—	—	—	—
Transfer to Level 3	962	—	52	—	2 134	—	—	3 148
Transfer (out) of Level 3	(896)	—	(2 612)	—	(533)	—	—	(4 041)
Step acquisition of subsidiary	—	—	—	—	—	—	—	—
Closing balance at the end of the reporting period	6 256	—	10 904	—	14 198	513	81	31 952

	2018							Total assets at fair value Rm
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Investments linked to investment contracts Rm	
Opening balance at the beginning of the reporting period	1 824	2	4 741	484	7 601	231	—	14 883
Net interest income	—	—	153	—	89	—	—	242
Other income	—	—	—	—	—	38	—	38
Gains and losses from banking and trading activities	1 240	—	427	—	199	—	—	1 866
Gains and losses from investment activities	—	—	—	—	23	—	—	23
Purchases	1 174	—	6 617	—	3 815	165	192	11 963
Sales	(257)	—	(156)	(18)	(516)	—	—	(947)
Movement in other comprehensive income	—	—	—	—	(41)	33	—	(8)
Settlements	—	—	—	—	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	—	—	41	—	41
Transfer to Level 3	357	—	—	—	2 928	—	—	3 285
Transfer (out) of Level 3	(889)	(2)	(1 121)	(466)	(1 914)	—	—	(4 392)
Step acquisition of subsidiary	—	—	—	—	(193)	—	—	(193)
Closing balance at the end of the reporting period	3 449	—	10 661	—	11 991	508	192	26 801

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

13.6 Reconciliation of Level 3 assets and liabilities (continued)

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

	2019					
	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
Opening balance at the beginning of the reporting period	19	1 454	45	2 823	—	4 341
Gains and losses from banking and trading activities	—	276	—	96	—	372
Movement in other comprehensive income	—	—	—	2	—	2
Issues	—	36	8	4 850	—	4 894
Settlements	—	—	—	(2 317)	—	(2 317)
Transfer to/(from) assets/liabilities	—	—	—	—	—	—
Transfer (out) of Level 3	(19)	(635)	—	(997)	—	(1 651)
Inter-business transfer in/(out)	—	—	(34)	—	—	(34)
Closing balance at the end of the reporting period	—	1 131	19	4 457	—	5 607

	2018					
	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
Opening balance at the beginning of the reporting period	—	945	5	1 572	488	3 010
Gains and losses from banking and trading activities	—	(52)	—	5	—	(47)
Movement in other comprehensive income	—	—	—	1	—	1
Issues	19	1 042	40	2 501	—	3 602
Settlements	—	(344)	—	(766)	—	(1 110)
Transfer to/(from) assets/liabilities	—	—	—	—	—	—
Transferred to/(from) assets/liabilities	—	—	—	(1)	—	(1)
Transfer (out) of Level 3	—	(137)	—	(489)	(488)	(1 114)
Inter-business transfer in/(out)	—	—	—	—	—	—
Closing balance at the end of the reporting period	19	1 454	45	2 823	—	4 341

13.6.1 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.

13.7 Unrealised gains and losses on Level 3 assets and liabilities

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

	2019						
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	3 197	539	220	3 956	(520)	163	(357)

	2018						
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	2 589	1 027	233	3 849	(174)	134	(40)

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

13.8 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 reflect 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	
	Significant unobservable parameters	Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		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 discounts	—/—	(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	—/—

		2018	
	Significant unobservable parameters	Potential effect recorded in profit or loss	Potential effect recorded directly in equity
		Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
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 discounts	—/—	(20)/20
Loans and advances to customers	Credit spreads	(323)/323	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	162/(162)	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(224)/224	—/—

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for the reporting period ended 31 December

