



NEDBANK

Creating **value** by using
our **financial expertise**
to do **good**



NEDBANK LIMITED

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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2019 HIGHLIGHTS

Headline earnings of R10 382m ▼ **4,6%**
(2018: R10 884m)

NIR/expenses ratio **75,0%**
(2018: 75,6%)

Return on equity **15,1%**
(2018: 16,6%)

Common-equity tier 1 ratio **11,2%**
(2018: 11,6%)

Credit loss ratio (bps) **83**
(2018: 54)

Return on assets **1,04%**
(2018: 1,19%)

ABOUT THIS REPORT

Our consolidated annual financial statements provide a detailed analysis of our statutory accounting records. These financial statements are independently audited as indicated in the independent auditors' report and provide in-depth disclosure and transparency on the financial performance of the group.

The notes to the consolidated annual financial statements are classified in the following sections:

Section A: Accounting policies

This section briefly outlines the basis of preparation and key accounting policy elections applied in the preparation of the group's consolidated annual financial statements.

Section B: Segmental and performance-related information

Refer to this section for information on the group's financial performance. This section contains the group's operational segmental report and performance-related notes that provide an analysis of the group's consolidated statement of comprehensive income.

Section C: Core banking assets

This section provides information about the group's core banking assets, including loans and advances, and an analysis of the related impairments charge. Information is also provided on the group's investments in government and other securities, and other short-term securities. The group's cash and cash equivalents and derivative financial instruments are also analysed in this section.

Section D: Core banking liabilities

Information about the group's core banking liabilities, including long-term debt instruments, can be found in this section. A contractual maturity analysis of financial liabilities is also provided.

Section E: Investments

This section provides an analysis of the group's investments in investment securities, associate companies and subsidiaries. Related information, such as related-party disclosures, information on structured entities and securitisation vehicles can also be found here.

Section F: Generic assets

This section provides an analysis of non-core assets such as property and equipment, goodwill and other intangible assets.

Section G: Other assets

Refer to this section for disclosure on the group's long-term employee benefits, non-current assets and liabilities held for sale and other assets.

Section H: Financial instruments

Additional disclosure on the group's financial instruments can be found in this section. Refer to this section for the categorisation of financial assets and liabilities, the fair-value hierarchy and other fair-value-related disclosures. The group's disclosure on collateral and offsetting of financial assets and liabilities can also be found in this section.

Section I: Share-based payments

This section details the group's share-based payments schemes and their effect on the group's financial position.

Section J: Other liabilities

This section provides an analysis of the group's non-core liabilities, including provisions and other liabilities, contingent liabilities, undrawn facilities and commitments.

Section K: Risk and balance sheet management

Refer to this section for the group's liquidity gap disclosure and details on the historical value at risk and interest rate risk in the banking book.

Section L: Cashflow information

This section contains notes to the group's statement of cashflows.

Section M: Additional information

This section contains additional disclosure that may be relevant to understanding the group's consolidated annual financial statements, such as a foreign currency conversion guide and information on events after the reporting period and directors' emoluments.

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 31 DECEMBER

		2019	2018
Headline earnings reconciliation			
Profit attributable to ordinary equity holders	Rm	10 087	10 765
Non-trading and capital items	Rm	295	119
Non-trading and capital items	Rm	424	164
Taxation on non-trading and capital earnings items	Rm	(129)	(45)
Headline earnings	Rm	10 382	10 884
Key ratios			
Net interest income to average interest-earning banking assets	%	3,45	3,57
Credit loss ratio – banking advances	%	0,83	0,54
Non-interest revenue to total income	%	43,3	44,6
Cost-to-income ratio	%	57,8	58,9
Total equity attributable to ordinary equity holders	Rm	72 792	68 846
Return on ordinary shareholders' equity	%	15,1	16,6
Average interest-earning banking assets	Rm	791 995	727 347
Total assets	Rm	1 068 310	971 623
Return on total assets	%	1,04	1,19
Total risk-weighted assets	Rm	510 888	471 132
Bank capital adequacy ratios (including unappropriated profits):			
– Common equity tier 1	%	11,2	11,6
– Tier 1	%	12,8	12,7
– Total	%	15,5	15,7
Share statistics			
Number of shares in issue:			
– Ordinary shares	m	27,9	27,9
– Preference shares	m	358,3	358,3
Headline earnings per ordinary share	cents	37 243	39 044
Dividends per preference share:			
– Declared per share	cents	84,46915	84,05248
Interim	cents	42,35729	41,82076
Final	cents	42,11186	42,23172
– Paid per share	cents	84,58901	84,99426
Preference share traded price:			
– Closing	cents	970	875
– High	cents	980	915
– Low	cents	875	810
Number of preference shares traded	m	36,6	48,6

TEN-YEAR REVIEW

Consolidated statement of comprehensive income

Rm	2019	2018	2017	2016
Interest and similar income	79 240	72 739	71 311	69 862
Interest expense and similar charges	51 888	46 774	46 111	45 344
Net interest income	27 352	25 965	25 200	24 518
Impairments charge on financial instruments	5 953	3 547	3 030	4 254
Income from lending activities	21 399	22 418	22 170	20 264
Non-interest revenue	20 905	20 884	19 907	19 361
Operating income	42 304	43 302	42 077	39 625
Total operating expenses	27 891	27 616	26 192	25 283
Indirect taxation	961	804	858	810
Profit from operations before non-trading and capital items	13 452	14 882	15 027	13 532
Non-trading and capital items	(424)	(164)	(210)	(289)
Profit from operations	13 028	14 718	14 817	13 243
Share of gains/(losses) of associate companies	121	(83)	(96)	(20)
Profit before direct taxation	13 149	14 635	14 721	13 223
Direct taxation	3 076	3 854	3 563	3 286
Profit for the year	10 073	10 781	11 158	9 937
Profit attributable to:				
– Ordinary and preference shareholders	10 087	10 765	11 160	9 896
– Non-controlling interest – ordinary shareholders	(14)	16	(2)	41
Profit for the year	10 073	10 781	11 158	9 937
Headline earnings	10 382	10 884	11 311	10 143

The group adopted IFRS 16 on 1 January 2019 and prepared the information for the year ended 31 December 2019 in accordance with IFRS 16. Information for 2010 to 2018 has been prepared in accordance with IAS 17 and has not been restated. The group adopted IFRS 9 on 1 January 2018 and prepared the information for the years ended 31 December 2018 and 2019 in accordance with IFRS 9. Information for 2010 to 2017 has been prepared in accordance with IAS 39 and has not been restated. On 1 January 2013 the group adopted IFRS 10, IFRS 11 and IFRS 12 and restated 2012 information. The information for 2012 to 2018 was prepared in accordance with IFRS 10, IFRS 11 and IFRS 12. Information for 2010 and 2011 was not restated for the adoption of IFRS 10, IFRS 11 and IFRS 12.

2015	2014	2013	2012	2011	2010
55 128 32 724	50 075 28 322	44 107 23 873	42 900 24 102	41 417 24 119	43 421 27 556
22 404 4 608	21 753 4 478	20 234 5 529	18 798 5 239	17 298 5 321	15 865 6 360
17 796 17 514	17 275 16 196	14 705 15 466	13 559 14 151	11 977 12 555	9 505 10 741
35 310 23 459 668	33 471 22 031 522	30 171 20 199 480	27 710 18 601 460	24 532 16 955 413	20 246 14 983 387
11 183 (144)	10 918 (96)	9 492 (55)	8 649 (49)	7 164 (48)	4 876 (103)
11 039 (11)	10 822 12	9 437 28	8 600	7 116	4 773
11 038 2 828	10 834 2 786	9 465 2 297	8 600 2 159	7 116 1 610	4 773 983
8 210	8 048	7 168	6 441	5 506	3 790
8 163 47	7 998 50	7 152 16	6 410 31	5 483 23	3 737 53
8 210	8 048	7 168	6 441	5 506	3 790
8 275	8 077	7 189	6 460	5 531	3 838

TEN-YEAR REVIEW continued

Consolidated statement of financial position

Rm	2019	2018	2017	2016
Assets				
Cash and cash equivalents	8 199	7 931	8 823	20 241
Other short-term securities	42 395	57 844	73 472	68 218
Derivative financial instruments	34 923	22 412	30 698	18 044
Government and other securities	127 662	96 123	48 749	50 687
Loans and advances	787 110	725 792	695 744	691 925
Other assets	10 544	12 040	7 332	8 164
Current taxation assets	213	105	75	440
Investment securities	9 007	6 787	5 303	4 258
Non-current assets held for sale	90	305	388	287
Investments in associate companies	1 229	786	224	225
Deferred taxation assets	42	40	37	266
Investment property	56			
Property and equipment	10 403	8 367	7 976	8 197
Long-term employee benefit assets	5 505	4 764	5 761	5 042
Mandatory reserve deposits with central banks	21 424	19 789	18 145	18 139
Intangible assets	9 508	8 538	7 341	5 928
Total assets	1 068 310	971 623	910 068	900 061
Equity and liabilities				
Ordinary share capital	28	28	28	28
Ordinary share premium	19 182	19 182	19 182	19 182
Reserves	53 582	49 636	48 215	42 698
Total equity attributable to ordinary equity holders	72 792	68 846	67 425	61 908
Preference share capital and premium	3 561	3 561	3 561	3 561
Additional tier 1 capital instruments	6 850	3 416	2 600	2 000
Non-controlling interest attributable to:				
– ordinary shareholders	9	23	7	253
– preference shareholders	7	561	561	
Total equity	83 219	76 407	74 154	67 722
Derivative financial instruments	27 621	19 761	23 561	13 469
Amounts owed to depositors	881 297	806 487	742 859	750 319
Provisions and other liabilities	13 473	10 414	14 047	12 717
Non-current liabilities held for sale				
Current taxation liabilities	42	272	191	53
Deferred taxation liabilities	645	224	351	391
Long-term employee benefit liabilities	2 401	2 648	3 423	3 328
Long-term debt instruments	59 612	55 410	51 482	52 062
Total liabilities	985 091	895 216	835 914	832 339
Total equity and liabilities	1 068 310	971 623	910 068	900 061

The group adopted IFRS 16 on 1 January 2019 and prepared the information for the year ended 31 December 2019 in accordance with IFRS 16. Information for 2010 to 2018 has been prepared in accordance with IAS 17 and has not been restated. The group adopted IFRS 9 on 1 January 2018 and prepared the information for the years ended 31 December 2018 and 2019 in accordance with IFRS 9. Information for 2010 to 2017 has been prepared in accordance with IAS 39 and has not been restated. On 1 January 2013 the group adopted IFRS 10, IFRS 11 and IFRS 12 and restated 2012 information. The information for 2012 to 2018 was prepared in accordance with IFRS 10, IFRS 11 and IFRS 12. Information for 2010 and 2011 was not restated for the adoption of IFRS 10, IFRS 11 and IFRS 12.

2015	2014	2013	2012	2011	2010
18 151	10 757	17 467	12 587	11 514	7 469
60 078	56 322	35 004	37 575	31 715	21 955
30 948	15 644	13 811	14 660	14 314	14 077
42 733	26 828	31 279	26 194	29 991	31 667
666 807	603 329	566 047	520 116	493 107	471 447
3 925	5 393	4 204	4 528	3 989	3 613
904	236	340	241	629	440
1 648	2 369	2 932	2 832	3 549	2 999
2	16	12	508	8	5
1 400	1 158	1 098	1 029	565	933
67	165	69	362	66	48
		87	84	488	82
8 114	7 459	6 571	6 171	6 082	5 394
4 885	4 409	2 847	1 992	2 027	1 965
16 190	14 843	13 199	12 641	11 862	11 068
4 881	4 516	4 188	3 830	3 634	3 328
860 733	753 444	699 155	645 350	613 540	576 490
28	27	27	27	27	27
18 532	17 422	17 422	17 422	14 422	14 422
37 610	34 787	30 524	26 140	24 856	20 281
56 170	52 236	47 973	43 589	39 305	34 730
3 561	3 561	3 561	3 561	3 561	3 560
223	183	141	136	121	110
59 954	55 980	51 675	47 286	42 987	38 400
33 996	15 479	16 588	13 475	13 791	11 930
708 036	634 623	585 497	542 671	516 540	491 038
9 911	8 404	10 016	9 273	8 286	6 179
			36		
87	35	13	67	27	76
763	287	297	367	997	1 358
3 009	3 002	1 804	1 880	1 473	1 408
44 977	35 634	33 265	30 295	29 439	26 101
800 779	697 464	647 480	598 064	570 553	538 090
860 733	753 444	699 155	645 350	613 540	576 490

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Nedbank Limited Reg No 1951/000009/06.

Prepared under the supervision of the Nedbank Group CFO, Raisibe Morathi CA(SA).

Audited in terms of the Companies Act, 71 of 2008.

RESPONSIBILITY OF OUR DIRECTORS

The directors are responsible for the preparation and fair presentation of the consolidated financial statements of Nedbank Limited (comprising the statement of financial position at 31 December 2019, the statement of comprehensive income, the statement of changes in equity and statement of cashflows for the year then ended) and the notes to the financial statements (including a summary of significant accounting policies and other explanatory notes) in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008, and the JSE Listings Requirements. In addition, the directors are responsible for the preparation of the Directors' Report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and there is no reason to believe that the businesses will not be going concerns in the year ahead.

The independent auditors are responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with IFRS.

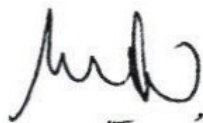
APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements of Nedbank Limited, as identified in the first paragraph, were approved by the Nedbank Limited Board of Directors on 2 March 2020 and are signed on its behalf by:



V Naidoo
Chairman

Sandown
2 March 2020



MWT Brown
Chief Executive

CERTIFICATION FROM OUR COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, 71 of 2008, I certify that, to the best of my knowledge and belief, Nedbank Limited has filed with the Commissioner all such returns and notices as are required by the Companies Act, 71 of 2008, and that all such returns and notices are true, correct and up to date.



J Katzin
Company Secretary

Sandown
2 March 2020

REPORT FROM THE GROUP AUDIT COMMITTEE – 2019

The Nedbank Group Audit Committee (GAC) is pleased to present its report for the 2019 financial year. This report has been prepared based on the requirements of the South African Companies Act, 71 of 2008, as amended (Companies Act), the King Code of Governance for South Africa (King IV), the JSE Listings Requirements and other applicable regulatory requirements. The committee carried out its responsibilities, including those relating to the audit and financial reporting obligations of the group, as set out in its board-approved charter.

The GAC's main objective is to assist the board in fulfilling its oversight responsibilities, and in the evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes. In addition, the GAC assesses the effectiveness of the internal auditors, the independence and effectiveness of the external auditors, and considers and recommends the appointment of the external auditors.

This report aims to provide details on how the GAC satisfied its various statutory obligations during the period, as well as on some of the significant matters that arose and how the GAC addressed those to assist in ensuring the integrity of Nedbank's financial reporting.

Composition and governance

Members of the committee satisfy the requirements to serve as members of an Audit Committee, as provided in section 94 of the Companies Act, and have adequate knowledge and experience to carry out their duties. All members are independent non-executives. The composition of the committee and the attendance of meetings by its members for the 2019 financial year are set out below:

Members	Attendance	
	Formal	Ad hoc
S Subramoney (Chair)	6/6	2/2
EM Kruger	6/6	2/2
HR Brody	6/6	1/2*
NP Dongwana	6/6	2/2

* Apologies received.

The Chief Executive (CE), the Chief Financial Officer (CFO), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Chief Internal Auditor (CIA), the Chief Compliance Officer (CCO) and representatives of the external auditors are invited to attend all GAC meetings. Other members of management are invited to attend certain meetings to provide the committee with greater insight into specific issues or areas in the group.

The GAC chair has regular contact with the management team to discuss relevant matters directly. The CIA and the external auditors have direct access to the committee, including closed sessions without management held during the year, on any matter that they regard as relevant to the fulfilment of the committee's responsibilities. The GAC chair meets with the CIA and external auditors at all times considered necessary by either party. In addition, the GAC meeting agenda allows for a meeting solely with the members of the GAC.

Six formal GAC meetings – including the South African Reserve Bank (SARB) trilateral meeting – were held in respect of the 2019 financial year, aligned with the key reporting and regulatory timelines. There were two ad hoc meetings held to address reporting considerations for the group's former parent company (Old Mutual Limited) relating to the 2018 financial performance and to perform an annual review of the auditors' independence.

The key focus areas of the meetings, were as follows:

9 May 2019	Review and approval of Nedbank Limited's audit report on Banks Act returns and discussion of the 2020 external audit strategy presentation and report from Group Internal Audit (GIA). Review of first-quarter performance.
12 June 2019	Annual trilateral meeting with representatives of SARB's Bank Supervision Department for discussion of, among other things, key external audit findings, internal audit matters and regulatory reporting responsibilities.
26 July 2019	Nedbank Audit Committee chair meeting: Discussion and review of subsidiaries' half-year performance and GIA feedback on subsidiaries.
31 July 2019	Review of the interim results for the six months to 30 June 2019, as well as press and SENS announcements. Review and approval of forecast.
30 October 2019	Review of the third-quarter performance, external audit strategy and GIA plan for 2020.
29 January 2020	Review of unaudited preliminary results and key financial and accounting judgements. Review of tax matters.
21 February 2020	Nedbank Audit Committee chair meeting: Discussion and review of subsidiaries' full-year performance and GIA feedback on subsidiaries.
26 February 2020	Discussion and review of year-end reports from GIA and the external auditors, and feedback from subsidiary audit committees, the Group Credit Committee (GCC), Group Risk and Capital Management Committee (GRCMC), Group Information Technology Committee (GITCO) and other relevant committees. Review and approval of annual financial statements and related SENS and results announcements. Review and approval of 2020 budget.

The GAC chair reports to the board on committee activities and the matters discussed at each meeting, highlighting any key items that the committee believes require action and providing recommendations for its resolution.

REPORT FROM THE GROUP AUDIT COMMITTEE – 2019 continued

The performance of the GAC is reviewed as part of the effectiveness review of the board and all its committees. The latest review concluded that the GAC continued to operate effectively and successfully discharged its responsibilities and duties.

External auditors

The GAC is responsible for the appointment, compensation and oversight of the external auditors for the group, namely Deloitte & Touche and Ernst & Young Inc. To ensure a smooth onboarding process, the GAC met with the auditors prior to the commencement of the 2019 audit to ensure that critical aspects of the engagements had been addressed.

During the period the GAC:

- monitored the transition and onboarding of the newly appointed audit firm Ernst & Young Inc, as well as the finalisation of the 2018 year-end with the previous joint-auditors KPMG Inc to ensure a continued high-quality audit;
- approved the external auditors' 2019 annual plan and related scope of work, confirming suitable reliance on the GIA and the appropriateness of key audit risks identified;
- approved the proposed audit fees for the year under review;
- continued to monitor reputational risk concerns related to the external auditors and received regular updates from the external auditors firm's senior leadership;
- monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, as well as the content and execution of the audit plan, with the annual review of the quality of the audit and the performance of the joint external auditors having been undertaken by means of presentations made by each firm;
- ensured that the appointment and the independence of the external auditors were in compliance with the Companies Act and all other regulatory and legal requirements, which included receiving from the external auditors all decision letters and explanations issued by the Independent Regulatory Board for Auditors or any other regulator, and any summaries relating to monitoring procedures or deficiencies (if applicable), issued by the external auditors to confirm the suitability for appointment of the external auditors and designated individual partners;
- confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, 26 of 2005;
- considered and recommended to shareholders the appointment of Ernst & Young Inc and Deloitte & Touche for the 2020 financial year;
- considered reports from subsidiary audit committees and from management on the activities of subsidiary entities and formally engaged with the chairs of subsidiary audit committees; and
- reviewed the findings and recommendations of the external auditors and confirmed that there were no material unresolved matters.

The GAC has a well-established policy on auditor independence and audit effectiveness. A firm approach was established in respect of the provision of non-audit services to the group by the external auditor, which further enhances their independence.

Group Internal Audit

GIA performs an independent assurance function and forms part of the third line of defence. The CIA has a functional reporting line to the GAC chair and an administrative reporting line to the CRO. GIA provides independent, objective assurance to the board of directors of Nedbank Limited through the authority of the GAC that the governance processes, including professional ethics, management of risk and systems of internal control, are adequate and effective to mitigate, in line with GIA's methodology, the significant control risks, both current and emerging, that threaten the achievement of the group's objectives.

GIA exhibits the highest level of professional objectivity in gathering, evaluating and communicating information, as well as the highest level of professional ethics in conducting its work.

GIA's focus has been on fully implementing its digital transformation journey to align with the bank's digital strategy. The current skills mix, which includes data scientists, developers and cybersecurity specialists, will ensure we use technology platforms effectively to obtain efficient and increased coverage, including data analytics and continuous auditing techniques.

The GAC reviewed and approved the annual internal-audit charter, and evaluated the independence, effectiveness and performance of GIA in compliance with its charter as follows:

- Received reports from the CIA that highlighted significant issues related to the processes for controlling the activities of the group, including potential improvements to those processes.
- Assessed the effectiveness of the GIA function and reviewed and approved the annual GIA plan.
- Ensured that the CIA had a direct reporting line to the GAC chair and noted the administrative reporting line to the CRO.
- Satisfied itself as to the appropriateness of the expertise, experience and resources of the CIA and the internal audit function.
- Monitored the effectiveness of the internal audit function in terms of its scope, execution of its plan, coverage, resources, independence, skills, staffing, overall performance and standing within the organisation.
- Monitored and challenged, where appropriate, actions taken by management regarding adverse internal-audit findings.
- Ensured that GIA complied with the reporting and independence requirements of its charter.
- Satisfied itself that GIA had conformed with the key principles of the International Institute of Internal Auditors' standards for professional practice of internal auditing. The rating in this regard was the highest attainable in terms of compliance with the standards.
- Reviewed the favourable findings from the external quality assurance results (EQAR) and noted the recommendations made for further improvements.

Significant matters

The GAC has considered the appropriateness of the key audit matters reported in the external audit opinion and considered the key judgements and estimates relating to the annual financial statements. These were addressed by the committee as follows:

Significant matter	How the GAC addressed the matter
Impairment of loans and advances	The GAC reviewed and discussed the reports from the Group Credit Committee regarding the level and appropriateness of impairments, provisioning methodologies and related key judgements in determining the impairment balances.
Valuation of financial instruments held at fair value	The GAC reviewed reports from the CFO regarding the Investment Committee review of investment valuations and details of critical valuation judgements applied to the valuation of group treasury and trading instruments.
Key judgements and estimates	The GAC received regular feedback from the CFO in connection with the key judgements and estimates made by management in the preparation of the group's financial statements.
Control environment	The GAC received regular feedback from the CFO and GIA in connection with the overall control environment and the 'tone at the top'.

