Absa Bank Limited

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

Contents

The Board of Directors oversees the Bank'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 Absa Bank Limited 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 as well as to the Group Audit and 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 announcement released on the Stock Exchange News Services (SENS) on 11 March 2020. The GACC and the Board of Directors are satisfied that the changes disclosed in the SENS result in the fair presentation of the 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 Bank Limited

Audited summary consolidated financial results for the reporting period ended 31 December 2019.

Authorised financial services and registered credit provider (NCRCP7)

Registration number: 1986/004794/06

Incorporated in the Republic of South Africa

JSE share code: ABSP

ISIN: ZAE000079810

(Absa, Absa Bank, the Bank or the Company)

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/absaafrica/investor-relations/financial-results/ when the Bank's consolidated and separate financial statements are released on or about 31 March 2020.

Declaration of preference share dividend number 28

Absa Bank non-cumulative, non-redeemable preference shares (Absa Bank preference shares)

The Absa Bank preference shares have an effective coupon rate of 70% of Absa Bank's prevailing prime overdraft lending rate (prime rate). Absa Bank's current prime rate is 9.75%.

Notice is hereby given that preference dividend number 28, equal to 70% of the average prime rate for 1 September 2019 to 29 February 2020, per Absa Bank preference share has been declared for the period 1 September 2019 to 29 February 2020. The dividend is payable on Monday, 20 April 2020, to shareholders of the Absa Bank preference shares recorded in the Register of Members of the Company at the close of business on Friday, 17 April 2020.

The directors of Absa Bank confirm that the Bank will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

Based on the average prime rate, the preference dividend payable for the period 1 September 2019 to 29 February 2020 will be 3 469.31507 cents per Absa Bank preference share.

The dividend will be subject to 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 3 469.31507 cents per preference share for shareholders exempt from the dividend tax.
- The net local dividend for shareholders subject to withholding tax at a rate of 20% amounts to 2 775.45206 cents per preference share.
- Absa Bank currently has 4 944 839 preference shares in issue.
- Absa Bank's income tax reference number is 9575117719.

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 shareholders.

On behalf of the Board

N R Drutman
Company Secretary

Johannesburg

11 March 2020

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

Summary consolidated financial results

Overview of results

Absa Bank Limited (the Bank) is a subsidiary of Absa Group Limited (the Group), which is listed on the exchange operated by the JSE Limited. These audited summary consolidated financial results are published to provide information to holders of the Bank's listed non-cumulative, non-redeemable preference shares.

Commentary relating to the Bank's summary consolidated financial results is included in the Group results, as presented to shareholders on 11 March 2020.

Basis of presentation

IFRS financial results

The Bank's audited 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 of South Africa.

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

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

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 Bank'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 and offsetting of financial assets and liabilities.

Accounting policies

The accounting policies applied in preparing the audited condensed consolidated financial statements are the same as those in place for the reporting period ended 31 December 2018, except for:

- Changes of the Bank's operating segments and business portfolios, which have been presented per 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 Employee Benefits (IAS 19); and
- Change in presentation of interest expense. Refer to the Statement of Comprehensive Income (SOCI).

Auditor's report

Ernst & Young Inc. (EY), the Bank's independent auditor, has audited the annual consolidated financial statements of the Bank 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 6 to 39). The audit report on the consolidated annual financial statements as well as the independent reporting accountants' reports on the normalised financial results is available for inspection at the Bank's registered office. These summary consolidated financial statements (on pages 6 to 39) 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 company's registered office.

Summary consolidated financial results

Events after the reporting period

The Bank has announced the appointment of Daniel Mminele as its new Group Chief Executive, effective 15 January 2020.

Absa Bank Limited entered into an agreement in October 2019 to sell its Edcon loan book. The conditions precedent to this sale were fulfilled in January 2020, with the effective date of the transfer being 1 February 2020.

The estimates and judgements applied to determine the financial position at 31 December 2019 have been included as part of the accounting policies of the Bank. The estimates applied, most specifically as they relate to the calculation of impairment of loans and advances, were based on a range of forecast economic conditions as at that date. The outbreak of coronavirus has resulted in the disruption to business activity globally and recent market volatility, since mid-January 2020. The impact of the coronavirus will be closely monitored and assessed for its impact on the business.

Apart from the above, the directors are not aware of any other events (as defined by IAS 10 Events after the Reporting Period), after the reporting date of 31 December 2019 and the date of authorisation of these audited summary consolidated financial results.