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

13.9 Measurement of assets and liabilities at Level 3

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

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	2019	2018
			Range of estimates utilised for the unobservable inputs	
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	0.1% 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	Discount rate of 7.75% to 8%	Discount rate of 7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	0.5% to 12.8%	0.15% to 8.2%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	0.02% to 26%, 15% to 93.2%, 60% to 90%	0.03% to 14%, 15% to 76%, 60% to 90%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	9.3% to 67.3%	14.91% to 53.2%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	1.4% to 26%	(4.48%) to 24.7%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	0.3% to 8.5%	0.20% to 9.34%
Deposits due to customers	Discounted cash flow models	Absa 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 periods in which rental units will be disposed of Annual selling price escalations Annual rental escalations Expense ratios Vacancy rates Income capitalisation rates Risk adjusted discount rates	1 to 6 years 6% 6% n/a n/a 7.5% to 8% 10% to 15%	1 to 6 years 6% 6% n/a n/a 7.5% to 8% 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 used. Interest rates and money market curves are considered unobservable inputs for items which mature after 5 years. However, if the items mature in less than 5 years, these inputs are 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.

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

Notes to the summary consolidated financial results

for the reporting period ended 31 December

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

13.10 Unrecognised (gains) as a result of the use of valuation models using unobservable inputs

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

	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)

13.11 Third-party credit enhancements

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

14. Reporting changes overview

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

- 14.1 Implementation of IFRS 16 Leases (IFRS 16)
- 14.2 Changes to reportable segments and business portfolios
- 14.3 Changes to loans and advances

14.1 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 change of IFRS 16 is the introduction of a single lessee accounting model which requires a lessee to recognise assets and liabilities, for lease contracts with a term of more than 12 months, unless the underlying asset is of low value, eliminating the classification of leases as either operating leases or finance leases. As a result, a depreciation charge for the right-of-use assets and interest expense on lease liabilities is recognised 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. 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.

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for the reporting period ended 31 December

14. Reporting changes overview (continued)

14.1 Implementation of IFRS 16 Leases (continued)

14.1.1 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

14.1.2 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

14.1.3 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⁾ 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.

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for the reporting period ended 31 December

14. Reporting changes overview (continued)

14.2 Changes to reportable segments and business portfolios

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

- 14.2.1 Rest of Africa (RoA) Banking was renamed to Absa Regional Operations to align to the Absa Group brand.
- 14.2.2 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.
- 14.2.3 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.
- 14.2.4 The Absa Namibia representative office, which was previously reported in ARO, has been moved to CIB South Africa to support its regional expansion strategy.
- 14.2.5 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** – offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.
 - › **Vehicle and Asset Finance (VAF)** – offers funding solutions for passenger and light commercial vehicles to individual customers through the branch network, approved dealerships, and preferred suppliers. VAF's Joint Venture with Ford Financial Services is an extension of the business and reinforces the strategic intent of establishing and harnessing relationships with dealers and customers.
 - › **Everyday Banking** – offers the day-to-day banking services for the retail customer and includes:
 - o **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.
 - o **Personal Loans** – offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
 - o **Transactions and Deposits** – offers a full range of transactional banking, savings and investment products, rewards programme and services through a variety of channels. These include the branch network, digital channels, ATMs, priority suites, call centres as well as through a third-party retailer PEP (part of the PEPKOR Group).
 - › **Relationship Banking** – offers a full range of banking and financial advisory products and services to all customers where a named relationship exists. Relationship Banking also includes an Equity portfolio which is being reduced in an orderly manner.
 - › **Insurance Cluster:**
 - o **Life Insurance** – offers life insurance, covering death, disability and retrenchment, as well as funeral and investment products.
 - o **Short-term Insurance** – provides short-term insurance solutions to the retail and commercial market segments. A direct-to-client short-term solution, Absa direct, is also available to the retail market.
 - › **RBB Other** – includes distribution channel costs not recovered from business area as well as the insurance's shareholder investment portfolios, holding companies and related consolidation entries and allocated shareholder overhead expenses.

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14. Reporting changes overview (continued)

14.2 Changes to reportable segments and business portfolios (continued)

The aforementioned 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.