Financial legal, compliance and regulatory reporting requirements

- The GAC received regular reports from the CFO regarding the financial performance of the group, the tracking and monitoring of key performance indicators, details of budgets, forecasts, long-term plans and capital expenditures, financial reporting controls and processes, and the adequacy and reliability of management information used during the financial reporting process. The GAC has evaluated and is satisfied with the appropriateness of the expertise and experience of the CFO in accordance with the JSE Listings Requirements and is satisfied with the resources, expertise, succession and experience of Nedbank's finance function. The GAC reviewed the adequacy of the regulatory reporting processes as required by the Banks Act, which includes evaluation of the quality of reporting and the adequacy of systems and processes, and consideration of any findings regarding the financial regulatory reports by the external auditors.

Annual financial statements and integrated reporting process

- The GAC reviewed all formal announcements relating to Nedbank's financial performance and found the reporting process and controls that led to the compilation of the financial information to be effective and appropriate. The GAC also assessed and confirmed the appropriateness of the going-concern assumption used in the annual financial statements, considering management budgets and the capital and the liquidity profiles.
- The GAC reviewed and discussed the reporting process and governance and financial information that will be included in the Integrated Report when published after considering

recommendations from the Group Transformation, Social and Ethics Committee, Group Remuneration Committee, GRMC and the Group Directors' Affairs Committee.

- The GAC recommended to the board that the annual financial statements and the financial information included in the Integrated Report be approved. The board subsequently approved the annual financial statements, which will be open for discussion at the forthcoming annual general meeting (AGM).
- The GAC reviewed the solvency and liquidity tests and recommended interim- and final-dividend proposals for approval by the board.
- The GAC reviewed and approved the high-level project plan and progress updates on the implementation of IFRS 16: Leases.

Internal control, risk management and information technology

The GAC is responsible for reviewing the effectiveness of systems for internal control, financial reporting and risk management, and for considering the major findings of any internal investigations into control weaknesses, fraud or misconduct, and management's response thereto.

The GAC receives regular reports provided as part of the Enterprisewide Risk Management Framework (ERMF) to assist in evaluating the group's internal controls. The ERMF places emphasis on accountability, responsibility, independence, reporting, communication and transparency, both internally and in respect of all Nedbank's key external stakeholders.

The GAC receives regular reports from the GITCO regarding the monitoring of the adequacy and effectiveness of the group's information system controls and from the GCC regarding its oversight of the adequacy and effectiveness of the credit monitoring processes and systems.

The GAC regularly receives reports on issues in the group's key issues control log from the CRO.

Having considered, analysed, reviewed and debated information provided by management, the GIA and the external auditors, the GAC considered that the internal controls of the group had been effective in all material aspects throughout the year under review.

Coordinated assurance

The group's Three-lines-of-defence Model is in line with Basel recommendations and requirements of the Banks Act and banking regulations, and aligns with the principles and outcomes of King IV (especially standards listed in Principle 15). This model meets the requirements for Nedbank Limited to provide assurance through a coordinated approach (CA). The CA internal and CA external forums were established at the beginning of the reporting period and successfully provided a platform for much improved information exchange, collaboration and working towards the objectives of the CA. The forums were able to increase collaboration effectively across the three lines of defence and better utilise resources, which allowed for efforts to be better and more effectively directed to the risks that matter most and to enhance the control environment. Through this integrated approach, all stakeholders were provided with the opportunity to understand each other's views through collaboration and agree on the group's CA principles. The GAC is therefore of the view that the arrangements in place for the CA model are adequate and achieve the objective of a more effective, integrated approach across the disciplines of risk management, compliance and audit.

REPORT FROM THE GROUP AUDIT COMMITTEE – 2019 continued

Key focus areas for 2020

- Continued focus on ensuring that the group's financial systems, processes and controls are operating effectively, are consistent with the group's complexity and are responsive to changes in the environment and industry.
- Through the Chair's Audit Committee College ensure that there is meaningful engagement between the GAC chair and the chairs of subsidiary audit committees.
- Review and consideration of management's plans in respect of future changes to the International Financial Reporting Standards (IFRS).
- The monitoring of the implementation of the amended JSE Listings Requirements, including the effectiveness of internal financial controls.
- Continued monitoring of the requirements arising from mandatory audit firm rotation that will require Deloitte & Touche to rotate after the 2023 financial year-end.
- Continued monitoring of audit firm rotation at a subsidiary level.

Conclusion

The GAC is satisfied that it has complied with all statutory duties as well as other duties given to it by the board under its terms of reference.

The GAC reviewed the group annual financial statements for the year ended 31 December 2019 and, recommended them for approval to the board on 28 February 2020.

On behalf of the GAC



Stanley Subramoney

Group Audit Committee Chair

2 March 2020

REPORT FROM OUR DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors is pleased to present the consolidated annual financial statements of Nedbank Limited for the year ended 31 December 2019.

Nature of business

Nedbank Limited (Nedbank or the company) is a registered bank that, through its subsidiaries, provides a wide range of banking and financial services. Nedbank maintains a primary listing of its non-redeemable, non-cumulative, non-participating preference shares under 'Preference Shares' on JSE Limited (the JSE).

Annual financial statements

Details of the financial results are set out on pages 22 to 175 of the annual financial statements, which have been prepared under the supervision of the Nedbank Chief Financial Officer, Mrs RK Morathi, and audited in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretation Committee (IFRS IC), South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008 (as amended), and the JSE Listings Requirements.

Year under review

The year under review will be fully covered in the Reflections from our Chair, Reflections from our Chief Executive and Reflections from our Chief Financial Officer sections of the 2019 Nedbank Group Limited Integrated Report, which will be available at t on 20 April 2020.

Share capital

Details of the authorised and issued share capital, together with details of shares issued during the year, appear in note B3 to the annual financial statements.

Ownership

The holding company of Nedbank is Nedbank Group Limited ('Nedbank Group'). Nedbank Group holds 100% of the issued ordinary shares of the company. Further details of preference shareholders appear in note M4 to the annual financial statements.

Dividends

Details of the dividends appear in note B2 to the annual financial statements.

Directors

Biographical details of the current directors appear in the board of directors section of the Nedbank Group Limited Integrated Report, available at nedbankgroup.co.za. Details of directors' and prescribed officers' remuneration and Nedbank Group shares and Nedbank non-redeemable, non-cumulative, non-participating preference shares issued to directors and prescribed officers are set out in M3 and will appear in the Remuneration Report available at Nedbankgroup.co.za.

During the period under review, and also subsequent to year-end, the following changes occurred to the Nedbank board:

- Malcolm Wyman retired as Lead Independent Director on 10 May 2019 and Mpho Makwana assumed the role of Lead Independent Director also with effect from 10 May 2019.
- Tshilidzi Marwala was appointed as independent non-executive director on 27 May 2019.

In terms of Nedbank's memorandum of incorporation not less than one-third of the directors are required to retire at each Nedbank AGM and may offer themselves for election or reelection. The directors so retiring are firstly those directors appointed by the Nedbank board since the last AGM, and thereafter those longest in office since their last election. Tshilidzi Marwala was appointed by the board of directors subsequent to the Nedbank AGM on 27 May 2019, and in terms of the memorandum of incorporation his appointment terminates at the close of the AGM to be held on 20 May 2020. He is available for election.

Hubert Brody, Errol Kruger, Linda Makalima, Mpho Makwana and Mantsika Matooane are also required to seek reelection at the AGM. The aforementioned directors make themselves available for reelection and separate resolutions will be submitted for approval at the AGM to be held on 20 May 2020. In terms of Nedbank Group policy, as applied by Nedbank, non-executive directors and independent non-executive directors of Nedbank who have served on the board for a period longer than nine years are required to retire unless otherwise agreed by the board. Joel Netshitenzhe was appointed to the board on 5 August 2010 and will retire at the conclusion of the Nedbank Group AGM on 22 May 2020.

REPORT FROM OUR DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2019 continued

Details of the members of the board who served during the year and at the reporting date are given below:

Name	Position as director	Date initially appointed as director	Date resigned/retired (where applicable)
HR Brody	Independent non-executive director	1 July 2017	
MWT Brown	Chief Executive	17 June 2004	
BA Dames	Independent non-executive director	30 June 2014	
NP Dongwana	Independent non-executive director	1 June 2017	
EM Kruger	Independent non-executive director	1 August 2016	
RAG Leith	Non-executive director	1 January 2019	
PM Makwana	Independent non-executive director	17 November 2011	
L Makalima (formerly Manzini)	Independent non-executive director	1 June 2017	
T Marwala	Independent non-executive director	27 May 2019	
MA Matooane	Independent non-executive director	15 May 2014	
RK Morathi	Chief Financial Officer and executive director	1 September 2009	
MP Moyo	Non-executive director	11 June 2018	
V Naidoo	Independent Chair	1 May 2015	
JK Netshitenzhe	Independent non-executive director	5 August 2010	To retire on 22 May 2020
MC Nkuhlu	Chief Operating Officer and executive director	1 January 2015	
S Subramoney	Independent non-executive director	23 September 2015	
MI Wyman	Previous Lead Independent Director	1 August 2009	Retired on 10 May 2019

Directors' interests

Nedbank Group Limited holds the issued ordinary shares.

The directors' interests in ordinary shares in Nedbank Group and non-redeemable, non-cumulative, non-participating preference shares in Nedbank at 31 December 2019, are set out online in the full supplementary Remuneration Report. The directors had no interest in any third party or company responsible for managing any of the business activities of the group. Banking transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Group Audit Committee and Group Transformation, Social and Ethics Committee Reports

The Audit Committee Report appears on pages 9 to 12 and the Group Transformation, Social and Ethics Committee Report is included in the 2019 Nedbank Group Integrated Report which will be released on 20 April 2020.

Company Secretary and registered office

As part of the annual board evaluation process, the board of directors conducts an assessment of the Company Secretary. The board is satisfied that Jackie Katzin is suitably competent, qualified and experienced, and adequately and effectively performed the role and duties of a company secretary, and provided the board with independent guidance and support. Jackie Katzin has direct access to, and ongoing communication with, the Chair of the board. The Chair and the Company Secretary meet regularly throughout the year. Jackie Katzin is not a director of the company.

The Company Secretary's addresses and registered office are as follows:

Business address	Registered address	Postal address
Nedbank Limited Nedbank 135 Rivonia Campus 135 Rivonia Road Sandown, Sandton, 2196 SA	135 Rivonia Road Sandown, Sandton 2196 SA	Nedbank Limited PO Box 1144 Johannesburg, 2000 SA

Property and equipment

There was no material change in the nature of the fixed assets of Nedbank or its subsidiaries or in the policy regarding their use during the year.

Political donations

Nedbank Group has an established policy of not making donations to any political party.

Contracts and matters in which directors and officers of the company have an interest

No contracts in which directors and officers of the company had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries were entered into during the year.

Directors' and prescribed officers' service contracts

There are no service contracts with the directors of the company, other than for the Chair and executive directors as set out below. The directors who entered into these service contracts remain subject to retirement by rotation in terms of Nedbank's memorandum of incorporation.

The key responsibilities relating to Vassi Naidoo's position as Chair of Nedbank are encapsulated in a contract.

Service contracts have been entered into for Mike Brown, Mfundo Nkuhlu and Raisibe Morathi. These service contracts are effective until the executive directors reach the normal retirement age and stipulate a maximum notice period of six months (12 months for Mike Brown) under most circumstances.

Details relating to the service contracts of prescribed officers are incorporated in the Remuneration Report, which can be found at nedbankgroup.co.za.

Subsidiary companies

Details of principal subsidiary companies are reflected in note E3.1 of the annual financial statements.

Special resolutions by subsidiaries

On 19 December 2019 by Telle Investments Proprietary Limited, regarding the insertion of a new clause in the memorandum of incorporation dealing with the voluntary audit of annual financial statements.

Acquisition of shares

No shares in Nedbank were acquired by Nedbank or by a Nedbank subsidiary during the financial year under review.

Events after the reporting period

The directors are not aware of any other material events that have occurred between the reporting date and 2 March 2020.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF NEDBANK LIMITED

Report on the audit of the Nedbank Limited consolidated financial statements

Opinion

We have audited the consolidated financial statements of Nedbank Limited (the group) set out on pages 22 to 173 which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nedbank Limited at 31 December 2019, and its consolidated financial performance and consolidated cashflows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the group and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter

How the matter was addressed in the audit

Impairment of loans and advances

Refer to Note C2 of the consolidated financial statements for selected disclosures applicable to this matter.

Loans and advances, which represent 74% of total assets, and the associated impairment provisions are significant in the context of the consolidated financial statements.

The determination of impairment provisions for expected losses requires significant judgement, and we have identified the audit of expected credit loss (ECL) impairment provisions to be a key audit matter.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the group's application of IFRS 9 are detailed below.

The ECL model applies to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), lease receivables and certain loan commitments, as well as financial guarantee contracts.

Our response to the key audit matter included performing the following audit procedures:

- Identifying relevant controls that address the impairment risks identified and evaluating the design and implementation, and in some cases the operating effectiveness, of these controls. We focused on controls over the identification of impairment losses; the governance processes in place for credit models, inputs and overlays; the credit forums where key judgements are considered; and governance processes over allowances for loan impairments and other credit risk allowances.
- As part of the assessment of the governance, we observed key management forums where the ECLs were reviewed and challenged and post model adjustments were approved.
- We performed additional tests on manual journal entries, specifically looking at unusual combinations that impact the valuations of ECL.

Key audit matter

How the matter was addressed in the audit

Impairment of loans and advances

Under IFRS 9 loss allowances are measured on either of the following basis:

- 12 month ECLs that result from possible default events within the 12 months after the reporting date; or
- Lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

The group is required to recognise an allowance for either 12 month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. Indicators of SICR in the retail portfolio may include short-term forbearance, direct debit cancellation, extension to the terms granted and previous arrears within the past months. The current economic climate has resulted in an increase in impairments related to these factors. Our audit approach was required to respond to consider the impact of this within the portfolios resulting in an increase audit effort on this area of judgement.

Indicators of a SICR in the wholesale portfolio may include any of the following: significant increase in the credit spread, significant adverse changes in business, financial and/or economic conditions in which the client operates, actual or expected forbearance or restructuring, significant change in collateral value or early signs of liquidity and cashflow problems.

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the group's best available forward-looking information. The abovementioned probability-weighted outcome considers the possibility of a credit loss occurring and the possibility of no credit loss occurring, even if the possibility of a credit loss is low. Credit losses are measured as the present value of all cash shortfalls (ie the difference between the cashflows due to the entity in accordance with the contract and the cashflows that the group expects to receive). ECLs are discounted at the original effective interest rate of the financial asset.

The assessment of the ECL of a financial asset or a portfolio of financial assets entails estimations of the likelihood of defaults occurring and of the default correlations between counterparties. The group measures ECL using probability of default (PD), exposure at default (EAD) and loss-given default (LGD). These three components are multiplied together and adjusted for the likelihood of default. The calculated ECL is then discounted using the original effective interest rate of the financial asset.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information as it incorporates assumptions which are subjective as they are subject to both judgement and estimation by management requiring specific audit attention. The group has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio which require the use of specialists. These economic variables and their associated impact of the PD, EAD and LGD vary by financial instrument increasing audit effort. The group's economics unit provides a forecast of economic variables and an overview of the economy quarterly or more often, if necessary.

- To evaluate the accuracy of ECL models, with the assistance of our specialists, we:
 1. Performed an assessment of changes to definitions and methodologies (at a parameter and ECL calculation level);
 2. Reperformed the IFRS 9 model build at a parameter level as well as the assessment of its components, e.g. probability of default, loss-given default, exposure at default, significant increase in credit risk; and
 3. Reperformed the ECL, SICR and stage migration calculations.
- We have assessed the appropriateness of incorporating future modification gains and losses for cured restructured accounts where the zero percentage loss given cure assumption is overridden by the modification loss percentage in the models in terms of IFRS 9.
- We have challenged the collateral management monitoring and valuation process and reviewed the legal documentation in support of collateral valuation and collateral validity in determining the ECL impact.
- We tested supporting documentation and calculations for out of model adjustments and assessed the quantification and rationale for reasonableness.
- We involved our economics specialists to evaluate the forward-looking models and focused on reviewing the suitability of the macroeconomic scenario forecasts generated as well as any changes made to processes or governance. Together with our economic specialists, we tested how scenarios have performed against actual economic factors and how they compare based on our knowledge of the industry.
- We tested the completeness, accuracy and validity of qualitative adjustments made to model results. In-model adjustments are typically audited through our independent assessment of models. We compare our model output to the final ECL provision incorporating adjustments.
- We have assessed the appropriateness of the group's SICR methodology and calibrations of the ECL models and we have tested the stage allocations including SICR for a sample of individual exposures and portfolios.
- We also tested a sample of loans and advances in stages 1, 2 and 3 to assess that they were included in the appropriate stage based on the criteria established by the group.
- We made an independent assessment of methodologies and assumptions used to estimate the ECL for the Business Banking portfolio, involving credit risk and accounting specialists to assist us in this assessment. This included assessing refinements in methodologies made during the year. We tested the design and operating effectiveness of key controls focusing on the completeness and accuracy of external and internal data inputs into the ECL calculations. We involved specialists to review the ECL model development and code to test whether these appropriately reflected the group's policies and methodologies.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF NEDBANK LIMITED continued

Key audit matter

Impairment of loans and advances

How the matter was addressed in the audit

- With regard to wholesale portfolio exposures:
 1. We selected a sample of performing loans and advances and performed a detailed independent assessment of the expected credit losses. This included benchmarking internal ratings of loans and advances against external ratings and the ratings produced by a challenger model;
 2. For a sample of loans and advances that had been individually evaluated and impaired, challenged the valuation of impairment losses by developing an independent expectation of the amount of the allowance. This involved challenging the collateral value and assessing the reasonableness of expected cashflows;
 3. For a sample of the more complex loans and advances, we used our own valuation specialists to assist the audit team in assessing the key valuation assumptions; and
 4. When performing work on the valuation of allowances, we considered any collateral held. Where management used specialists to perform the valuations, we evaluated their competence, capabilities and objectivity in performing these valuations.

Valuation of financial instruments carried at fair value

Refer to Note H2 of the consolidated financial statements for selected disclosures applicable to this matter.

At 31 December 2019, financial assets at fair value through profit or loss (FVTPL) represented 14% of total assets and financial liabilities at FVTPL represented 6% of total liabilities. Of the financial instruments (both assets and liabilities) carried at fair value, 7% were classified as level 3 in the fair value hierarchy as prescribed by IFRS 13: Fair Value Measurement.

Financial instruments that are classified as level 3 in the fair value hierarchy will have some element of estimation uncertainty inherent in their value, and the uncertainty is higher for level 3 financial instruments which, by their nature, are unobservable. These portfolios include unlisted equity investments, loans and advances, investment securities and certain derivative financial instruments which are difficult to price as a result of applying highly complex or non-standard valuation models or subjective inputs that are not readily available and, which require the use of valuation specialists and additional audit focus on supporting the inputs.

This risk applies to both individual financial instruments and also to portfolio valuation adjustments which are applied to adjust portfolios for risks that are not included in the model valuation. These portfolio adjustments are subjective in nature and may rely on inputs that are unobservable.

In addition, certain financial instrument valuation techniques are subject to ever developing market practices which may increase the estimation uncertainty and alter the audit effort in each period.

As the determination of the fair value of certain financial instruments is a key source of estimation uncertainty, is subject to significant judgements and represents a material balance, this matter was considered to be a key audit matter in our audit of the consolidated financial statements.

Our response to the key audit matter included performing the following audit procedures:

- As part of the audit, we identified relevant controls over valuation of financial instruments carried at fair value and evaluated the design and implementation, and where relevant the operating effectiveness of these controls. We focused on controls over model governance, independent price verification and the daily profit or loss attribution processes.
- We evaluated the models used by management and rates applied at year-end and used valuation tools to reperform valuations across a range of financial instruments.
- For portfolio valuation adjustments, we focused on the appropriateness of any changes made to the valuation methodology and inputs during the year. Additionally, these were benchmarked to current market best practices to assess the appropriateness of the methodologies applied.
- For portfolios of loans held at fair value, we challenged the key valuation inputs, which included interest rate yield curves and adjustments for liquidity and credit risk.
- We performed additional test on manual journal entries, specifically looking at unusual combinations that impacts the valuations of financial instruments.
- For a sample of unlisted private equity investments and investment securities, we challenged the key inputs and assumptions driving the valuation, and evaluated the models used. We considered sensitivities to key factors by performing the following:
 1. We evaluated the appropriateness of the pricing multiples available from comparable listed companies, adjusted for comparability differences, size and liquidity;
 2. For a sample of the more complex unlisted investments together with our valuation specialists we assessed the appropriateness of the valuation methodology applied and the key valuation assumptions made; and
 3. We evaluated the reasonability of the cashflows and discount rates used by comparing them to similar financial instruments.

Key audit matter

How the matter was addressed in the audit

Valuation of financial instruments carried at fair value

- We evaluated the disclosures made relating to the valuation of financial instruments in relation to the fair value categorisation and hierarchy, to assess consistency with the requirements of the relevant accounting standards and with the methodologies applied by management.
- Where new valuation methodologies have been applied, we evaluated whether the model valuation methodologies used for material valuation risks are appropriate, involving independent valuation experts as part of our team. We evaluated the appropriateness of key assumptions and observable input sources and, where proxies were used, evaluated the appropriateness of these proxies.

Information technology (IT) environment

The group's key financial accounting and reporting processes are highly dependent on the automated controls over the Group's information systems.

The IT environment is complex and pervasive to operations due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. There is a risk that vulnerabilities in the IT control environment, around user access, developer access and change management controls, on key financial accounting and reporting system could result in the financial accounting and reporting records being materially misstated.

The group has a technology strategy called Managed Evolution that includes rationalising, standardising and simplifying its IT systems.

The strategy includes the replacement of financial application with newer applications, migration data between platforms and changes in financial processes in response to the changes.

Appropriate IT controls are required to ensure that applications continue to process data as expected and that changes are made in an appropriate manner. Such controls contribute to mitigating the risk of potential fraud or errors as a result of the introduction of new systems, interfaces between systems and changes to applications and data.

The changing IT environment results in us having to extend or modify our audit approach to take into account the changes to systems brought about through the Managed Evolution strategy. Additional effort is also required to test migration of data and also to understand, document and test controls to mitigate the risk of misstatements as a result of these changes.

Significant audit effort is therefore spent on the audit of these systems as part of the audit process, as they are critical for the control environment of the group and therefore raised as a key audit matter.