On behalf of the Board

W E Lucas-Bull
Chairman

J P Quinn
Financial Director

Johannesburg
10 March 2020

Summary consolidated IFRS salient features

for the reporting period ended 31 December

	2019	2018
Statement of comprehensive income (Rm)		
Income	52 757	51 843
Operating expenses	35 116	34 341
Profit attributable to ordinary equity holders	7 098	7 480
Headline earnings[(1)]	7 320	7 853
Statement of financial position		
Loans and advances to customers (Rm)	794 382	735 200
Total assets (Rm)	1 159 825	1 079 679
Deposits due to customers (Rm)	677 809	605 647
Loans to deposits and debt securities ratio (%)	95.1	96.0
Average loans to deposits and debt securities ratio (%)[(2)]	86.5	88.0
Financial performance (%)		
Return on equity (RoE)	9.3	10.4
Return on average assets (RoA)	0.64	0.77
Return on risk-weighted assets (RoRWA)	1.34	1.44
Stage 3 loans ratio on gross loans and advances	4.47	4.81
Operating performance (%)		
Net interest margin on average interest-bearing assets	3.53	3.65
Credit loss ratio on gross loans and advances to customers and banks	1.45	0.68
Non-interest as a percentage of total income	39.8	42.2
Cost-to-income ratio	66.6	66.2
Jaws	—	(5)
Effective tax rate	24.0	27.2
Share statistics (million)		
Number of ordinary shares in issue	448.3	448.3
Weighted average number of ordinary shares in issue	448.3	448.3
Diluted weighted average number of ordinary shares in issue	448.3	448.3
Share statistics (cents)		
Basic earnings per ordinary share (EPS)	1 583.3	1 668.7
Diluted basic earnings per ordinary share (DEPS)	1 583.3	1 668.7
Headline earnings per ordinary share (HEPS)	1 632.6	1 751.7
Diluted headline earnings per ordinary share (DHEPS)	1 632.6	1 751.7
Dividend per ordinary share relating to income for the reporting period	446.1	713.8
Dividend cover (times)	3.7	2.5
Net asset value (NAV) per ordinary share	18 000	17 022
Tangible NAV per ordinary share	16 065	15 406
Capital adequacy (%)		
Absa Bank Limited	16.7	16.5
Common Equity Tier 1 (%)		
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, deposits due to customers, deposits from banks and debt securities in issue. It 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		**25 485**	22 679
Investment securities		**75 230**	93 576
Loans and advances to banks	2	**44 993**	40 533
Trading portfolio assets		**111 592**	101 271
Hedging portfolio assets		**3 355**	2 407
Other assets		**21 728**	22 294
Current tax assets		**1 223**	366
Non-current assets held for sale	1	**3 706**	50
Loans and advances to customers	2	**794 382**	735 200
Loans to Absa companies		**50 460**	37 363
Investments in associates and joint ventures		**1 648**	1 310
Investment property		**—**	180
Property and equipment		**15 588**	13 609
Goodwill and intangible assets		**8 863**	7 246
Deferred tax assets		**1 572**	1 595
Total assets		**1 159 825**	1 079 679
Liabilities			
Deposits from banks		**119 477**	127 959
Trading portfolio liabilities		**55 968**	46 280
Hedging portfolio liabilities		**1 379**	1 343
Other liabilities		**32 338**	31 907
Provisions		**2 622**	2 682
Current tax liabilities		**6**	66
Deposits due to customers		**677 809**	605 647
Debt securities in issue		**157 603**	160 042
Borrowed funds	3	**21 282**	20 052
Deferred tax liabilities		**16**	15
Total liabilities		**1 068 500**	995 993
Equity			
Capital and reserves			
Attributable to equity holders:			
Ordinary share capital		**304**	304
Ordinary share premium		**36 879**	36 879
Preference share capital		**1**	1
Preference share premium		**4 643**	4 643
Additional Tier 1 capital		**5 795**	2 741
Retained earnings		**39 075**	35 209
Other reserves		**4 625**	3 918
		91 322	83 695
Non-controlling interest – ordinary shares		**3**	(9)
Total equity		**91 325**	83 686
Total liabilities and equity		**1 159 825**	1 079 679

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	2019 Rm	2018 Rm
Net interest income		**31 772**	29 952
Interest and similar income		**81 652**	74 155
Effective interest income		**79 871**	72 565
Other interest income		**1 781**	1 590
Interest expense and similar charges[1]		**(49 880)**	(44 203)
Non-interest income	4	**20 985**	21 891
Net fee and commission income		**19 060**	18 491
Fee and commission income		**20 661**	19 781
Fee and commission expense		**(1 601)**	(1 290)
Gains and losses from banking and trading activities		**1 485**	3 177
Gains and losses from investment activities		**3**	1
Other operating income		**437**	222
Total income		**52 757**	51 843
Impairment losses		**(6 032)**	(5 078)
Operating income before operating expenses		**46 725**	46 765
Operating expenses		**(35 116)**	(34 341)
Other expenses		**(1 456)**	(1 579)
Other impairments	5	**(318)**	(433)
Indirect taxation		**(1 138)**	(1 146)
Share of post-tax results of associates and joint ventures		**221**	179
Operating profit before income tax		**10 374**	11 024
Taxation expense		**(2 488)**	(3 002)
Profit for the reporting period		**7 886**	8 022
Profit attributable to:			
Ordinary equity holders		**7 098**	7 481
Non-controlling interest – ordinary shares		**1**	—
Preference equity holders		**352**	351
Additional Tier 1 capital		**435**	190
		7 886	8 022
Earnings per share:			
Basic earnings per share (cents)		**1 583.3**	1 668.7
Diluted earnings per share (cents)		**1 583.3**	1 668.7

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

Summary consolidated statement of comprehensive income

for the reporting period ended 31 December

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

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Summary consolidated statement of changes in equity

for the reporting period ended 31 December

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

All movements are reflected net of taxation.