	Previously published Rm	31 December 2018 Changes to reportable segments			Restated Rm
		14.4.1 Rm	14.4.2 Rm	14.4.3 Rm	
Total headline earnings by segment					
RBB South Africa	8 880	817	25	—	9 722
CIB South Africa	3 367	—	43	12	3 422
ARO	3 218	—	(66)	(12)	3 140
WIMI	1 268	(1 268)	—	—	—
Head Office, Treasury and other operations in South Africa	(605)	451	(2)	—	(156)
Barclays PLC separation effects	(1 986)	—	—	—	(1 986)
	14 142	—	—	—	14 142
Total income by segment					
RBB South Africa	43 591	4 341	(747)	15	47 200
CIB South Africa	11 595	—	(108)	—	11 487
ARO	16 323	—	(1)	(15)	16 307
WIMI	5 831	(5 831)	—	—	—
Head Office, Treasury and other operations in South Africa	(1 680)	1 490	856	—	666
Barclays PLC separation effects	855	—	—	—	855
	76 515	—	—	—	76 515
Total assets by segment					
RBB South Africa	803 985	48 993	(987)	—	851 991
CIB South Africa	531 839	—	(345)	1 045	532 539
ARO	192 960	—	2	(1 045)	191 917
WIMI	50 448	(50 448)	—	—	—
Head Office, Treasury and other operations in South Africa	(293 680)	1 455	1 330	—	(290 895)
Barclays PLC separation effects	3 192	—	—	—	3 192
	1 288 744	—	—	—	1 288 744
Total liabilities by segment					
RBB South Africa	795 672	44 500	(1 090)	—	839 082
CIB South Africa	524 761	—	(388)	1 033	525 406
ARO	170 071	—	68	(1 033)	169 106
WIMI	44 947	(44 947)	—	—	—
Head Office, Treasury and other operations in South Africa	(362 752)	447	1 410	—	(360 895)
Barclays PLC separation effects	(5 561)	—	—	—	(5 561)
	1 167 138	—	—	—	1 167 138

Notes to the summary consolidated financial results

for the reporting period ended 31 December

14. Reporting changes overview (continued)

14.3 Changes to loans and advances

The presentation of loans and advances note has been updated to reflect the change in business focus from being product oriented to be more customer focused, which has resulted in comparatives being restated.

The following tables set out the impact of the above changes on the loans and advances note for the period ended 31 December 2018:

	Previously published		
	Gross carrying amount Rm	ECL allowance Rm	Net carrying amount Rm
Loans and advances to customers			
RBB South Africa	488 413	22 493	465 921
Retail Banking South Africa	416 014	19 209	396 805
Credit cards	41 226	6 443	34 783
Instalment credit agreements	85 651	3 373	82 278
Loans to associates and joint ventures	25 490	1	25 489
Mortgages	229 557	5 297	224 260
Other loans and advances	3 526	61	3 465
Overdrafts	6 668	631	6 037
Personal and term loans	23 896	3 403	20 493
Business Banking South Africa	72 400	3 284	69 116
WIMI	5 984	250	5 734

A net carrying amount of **R1 031m** relating to the Absa Namibia representative office has been moved from ARO to CIB South Africa to support its regional expansion strategy.

New operating model

Home Loans Rm	Vehicle Asset Finance Rm	Card Rm	Personal Loans Rm	Transactions and Deposits Rm	Everyday Banking Rm	Relationship Banking Rm	RBB Other Rm	Restated RBB South Africa net carrying amount Rm
227 086	76 772	36 219	18 321	3 239	57 779	110 017	1	471 655
—	—	34 075	—	—	34 075	708	—	34 783
—	52 010	—	—	—	—	30 268	—	82 278
—	22 329	—	—	—	—	3 160	—	25 489
224 260	—	—	—	—	—	—	—	224 260
—	2 433	—	—	—	—	1 031	1	3 465
2 826	—	—	—	3 211	3 211	—	—	6 037
—	—	2 144	18 321	28	20 493	—	—	20 493
—	—	—	—	—	—	69 116	—	69 116
—	—	—	—	—	—	5 734	—	5 734

Summary consolidated normalised results

for the reporting period ended 31 December

Normalised financial results (normalised results) as a consequence of Barclays PLC separation

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

Barclays PLC currently holds 14.9% in the Group.