Our response to the key audit matter included performing the following audit procedures, which included the use of IT auditors:

- We evaluated the design and tested the operating effectiveness of IT controls over the applications, operating systems and databases that are relevant to accounting and financial reporting.
- We evaluated user access and segregation of duties and relevant application controls within business processes. This included testing the reliability and continuity of the IT systems, the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls.
- We evaluated and reviewed system migrations and implementation of the related technology changes, including change management controls that were material to financial reporting. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place.
- We evaluated the reliability and continuity of the IT systems, to the extent necessary within the scope of our audit. For that purpose we included IT auditors in our audit team. For relevant IT-dependent controls within the financial reporting process we identified supporting general IT controls and evaluated their design, implementation, and operating effectiveness.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF NEDBANK LIMITED continued

Other matter

The consolidated financial statements of Nedbank Limited for the year ended 31 December 2018, were audited by joint auditors, one of whom is no longer the joint auditor in the current period. The joint auditors for the prior year expressed an unmodified opinion on those financial statements on 4 March 2019.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 174 page document titled 'Nedbank Limited audited consolidated annual financial statements for the year ended 31 December 2019' which includes the Report from the Group Audit Committee, the Certification from our company secretary and the Directors' Report as required by the Companies Act of South Africa, and About this report, Financial highlights, Ten-year review: Consolidated statement of comprehensive income, Ten-year review: Consolidated statement of financial position, M4 Preference shareholder analysis and Compliance with IFRS financial statement notes which we obtained prior to the date of this report. The other information does not include the consolidated financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

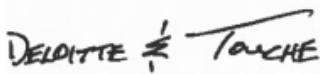
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

The logo for Deloitte & Touche, featuring the company name in a stylized, handwritten-style font.

Deloitte & Touche

Registered Auditor

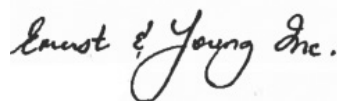
Per: Lito Nunes

Chartered Accountant (SA)
Partner

2 March 2020

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Nedbank Limited for 46 years and Ernst & Young Inc. has been the auditor of Nedbank Limited for 1 year.

The logo for Ernst & Young Inc., featuring the company name in a stylized, handwritten-style font.

Ernst & Young Inc.

Registered Auditor

Per: Farouk Mohideen

Chartered Accountant (SA)
Director

2 March 2020

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Interest received on financial instruments measured at amortised cost and debt instruments at fair value through other comprehensive income (FVOCI)	B5.1.1	78 650	72 438
Interest received on other financial instruments and similar income	B5.1.1	590	301
Interest and similar income		79 240	72 739
Interest expense and similar charges	B5.1.2	51 888	46 774
Net interest income		27 352	25 965
Impairments charge on financial instruments	C2.1	5 953	3 547
Income from lending activities		21 399	22 418
Non-interest revenue	B5.2	20 905	20 884
Operating income		42 304	43 302
Total operating expenses	B6	27 891	27 616
Indirect taxation	B7.1	961	804
Profit from operations before non-trading and capital items		13 452	14 882
Non-trading and capital items	B8	(424)	(164)
Profit from operations		13 028	14 718
Share of gains/(losses) of associate companies		121	(83)
Profit before direct taxation		13 149	14 635
Direct taxation	B7.2.1	3 076	3 854
Profit for the year		10 073	10 781
Other comprehensive income/(losses) (OCI) net of taxation	B7.2.3	144	(368)
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		(37)	70
Debt investments at FVOCI – net change in fair value		(294)	7
Items that may not subsequently be reclassified to profit or loss			
Gains/(Losses) on property revaluations		145	(100)
Remeasurements on long-term employee benefit assets		330	(345)
Total comprehensive income for the year		10 217	10 413
Profit attributable to:			
– Ordinary and preference shareholders		10 087	10 765
– Non-controlling interest – ordinary shareholders		(14)	16
Profit for the year		10 073	10 781
Total comprehensive income attributable to:			
– Ordinary and preference shareholders		10 231	10 397
– Non-controlling interest – ordinary shareholders		(14)	16
Total comprehensive income for the year		10 217	10 413

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Assets			
Cash and cash equivalents	C6	8 199	7 931
Other short-term securities	C4	42 395	57 844
Derivative financial instruments	C7	34 923	22 412
Government and other securities	C3	127 662	96 123
Loans and advances ¹	Cl.1	787 110	725 792
Other assets	G3	10 544	12 040
Current taxation assets		213	105
Investment securities	E1	9 007	6 787
Non-current assets held for sale	G2	90	305
Investments in associate companies	E2	1 229	786
Deferred taxation assets	B7.3	42	40
Investment property		56	
Property and equipment ²	F1	10 403	8 367
Long-term employee benefit assets	Gl.1	5 505	4 764
Mandatory reserve deposits with central banks	C6	21 424	19 789
Intangible assets	F2	9 508	8 538
Total assets		1 068 310	971 623
Equity and liabilities			
Ordinary share capital	B3.1	28	28
Ordinary share premium		19 182	19 182
Reserves		53 582	49 636
Total equity attributable to ordinary equity holders		72 792	68 846
Preference share capital and premium	B3.2	3 561	3 561
Holders of preference shares		7	561
Holders of additional tier 1 capital instruments	B4	6 850	3 416
Non-controlling interest attributable to ordinary shareholders		9	23
Total equity		83 219	76 407
Derivative financial instruments	C7	27 621	19 761
Amounts owed to depositors ³	D1	881 297	806 487
Provisions and other liabilities ⁴	Jl.1	13 473	10 414
Current taxation liabilities		42	272
Deferred taxation liabilities	B7.3	645	224
Long-term employee benefit liabilities	Gl.1	2 401	2 648
Long-term debt instruments	D2	59 612	55 410
Total liabilities		985 091	895 216
Total equity and liabilities		1 068 310	971 623

¹ Included in loans and advances are loans to fellow subsidiaries of R31,1bn (2018: R34,2bn) and derivative financial assets to fellow subsidiaries of R1,6bn (2018: R0,5bn).

² Includes right-of-use assets.

³ Included in amounts owed to depositors are deposits from fellow subsidiaries of R32,7bn (2018: R36,2bn) and derivative financial liabilities from fellow subsidiaries of R1,3bn (2018: 0,1bn).

⁴ Includes lease liabilities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

Rm	Reserves						
	Number of ordinary shares	Ordinary share capital	Ordinary share premium	Foreign currency translation reserve ¹	Property revaluation reserve ²	Share-based payments reserve ³	Other non-distributable reserves ⁴
Balance at 1 January 2018	27 876 479	28	19 182	92	1 750	(781)	7
Additional tier 1 capital instruments issued							
Preference share dividend							
Additional tier 1 capital instruments interest paid							
Dividend to shareholders							
Total comprehensive income/(losses) for the year				70	(100)	-	-
Profit attributable to ordinary and preference equity holders							
Exchange differences on translating foreign operations				70			
Movement in fair-value reserve							
Losses on property revaluations					(100)		
Remeasurements on long-term employee benefit assets							
Transfer (from)/to reserves and other movements					(114)	32	8
Share-based payments reserve movement						170	
Balance at 31 December 2018	27 876 479	28	19 182	162	1 536	(579)	15
Impact of adopting IFRS 16, net of taxation							
Balance at 1 January 2019	27 876 479	28	19 182	162	1 536	(579)	15
Additional tier 1 capital instruments issued							
Preference share dividends							
Preference share buybacks							
Additional tier 1 capital instruments interest paid							
Dividend to shareholders							
Total comprehensive (losses)/income for the year				(37)	145	-	-
Profit attributable to ordinary and preference equity holders							
Exchange differences on translating foreign operations				(37)			
Movement in fair-value reserve							
Gains on property revaluations					145		
Remeasurements on long-term employee benefit assets							
Transfer (from)/to reserves and other movements					(67)	59	
Share-based payments reserve movement						(243)	
Other movements							
Balance at 31 December 2019	27 876 479	28	19 182	125	1 614	(763)	15

¹ This represents the cumulative foreign exchange differences that arise on the translation of an entity with a different functional currency than the presentation currency of the parent company. The cumulative reserve relating to a subsidiary or associate company that is disposed of is included in the determination of profit/loss on disposal of the subsidiary or associate company.

² This represents the cumulative amounts that have been recognised on the revaluation of group properties net of deferred taxation. When the property is disposed of, the cumulative revaluation surplus is transferred directly to retained income.

³ Equity-settled share-based payment expenses are recognised in the statement of comprehensive income, with the corresponding amount recognised in share-based payment reserves. Any excess tax benefit over the relative tax on the share-based payments expense is recognised directly in this reserve. On the expiry or exercise of a share-based instrument, the cumulative amount recognised in this respect is transferred directly to other distributable reserves. The negative share-based payment reserve arises from the grants paid by Nedbank Limited to various share schemes to acquire Nedbank Group Limited shares, which is recognised directly in equity. The reconciliation shown in this note is the cumulative share-based payment charge for all share schemes.

Reserves

FVOCI reserve ⁵	Other distributable reserves ⁶	Total equity attributable to ordinary equity holders	Preference share capital and premium	Holders of preference shares in subsidiary companies	Holders of additional tier 1 capital instruments	Non-controlling interest attributable to ordinary shareholders	Total equity Rm
603	44 204	65 085	3 561	561	2 600	7	71 814
		–			750		750
	(355)	(355)					(355)
	(301)	(301)					(301)
	(6 050)	(6 050)					(6 050)
7	10 420	10 397	–	–	–	16	10 413
	10 765	10 765				16	10 781
7		70					70
		7					7
		(100)					(100)
	(345)	(345)					(345)
	(26)	(100)			66		(34)
		170					170
610	47 892	68 846	3 561	561	3 416	23	76 407
	(241)	(241)					(241)
610	47 651	68 605	3 561	561	3 416	23	76 166
		–			3 500		3 500
	(345)	(345)			(66)		(411)
		–		(554)			(554)
	(496)	(496)					(496)
	(4 750)	(4 750)					(4 750)
(294)	10 417	10 231	–	–	–	(14)	10 217
	10 087	10 087				(14)	10 073
(294)		(37)					(37)
		(294)					(294)
		145					145
	330	330					330
	8	–					–
	(198)	(441)					(441)
	(12)	(12)					(12)
316	52 275	72 792	3 561	7	6 850	9	83 219

⁴ Represents other non-distributable revaluation surplus on capital items and non-distributable reserves transferred from other distributable reserves to comply with various banking regulations.

⁵ This comprises all fair-value adjustments relating to investments in debt instruments and equity investments that are subsequently measured at FVOCI. The expected credit loss allowance relating to such debt instruments is also recognised in OCI and accumulated in this reserve. When the debt instrument is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. For investments in equity instruments the cumulative gain or loss is not recycled, but may be reclassified within equity on derecognition.

⁶ Represents the accumulated profits after distributions to shareholders and appropriation of retained earnings to other non-distributable earnings.

All movements are reflected net of taxation.

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Cash generated by operations	L1	25 427	22 789
Cash received from clients	L2	100 373	93 276
Cash paid to clients, employees and suppliers	L3	(76 383)	(72 058)
Dividends received on investments	L4	210	342
Recoveries on loans previously written off		1 227	1 229
Change in funds for operating activities		(13 110)	(10 105)
Increase in operating assets	L5	(96 014)	(64 500)
Increase in operating liabilities	L6	82 904	54 395
Net cash from operating activities before taxation		12 317	12 684
Taxation paid	L7	(3 815)	(3 653)
Cashflows from operating activities		8 502	9 031
Cashflows utilised by investing activities		(7 821)	(6 232)
Acquisition of property and equipment, computer software and development costs and investment property		(4 476)	(4 133)
Disposal of property and equipment, computer software and development costs and investment property		15	16
Disposal of investment banking assets		23	5
Acquisition of associate companies		(342)	(548)
Acquisition of investment securities		(3 743)	(2 255)
Disposal of investment securities		702	683
Cashflows from/(utilised by) financing activities		1 222	(2 047)
Issue of additional tier 1 capital instruments		3 500	750
Issue of long-term debt instruments	D2.1	12 895	9 404
Redemption of long-term debt instruments	D2.1	(8 737)	(5 495)
Capital repayments of lease liabilities		(845)	
Dividends paid to ordinary shareholders		(4 750)	(6 050)
Preference share dividends paid		(345)	(355)
Additional tier 1 capital instruments interest paid		(496)	(301)
Effects of exchange rate changes on opening cash and cash equivalents		1	1
Net increase in cash and cash equivalents		1 903	752
Cash and cash equivalents at the beginning of the year ²		27 720	26 968
Cash and cash equivalents at the end of the year²	C6	29 623	27 720

¹ Represents amounts less than R1m.

² Including mandatory reserve deposits with central banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER

SECTION A: ACCOUNTING POLICIES

A1 Principal accounting policies

The group's principal accounting policies in preparing the consolidated financial statements of Nedbank Limited are disclosed in the individual sections of the financial statements. This section details the basis of preparation and key accounting policy elections.

A1.1 Basis of preparation

The financial statements have been prepared on a going-concern basis. With the exception of the adoption of IFRS 16: Leases (effective on 1 January 2019), these financial statements have been prepared on a basis consistent with the prior year. The new accounting standards and interpretations and amendments to existing accounting standards and interpretations effective in the current year that have a material impact on the group have been disclosed. The amendments to standards not yet effective at 31 December 2019 are not expected to have a significant impact on implementation. During the year the group has complied with externally imposed capital requirements (refer to the Pillar 3 Risk and Capital Management Report available at nedbank.co.za for further information).

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and IFRS IC, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008, and the JSE Listings Requirements.

The financial information presented in the consolidated financial statements comprises that of the parent company, Nedbank Limited, together with its subsidiaries, including consolidated structured entities and associates, presented as a single entity ('the group'). Separate financial statements for the company are available at the company's headoffice at Nedbank 135 Rivonia Road Campus, 135 Rivonia Road, Sandown, Sandton, 2196, Johannesburg.

The financial statements are presented in SA rand, the functional currency of Nedbank Limited, and are rounded to the nearest million rands.

A1.2 Accounting policy elections

The following accounting policy elections have been made by the group:

Asset/liability	Option	Election and implication	Note/section
Property and equipment	<ul style="list-style-type: none"> International Accounting Standard (IAS) 16 permits the use of the cost or fair-value model for the subsequent measurement of property and equipment (choice per category). 	<ul style="list-style-type: none"> Land and buildings are stated at revalued amounts, being fair value less subsequent depreciation and impairment. Revaluation surpluses are recognised in equity, through OCI. When the property is disposed of, the cumulative revaluation surplus is transferred directly to retained income. Computer equipment, furniture and other equipment and vehicles are carried at cost less accumulated depreciation and impairment. Right-of-use assets in accordance with IFRS 16 are carried at cost less accumulated depreciation and impairment. 	F1
Investment in venture capital divisions	<ul style="list-style-type: none"> IAS 28 provides an exemption from applying the equity method of accounting if an investment in an associate is held by, or indirectly through, a venture capital organisation. 	<ul style="list-style-type: none"> Effective from 1 July 2018, the Investment Committee has elected to apply the equity method of accounting to Investment Banking's private-equity associates and joint-venture entities. As this election is made on an asset-by-asset basis on initial recognition, private-equity associates and joint-venture entities for which the fair value through profit or loss (FVTPL) election was made prior to 1 July 2018 remain at FVTPL. In addition, Property Partners' private-equity associates and joint-venture entities continue to be measured at FVTPL. 	E2
Financial instruments	<ul style="list-style-type: none"> IFRS 9 permits trade date or settlement date accounting for the regular-way purchase or sale of financial assets. 	<ul style="list-style-type: none"> Regular-way purchases or sales of financial assets are recognised and derecognised using trade date accounting. 	H
Investments in subsidiaries and associate companies in separate financial statements	<ul style="list-style-type: none"> In terms of IAS 27, investments in subsidiaries and associates can be accounted for in the separate financial statements at cost, in accordance with IFRS 9 or in terms of IAS 28. 	<ul style="list-style-type: none"> The group has elected to recognise investments in subsidiary companies at cost in the separate financial statements. The group has elected to recognise investments in associate companies in the separate financial statements in terms of IAS 28, ie using the equity method of accounting. 	Separate financial statements (available on request)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION A: ACCOUNTING POLICIES continued

A2 Change in accounting policies: Leases

The group as a lessee

IFRS 16: Leases was issued in January 2016 and replaces IAS 17: Leases and its related interpretations for reporting periods that began on or after 1 January 2019.

Transitional approach

The group has elected to apply IFRS 16 retrospectively, using the modified approach. The modified approach allows for comparatives under the previously effective accounting requirements of IAS 17, IFRIC 4: Determining whether an arrangement contains a lease and SIC 27: Evaluating the substance of transactions in the legal form of a lease not to be restated. At 1 January 2019 corresponding transitional adjustments were made through opening retained earnings (including reversals of existing balances under the old lease accounting standards).

On adoption of IFRS 16 the group recognised a right-of-use asset and accompanying lease liability in relation to the following:

- enforceable leases at 31 December 2018; and
- those enforceable leases that had previously been classified as operating leases under the principles of IAS 17.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period in time on exchange for a consideration. Under IAS 17 the group assessed whether arrangements contained a lease based on establishing whether fulfilment of the arrangement was subject to the use of a specific asset and conveyed a right to use the asset. On transition the group elected not to reassess whether a contract is or contains, a lease. Instead, for contracts entered into before the date of initial application, the group relied on the process applied when those leases were still subject to the IAS 17 framework. The new lease definition under IFRS 16 has been applied only to contracts entered into on or after 1 January 2019.

In applying IFRS 16 for the first time, the group has applied the following practical expedients permitted by the standard:

- The group relied on previous assessments on whether leases are onerous when determining impairment of right-of-use assets on transition. There were no onerous leases on transition date.
- The group accounted for operating leases with a remaining lease term of less than 12 months at 1 January 2019 as short-term leases.
- The group did not include the initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The group applied the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group as a lessor

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, the group continues to classify and account for leases as operating leases using substantially the same principles as under IAS 17.

Transitional impact: the group as a lessee

On transition lease liabilities were measured at the present value of unpaid lease payments from 1 January 2019 but discounted using the group's transition date incremental borrowing rate. The right-of-use assets were measured at the present value of unpaid lease payments from lease commencement but discounted using the group's transition date incremental borrowing rate. The discounted right-of-use assets calculated from commencement date were adjusted for the accumulated depreciation until transition date. The right-of-use assets were not adjusted by the amount of any prepaid or accrued lease payments relating to the IAS 17 balances recognised in the statement of financial position, as 31 December 2018 straight-lining balances were reversed against retained earnings.

The above policy election resulted in the group recognising lease liabilities of R2 506m and accompanying right-of-use assets of R2 060m. The recognition differential between the lease liabilities and right-of-use assets resulted in a temporary difference of R446m, giving rise to a deferred tax asset of R125m, which was recognised through retained earnings. An IAS 17 straight-lining liability balance of R110m and an accompanying deferred tax asset of R31m were reversed against retained earnings. The retained earnings impact (net of tax) resulting from the initial application of IFRS 16, combined with the reversal of IAS 17 balances, was R268m.

In determining the incremental borrowing rates (both on transition date of IFRS 16 and after transition), the group has made use of significant judgements, estimation techniques and assumptions surrounding inputs used in constructing the incremental borrowing rates (see accounting policy in note JI).

Refer to note FI for the accounting policies in respect of the initial and subsequent measurement of right-of-use assets (FI) and note JI for accounting policies in respect of the initial and subsequent measurement of lease liabilities.

A2 Change in accounting policies: leases continued

Reconciliation of the IAS 17 operating lease note at 31 December 2018 to the IFRS 16 lease liabilities opening balance at 1 January 2019

	2019 Rm
31 December 2018 IAS 17 lease commitments (undiscounted)	3 700
Discounted operating lease commitments at 1 January 2019	(699)
Cashflows related to short-term leases	(495)
1 January 2019 lease liabilities	2 506

There were no material cashflows related to low-value leases, contracts reassessed to service arrangements and non-IFRS variable cashflows.

The weighted-average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8,0%.

	Balance at 31 December 2018 Rm	IFRS 16 transitional adjustments (post-tax) Rm	Adjusted balance at 1 January 2019 Rm
Ordinary share capital and share premium	19 210		19 210
Retained earnings	47 892	(241)	47 651
Other reserves	1 744		1 744
Total equity attributable to ordinary equity holders	68 846	(241)	68 605
Preference share capital and premium	3 561		3 561
Holders of preference shares	561		561
Holders of additional tier 1 capital instruments	3 416		3 416
Non-controlling interest attributable to ordinary shareholders	23		23
Total equity	76 407	(241)	76 166

	Balance at 31 December 2018 Rm	IFRS 16 transitional adjustments Rm	Adjusted balance at 1 January 2019 Rm
Property and equipment (including right-of-use asset)	8 367	2 060	10 427
Total assets	8 367	2 060	10 427
Provisions and other liabilities (including lease liability)	10 414	2 506	12 920
Total liabilities	10 414	2 506	12 920

A3 Key assumptions concerning the future and key sources of estimation

The group's key accounting policy elections are set out in note A1.2 of the consolidated financial statements. Detailed accounting policies are disclosed in the notes to the consolidated financial statements. Certain policies, as well as estimates made by management, are considered to be important to an understanding of the group's financial position since they require management to make difficult, complex or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. Further information on accounting policies that include estimates that are particularly sensitive in terms of judgements and the extent to which estimates are used, are provided within the notes to the consolidated financial statements. Other accounting policies involve significant amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has agreed on the accounting policies and critical accounting estimates with the board and Nedbank Group Audit Committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

A4 New standards and interpretations not yet adopted

There are no standards that are not yet effective and that would be expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION

B1 Segmental reporting

Accounting policy

An operating segment is a component of an entity that engages in business activities from which it may earn revenues, the operating results of which components are regularly reviewed by the group's chief operating decisionmakers to make decisions about resources to be allocated and to assess its performance, and for which financial information is available.

The group's identification of its segments and the measurement of segment results are based on the group's internal reporting to management. The segments have been identified according to the nature of their respective products and services and their related target markets.

The segments identified are complemented by the Centre, which provides support in the areas of finance, human resources, governance and compliance, risk management and information technology. Additional information relating to other performance measures is provided.

The group accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices.

The group's identification of its segments and the measurement of segment results are based on the group's internal management reporting as used for day-to-day decisionmaking and as reviewed by the chief operating decisionmaker, which in Nedbank Group Limited's case is the Group Executive Committee. The measure of segment profit is headline earnings.