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

2019

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

Summary consolidated statement of changes in equity

for the reporting period ended 31 December

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

All movements are reflected net of taxation.

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

2018

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

Summary consolidated statement of cash flows

for the reporting period ended 31 December

	Note	2019 Rm	Restated 2018 Rm
Net cash generated from other operating activities		**5 435**	6 346
Income taxes paid		**(3 326)**	(3 614)
Net cash generated from other operating activities		**8 761**	9 960
Net cash utilised in investing activities		**(5 213)**	(5 482)
Purchase of property and equipment		**(2 624)**	(2 641)
Purchase of intangible assets[1]		**(2 881)**	(4 031)
Proceeds from sale of non-current assets held for sale		**50**	1 079
Net cash generated from other investing activities[1]		**242**	111
Net cash generated from/(utilised) financing activities		**(334)**	(1 946)
Issue of Additional Tier 1 capital		**3 054**	1 241
Proceeds from borrowed funds		**1 580**	6 432
Repayment of borrowed funds		**(500)**	(3 195)
Dividends paid		**(2 841)**	(6 062)
Net cash utilised in other financing activities		**(1 627)**	(362)
Net decrease in cash and cash equivalents		**(112)**	(1 082)
Cash and cash equivalents at the beginning of the reporting period	1	**9 958**	11 040
Cash and cash equivalents at the end of the reporting period	2	**9 846**	9 958

Notes to the summary consolidated statement of cash flows

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

	2019 Rm	Restated 2018 Rm
Cash, cash balances and balances with central banks[2]	**9 570**	9 684
Loans and advances to banks[3]	**388**	1 356
	9 958	11 040

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

	2019 Rm	Restated 2018 Rm
Cash, cash balances and balances with central banks[2]	**8 898**	9 570
Loans and advances to banks[3]	**948**	388
	9 846	9 958

[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 for the Bank.

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

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 of R1m, respectively.
- Head Office, Treasury and other operations in South Africa transferred property and equipment with a carrying amount of R50m to non-current assets held for sale.

2. Loans and advances

	Carrying amount of financial assets measured at fair value through profit or loss Rm	Stage 1 Gross carrying amount Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa	—	443 382	2 977	0.67
Home Loans	—	210 223	293	0.14
Vehicle and Asset Finance	—	73 684	608	0.83
Everyday Banking	—	45 000	1 211	2.69
Card	—	24 493	650	2.65
Personal Loans	—	18 046	467	2.59
Transactions and Deposits	—	2 461	94	3.82
Relationship Banking	—	114 475	865	0.76
RBB Other	—	—	—	—
CIB South Africa	67 656	200 837	503	0.25
Head Office, Treasury and other operations in South Africa	—	310	(229)	—
Loans and advances to customers	—	310	12	3.87
Reclassification to provisions[1]	—	—	(241)	—
Loans and advances to customers	67 656	644 529	3 251	0.50
Loans and advances to banks	29 453	15 039	17	0.11
Total loans and advances to customers and banks	97 109	659 568	3 268	0.50

	Carrying amount of financial assets measured at fair value through profit or loss Rm	Stage 1 Gross carrying amount Rm	Stage 1 ECL allowance Rm	Stage 1 ECL coverage %
RBB South Africa[2]	—	410 559	2 682	0.65
Home Loans	—	200 004	289	0.14
Vehicle and Asset Finance	—	68 966	450	0.65
Everyday Banking	—	42 215	1 214	2.88
Card	—	24 298	640	2.63
Personal Loans	—	15 707	521	3.32
Transactions and Deposits	—	2 210	53	2.40
Relationship Banking	—	99 374	729	0.73
RBB Other	—	—	—	—
CIB South Africa[2]	45 263	196 649	415	0.21
Head Office, Treasury and other operations in South Africa	—	300	(195)	—
Loans and advances to customers	—	300	6	2.00
Reclassification to provisions[1]	—	—	(201)	—
Loans and advances to customers	45 263	607 508	2 902	0.48
Loans and advances to banks	19 800	18 307	7	0.04
Total loans and advances to customers and banks	65 063	625 815	2 909	0.46

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

[2] These numbers have been restated, refer to the reporting changes overview in note 14.3.

2019

Stage 2 Gross carrying amount Rm	Stage 2 ECL allowance Rm	Stage 2 ECL coverage %	Stage 3 Gross carrying amount Rm	Stage 3 ECL allowance Rm	Stage 3 ECL coverage %	Net carrying amount Rm
36 802	3 381	9.19	36 741	14 781	40.23	495 786
13 825	235	1.70	18 780	4 909	26.14	237 391
7 996	622	7.78	5 254	1 963	37.36	83 741
6 880	1 998	29.04	7 367	5 337	72.44	50 701
2 886	1 188	41.16	3 717	2 889	77.72	26 369
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	526	6.49	5 287	2 520	47.66	123 952
—	—	—	53	52	98.11	1
28 905	316	1.09	1 803	615	34.11	297 767
9	(269)	—	—	(12)	—	829
9	—	—	—	—	—	307
—	(269)	—	—	(12)	—	522
65 716	3 428	5.22	38 544	15 384	39.91	794 382
521	3	0.58	—	—	—	44 993
66 237	3 431	5.18	38 544	15 384	39.91	839 375