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

The separation process has impacted the Group's financial results, most notably as it has had an increase in the capital base and generated endowment revenue thereon. International Financial Reporting Standards (IFRS) required that the Barclays PLC contribution be recognised directly in equity, while the subsequent investment expenditure (including the depreciation or amortisation of capitalised assets), has been and will continue to be recognised in profit or loss. The aforementioned results in a disconnect between underlying business performance and the IFRS financial results during the separation period. Normalised results have therefore been disclosed and will continue to be disclosed while the underlying business performance is materially different from the IFRS financial results. Refer to page 1 for the IFRS results.

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

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

Basis of presentation

Normalised results

The summary consolidated normalised results have been prepared to illustrate the impact of the separation from Barclays PLC and adjust for the interest income on Barclays PLC's separation contribution, hedging linked to the separating activities, operating expenses and other expenses, as well as the tax impact of the aforementioned items (collectively the "separation"). The Group will present normalised results for future periods where the financial impact of separation is considered material. Normalisation does not affect divisional disclosures.

Normalised results have been prepared for illustrative purposes only and because of their nature may not fairly present the Group's financial position, changes in equity, cash flows and results of operations.

The normalised results have not been prepared using the accounting policies of the Group and do not comply with IFRS. These results are considered to be pro forma financial information and have been presented in accordance with the JSE Limited listings requirements which require that pro forma financial information be compiled in terms of the JSE Limited's listings requirements, the SAICA Guide on Pro Forma Financial Information and any relevant guidance issued by the IRBA. The normalised results are the responsibility of the Group's Board of Directors.

Summary consolidated normalised salient features

for the reporting period ended 31 December

	2019 ⁽¹⁾	2018
Statement of comprehensive income (Rm)		
Income	79 961	75 660
Operating expenses	46 357	43 642
Profit attributable to ordinary equity holders	16 003	15 903
Headline earnings ⁽²⁾	16 265	16 128
Statement of financial position		
Total assets (Rm)	1 394 494	1 285 552
Financial performance (%)		
Return on equity (RoE)	15.8	16.8
Return on average assets (RoA)	1.20	1.34
Return on risk-weighted assets (RoRWA)	2.02	2.12
Operating performance (%)		
Net interest margin on average interest-bearing assets	4.49	4.64
Non-interest as a percentage of total income	42.1	42.6
Cost-to-income ratio	58.0	57.7
Jaws	(1)	(2)
Effective tax rate	26.2	28.1
Share statistics (million)		
Number of shares in issue (excluding treasury shares)	843.5	840.2
Weighted average number of ordinary shares in issue	844.5	842.9
Diluted weighted average number of ordinary shares in issue	845.7	844.4
Share statistics (cents)		
Basic earnings per ordinary share (EPS)	1 895.0	1 886.7
Diluted basic earnings per ordinary share (DEPS)	1 892.3	1 883.3
Headline earnings per ordinary share (HEPS)	1 926.0	1 913.4
Diluted headline earnings per ordinary share (DHEPS)	1 923.3	1 910.0
Dividend per ordinary share relating to income for the reporting period	1 125	1 110
Dividend cover (times)	1.7	1.7
NAV per ordinary share	12 605	11 985
Tangible NAV per ordinary share	11 855	11 273
Capital adequacy (%)		
Absa Group Limited	15.5	15.4
Absa Bank Limited	16.3	15.4
Common Equity Tier 1 (%)		
Absa Group Limited	11.8	12.0
Absa Bank Limited	11.4	11.2

⁽¹⁾ Please refer to the summary consolidated normalised reconciliation for the reporting period ended 31 December 2019 for further information as presented on pages 48 to 49.