B1 Segmental reporting continued

Description of segments

Nedbank Corporate and Investment Banking

Nedbank Corporate and Investment Banking (CIB) offers the full spectrum of transactional, corporate, investment banking and markets solutions, characterised by a highly integrated partnership approach. These solutions include lending products, advisory services, leverage financing, trading, broking, structuring, hedging and client coverage. The cluster has expertise in a broad spectrum of product and relationship-based solutions, including specialist corporate finance advice, innovative products and services, customised transactional banking and commercial-property finance. Nedbank CIB's primary client-facing units are Markets, Investment Banking, Property Finance, Transactional Services and Client Coverage.

Nedbank Retail and Business Banking

Nedbank Retail serves the financial needs of all individuals (excluding high-net-worth individuals serviced by Nedbank Wealth) and small businesses with a turnover of up to R30m to whom it offers a full spectrum of banking and assurance products and services. The retail product portfolio includes transactional accounts, home loans, vehicle and asset finance (including the Motor Finance Corporation (MFC)), card (both card-issuing and merchant-acquiring services), personal loans and investments. The business banking portfolio offers the full spectrum of commercial banking products and related services to entities with an annual turnover from R30m up to R750m.

Nedbank Wealth

Nedbank Wealth provides insurance, asset management and wealth management solutions to clients ranging from entry-level to high-net-worth individuals. Insurance provides life and non-life insurance solutions for individuals and businesses, including simple risk, funeral, vehicle, personal accident, credit life and investment solutions. Asset Management offers local and international unit trusts, cash management and multimanagerment solutions. Wealth Management provides specialist services to meet the needs of high-net-worth clients locally and internationally, as well as trust and estate planning, stockbroking and financial planning for the broader Nedbank client base. Nedbank Wealth has operations in SA, London, Jersey, Guernsey, the United Arab Emirates and on the Isle of Man.

Centre

Centre is an aggregation of business operations that provide various support services to Nedbank Group Limited, and includes the following clusters: Group Finance; Group Technology; Group Strategic Planning and Economics; Group Human Resources; Enterprise Governance and Compliance; Group Risk; and Group Marketing, Communications and Corporate Affairs. Centre also includes Group Balance Sheet Management, which is responsible for capital management, funding and liquidity risk management, the management of banking book interest rate risk, margin management and strategic portfolio tilt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B1 Segmental reporting continued

	Total		Fellow subsidiaries	
	2019	2018	2019	2018
Statement of financial position (Rm)				
Assets				
Cash and cash equivalents	29 623	27 720	(1 671)	(1 456)
Other short-term securities	42 395	57 844	(17 973)	(16 742)
Derivative financial instruments	34 923	22 412	(282)	(270)
Government and other securities	127 662	96 123		
Loans and advances	787 110	725 792	11 955	10 524
Other assets	46 597	41 732	(29 182)	(27 324)
Intergroup assets	–	–	499	497
Total assets	1 068 310	971 623	(36 654)	(34 771)
Equity and liabilities				
Total equity	83 219	76 407	(9 287)	(8 052)
Derivative financial instruments	27 621	19 761	(359)	(230)
Amounts owed to depositors	881 297	806 487	7 138	10 155
Provisions and other liabilities	16 561	13 558	(34 362)	(36 795)
Long-term debt instruments	59 612	55 410	216	151
Intergroup liabilities	–	–		
Total equity and liabilities	1 068 310	971 623	(36 654)	(34 771)
Statement of comprehensive income (Rm)				
Net interest income/(loss)	27 352	25 965	(1 268)	(1 227)
Impairments charge on financial instruments	5 953	3 547	57	(28)
Income/(Loss) from lending activities	21 399	22 418	(1 325)	(1 199)
Non-interest revenue	20 905	20 884	(3 872)	(3 886)
Operating income/(loss)	42 304	43 302	(5 197)	(5 085)
Total operating expenses	27 891	27 616	(1 861)	(1 600)
Indirect taxation	961	804	(77)	(101)
Profit/(Loss) from operations²	13 452	14 882	(3 259)	(3 384)
Share of gains/(losses) of associate companies	121	(83)		
Profit/(Loss) before direct taxation²	13 573	14 799	(3 259)	(3 384)
Direct taxation ²	3 205	3 899	(801)	(885)
Profit/(Loss) after direct taxation²	10 368	10 900	(2 458)	(2 499)
Profit attributable to non-controlling interest:				
– Ordinary shareholders	(14)	16		
– Preference shareholders	–	–	(313)	(323)
– Additional tier 1 capital instruments noteholders	–	–	(478)	(267)
Headline earnings/(loss)	10 382	10 884	(1 667)	(1 909)
Selected ratios				
Non-interest revenue to total income (%)	43,3	44,6		
Non-interest revenue to total operating expenses (%)	75,0	75,6		
Cost-to-income ratio (%)	57,8	58,9		
Effective taxation rate (%)	23,6	26,3		
Revenue (Rm) ³	48 257	46 849	(5 140)	(5 113)

¹ Includes all group eliminations.

² These items are presented on a headline earnings basis and therefore exclude the impact of non-trading and capital items.

³ This metric has not been audited by the group's external auditors.

³ Revenue is calculated as net interest income plus non-interest revenue.

Nedbank Corporate and Investment Banking		Nedbank Retail and Business Banking		Nedbank Wealth		Centre ¹	
2019	2018	2019	2018	2019	2018	2019	2018
1 798	4 719	6 168	3 105	1 746	1 562	21 582	19 790
30 773	53 946			20 701	18 833	8 894	1 807
35 174	22 653			7	6	24	23
63 270	51 131					64 392	44 992
395 589	358 639	349 396	326 763	30 741	31 111	(571)	(1 245)
17 122	16 719	10 610	10 762	24 238	19 630	23 809	21 945
		11 577	14 984			(12 076)	(15 481)
543 726	507 807	377 751	355 614	77 433	71 142	106 054	71 831
34 885	33 555	30 573	28 471	4 204	4 225	22 844	18 208
27 973	19 986			6	5	1	
379 656	348 310	338 901	322 520	40 060	39 495	115 542	86 007
8 426	15 878	5 829	3 534	29 703	24 764	6 965	6 177
705	979	2 448	1 089			56 243	53 191
92 081	89 099			3 460	2 653	(95 541)	(91 752)
543 726	507 807	377 751	355 614	77 433	71 142	106 054	71 831
7 390	7 246	19 831	18 692	1 148	1 113	251	141
917	103	4 823	3 433	57	39	99	
6 473	7 143	15 008	15 259	1 091	1 074	152	141
8 175	8 521	13 318	12 591	3 436	3 484	(152)	174
14 648	15 664	28 326	27 850	4 527	4 558	-	315
6 604	6 572	20 384	20 032	3 113	3 012	(349)	(400)
181	86	548	275	113	108	196	436
7 863	9 006	7 394	7 543	1 301	1 438	153	279
121	(83)						
7 984	8 923	7 394	7 543	1 301	1 438	153	279
1 836	2 197	2 059	2 114	259	305	(148)	168
6 148	6 726	5 335	5 429	1 042	1 133	301	1 11
(19)	12					5	4
		42	50			271	273
						478	267
6 167	6 714	5 293	5 379	1 042	1 133	(453)	(433)
52,5	54,0	40,2	40,2	75,0	75,8		
123,8	129,7	65,3	62,9	110,4	115,7		
42,1	41,9	61,5	64,0	67,9	65,5		
23,0	24,6	27,8	28,0	19,9	21,2		
15 565	15 767	33 149	31 283	4 584	4 597	99	315

Depreciation costs of R2 257m (2018: R1 394m) and amortisation costs of R1 139m (2018: R938m) for property, equipment, computer software and capitalised development are charged on an activity-justified transfer pricing methodology by the segment owning the assets to the segment utilising the benefits thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B2 Dividends

B2.1 Ordinary shares

	Millions of shares	Cents per share	Rm
2019			
Final declared for 2018 – paid 2019	28	11 120	3 100
Interim declared for 2019	28	5 919 ¹	1 650
Ordinary dividends paid 2019		17 039	4 750
Final ordinary dividend declared for 2019	28	10 044 ¹	2 800
2018			
Final declared for 2017 – paid 2018	28	10 941	3 050
Interim declared for 2018	28	10 762 ²	3 000
Ordinary dividends paid 2018		21 703	6 050
Final ordinary dividend declared for 2018	28	11 120 ²	3 100

¹ Total dividend declared for 2019 = 15 963 cents per share.

² Total dividend declared for 2018 = 21 882 cents per share. The final ordinary dividend declared for 2018 has been restated from R2 700m to R3 100m.

B2.2 Preference shares

Dividends declared	Number of shares	Cents per share	Amount Rm
2020			
Nedbank – Final (dividend no 34) declared for 2019 – payable April 2020	358 277 491	42,11186	150,9
2019			
Nedbank – Final (dividend no 32) declared for 2018 – paid March 2019	358 277 491	42,23172	151,3
Nedbank – Interim (dividend no 33) declared for 2019 – paid September 2019	358 277 491	42,35729	151,8
Total of dividends declared			303,1
Nedbank (MFC) – participating preference shares ¹			41,7
			344,8
2018			
Nedbank – Final (dividend no 30) declared for 2017 – paid March 2018	358 277 491	43,17350	154,7
Nedbank – Interim (dividend no 31) declared for 2018 – paid August 2018	358 277 491	41,82076	149,8
Total of dividends declared			304,5
Nedbank (MFC) – participating preference shares ¹			50,0
			354,5

¹ Profit share calculated semiannually.

B3 Share capital

Accounting policy

Share capital

Ordinary share capital, preference share capital or any financial instrument issued by the group is classified as equity when:

- payment of cash, in the form of a dividend or redemption, is at the discretion of the group;
- the instrument does not provide for the exchange of financial instruments under conditions that are potentially unfavourable to the group;
- settlement in the group's own equity instruments is for a fixed number of equity instruments at a fixed price; and
- the instrument represents a residual interest in the assets of the group after deducting all its liabilities.

Consideration paid or received for equity instruments is recognised directly in equity. Equity instruments are initially measured at the proceeds received, less incremental directly attributable issue costs, net of any related income tax benefits. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's equity instruments.

Distributions to holders of equity instruments are recognised as distributions in the statement of changes in equity in the period in which they are payable. Dividends for the year that are declared after the reporting date are disclosed in note B2 to the financial statements.

Treasury shares

When the group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the issuing entity are cancelled. Shares repurchased by group entities are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted-average number of shares and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

B3.1 Ordinary share capital

	2019 Rm	2018 Rm
Authorised		
30 000 000 (2018: 30 000 000) ordinary shares of R1 each	30	30
Issued		
27 876 479 (2018: 27 876 479) fully paid ordinary shares of R1 each	28	28
	28	28

Subject to the restrictions imposed by the Companies Act, 71 of 2008, the unissued shares are under the control of the directors until the forthcoming annual general meeting.

B3.2 Preference share capital and premium

	2019 Rm	2018 Rm
Nedbank Limited preference share capital and premium		
Authorised		
1 000 000 000 (2018: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,001 each	1	1
5 000 class A redeemable non-cumulative preference shares of R0,0001 each	1	1
5 000 class B redeemable non-cumulative preference shares of R0,0001 each	1	1
Issued		
358 277 491 (2018: 358 277 491) non-redeemable, non-cumulative, non-participating preference shares of R0,001 each		
100 class A redeemable non-cumulative preference shares of R0,0001 each	1	1
100 class B redeemable non-cumulative preference shares of R0,0001 each	1	1
Preference share premium	3 561	3 561
	3 561	3 561

¹ Represents amounts less than R1m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B3 Share capital continued

The preference shares are classified as equity instruments. All redeemable preference shares are redeemable at the option of the group.

Each preference share confers on the holder the right to capital of the company in the form of a cash dividend prior to payment of dividends to any other class of shareholder. The rate is limited to 83,33% of the prevailing prime rate on a deemed value of R10 and is never compounded. The dividends, if declared, accrue half-yearly on 30 June and 31 December and are payable within 120 days of these dates, respectively.

If a preference dividend is not declared, the dividend will not accumulate and will never become payable by the company, whether in preference to payments to any other class of share or otherwise.

Each preference share confers on the holder the right to a return of capital on the winding-up of the company prior to any payment to any other class of share, but holders are not entitled to any further participation in the profits, assets or any surplus assets of the company in such circumstances.

The holders of this class of share are not entitled to be present or vote (even by proxy) at any meeting of the company except when a declared dividend or part thereof remains in arrears and unpaid after six months from the due date or a resolution is proposed that directly affects the rights attached to the preference share or the interests of the holder, including resolutions to wind up the company or to reduce its share capital.

At every general meeting where the preference shareholder is entitled to vote, the voting rights are restricted to the holder's nominal value in proportion to the total nominal value of all shares issued by the company.

No shares in the capital of the company, in priority to the preference shares, can be created or issued without prior sanction of the holders of preference shares by way of a resolution passed at a separate class meeting properly constituted in terms of the provisions set out in the memorandum of incorporation.

B4 Holders of additional tier 1 capital instruments

The group issued new style (Basel III compliant) additional tier 1 (AT 1) capital instrument as follows:

Instrument code	Date of issue	Call date	Instrument terms	2019 Rm	2018 Rm
Subordinated callable notes (rand-denominated)					
NEDTIA	20 May 2016	21 May 2021	3-month JIBAR + 7,00% per annum	1 500	1 523
NEDTIB	25 November 2016	26 November 2021	3-month JIBAR + 6,25% per annum	500	506
NED04U	30 June 2017	1 July 2022	3-month JIBAR + 5,65% per annum	600	619
NED07U	19 October 2018	20 October 2023	3-month JIBAR + 4,64% per annum	750	768
NED09U	22 March 2019	25 March 2024	3-month JIBAR + 4,40% per annum	671	
NED01IU	24 June 2019	15 January 2025	3-month JIBAR + 4,50% per annum	1 829	
NED012U	22 November 2019	22 May 2025	3-month JIBAR + 4,25% per annum	1 000	
Total				6 850	3 416

The AT 1 notes represent perpetual, subordinated instruments, with no redemption date. The instruments are redeemable subject to regulatory approval at the sole discretion of the issuer, Nedbank Limited, from the applicable call date and following a regulatory or tax event. The payment of interest is at the discretion of the issuer and interest payments are non-cumulative. If certain conditions are reached, the regulator may prohibit Nedbank from making interest payments.

B5 Revenue

Accounting policy

Interest income and expense

In terms of IFRS 9 interest income and expense are recognised in profit or loss using the effective-interest method, taking into account the expected timing and amount of cashflows. The effective-interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective-interest-rate basis.

IFRS 15: Revenue from Contracts with Customers

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The group has concluded that the loyalty points awarded to clients are consideration payable to our clients' clients in terms of IFRS 15. IFRS 15 requires revenue to be decreased by the amount expected to be payable to clients, which is recognised as a liability until payment is effected.

• Revenue

The group assesses the contract and determines whether the fees identified in the contract are in the scope of IFRS 15. If so, the revenue will be recognised only when the group can:

- » identify the contract;
- » identify the performance obligation;
- » determine the transaction price;
- » allocate the transaction price to the performance obligations in the contract; and
- » recognise the revenue as and when the performance obligation is satisfied.

The group is able to identify the contract when both the client and the group have accepted the terms of the agreement. The contract will also identify all the services (performance obligations) the group will render to the client. Based on this, the transaction price is allocated to each identified performance obligation. The group recognises the revenue once the performance obligation is satisfied, which may occur over time or at a point in time.

• Commission and fees income

The group earns fees and commissions from a range of services it provides to clients and these are accounted for as follows:

- » Income earned on the execution of a distinct performance obligation is recognised when the distinct performance obligation has been performed. Revenue is recognised at a point in time.
- » Income earned from the provision of services is recognised over time as the performance obligation is fulfilled.
- » Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income in terms of IFRS 9.
- » Fees charged for servicing a loan are recognised in revenue as the performance obligation is provided, which in most instances occurs monthly when the fees are levied.

• Principal versus agent

When the group acts as a principal, it is deemed to be purchasing and selling financial instruments on its own behalf and therefore reports profits and losses as part of net trading income. When the group acts as an agent, the net commission or markup earned is reported as fee income and costs incurred on behalf of the principal are not reported in the statement of comprehensive income.

Where costs are not directly reimbursed, or not included in the cost basis used for calculating a markup, it may be appropriate to gross up and separately report the costs within 'commission and fees expense'.

• Directly attributable and incremental costs

The types of expenses that are presented as part of non-interest revenue are those incremental costs that are directly attributable to the revenue generated. The group defines incremental expenses as those that would not have been incurred had it not been for the acquisition of a contract that generated the revenue.

• Commitment fees

The group typically earns commitment fees on lending facilities, such as credit facility fees and revolving-credit-facility fees. The fees are typically charged for making the facilities available to the client.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B5 Revenue continued

Accounting policy continued

Commitment fees continued

The group recognises commitment fees as follows:

- Commitment fees that arise from instruments that are not classified and measured at FVTPL, ie financial instruments that are classified and measured at amortised cost or FVOCI –
 - » where drawdown is unlikely, ie remote or uncertain, the related commitment fees should be recognised as revenue in terms of IFRS 15 on a time-proportionate basis and over the period that the facility is provided; and
 - » where drawdown is probable, the related commitment fee is recognised as part of the effective interest rate over the life of the facility.
- Commitment fees that relate to a loan commitment that is measured and classified as FVTPL will be included in the cashflows used to determine the fair value of the loan commitment.

Non-refundable upfront fees

Non-refundable upfront fees normally relate to the issuing or administration of a loan facility. These fees will be recognised as revenue when the performance obligation is satisfied. This is applicable when the non-refundable performance obligation can be satisfied over time or at a point in time.

To apply this principle the group first assesses if the contract is satisfied over time. Should this be the case, the revenue is spread over the period of the contract on a time-proportionate basis. If the performance obligation is not satisfied over time and instead satisfied at a point in time, the revenue is recognised when the service is complete and no further performance obligations are required according to the contract.

The group recognises non-refundable upfront fees that are an integral part of a loan in net interest income through the unwinding of the effective interest rate.

Net insurance income

Net insurance income comprises premiums written on insurance contracts entered into during the year, with the earned portion of premiums received recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premiums are disclosed gross of commission payable and reinsurance premiums. Claims incurred consist of claims and claims-handling expenses paid during the financial year for the movement in provision for outstanding claims. Outward reinsurance premiums are accounted for in the same accounting period as premiums for the related direct insurance.

Dividend income

Dividend income is recognised when the right to receive payment is established on the ex-dividend date for equity instruments and is included in dividend income under non-interest revenue.

Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest, expense, costs and dividends. Interest earned while holding trading securities and interest incurred on trading liabilities are reported within non-interest revenue.

Revenue on investment management contracts

Fees charged for investment management services in conjunction with investment management contracts are recognised as revenue over time when the performance obligation is fulfilled. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the projected period over which services will be provided.

Other

Exchange and securities trading income, from investments and net gains on the sale of investment banking assets, is recognised in profit or loss when the amount of revenue from the transaction can be measured reliably. It is probable that the economic benefits of the transaction will flow to the group and the costs associated with the transaction or service can be measured reliably.

Fair-value gains or losses on financial instruments at FVTPL, including derivatives, are included in non-interest revenue. These fair-value gains or losses are determined after deducting the interest component, which is recognised separately in interest income and expense. Gains or losses on derecognition of any financial assets or financial liabilities are included in non-interest revenue.

B5 Revenue continued

B5.1 Net interest income

B5.1.1 Interest and similar income

	2019 Rm	2018 Rm
Home loans (including properties in possession)	14 170	13 452
Commercial mortgages	16 192	15 427
Instalment debtors	13 997	12 772
Credit cards	2 564	2 448
Overdrafts	1 961	1 635
Term and other loans	21 820	20 429
Government and other securities	7 090	4 334
Short-term funds and securities	1 446	2 242
	79 240	72 739
Interest and similar income may be analysed as follows:		
– Interest and similar income from financial instruments at amortised cost	77 452	72 125
– Interest and similar income from financial instruments at FVOCI	1 198	313
– Interest and similar income from financial instruments at FVTPL	590	301
	79 240	72 739

B5.1.2 Interest expense and similar charges

	2019 Rm	2018 Rm
Deposit and loan accounts	29 531	27 517
Current and savings accounts	950	906
Negotiable certificates of deposit ²	8 002	7 058
Other interest-bearing liabilities ^{1,2}	11 889	11 282
Long-term debt instruments	5 315	5 078
Interest expense related to fair-value activities ²	(3 799)	(5 067)
	51 888	46 774
Interest expense and similar charges may be analysed as follows:		
– Interest expense and similar charges from financial instruments at amortised cost	51 184	46 774
– Interest expense and similar charges from financial instruments at FVTPL	704	
	51 888	46 774

¹ Includes interest expense of R204m related to lease liabilities.

² During the year the group reviewed the presentation of interest expense and similar charges. As a result of this review, the interest expense and similar charges have been enhanced to reflect the gross interest expense and the related allocation of interest incurred on amortised cost liabilities used to fund the group's fair-value trading activities. Previously, the disclosure had been provided on a net basis. To provide comparability the prior-year balances have been restated to reflect the gross positions. However, the net interest expense and similar charges remained at R46 774m. Management is of the view that the additional information provides more relevant information for users to better understand the group's amortised-cost funding applied to the group's trading activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B5 Revenue continued

B5.2 Non-interest revenue

	2019 Rm	2018 Rm
Commission and fees income	18 934	18 109
Administration fees	590	549
Card income	6 012	5 638
Cash-handling fees	1 104	1 025
Exchange commission	471	434
Guarantee income	230	239
Insurance commission	746	742
Other commission	4 526	4 015
Other fees	1 002	1 425
Service charges	4 253	4 042
Commission and fees expense	(2 930)	(2 584)
Card income	(2 358)	(2 054)
Insurance commission	(236)	(236)
Other commission	(327)	(289)
Service charges	(9)	(5)
Net insurance income	145	350
Fair-value adjustments (note B5.2.1)	51	(4)
Fair-value adjustments	(57)	(32)
Hedged-accounted portfolios	108	28
Net trading income ²	4 062	3 930
Foreign exchange	1 230	1 394
Debt securities	2 708	2 482
Equities	25	12
Commodities	99	42
Private-equity income	257	674
Realised gains, interest and other income	673	502
Unrealised losses	(461)	(158)
Dividends received from unlisted investments	45	330
Investment income	188	17
Dividends received on investments	165	12
Long-term-asset sales	23	5
Net sundry income	198	392
Rents received	28	16
Rental income from properties in possession	¹	¹
Other sundry income	170	376
	20 905	20 884

¹ Represents amounts less than R1m.

² Trading income includes R3 799m (2018: R5 067m) of amortised-cost funding related to fair-value activities. Please refer note B5.1.2 for further details.