2018[1]

Stage 2 Gross carrying amount Rm	Stage 2 ECL allowance Rm	Stage 2 ECL coverage %	Stage 3 Gross carrying amount Rm	Stage 3 ECL allowance Rm	Stage 3 ECL coverage %	Net carrying amount Rm
35 684	3 254	9.12	35 594	14 237	40.00	461 664
14 092	238	1.69	18 318	4 801	26.21	227 086
6 041	734	12.15	4 754	1 805	37.97	76 772
6 216	1 745	28.07	7 191	4 860	67.58	47 803
2 459	1 100	44.73	4 103	2 875	70.07	26 245
2 623	453	17.27	2 598	1 634	62.89	18 320
1 134	192	16.93	490	351	71.63	3 238
9 335	537	5.75	5 279	2 719	51.51	110 003
—	—	—	52	52	100.00	—
30 749	305	0.99	2 860	1 978	69.16	272 823
9	(191)	—	—	(18)	—	713
9	—	—	—	—	—	303
—	(191)	—	—	(18)	—	410
66 442	3 368	5.07	38 454	16 197	42.12	735 200
2 446	13	0.53	—	—	—	40 533
68 888	3 381	4.91	38 454	16 197	42.12	775 733

Summary notes to the 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 432m) of subordinated notes were issued and **R500m** (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	Head Office, Treasury and other operations in South Africa Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	18 590	2 184	(113)	—	20 661
Consulting and administration fees	283	19	—	—	302
Transactional fees and commissions	15 660	1 634	(19)	—	17 275
Cheque accounts	5 334	138	(1)	—	5 471
Credit cards	2 276	—	—	—	2 276
Electronic banking	4 377	1 020	—	—	5 397
Other[1]	1 679	476	(19)	—	2 136
Savings accounts	1 994	—	1	—	1 995
Merchant income	1 902	—	—	—	1 902
Trust and other fiduciary services fees	67	4	1	—	72
Other fees and commissions	39	178	(96)	—	121
Insurance commissions received	593	—	—	—	593
Investment banking fees	46	349	1	—	396
Other income from contracts with customers	57	—	7	—	64
Other non-interest income, net of expenses	(363)	596	59	(32)	260
Total non-interest income	18 284	2 780	(47)	(32)	20 985

[1] Includes fees on mortgage loans and foreign currency transactions.

4. Disaggregation of non-interest income (continued)

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

[1] These numbers have been restated. Refer to note 14.2 for more details.

[2] Includes fees on mortgage loans and foreign currency transactions.

Summary notes to the consolidated financial results

for the reporting period ended 31 December

5. Other impairments

	2019 Rm	2018 Rm
Goodwill	—	34
Intangible assets[1]	121	1
Property and equipment[2]	197	398
	318	433

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 Bank		7 098		7 481
Total headline earnings adjustments:		222		372
IAS 36 – Goodwill impairment	—	—	34	34
IFRS 5 – Loss on disposal of non-current assets held for sale	—	—	40	40
IAS 16 – (Profit)/loss on disposal of property and equipment	(6)	(4)	17	12
IAS 36 – Impairment of property and equipment	197	145	398	297
IAS 36 – Impairment of intangible assets	121	87	1	1
IFRS 5 – Re-measurement of non-current assets held for sale	(9)	(6)	—	—
IAS 40 – Change in fair value of investment properties	—	—	(15)	(12)
Headline earnings/diluted headline earnings		**7 320**		7 853
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		**1 632.8**		1 751.7

[1] Management has impaired certain software assets totaling **R121m** (2018: R1m) 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 **R197m** (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.

7. Dividends per share

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

(1) In order to provide more transparent disclosures, the distributions declared and paid to Additional Tier 1 capital note 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.

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

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

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

	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. The cash consideration received on disposals included in non-current assets/liabilities held for sale was R1 079m at 31 December 2018.

9. Related parties

Maria Ramos announced her retirement as the CEO of Absa Bank Limited effective 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 Bank Limited during the previous reporting period.

10. Contingencies, Commitments and Similar items

	2019 Rm	2018 Rm
Guarantees	33 523	34 479
Irrevocable debt facilities/other lending facilities	134 154	166 198
Letters of credit	5 303	6 828
Other	1	63
	172 981	207 568
Authorised capital expenditure		
Contracted but not provided for	187	589

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

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

The operating lease commitments 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 Bank. 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.

10. Contingencies, Commitments and Similar items (continued)

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

Irrevocable facilities are commitments to extend credit where the Bank 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.