⁽²⁾ After allowing for **R352m** (2018: R351m) profit attributable to preference equity holders and **R435m** (2018: R190m) profit attributable to additional Tier 1 capital holders.

Summary consolidated reconciliation of IFRS to normalised results

for the reporting period ended 31 December

	IFRS Group performance ⁽¹⁾	2019 Barclays PLC separation effects ⁽²⁾	Normalised Group performance ⁽³⁾
Statement of comprehensive income (Rm)			
Net interest income	46 501	(195)	46 306
Non-interest income	33 619	36	33 655
Total income	80 120	(159)	79 961
Impairment losses	(7 816)	—	(7 816)
Operating expenses	(48 767)	2 410	(46 357)
Other expenses	(2 006)	113	(1 893)
Share of post-tax results of associates and joint ventures	221	—	221
Operating profit before income tax	21 752	2 364	24 116
Tax expenses	(5 772)	(538)	(6 310)
Profit for the reporting period	15 980	1 826	17 806
Profit attributable to:			
Ordinary equity holders	14 256	1 747	16 003
Non-controlling interest – ordinary shares	937	79	1 016
Non-controlling interest – preference shares	352	—	352
Non-controlling interest – Additional Tier 1 capital	435	—	435
	15 980	1 826	17 806
Headline earnings	14 526	1 739	16 265
Operating performance (%)			
Net interest margin on average interest-bearing assets	4.49	n/a	4.49
Credit loss ratio on gross loans and advances to customers and banks	0.80	n/a	0.80
Non-interest income as % of total income	42.0	n/a	42.1
Income growth	5	n/a	6
Operating expenses growth	4	n/a	6
Cost-to-income ratio	60.9	n/a	58.0
Effective tax rate	26.5	n/a	26.2
Statement of financial position (Rm)			
Loans and advances to customers	916 978	—	916 978
Loans and advances to banks	59 745	—	59 745
Investment securities	116 747	—	116 747
Other assets	305 705	(4 681)	301 024
Total assets	1 399 175	(4 681)	1 394 494
Deposits due to customers	826 293	—	826 293
Debt securities in issue	159 794	—	159 794
Other liabilities	284 405	2 162 ⁽⁴⁾	286 567
Total liabilities	1 270 492	2 162	1 272 654
Equity	128 683	(6 843)	121 840
Total equity and liabilities	1 399 175	(4 681)	1 394 494
Key performance ratios (%)			
RoA	1.06	n/a	1.20
RoE	13.1	n/a	15.8
Capital adequacy	15.8	n/a	15.5
Common Equity Tier 1	12.1	n/a	11.8
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 747.4	n/a	1 923.1

⁽¹⁾ IFRS Group performance, presents the IFRS information as extracted from the Group's summary consolidated financial results for the reporting period ended 31 December 2019.

⁽²⁾ Barclays PLC separation effects, presents the financial effects of the separation on the summary consolidated financial results of the Group.

⁽³⁾ Normalised Group performance, presents the summary consolidated financial results of the Group, after adjusting for the consequences of the separation.

⁽⁴⁾ This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

Summary consolidated reconciliation of IFRS to normalised results

for the reporting period ended 31 December

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

⁽¹⁾ IFRS Group performance, presents the IFRS information as extracted from the Group's summary consolidated financial results for the reporting period ended 31 December 2019.

⁽²⁾ Barclays PLC separation effects, presents the financial effects of the separation on the summary consolidated financial results of the Group.

⁽³⁾ Normalised Group performance, presents the summary consolidated financial results of the Group, after adjusting for the consequences of the separation.

⁽⁴⁾ This represents the contribution of R12.1bn that was received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in 'Other liabilities'.

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