B5.2.1 Analysis of fair-value adjustments

	2019 Rm	2018 Rm
Fair-value adjustments can be analysed as follows:		
– Financial instruments designated as FVTPL	1 816	2
– Financial instruments mandatorily at fair value	(1 765)	(6)
	51	(4)

B6 Total operating expenses

	2019 Rm	2018 Rm
Staff costs	14 927	15 288
Remuneration and other staff costs	13 103	12 503
Short-term incentives	1 773	2 385
Long-term employee benefits (note G1.1.2) ¹	(519)	(338)
Share-based payments expense – employees	570	738
Computer processing	4 508	3 918
Depreciation of computer equipment	710	721
Depreciation of right-of-use assets: computer equipment	79	
Amortisation of computer software	1 139	938
Short-term lease charges for computer equipment	214	334
Development costs	358	171
Other computer-processing expenses	2 008	1 754
Communication and travel	720	724
Depreciation of vehicles	3	3
Other communication and travel expenses	717	721
Occupation and accommodation	2 077	2 127
Depreciation of owner-occupied land and buildings	421	390
Depreciation of right-of-use assets: land and buildings	727	
Short-term lease charges for land and buildings		825
Other occupation and accommodation expenses	929	912
Marketing and public relations	1 368	1 452
Fees and assurances	3 227	3 202
Auditors' remuneration	120	157
Statutory and regulatory audit	116	128
Non-audit services	4	29
Other fees and assurance costs	3 107	3 045
Furniture, office equipment and consumables	610	562
Depreciation of furniture and other equipment	317	280
Short-term lease charge for furniture and other equipment	10	11
Other office equipment and consumables	283	271
BBBEE share-based payments expenses		3
Other sundries	454	340
	27 891	27 616

¹ Includes contributions to defined-benefit and pension funds and postretirement medical aid funding and any adjustments for defined-benefit obligations together with any fair-value adjustments of plan assets held. See note G1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B7 Taxation

Accounting policy

Taxation expense, recognised in the statement of comprehensive income, comprises current and deferred taxation. Current or deferred taxation is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity and, to the extent that it relates to items recognised in other comprehensive income (OCI), in which case it is also recognised in OCI. The group recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the group originally recognised those past transactions or events.

Current taxation

Current taxation is the expected tax payable on the taxable income for the year, using taxation rates enacted or substantively enacted at the reporting date, and any adjustment to taxation payable in respect of previous years (prior-period tax paid).

Deferred taxation

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective taxation basis. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they are reversed.

Deferred-taxation is recognised in profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity or in OCI, or a business combination that is accounted for as an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to equity or OCI.

Deferred-taxation liabilities are recognised for all taxable temporary differences, and deferred-taxation assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred-taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred-taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current taxation assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxation entities, but they intend to settle current tax liabilities and assets on a net basis or their taxation assets and liabilities will be realised simultaneously.

B7.1 Indirect taxation

	2019 Rm	2018 Rm
Value-added taxation ¹	744	612
Transaction-based taxes	217	192
	961	804

¹ Comprises the value-added taxation incurred that is irrecoverable in respect of the making of exempt supplies as defined in the Value-Added Tax Act, 89 of 1991.

B7.2 Direct taxation

B7.2.1 Charge for the year

SA normal taxation:		
– Current charge	2 780	3 723
– Capital gains taxation – deferred	(6)	40
– Deferred taxation	552	160
Foreign taxation	58	83
Current and deferred taxation on income	3 384	4 006
Prior-year overprovision	(179)	(107)
Total taxation on income	3 205	3 899
Taxation on non-trading and capital items	(129)	(45)
	3 076	3 854

B7 Taxation continued

	2019 %	2018 %
B7.2.2 Taxation rate reconciliation		
Standard rate of SA normal taxation	28,0	28,0
Non-taxable income	(1,6)	(1,7)
Non-deductible expenses	0,1	0,7
Additional tier 1 capital instruments ¹	(1,1)	
Prior-year overprovision	(1,3)	(0,7)
Other	(0,5)	
Effective taxation rate	23,6	26,3

¹ With effect from 1 January 2019, the accounting treatment of additional tier 1 capital instruments changed in terms of IFRS. The taxation relief on interest paid on additional tier 1 capital instruments is now accounted for in comprehensive income (previously in equity). However, the underlying interest paid on additional tier 1 capital instruments is still accounted for in equity. Comparative information has not been restated as the amounts are not material.

B7.2.3 Income tax recognised in other comprehensive income

	Gross	Taxation	Net of taxation
2019			
Exchange differences on translating foreign operations	(37)		(37)
Debt investments at fair value through OCI (FVOCI) – net change in fair value	(409)	115	(294)
Remeasurements on long-term employee benefit assets	458	(128)	330
Gains on property revaluations	198	(53)	145
2018			
Exchange differences on translating foreign operations	70		70
Debt investments at fair value through OCI (FVOCI) – net change in fair value	11	(4)	7
Remeasurements on long-term employee benefit assets	(480)	135	(345)
Gains on property revaluations	(122)	22	(100)

B7.2.4 Future taxation relief

The group has estimated taxation losses of R131m (2018: R122m) that can be set off against future taxable income, of which R41m (2018: R11m) has been applied to the deferred-taxation balance.

B7.3 Deferred taxation

The analysis of deferred-taxation assets and deferred-taxation liabilities is as follows:

	2019 Rm	2018 Rm
Deferred-taxation assets		
– Deferred-taxation assets to be recovered after more than 12 months	42	40
	42	40
Deferred-taxation liabilities		
– Deferred-taxation liabilities to be recovered after more than 12 months	(645)	(224)
	(645)	(224)
Net deferred-taxation liabilities	(603)	(184)
The gross movement on the deferred-income taxation account, is as follows:		
– Balance at the beginning of the year	(184)	(314)
– Statement of comprehensive income charge	(461)	(135)
– Tax charge/(credit) relating to components of other comprehensive income	(67)	153
– Tax charge/(credit) directly to equity	122	85
– Reclassification between taxation types and categories	(13)	27
Balance at the end of the year	(603)	(184)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION B: SEGMENTAL AND PERFORMANCE-RELATED INFORMATION continued

B7 Taxation continued

B7.3 Deferred taxation continued

The movement in deferred-taxation assets and liabilities during the year, without taking into consideration the offsetting of balances with the

Deferred-taxation assets	IFRS 16	
Balance at 31 December 2017		
(Credited)/Charged to the income statement		
Charged to other comprehensive income		
Charged/(Credited) directly to equity		
Reclassification between taxation types and categories		
Balance at 31 December 2018		-
Charged/(Credited) to the income statement		23
Charged to other comprehensive income		
Charged directly to equity		94
Reclassification between taxation types and categories		
Balance at 31 December 2019		117

	Accelerated asset allowances	Property revaluations
Deferred-taxation liabilities		
Balance at 31 December 2017	(563)	(670)
(Credited)/Charged to the income statement	(366)	
Charged/(Credited) to other comprehensive income		22
Charged/(Credited) directly to equity		85
Reclassification between taxation types and categories		
Balance at 31 December 2018	(929)	(563)
(Credited)/Charged to the income statement	(483)	
(Credited)/Charged to other comprehensive income		(53)
Charged/(Credited) directly to equity		25
Reclassification between taxation types and categories		
Balance at 31 December 2019	(1 412)	(591)

B8 Non-trading and capital items

Accounting policy

Profit from operations before non-trading and capital items

Non-trading and capital items and fair-value adjustments of investment properties are disclosed separately on the face of the statement of comprehensive income, being remeasurements excluded from the calculation of headline earnings in accordance with the guidance contained in SAICA Circular 1/2019: Headline Earnings. The principal items that will be included under these measures are gains and losses on sale of subsidiaries, gains and losses on sale of property and equipment, impairment of property, equipment and intangible assets and fair-value adjustments of investment properties.

Rm	2019		2018	
	Gross	Net of taxation	Gross	Net of taxation
Profit attributable to ordinary and preference equity holders		10 087		10 765
Non-trading and capital items	424	295	164	119
IAS 16 loss on disposal of property and equipment	18	13	29	22
IAS 36 impairment of property and equipment	148	107		
IFRS 16 impairment of right-of-use assets	33	24		
IAS 36 impairment of intangible assets	227	153	135	97
IAS 40 profit on revaluation of investment properties	(2)	(2)		
Headline earnings		10 382		10 884

same tax jurisdiction is as follows:

Credit impairments	Deferred revenue	Medical aid	Provisions	Taxation losses	Total
1 456	206	214	869	34	2 779
(106)	21	(21)	443	(31)	306
		100			100
124	186		(92)		218
		(214)	27		(187)
1 474	413	79	1 247	3	3 216
446	16	(10)	(328)	8	155
		(101)			(101)
			59		153
		32	(13)		19
1 920	429	-	965	11	3 442

Deferred acquisition costs	Long-term employee benefits	Capital investments	Share-based payments	FVOCI	Total
(595)	(867)	(300)	(136)	38	(3 093)
(107)	(42)	62	12		(441)
	35			(4)	53
			43	(261)	(133)
	214				214
(702)	(660)	(238)	(81)	(227)	(3 400)
(88)	(151)	76	30		(616)
	(27)			114	34
			(56)		(31)
	(32)				(32)
(790)	(870)	(162)	(107)	(113)	(4 045)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS

C1 Loans and advances

Accounting policy

Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities.

The group extends advances to individuals and to the corporate, commercial and public sectors. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts, personal loans and credit card borrowings.

	2019 Rm	2018 Rm
C1.1 Categories of loans and advances		
Mortgage loans	327 010	307 741
Home loans	149 433	143 586
Commercial mortgages	177 577	164 155
Instalment debtors	127 703	118 089
Credit cards	16 958	16 501
Other loans and advances	332 134	297 994
Properties in possession	55	91
Overdrafts	23 605	18 581
Personal loans	22 663	20 005
Term and other loans	221 224	205 065
Overnight loans	14 349	13 864
Foreign-client lending	11 990	10 614
Preference shares and debentures	12 580	15 153
Factoring accounts	6 563	5 815
Deposits placed under reverse repurchase agreements	18 164	8 758
Fair-value hedge-accounted portfolios	941	48
Gross loans and advances	803 805	740 325
Impairment of loans and advances (note C2)	(16 695)	(14 533)
	787 110	725 792
Gross loans and advances comprises:		
– Loans and advances to clients	785 259	729 430
– Loans and advances to banks	18 546	10 895
	803 805	740 325
C1.2 Sectoral analysis		
Individuals	280 636	265 435
Financial services, insurance and real estate	244 749	239 842
Banks	18 546	10 895
Manufacturing	67 987	58 863
Building and property development	7 304	8 771
Transport, storage and communication	31 363	31 025
Retailers, catering and accommodation	8 891	7 180
Wholesale and trade	30 618	27 528
Mining and quarrying	27 725	29 009
Agriculture, forestry and fishing	16 833	7 468
Government and public sector	21 343	11 081
Other services	47 810	43 228
	803 805	740 325

C1 Loans and advances continued

	2019 Rm	2018 Rm
C1.3 Geographical analysis		
SA	731 005	693 363
The rest of Africa	24 133	17 282
Europe	26 968	23 198
Asia	13 379	4 828
United States	821	537
The rest of world	7 499	1 117
	803 805	740 325

C1.4 Classification of loans and advances

The following table represents loans and advances at amortised cost and FVOCI (debt):

	Total		Subject to 12-month expected credit losses (stage 1)		Subject to lifetime expected credit losses (stage 2) – not credit-impaired		Subject to lifetime expected credit losses (stage 3) – credit-impaired	
Rm	2019	2018	2019	2018	2019	2018	2019	2018
Mortgage loans	321 329	303 331	279 234	258 863	32 520	35 041	9 575	9 427
Instalment debtors	127 703	118 089	103 297	96 941	17 897	16 310	6 509	4 838
Credit cards	16 958	16 501	14 441	13 294	734	1 415	1 783	1 792
Properties in possession	55	91					55	91
Overdrafts	23 605	18 581	18 218	14 542	4 233	3 091	1 154	948
Personal, term and other loans	240 417	225 251	221 823	205 756	11 984	14 237	6 610	5 258
Overnight loans	14 349	13 864	10 902	13 090	3 276	774	171	
Preference shares and debentures	12 579	15 153	12 306	14 658	76	142	197	353
Factoring accounts	6 562	5 815	6 117	5 611	400	154	45	50
Fair-value hedge- accounted portfolios	907	55	907	55				
	764 464	716 731	667 245	622 810	71 120	71 164	26 099	22 757
Loans and advances at FVTPL	39 340	23 596						
Other balances	1	(2)						
Gross loans and advances (note C1.1)	803 805	740 325						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C1 Loans and advances continued

C1.5 Credit quality of loans and advances

Rm	Total		NGR 1–12	
	2019	2018	2019	2018
Subject to 12-month expected credit losses (stage 1)	667 245	622 810	291 577	277 581
Mortgage loans	279 234	258 863	104 926	93 071
Instalment debtors	103 297	96 941	4 281	3 859
Credit cards	14 441	13 294	1 155	1 705
Overdrafts	18 218	14 542	4 142	3 821
Personal, term and other loans	221 823	205 756	158 865	153 919
Overnight loans	10 902	13 090	9 276	9 838
	12 306	14 658	8 799	9 990
Factoring accounts	6 117	5 611	133	1 378
Fair-value hedge-accounted portfolios	907	55		
Subject to lifetime expected credit losses (stage 2) – not credit-impaired	71 120	71 164	5 545	8 482
Mortgage loans	32 520	35 041	2 272	2 891
Instalment debtors	17 897	16 310	18	46
Credit cards	734	1 415		1
Overdrafts	4 233	3 091	203	149
Personal, term and other loans	11 984	14 237	2 385	4 778
Overnight loans	3 276	774	667	538
Preference shares and debentures	76	142		79
Factoring accounts	400	154		
Subject to lifetime expected credit losses (stage 3) – credit-impaired	26 099	22 757	–	–
Mortgage loans	9 575	9 427		
Instalment debtors	6 509	4 838		
Credit cards	1 783	1 792		
Properties in possession	55	91		
Overdrafts	1 154	948		
Personal, term and other loans	6 610	5 258		
Overnight loans	171			
Preference shares and debentures	197	353		
Factoring accounts	45	50		
Total credit quality of loans and advances	764 464	716 731	297 122	286 063
Provision for impairment of off-balance-sheet items ¹	256	201	36	26
Subject to 12-month expected credit losses (stage 1)	101	82	21	20
Subject to lifetime expected credit losses (stage 2) – not credit-impaired	67	57	15	6
Subject to lifetime expected credit losses (stage 3) – credit-impaired	88	62		
Total credit quality	764 720	716 932	297 158	286 089

¹ Provision for impairment of off-balance-sheet items includes the ECL allowance recognised with respect to financial guarantees and loan commitments of R202m (2018: R166m), credit balances and zero balances of the various loans and advances products.

The group uses a master rating scale for the measurement of credit risk, which is the risk of the borrower defaulting excluding the effect of collateral or any loss mitigation [ie probability of default (PD) only]. The Nedbank Group Rating (NGR) master scale is a comprehensive PD rating scale, mapped to default probabilities and external rating agency scales. This enables the group to measure credit risk consistently and accurately across its entire portfolio. A brief explanation of the scale follows:

NGR 1–12: Represents borrowers who demonstrate a strong capacity to meet financial obligations, and who have a negligible or low probability of default. This category typically includes the group's large corporate clients, including financial institutions, parastatals and other government-related institutions.

NGR 13–20		NGR 21–25		NP1–NP3		Unrated	
2019	2018	2019	2018	2019	2018	2019	2018
350 712	322 393	23 539	22 316	–	–	1 417	520
166 838	159 741	7 451	6 031			19	20
97 970	88 548	985	4 533			61	1
9 802	8 567	3 484	3 022				
13 444	10 541	632	180				
51 559	43 087	10 969	8 473			430	277
1 626	3 082		3				167
3 507	4 668						
5 966	4 159	18	74			907	55
37 359	26 056	28 216	36 626	–	–	–	–
10 347	12 260	19 901	19 890				
17 127	5 407	752	10 857				
104	132	630	1 282				
2 923	2 103	1 107	839				
5 870	5 852	3 729	3 607				
690	196	1 919	40				
76	63						
222	43	178	111				
–	–	–	–	26 098	22 714	1	43
				9 575	9 384		43
				6 508	4 838	1	
				1 783	1 792		
				55	91		
				1 154	948		
				6 610	5 258		
				171			
				197	353		
				45	50		
388 071	348 449	51 755	58 942	26 098	22 714	1 418	563
97	87	35	26	88	62	–	–
67	49	13	13				
30	38	22	13				
				88	62		
388 168	348 536	51 790	58 968	26 186	22 776	1 418	563

NGR 13–20: Represents borrowers who demonstrate a satisfactory ability to make payments and who have a low or moderate probability of default. This category typically includes small and medium-sized businesses, medium-sized corporate clients and individuals.

NGR 21–25: Represents borrowers who are of higher risk. This category typically includes higher-risk individuals or small businesses, as well as borrowers that were rated higher on inception, but have since migrated down the rating scale as a result of poor financial performance. However, the borrower has not defaulted and is continuing to make repayments.

NP 1–3: Represents borrowers who have defaulted. Refer to note C2.6 for the group's definition of 'default'.

Unrated: Represents borrowers who do not have a NGR rating and are not in default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments

Credit risk

Credit risk arises from lending and other financing activities that constitute the group's core business and is managed across the group in terms of its board-approved Group Credit Risk Management Framework (GCRMF). This framework covers the macrostructures for credit risk management and incorporates key excerpts from the group credit policy, credit approval mandates, credit risk monitoring and governance structures. It is a key component of the group's Enterprise Risk Management Framework (ERMF), Capital Management and RAF, and it is reviewed on a quarterly basis.

The GCRMF includes the two AIRB Approach technical forums (ie wholesale and retail) and the ad hoc Group Credit Ratings Committee, which reports into the Group Credit Committee (GCC). Also included is the Large-exposure Approval Committee (LEAC), whose function is the approval of credit applications in excess of the large-exposure threshold imposed by the Banks Act, 94 of 1990.

The GCC also acts as the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the group's AIRB rating and risk estimation systems and processes. The current membership includes seven non-executive directors and three executive directors. The board and the GCC are required by the banking regulations to have a general understanding of the AIRB system and the related reports. The GCC also needs to ensure the independence of the Group Credit Risk Monitoring (GCRM), which includes the Credit Model Validation Unit (CMVU) and Model Risk Management (MRM), from the business units originating the credit in the bank.

GCRM monitors the business units' credit portfolios, risk procedures, policies and credit standards, maintains the Group Credit Risk Framework and validates AIRB credit models. GCRM reports to executive management, cluster credit committees and ultimately the board's GCC on a regular basis. Additionally, GCRM ensures consistency in the rating processes and has ultimate responsibility for independent credit model validation through the CMVU, the group's independent risk control unit, as per the banking regulations. GCRM and Group Credit Portfolio Management (GCPM) champion the Basel III AIRB methodology across the group.

Key assumptions concerning the future and key sources of estimation

Allowances for loan impairment and other credit risk provisions

Allowances for loan impairment represent management's estimate of the credit losses expected in the loan portfolios at the reporting date.

The group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cashflows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis (loss emergence). The impairment for performing loans is calculated on a portfolio basis, based on historical credit loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual credit loss ratios are applied to loan balances in the portfolio and scaled to the estimated-loss emergence period.

Within the Nedbank Retail and Business Banking and Nedbank Wealth portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit-scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on the portfolio, based on historical recovery rates and assumed emergence periods. These statistical analyses use, as primary inputs, the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or client category.

Judgement and knowledge are needed in selecting the statistical methods to be used when the models are developed or revised. Overlays may be applied to model outputs to cater for additional factors and the valuation of these overlays can be subjective. The impairment allowance reflected in the financial statements for these portfolios is considered to be reasonable and supportable.

Key assumptions concerning the future and key sources of estimation continued

Allowances for loan impairment and other credit risk provisions continued

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as stage 1 and has its credit continuously monitored by the group.
- Where a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to stage 2, but not yet deemed to be credit-impaired. In considering whether there has been an increase in credit risk, the group considers guarantees (and other credit enhancements) to the extent that it affects the likelihood of the borrower defaulting on the instrument, eg where the guarantee creates an economic incentive for the guarantor to continue to fund the borrower. Note C2.5 describes how the group determines when a significant increase in credit risk has occurred.
- Where the financial instrument is credit-impaired, the financial instrument is moved to stage 3. Note C2.6 describes how the group defines 'credit-impaired' and 'default'.
- Financial instruments in stage 1 have their ECLs measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments at stages 2 and 3 have their ECLs measured based on a lifetime basis. Refer to note C2.8 for a description of inputs, assumptions and estimation techniques used in measuring the ECLs.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that forward-looking information should be considered. Note C2.7 includes an explanation of how the group has incorporated this in the ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECLs are measured on a lifetime basis.

For individually significant loans with larger exposures, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cashflows are taken into account, for example, the business prospects for the client, the realisable value of collateral, the group's position relative to other claimants, the reliability of client information and the likely cost and duration of the workout process. The level of the impairment allowance is the difference between the value of the discounted expected future cashflows (discounted at the loan's original effective interest rate) and its carrying amount. Subjective judgements are made in the calculation of future cashflows. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairments charge.