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

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

Legal proceedings

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

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

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

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

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

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

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

Regulatory matters

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

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

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

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

10. Contingencies, Commitments and Similar items (continued)

Income taxes

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

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

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

11. Segment reporting

	2019 Rm	2018[1] Rm
11.1 Headline earnings by segment		
RBB South Africa	**7 900**	8 263
CIB South Africa	**2 487**	2 881
Head Office, Treasury and other operations in South Africa[2]	**(1 747)**	(1 521)
Barclays PLC separation effects[3]	**(1 320)**	(1 770)
Total headline earnings	**7 320**	7 853
11.2 Total income by segment		
RBB South Africa	**42 889**	40 929
CIB South Africa	**9 993**	10 734
Head Office, Treasury and other operations in South Africa[2]	**(288)**	(676)
Barclays PLC separation effects[3]	**163**	856
Total income	**52 757**	51 843
11.3 Total internal income by segment		
RBB South Africa	**(7 907)**	(8 248)
CIB South Africa	**(7 817)**	(8 389)
Head Office, Treasury and other operations in South Africa[2]	**16 330**	14 784
Barclays PLC separation effects[3]	**195**	330
Total internal income	**801**	(1 523)
11.4 Total assets by segment		
RBB South Africa	**862 086**	797 042
CIB South Africa	**618 783**	522 181
Head Office, Treasury and other operations in South Africa[2]	**(325 540)**	(242 703)
Barclays PLC separation effects[3]	**4 496**	3 159
Total assets	**1 159 825**	1 079 679
11.5 Total liabilities by segment		
RBB South Africa	**851 699**	790 469
CIB South Africa	**614 897**	518 063
Head Office, Treasury and other operations in South Africa[2]	**(395 260)**	(306 694)
Barclays PLC separation effects[3]	**(2 836)**	(5 845)
Total liabilities	**1 068 500**	995 993

[1] Operational changes, management changes and associated changes to the way in which the Chief operating decision maker (CODM) views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. For details on the business portfolio changes refer to note 14.2.

[2] Head Office, Treasury and other operations in South Africa represent reconciling stripe and is not a reporting segments.

[3] 'Barclays separation effect' is the reconciling stripe between IFRS and normalised results and does not represent a reportable segment.

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 the South African Reserve Bank	16 587	16 587	13 108	13 108
Coins and bank notes	8 898	8 898	9 571	9 571
Cash, cash balances and balances with central banks	25 485	25 485	22 679	22 679
Investment securities	7 087	7 064	6 219	6 270
Loans and advances to banks	15 540	15 540	20 733	23 191
Other assets	19 183	19 183	20 065	20 073
RBB South Africa[1]	495 786	497 234	461 664	463 085
Home Loans	237 391	237 391	227 086	227 086
Vehicle and Asset Finance	83 740	84 080	76 772	77 087
Everyday Banking	50 701	51 313	47 803	48 390
Card	26 369	26 778	26 245	26 652
Personal loans	20 857	21 022	18 320	18 464
Transactions and Deposits	3 475	3 513	3 238	3 274
Relationship Banking	123 953	124 449	110 003	110 522
RBB Other	1	1	—	—
CIB South Africa[1]	230 111	230 111	227 560	227 560
Head Office, Treasury and other operations in South Africa	829	829	713	713
Loans and advances to customers – net of impairment losses	726 726	728 174	689 937	691 358
Loans to Group companies	50 460	50 460	37 363	37 363
Non-current assets held for sale	3 685	3 685	—	—
Total assets (not held at fair value)	848 166	849 591	796 996	800 934
Financial liabilities				
Deposits from banks	71 357	71 357	73 069	77 174
Other liabilities	11 701	11 701	29 641	29 654
Call deposits	52 406	52 406	57 981	57 981
Cheque account deposits	159 981	159 981	156 435	156 435
Credit card deposits	1 862	1 862	1 904	1 904
Fixed deposits	157 998	158 421	133 031	133 031
Foreign currency deposits	23 975	23 975	17 541	17 541
Notice deposits	68 997	68 997	58 367	58 367
Other deposits	722	722	1 473	1 473
Savings and transmission deposits	156 430	156 430	141 066	141 066
Deposits due to customers	622 371	622 794	567 798	567 798
Debt securities in issue	128 241	130 978	144 154	146 438
Borrowed funds	21 282	21 282	20 052	20 052
Total liabilities (not held at fair value)	854 952	858 112	834 714	841 116

[1] These numbers have been restated, refer to note 14.3.

13. Assets and liabilities held at fair value

13.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Bank has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and 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 Bank's investment properties is determined through valuations performed by external independent valuators.

When the Bank'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.

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.

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

13.2 Fair value measurements (continued)

Judgemental inputs on valuation of principal instruments (continued)

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 Bank 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 Bank's own credit quality, as well as the cost of funding across all asset classes.

Model valuation adjustments

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

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

13.4 Fair value hierarchy

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

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

[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.