Rm	2019	2018
C2.1 Movement in impairments on financial instruments		
Balance at the beginning of the year	14 877	13 579
Stage 1 ECL allowance	2 654	2 595
Stage 2 ECL allowance	3 527	3 761
Stage 3 ECL allowance	8 696	7 223
Statement of comprehensive income charge net of recoveries	5 953	3 547
Stage 1 ECL allowance	514	79
Stage 2 ECL allowance	462	(46)
Stage 3 ECL allowance	4 977	3 514
Adjusted for:	(3 519)	(2 249)
– Recoveries	1 227	1 229
– Interest in suspense	696	434
– Amounts written off/other transfers	(5 442)	(3 912)
Balance at the end of the year	17 311	14 877
Stage 1 ECL allowance	3 193	2 654
Stage 2 ECL allowance	3 858	3 527
Stage 3 ECL allowance	10 260	8 696
Split by measurement category	17 311	14 877
Loans and advances	16 695	14 533
Loans and advances at FVOCI	336	122
Non-loans and advances	25	21
Off-balance-sheet allowance	255	201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.2 Impairments on loans and advances by classification

	Balance at the beginning of the year Rm	Impairments charge/(release) Rm	Amounts written off against the impairment/ other transfers Rm	Balance at the end of the year Rm
Total impairment – 2019				
Home loans	2 188	243	(178)	2 253
Commercial mortgages	967	100	(32)	1 035
Properties in possession	18	(7)	(3)	8
Credit cards	2 416	924	(1 075)	2 265
Overdrafts	743	207	(103)	847
Personal, term and other loans	4 055	2 391	(794)	5 652
Instalment debtors	4 238	1 979	(1 458)	4 759
Preference shares and debentures	2	(33)	125	94
Overnight loans	40	96	1	137
Factoring accounts	22	17	(6)	33
Trade, other bills and banker's acceptances	1		(1)	–
Financial guarantees and loan commitments	166	35	2	203
	14 856	5 952	(3 522)	17 286
Total impairment – 2018				
Home loans	2 269	239	(320)	2 188
Commercial mortgages	834	95	38	967
Properties in possession	28	(8)	(2)	18
Credit cards	2 174	1 097	(855)	2 416
Overdrafts	692	174	(123)	743
Personal, term and other loans	4 176	1 690	(1 811)	4 055
Instalment debtors	3 002	1 915	(679)	4 238
Preference shares and debentures	79		(77)	2
Overnight loans	115	(82)	7	40
Factoring accounts	30	1	(9)	22
Trade, other bills and banker's acceptances	2		(1)	1
Financial guarantees and loan commitments	157	7	2	166
Impairment of loans and advances	13 558	5 128	(3 830)	14 856

The balance at the end of the year of R17 286m (2018: R14 856m) includes the ECL relating to loans and advances at amortised cost of R16 695m (2018: R14 533m), loans and advances at FVOCI of R336m (2018: R122m) and off-balance-sheet items of R255m (2018: R201m).

C2 Impairments charge on financial instruments *continued*

	Total impairment		Stage 1: 12-month ECL allowance		Stage 2: Lifetime ECL allowance (not credit-impaired)		Stage 3: Lifetime ECL allowance (credit-impaired)	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
C2.3 Sectoral analysis								
Individuals	12 540	11 693	2 239	1 812	2 578	2 626	7 723	7 255
Financial services, insurance and real estate	1 495	1 387	256	354	677	495	562	538
Manufacturing	754	519	181	109	230	142	343	268
Building and property development	186	192	17	20	54	39	115	133
Transport, storage and communication	445	138	37	25	21	82	387	31
Retailers, catering and accommodation	30	20	14	11	11	9	5	
Wholesale and trade	523	181	92	80	76	36	355	65
Mining and quarrying	154	78	90	55	37	12	27	11
Agriculture, forestry and fishing	345	193	55	41	20	18	270	134
Government and public sector	120	71	27	14	28	10	65	47
Other services	694	384	160	112	126	37	408	235
	17 286	14 856	3 168	2 633	3 858	3 506	10 260	8 717
C2.4 Geographical analysis								
SA	16 760	14 705	3 007	2 563	3 804	3 430	9 949	8 712
The rest of Africa	144	118	90	51	54	67		
Europe	331	24	20	11		9	311	4
Asia	5	4	5	4				
United States	4	–	4					
Other	42	5	42	4				1
	17 286	14 856	3 168	2 633	3 858	3 506	10 260	8 717

C2.5 Assessment of significant increase in credit risk (SICR) (stage 2)

Stage 2 is comprised of all performing financial instruments that have experienced a significant increase in credit risk since initial recognition. The group recognises lifetime ECLs for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial, the group reverts to recognising 12 months of ECLs as the financial instrument has migrated back to stage 1.

At each reporting date the group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the probability of default (PD), over the remaining expected life, at the reporting date with that on the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information, and the impact of forward-looking macroeconomic factors.

The assessment is performed monthly and the following factors are considered:

- Established thresholds for SICR are based on a percentage change in lifetime PD relative to initial recognition.
- A set of portfolio-specific qualitative criteria that are indicative of a significant increase in credit risk are used to supplement the lifetime PD comparison.
- Instruments that are more than 30 days past due are generally considered to have experienced a significant increase in credit risk.
- The group has not used the low-credit-risk exemption for any financial instruments in the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.6 Definition of 'default'

For the purposes of determining expected credit losses (ECLs) under IFRS 9, defaulted loans and advances (DLAA) cover credit facilities that have triggered default as defined by SA banking regulations. For retail portfolios this is product-centred, and a default would be specific to a borrower account. This also applies to specialised lending exposures. For all other portfolios it is client- or borrower-centred, meaning that, should any transaction within a borrowing group default, all credit exposures to the borrower would be treated as having defaulted.

The group considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due or one or more events have occurred after the date of initial recognition of the instrument that have a negative impact on the estimated future cashflows of the instrument. This includes, but is not limited to, events that indicate the borrower is experiencing financial difficulty, there is default or delinquency in interest or principal payments and/or there is a high probability of the borrower entering a business rescue (except in instances where debtor substitution is allowable in terms of regulation) or liquidation process.

'Default' and 'credit-impaired' are mutually inclusive and the same definition applies to both terms. When a financial asset has been identified as defaulted/credit-impaired, the stage 3 ECLs are measured as the difference between the asset's gross carrying amount and the present value of estimated future cashflows discounted at the instrument's original effective interest rate.

C2.7 Forward-looking information incorporated in the ECL models

To account for forward-looking information the ECL input parameters probability of default (PD), loss-given default (LGD) and exposure at default (EAD) are modelled on a segment level considering macroeconomic drivers. Most portfolios are linked to macroeconomic drivers such as the prime rate, GDP growth, household debt to income and credit growth.

The incorporation of forward-looking information into the ECL models allows for a range of possible macroeconomic outcomes to capture any non-linearities. The parameter inputs used to estimate the ECL are modelled on four macroeconomic scenarios: base (expected), positive, mild stress and high stress. Scenarios are provided by Nedbank Group Economic Unit and incorporate historical trends, statistical models and expert judgement. The macroeconomic scenarios are updated quarterly, with the option of an out-of-cycle update based on significant macroeconomic events impacting macroeconomic forecasts. There is a robust internal governance process to review and approve the forecast macroeconomic factors, which include approval by a board committee.

The ECL under each macroeconomic scenario is the product of the PD, LGD and EAD for that specific scenario. The final estimate for the ECL at each future reporting date is calculated to reflect an unbiased and probability-weighted amount, with the scenario weights estimated based on the likelihood of occurrence. The probability-weighted PD, as applied in the calculation of ECL at reporting date, is also used in the assessment of significant increase in credit risk (SICR).

The ranges for macroeconomic variables are determined by using the annual average forecast over the three-year period per scenario.

Macroeconomic variable (%)	31 December 2019			31 December 2018		
	2020	2021	2022	2019	2020	2021
Prime interest rate	10,0	10,0	10,0	9,9-11,0	10,4-11,3	10,5-11,7
Gross domestic product	(0,8)-2,5	0,2-1,8	0,6-2,1	(0,6)-2,7	0,7-2,6	1,0-2,4
Consumer price inflation	4,7-5,3	4,7-4,8	4,8-4,9	3,3-5,9	4,1-6,4	4,5-6,3
Household debt to income	72,4-72,6	72,4-73,5	73,5-73,7	70,4-74,1	72,4-76,3	74,1-78,1

The macroeconomic factors beyond the forecast three-year period equate to a long-run average expectation.

C2 Impairments charge on financial instruments continued

C2.8 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The impairment calculations under IFRS 9 require the recognition of credit losses based on forward-looking ECL. Dependent on whether the financial instrument has shown an SICR since initial recognition, either a 12-month (stage 1) or lifetime (stage 2) ECL is recognised. A stage 1 ECL results from a default event that is possible within 12 months, whereas a stage 2 ECL includes a lifetime ECL that results from a possible default event over the remaining life of the financial instrument. The ECL is calculated as the product of the core model components: PD, LGD, and EAD.

For portfolios with adequate historical information, the modelling parameters are calculated on a segment level and forward-looking information is incorporated. The ECL is estimated for each individual account. Out-of-model adjustments can be made to account for any additional client or portfolio information not captured in the model, which are typically temporary in nature. For portfolios where the abovementioned approach is not possible due to a lack of sufficient data, a simplified approach is followed to estimate ECL.

The ECL is discounted back from the point of default using the effective interest rate (EIR), or a reasonable estimate thereof, to arrive at the ECL at reporting date.

C2.9 Scenario analysis

The most significant macroeconomic variables for the group have been weighted and stressed against the final weighted ECL. The different scenarios are a weighting of the different macroeconomic scenarios (for example unemployment, interest rate and gross domestic product). These are determined by Nedbank Group Economic Unit and reviewed quarterly to incorporate any changes in the macroeconomic environment. When product lines do not have any sensitivity to macroeconomic weightings, the group will use the weighted ECL for all the scenarios.

	Total ECL allowance	Difference to weighted economic scenario	Percentage difference to weighted economic scenario
2019 – Rm			
Weighted economics	17 286		
Base	17 215	(71)	(0,4%)
Mild	17 771	485	2,8%
High	18 443	1 157	6,7%
Positive	16 528	(758)	(4,4%)
2018 – Rm			
Weighted economics	14 856		
Base	14 723	(133)	(0,9%)
Mild	14 887	31	0,2%
High	15 466	610	4,1%
Positive	14 371	(485)	(3,3%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.10 Credit risk exposure

Maximum exposure to credit risk – Financial instruments not subject to impairment

Rm	Maximum exposure to credit risk ¹	
	2019	2018
Other short-term securities	33 055	36 344
Derivative financial instruments	34 923	22 412
Government and other securities	35 317	28 495
Loans and advances	39 340	23 596
Investment securities	8 980	6 787
	151 615	117 634

¹ This amount excludes the impact of any collateral held or credit enhancements.

Credit-impaired financial assets and related collateral held to mitigate potential losses are disclosed below:

Collateral held as security and other credit enhancements relating to credit-impaired financial assets Rm	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
2019				
Home loans	7 227	1 463	5 764	7 301
Commercial mortgages	2 348	496	1 852	2 236
Properties in possession	55	8	47	19
Credit cards and overdrafts	2 937	1 824	1 113	2 939
Personal, term and other loans	6 610	3 662	2 948	1 930
Instalment debtors	6 509	2 661	3 848	6 615
Preference shares and debentures	197	33	164	237
Overnight loans	171	13	158	720
Factoring accounts	45	15	30	51
	26 099	10 175	15 924	22 048
2018				
Home loans	6 518	1 364	5 154	9 667
Commercial mortgages	2 909	433	2 476	2 725
Properties in possession	91	18	73	106
Credit cards and overdrafts	2 740	1 913	827	291
Personal, term and other loans	5 256	2 429	2 827	702
Instalment debtors	4 839	2 492	2 347	3 573
Preference shares and debentures	354		354	375
Factoring accounts	50	8	42	51
	22 757	8 657	14 100	17 490

C2 Impairments charge on financial instruments continued

C2.10 Credit risk exposure continued

The following tables disclose the distribution of loan-to-value (LTV) ratios of credit-impaired financial assets:

LTV distribution	Gross carrying amount of credit-impaired financial assets								
	Home loans	Commercial mortgages	Properties in possession	Credit cards and overdrafts	Term loans	Other loans to clients	Instalment debtors	Preference shares and debentures	Factoring accounts
2019									
Lower than 50%	1 044	334		228	354	34	177	8	4
50% to 75%	1 489	192			12		370		11
75% to 100%	2 612	875	19	158	2	36	1 116		7
Higher than 100%	2 082	947	36	2 551	6 006	337	4 846	189	23
Total	7 227	2 348	55	2 937	6 374	407	6 509	197	45
2018									
Lower than 50%	748	205	1	1 999	5 082		92		
50% to 75%	1 271	1 192		636	233	147	208		
75% to 100%	3 382	1 405	27	7	3	5	913		50
Higher than 100%	1 117	107	63	98	79	24	3 626	354	
Total	6 518	2 909	91	2 740	5 397	176	4 839	354	50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance

Reconciliation of loss allowance relating to financial assets subsequently measured at amortised cost

The following tables present a reconciliation from the opening balance to the closing balance of the loss allowance, and how significant changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance:

2019

Loans and advances

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	616 754	2 630	614 124	71 151	3 507	67 644
New financial assets originated or purchased	218 069	2 338	215 731			-
Financial assets written off			-			-
Repayments and other movements	(140 590)	2 997	(143 587)	(20 095)	861	(20 956)
Transfers to 12-month ECL	22 686	724	21 962	(21 110)	(594)	(20 516)
Transfers to lifetime ECL (not credit-impaired)	(45 695)	(2 260)	(43 435)	49 897	2 561	47 336
Transfers to lifetime ECL (credit-impaired)	(11 624)	(3 259)	(8 365)	(8 225)	(2 480)	(5 745)
Foreign exchange movements	302	(3)	305	(515)	2	(517)
Net balances (refer to note C2.2)	659 902	3 167	656 735	71 103	3 857	67 246
Total credit and zero balances ¹	6 436	(45)	6 481	17	(2)	19
Balance at the end of the year	666 338	3 122	663 216	71 120	3 855	67 265
Loans and advances at FVTPL						
Impairment of loans and advances at FVOCI						
impairment allowance						
Off-balance sheet impairment allowance						
Fair-value hedge-accounted portfolios						
ECL credit and other balances						
Loans and advances						

¹ Total credit and zero balances throughout this note refer to the loss allowance on balances that became liabilities to the group during the financial year. The group, however, still has credit risk exposure on these facilities.

Changes in model and macroeconomic factors¹

Change in macroeconomic factors
Model reground

¹ Represents the change in the allowance related to changes in risk, including changes to macroeconomic factors, level risk, associated parameters, and models as reflected in the closing balance.

Home loans

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	121 587	216	121 371	15 343	608	14 735
New financial assets originated or purchased	10 754	35	10 719			-
Financial assets written off			-			-
Repayments and other movements	(3 071)	444	(3 515)	(940)	(52)	(888)
Transfers to 12-month ECL	5 566	19	5 547	(5 043)	(16)	(5 027)
Transfers to lifetime ECL (not credit-impaired)	(5 290)	(192)	(5 098)	6 486	260	6 226
Transfers to lifetime ECL (credit-impaired)	(1 704)	(271)	(1 433)	(1 956)	(281)	(1 675)
Foreign exchange movements	312	16	296		4	(4)
Net balances	128 154	267	127 887	13 890	523	13 367
Total credit and zero balances	158	(1)	159	4		4
Balance at the end of the year	128 312	266	128 046	13 894	523	13 371

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
22 708	8 719	13 989	710 613	14 856	695 757
(5 392)	(3 150)	(2 242)	218 069	2 338	215 731
(5 338)	(618)	(4 720)	(5 392)	(3 150)	(2 242)
(1 576)	(130)	(1 446)	(166 023)	3 240	(169 263)
(4 202)	(301)	(3 901)	-	-	-
19 849	5 739	14 110	-	-	-
3	3	-	(210)	2	(212)
26 052	10 262	15 790	757 057	17 286	739 771
47	(1)	48	6 500	(48)	6 548
26 099	10 261	15 838	763 557	17 238	746 319
					39 340
					336
					255
					907
					(47)
					787 110

Not credit-impaired		Credit-impaired	
Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL – excluding purchased/originated credit-impaired	Subject to lifetime ECL – purchased/originated credit-impaired
(7) 63	(44)	(18)	

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
6 507	1 364	5 143	143 437	2 188	141 249
(240)	(179)	(61)	10 754	35	10 719
(990)	(203)	(787)	(240)	(179)	(61)
(523)	(3)	(520)	(5 001)	189	(5 190)
(1 196)	(68)	(1 128)	-	-	-
3 660	552	3 108	-	-	-
		-	-	-	-
			312	20	292
7 218	1 463	5 755	149 262	2 253	147 009
9	(1)	10	171	(2)	173
7 227	1 462	5 765	149 433	2 251	147 182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Commercial mortgages

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	137 143	301	136 842	19 693	233	19 460
New financial assets originated or purchased	45 710	168	45 542			-
Financial assets written off			-			-
Repayments and other movements	(30 021)	(141)	(29 880)	(3 132)	55	(3 187)
Transfers to 12-month ECL	7 485	58	7 427	(6 896)	(53)	(6 843)
Transfers to lifetime ECL (not credit-impaired)	(7 489)	(35)	(7 454)	9 202	150	9 052
Transfers to lifetime ECL (credit-impaired)	(1 352)	(130)	(1 222)	(730)	(48)	(682)
Foreign exchange movements	(554)	(16)	(538)	489	(3)	492
Net balances	150 922	205	150 717	18 626	334	18 292
Total credit and zero balances			-			-
Balance at the end of the year	150 922	205	150 717	18 626	334	18 292

Properties in possession

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year			-			-
Financial assets written off			-			-
Repayments and other movements			-			-
Net balances	-	-	-	-	-	-
Total credit and zero balances			-			-
Balance at the end of the year	-	-	-	-	-	-

Credit cards and overdrafts

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	21 966	570	21 396	4 500	676	3 824
New financial assets originated or purchased	6 696	245	6 451			-
Financial assets written off			-			-
Repayments and other movements	2 115	909	1 206	(1 798)	13	(1 811)
Transfers to 12-month ECL	2 172	120	2 052	(2 078)	(97)	(1 981)
Transfers to lifetime ECL (not credit-impaired)	(5 210)	(325)	(4 885)	5 247	336	4 911
Transfers to lifetime ECL (credit-impaired)	(1 395)	(742)	(653)	(851)	(422)	(429)
Foreign exchange movements	37	3	34	(66)	2	(68)
Net balances	26 381	780	25 601	4 954	508	4 446
Total credit and zero balances	6 278	(42)	6 320	13	(4)	17
Balance at the end of the year	32 659	738	31 921	4 967	504	4 463

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
2 909	433	2 476	159 745	967	158 778
		-	45 710	168	45 542
(13)	(12)	(1)	(13)	(12)	(1)
(330)	17	(347)	(33 483)	(69)	(33 414)
(589)	(5)	(584)	-	-	-
(1 713)	(115)	(1 598)	-	-	-
2 082	178	1 904	-	-	-
2		2	(63)	(19)	(44)
2 348	496	1 852	171 896	1 035	170 861
		-	-	-	-
2 348	496	1 852	171 896	1 035	170 861

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
91	18	73	91	18	73
(4)	(4)	-	(4)	(4)	-
(32)	(6)	(26)	(32)	(6)	(26)
55	8	47	55	8	47
		-	-	-	-
55	8	47	55	8	47

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
2 702	1 913	789	29 168	3 159	26 009
		-	6 696	245	6 451
(1 626)	(918)	(708)	(1 626)	(918)	(708)
(288)	(300)	12	29	622	(593)
(94)	(23)	(71)	-	-	-
(37)	(11)	(26)	-	-	-
2 246	1 164	1 082	-	-	-
(4)	(1)	(3)	(33)	4	(37)
2 899	1 824	1 075	34 234	3 112	31 122
38	(1)	39	6 329	(47)	6 376
2 937	1 823	1 114	40 563	3 065	37 498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Personal, term and other loans

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	205 759	802	204 957	14 236	824	13 412
New financial assets originated or purchased	99 368	951	98 417			-
Financial assets written off			-			-
Repayments and other movements	(71 243)	1 177	(72 420)	(10 098)	484	(10 582)
Transfers to 12-month ECL	2 350	28	2 322	(2 336)	(17)	(2 319)
Transfers to lifetime ECL (not credit-impaired)	(11 521)	(641)	(10 880)	11 989	692	11 297
Transfers to lifetime ECL (credit-impaired)	(2 660)	(1 317)	(1 343)	(1 577)	(991)	(586)
Foreign exchange movements	(230)		(230)	(230)	(2)	(228)
Net balances	221 823	1 000	220 823	11 984	990	10 994
Total credit and zero balances			-			-
Balance at the end of the year	221 823	1 000	220 823	11 984	990	10 994

Instalment debtors

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	96 940	648	96 292	16 310	1 098	15 212
New financial assets originated or purchased	51 049	581	50 468			-
Financial assets written off			-			-
Repayments and other movements	(33 191)	1 069	(34 260)	(3 826)	112	(3 938)
Transfers to 12-month ECL	2 965	50	2 915	(2 754)	(45)	(2 709)
Transfers to lifetime ECL (not credit-impaired)	(10 484)	(827)	(9 657)	11 278	885	10 393
Transfers to lifetime ECL (credit-impaired)	(3 981)	(737)	(3 244)	(3 111)	(736)	(2 375)
Foreign exchange movements	(1)		(1)			-
Net balances	103 297	784	102 513	17 897	1 314	16 583
Total credit and zero balances			-			-
Balance at the end of the year	103 297	784	102 513	17 897	1 314	16 583

Preference shares and debentures

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	14 658	2	14 656	141		141
New financial assets originated or purchased	2 373	17	2 356			-
Repayments and other movements	(4 579)	47	(4 626)	(203)		(203)
Transfers to 12-month ECL	71		71	(71)		(71)
Transfers to lifetime ECL (not credit-impaired)	(217)	(9)	(208)	209	4	205
Net balances	12 306	57	12 249	76	4	72
Total credit and zero balances			-			-
Balance at the end of the year	12 306	57	12 249	76	4	72

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
5 256	2 429	2 827	225 251	4 055	221 196
(1 611)	(1 206)	–	99 368	951	98 417
(791)	196	(405)	(1 611)	(1 206)	(405)
(14)	(11)	(987)	(82 132)	1 857	(83 989)
(468)	(51)	(3)	–	–	–
4 237	2 308	(417)	–	–	–
1	(3)	1 929	–	–	–
		4	(459)	(5)	(454)
6 610	3 662	2 948	240 417	5 652	234 765
		–	–	–	–
6 610	3 662	2 948	240 417	5 652	234 765

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
4 839	2 492	2 347	118 089	4 238	113 851
		–	51 049	581	50 468
(1 892)	(827)	(1 065)	(1 892)	(827)	(1 065)
(2 525)	(415)	(2 110)	(39 542)	766	(40 308)
(211)	(5)	(206)	–	–	–
(794)	(58)	(736)	–	–	–
7 092	1 473	5 619	–	–	–
	1	(1)	(1)	1	(2)
6 509	2 661	3 848	127 703	4 759	122 944
		–	–	–	–
6 509	2 661	3 848	127 703	4 759	122 944

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
354		354	15 153	2	15 151
		–	2 373	17	2 356
(165)	28	(193)	(4 947)	75	(5 022)
		–	–	–	–
8	5	3	–	–	–
197	33	164	12 579	94	12 485
		–	–	–	–
197	33	164	12 579	94	12 485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Overnight loans	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	13 090	24	13 066	774	16	758
New financial assets originated or purchased	1 486	182	1 304			-
Repayments and other movements	(790)	(348)	(442)	(42)	237	(279)
Transfers to 12-month ECL	2 035	339	1 696	(1 896)	(305)	(1 591)
Transfers to lifetime ECL (not credit-impaired)	(5 146)	(166)	(4 980)	5 148	166	4 982
Transfers to lifetime ECL (credit-impaired)	(512)	(17)	(495)			-
Foreign exchange movements	739	(3)	742	(708)	(1)	(707)
Net balances	10 902	11	10 891	3 276	113	3 163
Total credit and zero balances			-			-
Balance at the end of the year	10 902	11	10 891	3 276	113	3 163