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
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 option 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	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

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					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	3 449	10 661	—	9 537	180	23 827
Net interest income	—	439	—	88	—	527
Gains and losses from banking and trading activities	1 973	(471)	—	1	—	1 503
Gains and losses from investment activities	—	—	—	19	—	19
Purchases	1 101	4 602	—	1 378	—	7 081
Sales	(333)	(1 767)	—	(273)	(180)	(2 553)
Movement in other comprehensive income	—	—	—	(109)	—	(109)
Settlements	—	—	—	(7)	—	(7)
Transfer to Level 3	962	52	—	2 134	—	3 148
Transfer (out) of Level 3	(896)	(2 612)	—	(535)	—	(4 043)
Closing balance at the end of the reporting period	6 256	10 904	—	12 233	—	29 393

	2018					
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 824	4 741	484	5 946	—	12 995
Net interest income	—	153	—	89	—	242
Other income	—	—	—	—	15	15
Gains and losses from banking and trading activities	1 240	427	—	26	—	1 693
Gains and losses from investment activities	—	—	—	23	—	23
Purchases	1 174	6 617	—	3 181	165	11 137
Sales	(257)	(156)	(18)	(507)	—	(938)
Movement in other comprehensive income	—	—	—	(37)	—	(37)
Transfer to Level 3	357	—	—	2 928	—	3 285
Transfer (out) of Level 3	(889)	(1 121)	(466)	(1 914)	—	(4 390)
Step acquisition of subsidiary	—	—	—	(198)	—	(198)
Closing balance at the end of the reporting period	3 449	10 661	—	9 537	180	23 827

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	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	**19**	**1 454**	**2 822**	**—**	**4 295**
Gains and losses from banking and trading activities	**—**	**276**	**96**	**—**	**372**
Issues	**—**	**36**	**3 808**	**—**	**3 844**
Settlements		**—**	**(1 887)**	**—**	**(1 887)**
Transfer (out) of Level 3	**(19)**	**(635)**	**(997)**	**—**	**(1 651)**
Closing balance at the end of the reporting period	**—**	**1 131**	**3 842**	**—**	**4 973**

	2018				
	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	—	944	1 572	488	3 004
Gains and losses from banking and trading activities	—	(52)	5	—	(47)
Issues	19	1 043	2 500	—	3 562
Settlements	—	(344)	(766)	—	(1 110)
Transfer (out) of Level 3	—	(137)	(489)	(488)	(1 114)
Closing balance at the end of the reporting period	19	1 454	2 822	—	4 295

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)

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

13.8 Sensitivity analysis of valuations using unobservable inputs

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

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

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

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

		2019	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits due to customers	**Absa Group Limited/Absa funding**	**349/(395)**	**—/—**
Investment securities	**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	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Loans and advances to bank	Absa Group Limited/Absa funding	—/—	—/—
Deposits due to customers	Absa Group Limited/Absa funding	178/(178)	—/—
Investment securities	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	—/—

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:

			2019	2018
Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	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	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 (less than 1 year), repurchase agreement curves (less than 1 year), funding spreads	**0.3% to 8.5%**	0.20% to 9.34%
Deposits due to customers	Discounted cash flow models	The Bank'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	**1 to 6 years**	1 to 6 years
		Annual selling price escalations	**6%**	6%
		Annual rental escalations	**6%**	6%
		Expense ratios	**n/a**	n/a
		Vacancy rates	**n/a**	n/a
		Income capitalisation rates	**7.5% to 8%**	7.5% to 8%
		Risk adjusted discount rates	**10% to 15%**	10% to 15%

For assets or liabilities held at amortised cost and disclosed in levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is 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.

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 during the current and previous reporting periods.

14. Reporting changes overview

The Bank 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).

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

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

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

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

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

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

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

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 Bank's statement of changes in equity:

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

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

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

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

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

14. Reporting changes overview (continued)

14.2 Changes to reportable segments and business portfolios

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

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

14.2.2 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.

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

14.2.4 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:
  - **Card** – offers credit cards via a mix of Absa-branded and cobranded offerings including British Airways, Avios and Virgin Money. Included in this portfolio are partnerships with Edcon, which offers in-store cards and Woolworths Financial Services, which offers in-store cards, credit cards, personal loans and short-term insurance products.
  - **Personal Loans** – offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
  - **Transactional and Deposits** – offers a full range of transactional banking, savings and investment products, rewards programme and services through a variety of channels. These include the branch and self-service terminal network, digital channels as well as through a third-party retailer.
- **Relationship Banking** – consists of business units and associated products, where a name relationship exists and was formed to provide customers with a single 'warm-body' relationship manager rather than multiple touch points within the Bank. The businesses consolidated into Relationship Banking include Card Acquiring, Commercial Asset Finance (CAF), Business Banking (including associated lending, transactional and deposit products), Private Banking, Wealth and Financial Advisory. Relationship Banking also includes an Equity Portfolio which is being reduced in an orderly manner.
- **RBB Other** – includes investment spend, cost associated with the restructure holding, companies and related consolidation entries as well as allocated shareholder overhead expenses.

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 Bank.

14. Reporting changes overview (continued)

14.2 Changes to reportable segments and business portfolios (continued)

The following tables set out the changes to the reportable segments for the period ended 31 December 2018:

	Previously published Rm	Changes to reportable segments 14.2.1 Rm	14.2.2 Rm	14.2.3 Rm	Restated Rm
Total headline earnings by segment					
RBB South Africa	8 646	(388)	17	(12)	8 263
CIB South Africa	2 819	—	50	12	2 881
Wealth	(388)	388	—	—	—
Head Office, Treasury and other operations in South Africa	(1 454)	—	(67)	—	(1 521)
Barclays PLC separation effects	(1 770)	—	—	—	(1 770)
	7 853	—	—	—	7 853
Total income by segment					
RBB South Africa	41 247	430	(733)	(15)	40 929
CIB South Africa	10 842	—	(122)	15	10 735
Wealth	430	(430)	—	—	—
Head Office, Treasury and other operations in South Africa	(1 532)	—	855	—	(677)
Barclays PLC separation effects	856	—	—	—	856
	51 843	—	—	—	51 843
Total assets by segment					
RBB South Africa	791 709	7 370	(979)	(1 045)	797 055
CIB South Africa	521 468	—	(332)	1 045	522 181
Wealth	7 370	(7 370)	—	—	—
Head Office, Treasury and other operations in South Africa	(244 027)	—	1 311	—	(242 716)
Barclays PLC separation effects	3 159	—	—	—	3 159
	1 079 679	—	—	—	1 079 679
Total liabilities by segment					
RBB South Africa	784 795	7 791	(1 084)	(1 033)	790 469
CIB South Africa	517 415	—	(385)	1 033	518 063
Wealth	7 791	(7 791)	—	—	—
Head Office, Treasury and other operations in South Africa	(308 163)	—	1 469	—	(306 694)
Barclays PLC separation effects	(5 845)	—	—	—	(5 845)
	995 993	—	—	—	995 993

14. Reporting changes overview (continued)

14.3 Changes to loans and advances

The presentation of the loans and advances note has been updated to re-align to the RBB operating model, which has resulted in comparatives being restated. Refer to note 14.2.

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		
Loans and advances to customers	Gross carrying amount Rm	ECL allowance Rm	Net carrying amount Rm
RBB South Africa	476 884	19 923	456 961
Retail Banking South Africa	403 452	16 639	386 813
Credit cards	31 577	4 627	26 950
Instalment credit agreements	85 650	3 373	82 277
Loans to associates and joint ventures	25 490	1	25 489
Mortgages	229 556	5 296	224 260
Other loans and advances	3 512	62	3 450
Overdrafts	6 668	631	6 037
Personal and term loans	20 999	2 649	18 350
Business Banking South Africa	73 432	3 284	70 148
Wealth	5 984	250	5 734
CIB South Africa[1]	274 490	2 698	271 792

[1] A net carrying amount of **R725m** (2018: R1 031m) relating to the Absa Namibia representative office has been moved from RBB South Africa 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	76 771	26 243	18 333	3 228	47 804	110 003		461 664
	—	—	26 243	—	—	26 243	707	—	26 950
	—	52 009	—	—	—	—	30 268	—	82 277
	—	22 328	—	—	—	—	3 161	—	25 489
	224 260	—	—	—	—	—	—	—	224 260
	—	2 434	—	—	—	—	1 016	—	3 450
	2 826	—	—	—	3 211	3 211	—	—	6 037
	—	—		18 333	17	18 350	—	—	18 350
	—	—	—	—	—	—	70 148	—	70 148
	—	—	—	—	—	—	5 734	—	5 734
	—	—	—	—	—	—	(1 031)	—	(1 031)

Summary consolidated normalised financial 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 is 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 5 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 financial 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 Bank 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 Bank'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 Bank 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 listing requirements which require that pro forma financial information be compiled in terms of the JSE Limited's listing 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 Bank's Board of Directors.

Summary consolidated normalised financial results

for the reporting period ended 31 December

	2019[1]	2018
Statement of comprehensive income (Rm)		
Income	**52 594**	50 987
Operating expenses	**33 351**	31 499
Profit attributable to ordinary equity holders	**8 418**	9 252
Headline earnings[2]	**8 640**	9 623
Statement of financial position		
Total assets (Rm)	**1 155 329**	1 076 520
Financial performance (%)		
Return on equity (RoE)	**12.2**	14.7
Return on average assets (RoA)	**0.76**	0.95
Return on risk-weighted assets (RoRWA)	**1.55**	1.77
Operating performance (%)		
Net interest margin on average interest-bearing assets	**3.46**	3.63
Non-interest as a percentage of total income	**40.0**	41.9
Cost-to-income ratio	**63.4**	61.8
Jaws	**3**	(3)
Effective tax rate	**23.5**	25.7
Share statistics (million)		
Weighted average number of ordinary shares in issue	**448.3**	448.3
Diluted weighted average number of ordinary shares in issue	**448.3**	448.3
Share statistics (cents)		
Basic earnings per ordinary share (EPS)	**1 877.8**	2 063.6
Diluted basic earnings per ordinary share (DEPS)	**1 877.8**	2 063.6
Headline earnings per ordinary share (HEPS)	**1 927.3**	2 146.6
Diluted headline earnings per ordinary share (DHEPS)	**1 927.3**	2 146.6
Dividend per ordinary share relating to income for the reporting period	**446.1**	713.8
Dividend cover (times)	**4.32**	3.0
NAV per ordinary share	**16 407**	15 013
Tangible NAV per ordinary share	**15 313**	13 997
Capital adequacy (%)		
Absa Bank Limited	**16.2**	15.4
Common Equity Tier 1 (%)		
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 42 to 43.