Factoring accounts	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	5 611	10	5 601	154	4	150
New financial assets originated or purchased	633	2	631			-
Financial assets written off			-			-
Repayments and other movements	189	8	181	(56)	(1)	(55)
Transfers to 12-month ECL	42		42	(36)		(36)
Transfers to lifetime ECL (not credit-impaired)	(338)	(5)	(333)	338	5	333
Transfers to lifetime ECL (credit-impaired)	(20)	(5)	(15)			-
Net balances	6 117	10	6 107	400	8	392
Total credit and zero balances			-			-
Balance at the end of the year	6 117	10	6 107	400	8	392

Trade, other bills and banker's acceptances	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year		1	(1)			-
Repayments and other movements	1		1			-
Foreign exchange movements	(1)	(1)	-			-
Net balances	-	-	-	-	-	-
Total credit and zero balances		(2)	2		2	(2)
Balance at the end of the year	-	(2)	2	-	2	(2)

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		-	13 864	40	13 824
(204)	25	(229)	1 486	182	1 304
(139)	(34)	(105)	(1 036)	(86)	(950)
(2)		(2)	-	-	-
512	17	495	-	-	-
4	5	(1)	35	1	34
171	13	158	14 349	137	14 212
		-	-	-	-
171	13	158	14 349	137	14 212

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
50	8	42	5 815	22	5 793
		-	633	2	631
(6)	(4)	(2)	(6)	(4)	(2)
(13)	6	(19)	120	13	107
(6)		(6)	-	-	-
		-	-	-	-
20	5	15	-	-	-
45	15	30	6 562	33	6 529
		-	-	-	-
45	15	30	6 562	33	6 529

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		-	-	1	(1)
		-	1	-	1
		-	(1)	(1)	-
-	-	-	-	-	-
	1	(1)	-	1	(1)
-	1	(1)	-	1	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Financial guarantees and loan commitments

Rm

Balance at the beginning of the year
New financial assets originated or purchased
Repayments and other movements
Transfers to 12-month ECL
Transfers to lifetime ECL (not credit-impaired)
Transfers to lifetime ECL (credit-impaired)
Foreign exchange movements

Net balances

Total credit and zero balances

Balance at the end of the year

2018

Loans and advances

Not credit-impaired

	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost ¹	Gross carrying amount	Allowance for ECL	Amortised cost ¹
Rm						
Balance at the beginning of the year	582 593	2 572	580 021	75 861	3 760	72 101
New financial assets originated or purchased	156 921	2 062	154 859			–
Financial assets written off			–			–
Repayments and other movements	(92 942)	2 393	(95 335)	(22 505)	(346)	(22 159)
Transfers to 12-month ECL	21 461	221	21 240	(20 030)	(189)	(19 841)
Transfers to lifetime ECL (not credit-impaired)	(42 410)	(1 860)	(40 550)	45 544	2 164	43 380
Transfers to lifetime ECL (credit-impaired)	(8 722)	(2 800)	(5 922)	(7 719)	(1 883)	(5 836)
Foreign exchange movements	(147)	42	(189)		1	(1)
Net balances (refer to note C2.2)	616 754	2 630	614 124	71 151	3 507	67 644
Total credit and zero balances	6 002	(28)	6 030	12	(8)	20
Balance at the end of the year	622 756	2 602	620 154	71 163	3 499	67 664
Loans and advances at FVTPL						
Impairment of loans and advances at FVOCI impairment allowance						
Off-balance sheet impairment allowance						
Fair-value hedge-accounted portfolios						
ECL credit and other balances						

Loans and advances

The table above has been updated to include balances relating to the financial guarantees and loan commitments.

	Not credit-impaired		Credit-impaired		Total
	Subject to 12-month ECL Allowance for ECL	Subject to lifetime ECL Allowance for ECL	Subject to lifetime ECL (excluding purchased/ originated) Allowance for ECL	Allowance for ECL	
	56	48	62		166
	157				157
	(168)	13	34		(121)
	110	(61)	(49)		-
	(60)	63	(3)		-
	(40)	(2)	42		-
	(2)	2	1		1
	53	63	87		203
					-
	53	63	87		203

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost ¹	Gross carrying amount	Allowance for ECL	Amortised cost ¹
18 388	7 226	11 162	676 842	13 558	663 284
		-	156 921	2 062	154 859
(3 171)	(3 137)	(34)	(3 171)	(3 137)	(34)
(4 640)	281	(4 921)	(120 087)	2 328	(122 415)
(1 431)	(31)	(1 400)	-	1	(1)
(3 133)	(303)	(2 830)	1	1	-
16 440	4 683	11 757	(1)	-	(1)
255		255	108	43	65
22 708	8 719	13 989	710 613	14 856	695 757
49	(1)	50	6 063	(37)	6 100
22 757	8 718	14 039	716 676	14 819	701 857
					23 596
					122
					201
					55
					(39)
					725 792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Changes in model and macroeconomic factors¹

Change in macroeconomic factors
Model reground

¹ Represents the change in the allowance related to changes in risk, including changes to macroeconomic factors, level risk, associated parameters, and models as reflected in the closing balance.

Home loans	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	117 166	262	116 904	14 557	615	13 942
New financial assets originated or purchased	9 730	56	9 674			–
Financial assets written off			–			–
Repayments and other movements	(2 463)	325	(2 788)	(856)	(30)	(826)
Transfers to 12-month ECL	5 752	18	5 734	(5 104)	(13)	(5 091)
Transfers to lifetime ECL (not credit-impaired)	(6 997)	(205)	(6 792)	8 531	307	8 224
Transfers to lifetime ECL (credit-impaired)	(1 601)	(240)	(1 361)	(1 785)	(271)	(1 514)
Foreign exchange movements			–			–
Net balances	121 587	216	121 371	15 343	608	14 735
Total credit and zero balances	134	(1)	135	4		4
Balance at the end of the year	121 721	215	121 506	15 347	608	14 739

Commercial mortgages	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	144 170	308	143 862	11 799	208	11 591
New financial assets originated or purchased	37 765	152	37 613			–
Financial assets written off			–			–
Repayments and other movements	(32 184)	(110)	(32 074)	(2 778)	177	(2 955)
Transfers to 12-month ECL	7 482	104	7 378	(7 087)	(89)	(6 998)
Transfers to lifetime ECL (not credit-impaired)	(19 141)	(58)	(19 083)	19 382	60	19 322
Transfers to lifetime ECL (credit-impaired)	(849)	(95)	(754)	(1 623)	(123)	(1 500)
Foreign exchange movements	(100)		(100)			–
Net balances	137 143	301	136 842	19 693	233	19 460
Total credit and zero balances			–			–
Balance at the end of the year	137 143	301	136 842	19 693	233	19 460

Not credit-impaired		Credit-impaired	
		Subject to lifetime ECL – excluding purchased/originated credit-impaired	Subject to lifetime ECL – purchased/originated credit-impaired
Subject to 12-month ECL	Subject to lifetime ECL		
(12)	18	2	
161			

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
6 577	1 392	5 185	138 300	2 269	136 031
(274)	(258)	(16)	9 730	56	9 674
(1 009)	(173)	(836)	(274)	(258)	(16)
(648)	(5)	(643)	(4 328)	122	(4 450)
(1 533)	(103)	(1 430)	–	–	–
3 386	511	2 875	1	(1)	2
8		8	–	–	–
6 507	1 364	5 143	8	–	8
11		11	143 437	2 188	141 249
			149	(1)	150
6 518	1 364	5 154	143 586	2 187	141 399

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
1 806	318	1 488	157 775	834	156 941
(10)	(27)	17	37 765	152	37 613
(722)	(59)	(663)	(10)	(27)	17
(395)	(15)	(380)	(35 684)	8	(35 692)
(242)	(2)	(240)	–	–	–
2 472	218	2 254	(1)	–	(1)
		–	–	–	–
			(100)	–	(100)
2 909	433	2 476	159 745	967	158 778
		–	–	–	–
2 909	433	2 476	159 745	967	158 778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Properties in possession	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year		2	(2)		1	(1)
New financial assets originated or purchased	1		1			–
Financial assets written off			–			–
Repayments and other movements		(2)	2		(1)	1
Transfers to lifetime ECL (credit-impaired)	(1)		(1)			–
Net balances	–	–	–	–	–	–
Total credit and zero balances			–			–
Balance at the end of the year	–	–	–	–	–	–

Credit cards and overdrafts	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	19 190	525	18 665	4 004	642	3 362
New financial assets originated or purchased	3 341	118	3 223			–
Financial assets written off			–			–
Repayments and other movements	2 484	1 092	1 392	(756)	(1)	(755)
Transfers to 12-month ECL	918	37	881	(851)	(33)	(818)
Transfers to lifetime ECL (not credit-impaired)	(2 787)	(467)	(2 320)	2 840	481	2 359
Transfers to lifetime ECL (credit-impaired)	(1 180)	(735)	(445)	(737)	(413)	(324)
Foreign exchange movements			–			–
Net balances	21 966	570	21 396	4 500	676	3 824
Total credit and zero balances	5 868	(27)	5 895	8	(8)	16
Balance at the end of the year	27 834	543	27 291	4 508	668	3 840

Personal, term and other loans	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	173 505	696	172 809	24 490	1 233	23 257
New financial assets originated or purchased	48 829	987	47 842			–
Financial assets written off			–			–
Repayments and other movements	(14 580)	504	(15 084)	(9 551)	(290)	(9 261)
Transfers to 12-month ECL	3 700	20	3 680	(3 673)	(19)	(3 654)
Transfers to lifetime ECL (not credit-impaired)	(4 103)	(374)	(3 729)	4 491	497	3 994
Transfers to lifetime ECL (credit-impaired)	(1 547)	(1 031)	(516)	(1 521)	(597)	(924)
Foreign exchange movements	(45)		(45)			–
Net balances	205 759	802	204 957	14 236	824	13 412
Total credit and zero balances			–			–
Balance at the end of the year	205 759	802	204 957	14 236	824	13 412

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
98	25	73	98	28	70
		–	1	–	1
1		1	1	–	1
(9)	(7)	(2)	(9)	(10)	1
1		1	–	–	–
91	18	73	91	18	73
		–	–	–	–
91	18	73	91	18	73

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
2 145	1 699	446	25 339	2 866	22 473
		–	3 341	118	3 223
(886)	(840)	(46)	(886)	(840)	(46)
(321)	(77)	(244)	1 407	1 014	393
(67)	(4)	(63)	–	–	–
(53)	(13)	(40)	–	1	(1)
1 917	1 148	769	–	–	–
(33)		(33)	(33)	–	(33)
2 702	1 913	789	29 168	3 159	26 009
38	(1)	39	5 914	(36)	5 950
2 740	1 912	828	35 082	3 123	31 959

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
4 064	2 247	1 817	202 059	4 176	197 883
		–	48 829	987	47 842
(1 268)	(1 092)	(176)	(1 268)	(1 092)	(176)
(232)	(230)	(2)	(24 363)	(16)	(24 347)
(27)	(1)	(26)	–	–	–
(388)	(123)	(265)	–	–	–
3 068	1 628	1 440	–	–	–
39		39	(6)	–	(6)
5 256	2 429	2 827	225 251	4 055	221 196
		–	–	–	–
5 256	2 429	2 827	225 251	4 055	221 196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Instalment debtors	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	91 412	660	90 752	13 840	841	12 999
New financial assets originated or purchased	46 976	616	46 360			–
Financial assets written off			–			–
Repayments and other movements	(31 553)	693	(32 246)	(3 422)	(51)	(3 371)
Transfers to 12-month ECL	2 691	39	2 652	(2 400)	(32)	(2 368)
Transfers to lifetime ECL (not credit-impaired)	(9 254)	(721)	(8 533)	10 172	784	9 388
Transfers to lifetime ECL (credit-impaired)	(3 331)	(639)	(2 692)	(1 880)	(444)	(1 436)
Foreign exchange movements	(1)		(1)			–
Net balances	96 940	648	96 292	16 310	1 098	15 212
Total credit and zero balances			–			–
Balance at the end of the year	96 940	648	96 292	16 310	1 098	15 212

Preference shares and debentures	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	13 475	26	13 449	4 799	53	4 746
New financial assets originated or purchased	7 181	34	7 147			–
Repayments and other movements	(6 136)	(64)	(6 072)	(4 169)	(28)	(4 141)
Transfers to 12-month ECL	320	1	319	(320)	(1)	(319)
Transfers to lifetime ECL (not credit-impaired)	(4)		(4)	4		4
Transfers to lifetime ECL (credit-impaired)	(178)	(37)	(141)	(173)	(25)	(148)
Foreign exchange movements		42	(42)		1	(1)
Net balances	14 658	2	14 656	141	–	141
Total credit and zero balances			–			–
Balance at the end of the year	14 658	2	14 656	141	–	141

Overnight loans	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Rm						
Balance at the beginning of the year	18 288	23	18 265	1 968	92	1 876
New financial assets originated or purchased	2 472	9	2 463			–
Repayments and other movements	(8 067)	(6)	(8 061)	(797)	(78)	(719)
Transfers to 12-month ECL	425	1	424	(425)	(1)	(424)
Transfers to lifetime ECL (not credit-impaired)	(28)	(3)	(25)	28	3	25
Net balances	13 090	24	13 066	774	16	758
Total credit and zero balances			–			–
Balance at the end of the year	13 090	24	13 066	774	16	758

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
3 653	1 501	2 152	108 905	3 002	105 903
		–	46 976	616	46 360
(726)	(919)	193	(726)	(919)	193
(2 331)	895	(3 226)	(37 306)	1 537	(38 843)
(291)	(6)	(285)	–	1	(1)
(917)	(62)	(855)	1	1	–
5 210	1 083	4 127	(1)	–	(1)
241		241	240	–	240
4 839	2 492	2 347	118 089	4 238	113 851
		–	–	–	–
4 839	2 492	2 347	118 089	4 238	113 851

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		–	18 274	79	18 195
		–	7 181	34	7 147
3	(62)	65	(10 302)	(154)	(10 148)
		–	–	–	–
		–	–	–	–
351	62	289	–	–	–
		–	–	43	(43)
354	–	354	15 153	2	15 151
		–	–	–	–
354	–	354	15 153	2	15 151

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		–	20 256	115	20 141
		–	2 472	9	2 463
		–	(8 864)	(84)	(8 780)
		–	–	–	–
		–	–	–	–
–	–	–	13 864	40	13 824
		–	–	–	–
–	–	–	13 864	40	13 824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.11 Loss allowance continued

Factoring accounts

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	5 386	11	5 375	404	12	392
New financial assets originated or purchased	626	2	624			–
Financial assets written off			–			–
Repayments and other movements	(443)	4	(447)	(176)	(9)	(167)
Transfers to 12-month ECL	173	1	172	(170)	(1)	(169)
Transfers to lifetime ECL (not credit-impaired)	(96)	(2)	(94)	96	2	94
Transfers to lifetime ECL (credit-impaired)	(35)	(6)	(29)			–
Net balances	5 611	10	5 601	154	4	150
Total credit and zero balances			–			–
Balance at the end of the year	5 611	10	5 601	154	4	150

Trade, other bills and banker's acceptances

Rm	Not credit-impaired					
	Subject to 12-month ECL			Subject to lifetime ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	1	1	–		1	(1)
Repayments and other movements			–		(1)	1
Foreign exchange movements	(1)		(1)			–
Net balances	–	1	(1)	–	–	–
Total credit and zero balances			–			–
Balance at the end of the year	–	1	(1)	–	–	–

Financial guarantees and loan commitments

Rm

Balance at the beginning of the year
New financial assets originated or purchased
Financial assets written off
Repayments and other movements
Transfers to lifetime ECL (not credit-impaired)
Transfers to lifetime ECL (credit-impaired)
Net balances
Total credit and zero balances
Balance at the end of the year

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
45	7	38	5 835	30	5 805
		–	626	2	624
(8)		(8)	(8)	–	(8)
(19)	(5)	(14)	(638)	(10)	(628)
(3)		(3)	–	–	–
		–	–	–	–
35	6	29	–	–	–
50	8	42	5 815	22	5 793
		–	–	–	–
50	8	42	5 815	22	5 793

Credit-impaired					
Subject to lifetime ECL (excluding purchased/originated)			Total		
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		–	1	2	(1)
		–	–	(1)	1
		–	(1)	–	(1)
–	–	–	–	1	(1)
		–	–	–	–
–	–	–	–	1	(1)

Not credit-impaired		Credit-impaired	Total
Subject to 12-month ECL Allowance for ECL	Subject to lifetime ECL Allowance for ECL	Subject to lifetime ECL (excluding purchased/ originated) Allowance for ECL	Allowance for ECL
58	62	37	157
88			88
		(1)	(1)
(43)	(34)	(1)	(78)
(30)	30		–
(17)	(10)	27	–
56	48	62	166
			–
56	48	62	166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C2 Impairments charge on financial instruments continued

C2.12 Financial assets written off

Key assumptions concerning the future and key sources of estimation

Writeoff and postwriteoff recoveries

A loan and advance is written off when the group has no reasonable expectations of recovering the asset partially or in its entirety. This assessment is judgemental and includes both qualitative and quantitative information, including trends based on historical recoveries. Card will write off after a client has had four months with no payment at legal stage, which translates into approximately 12 months in default; Personal Loans will write off after a client has missed the last 12 payments; and MFC will write off after approximately 11 months in default.

Other products are generally considered for writeoff only once the underlying security has been fully realised. The group writes off financial assets, in whole or in part, when practical recovery efforts have been exhausted and the group has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- where enforcement activity is ceased; and
- where the group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The group may write off financial assets that are still subject to enforcement activity when there is no reasonable expectation of recovery.

The following contractual amounts outstanding on financial assets were written off during the period, and are still subject to enforcement activity:

Rm	2019	2018
Contractual amount outstanding	5 141	3 030

C2.13 Modification of financial assets

The group modifies the terms of loans provided to clients due to commercial renegotiations or in cases of distressed loans, with the aim of maximising recovery. Such restructuring activities include extended payment terms, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition when the modification is not substantial and does not result in derecognition of the original assets. The group monitors the subsequent performance of the assets. The group may determine that the credit risk has significantly improved after restructuring and the assets are then moved from lifetime ECL (stage 2 and stage 3) to 12-month ECL (stage 1). This is the case for assets that have performed in accordance with the new terms for six or more consecutive months.

C2 Impairments charge on financial instruments *continued*

C2.13 Modification of financial assets *continued*

The group continues to monitor whether there is a subsequent SICR in credit risk in relation to such assets. The following table includes a summary of financial assets with lifetime ECLs of which the cashflows were modified during the year as part of the group's restructuring activities and their respective effects on the group's financial performance.

Rm	2019	2018
Modification during the year for which the loss allowance reflects lifetime ECL		
Amortised cost before modification	2 306	1 884
Net modification loss	389	150
Modification since initial recognition of the financial asset for which the loss allowance has changed during the year to reflect 12-month ECL		
Gross carrying amount at the end of the year	122	96
Impact of modification on the ECL allowances associated with these assets	1	2

	2019 Rm	2018 Rm
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C3 Government and other securities

C3.1 Analysis

Government and government-guaranteed securities	94 901	70 336
Other dated securities ¹	31 126	25 793
Fair-value hedge-accounted portfolios	1 645	
Impairment of government and other securities	(10)	(6)
	127 662	96 123

C3.2 Sectoral analysis

Financial services, insurance and real estate	16 585	11 701
Banks	987	1 301
Manufacturing, wholesale and trade	9 107	8 585
Transport, storage and communication	1 227	1 012
Government and public sector	99 580	72 225
Other sectors	176	1 299
	127 662	96 123

¹ Includes securitised assets. See note E5.

	2019 Rm	2018 Rm
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C4 Other short-term securities

C4.1 Analysis

Negotiable certificates of deposit	5 152	7 559
Treasury bills and other bonds	37 243	50 285
	42 395	57 844

C4.2 Sectoral analysis

Banks	3 116	7 488
Government and public sector	36 997	50 208
Other sectors	2 282	148
	42 395	57 844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C5 Credit analysis of other short-term securities, and government and other securities

Credit ratings

	Investment grade		Subinvestment grade		Not rated		Total	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Other short-term securities	40 503	56 946	1 892	898	–	–	42 395	57 844
Negotiable certificates of deposit	4 816	7 559	336				5 152	7 559
Treasury bills and other	35 687	49 387	1 556	898			37 243	50 285
Government and other securities	126 071	94 066	1 591	957	–	1 100	127 662	96 123
Government and government-guaranteed securities	94 609	69 724	292	612			94 901	70 336
Other dated securities	29 827	24 348	1 299	345		1 100	31 126	25 793
Fair-value hedge-accounted portfolios	1 645						1 645	–
Impairment of government and other securities	(10)	(6)					(10)	(6)
	166 574	151 012	3 483	1 855	–	1 100	170 057	153 967

Debt securities that are purchased by the group are rated using an internal rating system, being the Nedbank Group Rating (NGR) scale. The group requires that investments be rated on the NGR scale to ensure that credit risk is measured consistently and accurately across the group. This ensures compliance with the group's policy on the rating of investments. The NGR scale has been mapped to the credit-rating scales of external credit-rating agencies. According to the NGR scale, investment grade can be equated to a Standard & Poor's and Fitch rating of at least BB+ and a Moody's rating of at least Baa1. The group's investment grade includes credit ratings from NGR01 to NGR12 and subinvestment grade includes credit ratings from NGR13 to NGR25.

C6 Cash and cash equivalents

	2019 Rm	2018 Rm
Coins and banknotes	6 169	7 384
Money at call and short notice	1 877	547
Balances with central banks – other than mandatory reserve deposits	153	¹
Cash and cash equivalents excluding mandatory reserve deposits with central banks	8 199	7 931
Mandatory reserve deposits with central banks	21 424	19 789
	29 623	27 720

¹ Represents amounts less than R1m.

Money at call and short notice constitute amounts withdrawable in 32 days or fewer.

C7 Derivative financial instruments

Accounting policy

Derivative financial instruments and hedge accounting

Derivatives are classified as financial assets when their fair value is positive or as financial liabilities when their fair value is negative, subject to the offsetting principles as described under 'Offsetting financial assets and financial liabilities'. The method of recognising fair-value gains and losses depends on whether derivatives are designated as hedging instruments and the nature of the risks being hedged.