[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 normalised financial results

for the reporting period ended 31 December

	IFRS Bank performance[1]	2019 Barclays separation effects[2]	Normalised Bank performance[3]
Statement of comprehensive income (Rm)			
Net interest income	31 772	195	31 577
Non-interest income	20 985	(32)	21 017
Total income	52 757	163	52 594
Impairment losses	(6 032)	—	(6 032)
Operating expenses	(35 116)	(1 765)	(33 351)
Other expenses	(1 456)	(56)	(1 400)
Share of post-tax results of associates and joint ventures	221	—	221
Operating profit before income tax	10 374	(1 658)	12 032
Tax expenses	(2 488)	338	(2 826)
Profit for the reporting period	7 886	(1 320)	9 206
Profit attributable to:			
Ordinary equity holders	7 098	(1 320)	8 418
Ordinary shares	1	—	1
Preference shares	352	—	352
Additional Tier 1	435	—	435
	7 886	(1 320)	9 206
Headline earnings	7 320	(1 320)	8 640
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.53	n/a	3.53
Credit loss ratio on gross loans and advances to customers and banks	1.45	n/a	1.45
Non-interest income as % of total income	39.8	n/a	40.0
Income growth (%)	1.8	n/a	3
Operating expenses growth (%)	2.3	n/a	6
Cost-to-income ratio	66.6	n/a	63.4
Effective tax rate	24.0	n/a	23.5
Statement of financial position (Rm)			
Loans and advances to customers	794 382	—	794 382
Loans and advances to banks	44 993	—	44 993
Investment securities	75 230	—	75 230
Other assets	245 220	4 496	240 724
Total assets	1 159 825	4 496	1 155 329
Deposits due to customers	677 809	—	677 809
Debt securities in issue	157 603	—	157 603
Other liabilities	233 088	(2 836)[4]	235 924
Total liabilities	1 068 500	(2 836)	1 071 336
Equity	91 325	7 332	83 993
Total equity and liabilities	1 159 825	4 496	1 155 329
Key performance ratios (%)			
RoA	0.64	n/a	0.76
RoE	9.3	n/a	12.2
Capital adequacy	16.7	n/a	16.2
Common Equity Tier 1	11.9	n/a	11.4
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 632.6	n/a	1 927.3

[1] IFRS Bank performance, presents the IFRS information as extracted from the Bank's summary consolidated financial results for the reporting period ended 31 December 2019.
[2] Barclays separation effects, presents the financial effects of the separation on the summary consolidated financial results of the Bank.
[3] Normalised Bank performance, presents the summary consolidated financial results of the Bank, 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 normalised financial results

for the reporting period ended 31 December

	IFRS Bank performance[1]	2018 Barclays separation effects[2]	Normalised Bank performance[3]
Statement of comprehensive income (Rm)			
Net interest income	29 952	331	29 621
Non-interest income	21 891	525	21 366
Total income	51 843	856	50 987
Impairment losses	(5 078)	—	(5 078)
Operating expenses	(34 341)	(2 841)	(31 500)
Other expenses	(1 579)	(173)	(1 406)
Share of post-tax results of associates and joint ventures	179	—	179
Operating profit before income tax	11 024	(2 158)	13 182
Tax expenses	(3 002)	388	(3 390)
Profit for the reporting period	8 022	(1 770)	9 792
Profit attributable to:			
Ordinary equity holders	7 481	(1 770)	9 251
Preference shares	351	—	351
Additional Tier 1	190	—	190
	8 022	(1 770)	9 792
Headline earnings	7 853	(1 770)	9 623
Operating performance (%)			
Net interest margin on average interest-bearing assets	3.65	n/a	3.63
Credit loss ratio on gross loans and advances to customers and banks	0.68	n/a	0.68
Non-interest income as % of total income	42.2	n/a	41.9
Income growth (%)	3	n/a	3
Operating expenses growth (%)	9	n/a	6
Cost-to-income ratio	66.2	n/a	61.8
Effective tax rate	27.2	n/a	25.7
Statement of financial position (Rm)			
Loans and advances to customers	735 200	—	735 200
Loans and advances to banks	40 533	—	40 533
Investment securities	93 576	—	93 576
Other assets	210 370	3 159	207 211
Total assets	1 079 679	3 159	1 076 520
Deposits due to customers	605 647	—	605 647
Debt securities in issue	160 042	—	160 042
Other liabilities	230 304	(5 845)[4]	236 149
Total liabilities	995 993	(5 845)	1 001 838
Equity	83 686	9 004	74 682
Total equity and liabilities	1 079 679	3 159	1 076 520
Key performance ratios (%)			
RoA	0.77	n/a	0.95
RoE	10.4	n/a	14.7
Capital adequacy	16.5	n/a	15.4
Common Equity Tier 1	12.3	n/a	11.2
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 751.7	n/a	2 146.6

[1] IFRS performance, presents the IFRS information as extracted from the Bank's summary consolidated financial results for the reporting period ended 31 December 2018.

[2] Barclays separation effects, presents the financial effects of the separation on the summary consolidated financial results of the Bank.

[3] Normalised Bank performance, presents the summary consolidated financial results of the Bank, 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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