- **Derivatives that qualify for hedge accounting**

The group applies hedge accounting when transactions meet the criteria set out in IAS 39. The group's hedging strategy makes use of fair-value hedges, which are hedges of the change in fair value of recognised assets or liabilities or firm commitments. The group manages its interest rate risk exposure by entering into interest rate swaps. The interest rate risk exposure is frequently updated due to new loans being originated, contractual repayments, and early prepayment made by clients in each period. As a result, the group adopted a macro fair-value hedge strategy to hedge the designated risk profile by designating new swap agreements into the macro fair-value hedge accounting solution at each month-end. The group uses the macro fair-value hedge to recognise fair-value changes related to the interest rate risk to reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest swaps alone.

- **Fair-value hedges**

Where a hedging relationship is designated as a fair-value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Fair-value gains and losses arising on the measurement of both the hedging instrument and the hedged item are recognised in profit and loss, for so long as the hedging relationship is effective at each testing date. Any hedge ineffectiveness is recognised in profit or loss.

If the derivative expires, is sold, terminated or exercised, no longer meets the criteria for fair-value-hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The fair-value adjustment to the hedged item is amortised to profit or loss over the life of the designated relationship in line with accounting standards. The unamortised fair-value adjustment of the hedged items is immediately recognised in profit or loss in the event that the hedged item is repaid or sold.

- **Derivatives that do not qualify for hedge accounting**

All gains and losses from changes in the fair value of derivatives that are not designated as being subject to hedge accounting are recognised immediately in non-interest revenue.

Embedded derivatives

Derivatives in a host contract that is a financial or non-financial instrument, such as an equity conversion option in a convertible bond, are separated from the host contract when all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- The combined contract is not measured at fair value, with changes in fair value recognised in profit or loss.

The host contract is accounted for:

- under IFRS 9, if it is a financial instrument; and
- in accordance with other appropriate accounting standards, if it is not a financial instrument.

If an embedded derivative is required to be separated from its host contract, but it is not possible to measure the fair value of the embedded derivative separately, either at acquisition or at a subsequent financial reporting date, the entire hybrid instrument is categorised as at FVTPL and measured at fair value.

Principal types of derivatives

These transactions have been entered into in the normal course of business and are carried at fair value. The principal types of derivative contracts into which the group enters are swaps, options, futures and forwards.

Collateral

The group may require collateral in respect of the credit risk present in derivative transactions. The amount of credit risk is principally the positive fair value of the contract. Collateral may be in the form of cash or in the form of a lien over a client's assets, entitling the group to make a claim for current and future liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C7 Derivative financial instruments continued

C7.1 Total carrying amount of derivative financial instruments

	2019 Rm	2018 Rm
Gross carrying amount of assets	34 923	22 412
Gross carrying amount of liabilities	(27 621)	(19 761)
Net carrying amount	7 302	2 651

A detailed breakdown of the carrying amount (fair value) and notional principal of the various types of derivative financial instruments held by the group is presented in the following tables in notes C7.2 – C7.3.

C7.2 Notional principal of derivative financial instruments

This represents the gross notional amounts of all outstanding contracts at year-end. This gross notional amount is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts do not represent amounts exchanged by the parties and therefore represent only the measure of involvement by the group in derivative contracts and not its exposure to market or credit risks arising from such contracts. The amounts actually exchanged are calculated on the basis of the notional amounts and other terms of the derivative, which relate to interest rates, exchange rates, securities or commodity prices or financial and other indices.

	2019			2018		
	Notional principal Rm	Positive value Rm	Negative value Rm	Notional principal Rm	Positive value Rm	Negative value Rm
Equity derivatives	25 053	13 302	11 751	21 056	12 478	8 578
Options written	10 291		10 291	7 463		7 463
Options purchased	11 416	11 416		10 169	10 169	
Futures ²	3 346	1 886	1 460	3 424	2 309	1 115
Commodity derivatives	4 283	1 750	2 533	2 693	2 518	175
Options written	2 533		2 533	171		171
Options purchased	1 503	1 503		104	104	
Caps and floors	1	1	1	–		
Swaps	1		1	8	4	4
Futures	247	247		2 410	2 410	1
Exchange rate derivatives	564 765	267 689	297 076	428 912	213 585	215 327
Forwards	395 906	209 877	186 029	276 630	138 186	138 444
Futures	2 278	1 218	1 060	2 365	1	2 365
Currency swaps	81 769	14 440	67 329	122 971	62 341	60 630
Options purchased	42 154	42 154		13 058	13 058	
Options written	42 658		42 658	13 888		13 888
Interest rate derivatives	5 081 477	3 496 773	1 584 704	5 472 217	2 750 743	2 721 474
Interest rate swaps	2 806 066	2 331 904	474 162	2 681 528	1 321 222	1 360 306
Forward rate agreements	2 244 600	1 149 600	1 095 000	2 744 365	1 412 580	1 331 785
Futures	284	210	74	11 048	128	10 920
Caps	11 560	4 905	6 655	12 210	4 840	7 370
Floors	5 194	2 872	2 322	5 116	3 433	1 683
Credit default swaps	3 581	3 246	335	14 475	8 325	6 150
Total return swaps	10 192	4 036	6 156	3 475	215	3 260
Total notional principal	5 675 578	3 779 514	1 896 064	5 924 878	2 979 324	2 945 554

¹ Represents amounts less than R1m.

² Includes contracts for difference with positive notionals of R880m (2018: R758m) and negative notionals of R247m (2018: R157m). The equity forward agreement has positive notionals of R1 006m (2018: R1 550m) and negative notionals of R1 213m (2018: R957m).

C7 Derivative financial instruments *continued*

C7.3 Carrying amount of derivative financial instruments

The amounts disclosed represent the fair value of all derivative instruments held at year-end. The fair value of a derivative financial instrument is the amount at which it could be exchanged in an orderly transaction between market participants at the measurement date, other than a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted-cashflow models and market-accepted option-pricing models.

	2019			2018		
	Net carrying amount Rm	Carrying amount of assets Rm	Carrying amount of liabilities Rm	Net carrying amount Rm	Carrying amount of assets Rm	Carrying amount of liabilities Rm
Equity derivatives	(49)	785	834	(269)	539	808
Options written	(793)		793	(750)		750
Options purchased	613	613		329	329	
Futures ¹	131	172	41	152	210	58
Commodity derivatives	423	713	290	100	601	501
Options written	(135)		135	(403)		403
Options purchased	172	172		440	440	
Swaps	52	109	57	19	27	8
Futures	334	432	98	44	134	90
Exchange rate derivatives	3 842	17 511	13 669	1 101	7 740	6 639
Forwards	2 333	10 471	8 138	741	4 035	3 294
Futures	(44)	29	73	39	102	63
Currency swaps	1 331	5 848	4 517	284	3 106	2 822
Options purchased	1 163	1 163		497	497	
Options written	(941)		941	(460)		460
Interest rate derivatives	3 086	15 914	12 828	1 719	13 532	11 813
Interest rate swaps	2 650	14 428	11 778	1 655	12 570	10 915
Forward rate agreements	214	844	630	141	690	549
Futures	28	28		(6)		6
Caps	(24)	26	50	(8)	42	50
Floors	15	32	17	2	7	5
Credit default swaps	24	145	121	(6)	206	212
Total return swaps	179	411	232	(59)	17	76
Total carrying amount	7 302	34 923	27 621	2 651	22 412	19 761

¹ Includes contracts for difference and an equity forward agreement. The fair value of the contracts for difference is zero as the variation margin is settled at the end of every day.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C7 Derivative financial instruments continued

C7.4 Analysis of derivative financial instruments

Rm	Equity derivatives	Commodity derivatives	Exchange rate derivatives	Interest rate derivatives	Total
Derivative assets					
2019					
<i>Maturity analysis</i>					
Under one year	462	695	12 123	1 389	14 669
One to five years	323	18	2 955	3 817	7 113
Over five years			2 433	10 708	13 141
	785	713	17 511	15 914	34 923
2018					
<i>Maturity analysis</i>					
Under one year	251	511	4 881	1 226	6 869
One to five years	288	90	1 369	3 505	5 252
Over five years			1 490	8 801	10 291
	539	601	7 740	13 532	22 412
Derivative liabilities					
2019					
<i>Maturity analysis</i>					
Under one year	598	283	9 853	1 038	11 772
One to five years	231	7	2 424	2 976	5 638
Over five years	5		1 392	8 814	10 211
	834	290	13 669	12 828	27 621
2018					
<i>Maturity analysis</i>					
Under one year	370	426	3 927	1 101	5 824
One to five years	438	75	1 863	3 244	5 620
Over five years			849	7 468	8 317
	808	501	6 639	11 813	19 761
Notional principal of derivatives					
2019					
<i>Maturity analysis</i>					
Under one year	18 034	4 283	493 854	2 998 223	3 514 394
One to five years	5 813		54 064	1 500 801	1 560 678
Over five years	1 206		16 847	582 453	600 506
	25 053	4 283	564 765	5 081 477	5 675 578
2018					
<i>Maturity analysis</i>					
Under one year	15 055	2 645	320 382	3 477 826	3 815 908
One to five years	5 086	48	73 489	1 377 878	1 456 501
Over five years	915		35 041	616 513	652 469
	21 056	2 693	428 912	5 472 217	5 924 878

The maturity analysis in this note is prepared based on contractual maturities.

C7 Derivative financial instruments *continued*

C7.5 Derivatives designated as fair-value hedges in terms of the group's fair-value hedge accounting solution

As part of the group's hedging activities it enters into transactions that are designated as fair-value hedge transactions.

Fair-value hedges are used by the group to mitigate the risk of changes in the fair value of financial instruments due to movements in market interest rates. Derivatives that are designated by the group to form part of these fair-value hedge transactions principally consist of interest rate swaps. The corresponding hedged items forming part of these fair-value hedges, designated into the fair-value hedge accounting solution, primarily consist of fixed-rate government bonds, loans, deposits and capital market issuances.

For qualifying fair-value hedges all changes in the fair value of the derivative and in the fair value of the hedged item, in relation to the risk being hedged, are recognised in profit or loss on a monthly basis if the hedge-accounting criteria are met.

IAS 39 does not specify a single method for assessing hedge effectiveness. The method an entity adopts for assessing hedge effectiveness depends on its risk management strategy. The group considers the linear regression method as the appropriate hedge effectiveness test to be used for prospective and retrospective hedge effectiveness testing. Linear regression is a statistical method that investigates the strength of the statistical relationship between the hedged item and the hedging instrument.

Linear-regression analysis involves determining a 'line of best fit' (slope) and then assessing the 'goodness of fit' (R-square) of this line. It provides a means of expressing, in a systematic fashion, the extent to which one variable, 'the dependent', will vary with changes in another variable, 'the independent'. In the context of assessing hedge effectiveness it establishes whether changes in the hedged item and hedging instrument are highly correlated.

The total day-to-day movement of the hedged item (due to the hedged risk) is regressed against the total day-to-day movement of the designated external swaps to calculate the hedge effectiveness, ie the degree of offset between the movements in the external swap and the hedged item (due to hedged risk).

Given the respective methodologies applied to perform retrospective and prospective hedge effectiveness testing, the number of data points considered for linear regression will not be consistent between retrospective and prospective testing and will not remain constant for all retrospective tests performed. This is in line with the requirements of IAS39 as it proves hedge effectiveness retrospectively throughout the reporting periods for which the hedge was designated (IAS39.99 paragraphs 89 to 102) and prospectively up to the next possible rebalancing date as documented as part of the risk management strategy for this particular hedging relationship (IAS39.99 paragraphs 89 to 102).

During 2019 the South African Reserve Bank (SARB) established the Market Practitioners Group. This is a joint public and private sector body whose primary purpose is to facilitate decisions on the choice of interest rate benchmarks to be used as reference interest rates for financial and derivative contracts, as well as provide input to the SARB and the Financial Conduct Sector Authority (FSCA) on the operationalisation of the interest rate benchmark proposals. Five workstreams have been established in this regard; Governance, Risk-free Reference Interest Rate, Transition, Unsecured Reference Interest Rate and the Data Collection and Infrastructure. Nedbank continues to stay abreast of the latest developments and will assess impacts when more certainty on the change is obtained.

The following table contains details of the hedged banking book exposures covered by the group's macro fair-value hedge accounting:

Rm	Notional amount of hedged items		Accumulated amount of fair-value adjustments on the hedged item	
	Assets	Liabilities	Assets	Liabilities
2019				
Retail assets	45 333		337	
Wholesale assets and government bonds	72 277		2 248	
Retail deposits		42 677		(196)
Wholesale deposits and capital market issuances		95 753		(130)
Total	117 610	138 430	2 585	(326)
2018				
Retail assets	42 330		(75)	
Wholesale assets and government bonds	56 584		124	
Retail deposits		45 089		91
Wholesale deposits and capital market issuances		75 465		26
Total	98 914	120 554	49	117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS continued

C7 Derivative financial instruments continued

C7.5 Derivatives designated as fair-value hedges in terms of the group's fair-value hedge accounting solution continued

Effectiveness testing was performed on a monthly basis with a prospective effectiveness R-square range of 98% to 100% and retrospective effective range of 84% to 100%. The table below contains the fair-value change of the hedged item and hedging instrument per month for the various hedge accounting solutions.

Rm	January 2019	February 2019	March 2019	April 2019
Change in the fair value of hedged items	678	(125)	83	(83)
Change in the fair value of the hedging instruments	(601)	112	(81)	80
Net fair-value change	77	(13)	2	(3)

Rm	January 2018	February 2018	March 2018	April 2018
Change in the fair value of hedged items	(106)	333	100	(107)
Change in the fair value of the hedging instruments	107	(332)	(91)	120
Net fair-value change	1	1	9	13

The following table contains the impact on profit or loss:

Rm	2019	2018
Profit on hedged items	2 095	166
Profit on hedging instruments	(2 011)	64
Movement in fair value that was recognised in profit or loss	84	230

	May 2019	June 2019	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
	588 (589)	743 (722)	(349) 334	906 (881)	(418) 401	(530) 515	(112) 113	714 (692)
	(1)	21	(15)	25	(17)	(15)	1	22
	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
	(316) 321	(444) 457	377 (362)	(723) 724	73 (37)	(257) 276	883 (834)	353 (285)
	5	13	15	1	36	19	49	68

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION D: CORE BANKING LIABILITIES

D1 Amounts owed to depositors

Accounting policy

Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities

D1.1 Classifications

	2019 Rm	2018 Rm
Current accounts	78 554	77 421
Savings deposits	10 744	10 221
Other deposits and loan accounts	625 528	588 120
Call and term deposits	308 468	289 217
Fixed deposits	63 436	64 890
Cash management deposits	74 225	72 527
Other deposits and loan accounts	179 399	161 486
Foreign currency liabilities	25 281	22 994
Negotiable certificates of deposit	115 515	86 408
Deposits received under repurchase agreements ¹	25 349	21 443
Macro fair-value hedge-accounted portfolios	326	(120)
	881 297	806 487
Comprises:		
– Amounts owed to depositors	824 935	747 325
– Amounts owed to banks	56 362	59 162
	881 297	806 487

¹ The group has pledged government and other securities (note C3) and negotiable certificates of deposit (note C4) amounting to R25 551m (2018: R22 595m) as collateral for deposits received under repurchase agreements, of which R12 611m (2018: R9 600m) relates to sell-/buybacks. These amounts represent assets that have been transferred, but that do not qualify for derecognition under IFRS 9. The associated liabilities of R25 349m (2018: R21 443m), of which R12 734m (2018: R9 241m) relates to sell-/buybacks, are disclosed in note D1.

Deposit products include current accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit. Term deposits vary from six months to five years in both the wholesale and retail markets.

Foreign currency liabilities are either matched by advances to clients or hedged against exchange rate fluctuations.

	2019 Rm	2018 Rm
D1.2 Sectoral analysis		
Banks	56 362	59 162
Government and public sector	77 827	72 896
Individuals	226 659	212 478
Business sector	520 449	461 951
	881 297	806 487
D1.3 Geographical analysis		
SA	825 599	763 759
The rest of Africa	10 843	5 683
Europe	37 147	18 559
Asia	6 204	8 477
United States	1 504	10 009
	881 297	806 487

D2 Long-term debt instruments

Instrument type	Maturity dates	Interest rates	2019 Rm	2018 Rm
Subordinated debt¹				
Callable notes (rand-denominated – floating)	6 July 2022 to 16 September 2020	JIBAR plus 0,47% to 3,50%	1 895	3 976
Callable notes (rand-denominated – fixed)	8 April 2024 to 1 July 2025	10,49% to 11,29%	430	891
Basel III subordinated debt²				
Callable notes (rand-denominated – floating)	15 March 2022 to 22 December 2026	JIBAR plus 3,75% to 4,00%	11 615	9 065
Securitised liabilities³				
Callable notes (rand-denominated – floating)	27 Jan 2028 to 25 February 2053	JIBAR plus 0,58% to 3,00%	3 152	2 069
Senior unsecured debt⁴				
Senior unsecured notes – fixed	9 September 2019 to 19 November 2027	8,79% to 11,39%	17 512	18 833
Senior unsecured notes – floating	21 February 2017 to 31 July 2026	JIBAR plus 0,85% to 2,25%	22 272	20 546
Senior unsecured green bonds	22 February 2017 to 31 July 2026	JIBAR plus 0,85% to 2,25%	2 699	
Unsecured debentures	30 November 2029	Zero coupon	37	30
Total long-term debt instruments in issue			59 612	55 410

¹ During 2019 three subordinated debt instruments were repaid and no subordinated debt instruments were issued.

² During 2019 one Basel III subordinated debt instrument was issued. R2,5bn was issued at JIBAR plus 2,40% and is redeemable on or before 9 April 2024.

³ During 2019 six securitised liabilities were issued and five were repaid.

⁴ During 2019 five senior unsecured debt instruments were repaid and 13 senior unsecured debt instruments were issued. R8,4bn was issued at variable interest rates ranging between JIBAR plus 1,16% and JIBAR plus 1,67%, repayable between 1 August 2022 to 21 February 2029.

D2.1 Movement in carrying amount

	2019 Rm	2018 Rm
Balance at the beginning of the year	55 410	51 482
Changes arising from cash movements	(1 114)	(1 155)
Issue of long-term debt instruments	12 895	9 404
Redemption of long-term debt instruments	(8 737)	(5 495)
Interest paid	(5 272)	(5 064)
Changes arising from non-cash movements	5 316	5 083
Accrued interest and premium discount	5 316	5 116
Fair-value adjustments		(33)
Balance at the end of the year	59 612	55 410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION D: CORE BANKING LIABILITIES continued

D3 Contractual maturity analysis for financial liabilities

Rm	Statement of financial position amount	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Non-determinable maturity	Total
2019								
Long-term debt instruments	59 612	1 843	1 615	6 852	43 685	26 830		80 825
Amounts owed to depositors	881 297	570 921	81 000	116 539	98 234	11 385	26 133	904 212
Current accounts	78 554	78 605						78 605
Savings deposits	10 744	10 765						10 765
Other deposits and loan accounts	625 528	424 407	50 535	63 822	62 223	11 385	26 133	638 505
Foreign currency liabilities	25 281	16 545	3 388	4 293	1 265			25 491
Negotiable certificates of deposit	115 515	15 220	27 077	48 424	34 420			125 141
Deposits received under repurchase agreements	25 349	25 379						25 379
Macro fair-value hedge-accounted portfolios	326				326			326
Derivative financial instruments – liabilities	27 621	6 789	2 031	2 952	5 638	10 211		27 621
Lease liabilities	2 290	268	245	441	1 598	38		2 590
Provisions and other liabilities	14 271			42		9 847	4 382	14 271
	985 091	579 821	84 891	126 826	149 155	58 311	30 515	1 029 519
Contingent liabilities and undrawn facilities								
Guarantees on behalf of clients		23 220						23 220
Letters of credit and discounting transactions		6 702						6 702
Irrevocable unutilised facilities and other		145 183						145 183
	-	175 105	-	-	-	-	-	175 105

D3 Contractual maturity analysis for financial liabilities continued

Rm	Statement of financial position amount	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Non- determinable maturity	Total
2018								
Long-term debt instruments	55 410	2 299	6 182	4 562	39 949	23 403		76 395
Amounts owed to depositors	806 487	550 022	74 853	86 554	74 671	10 962	27 357	824 419
Current accounts	77 421	77 423						77 423
Savings deposits	10 221	10 221						10 221
Other deposits and loan accounts	588 120	406 234	47 998	55 018	52 281	11 082	27 357	599 970
Foreign currency liabilities	22 994	16 646	1 444	866	4 041			22 997
Negotiable certificates of deposit	86 408	18 050	25 411	30 670	18 349			92 480
Deposits received under repurchase agreements	21 443	21 448						21 448
Macro fair-value hedge-accounted portfolios	(120)					(120)		(120)
Derivative financial instruments – liabilities	19 761	2 821	1 530	1 512	5 627	8 271		19 761
Provisions and other liabilities	13 558			272			13 286	13 558
	895 216	555 142	82 565	92 900	120 247	42 636	40 643	934 133
Contingent liabilities and undrawn facilities								
Guarantees on behalf of clients		31 973						31 973
Letters of credit and discounting transactions		8 936						8 936
Irrevocable unutilised facilities and other		133 800						133 800
	–	174 709	–	–	–	–	–	174 709

Provisions and other liabilities are included in this table to provide a reconciliation with the statement of financial position and also include current and deferred taxation liabilities and long-term employee benefit liabilities. Derivatives are not profiled on an undiscounted basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION E: INVESTMENTS

E1 Investment securities

Accounting policy

Refer to Section H: Financial instruments for the group's accounting policies regarding financial assets and liabilities and Section E2 for the group's accounting policies on investments in associate companies.

	Carrying amount		Dividends received		Cumulative gains/(losses)	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Private-equity investments	7 075	5 371	378	140	(438)	94
Private-equity associates – Property partners	1 885	1 361	10	30	6	58
Private-equity associates – Investment Banking	703	913	7	24	(148)	(16)
Private-equity (unlisted) – Property Partners	1 559	1 551	10	65	37	8
Private-equity (unlisted) – Investment Banking	2 928	1 546	351	21	(333)	44
Listed investments	876	16		5	(13)	
Unlisted investments	1 056	1 400	9	8	–	6
Strate Limited	143	143	8	6		
Other	913	1 257	1	2		6
Total listed and unlisted investments	9 007	6 787	387	153	(451)	100

Refer to note H2.2.1 for the classification of investment securities in terms of the fair-value hierarchy.

The group has designated two (2018: two) investments at FVOCI as these investments are held with strategic intent. The fair value of these investments was R433m at 31 December 2019 (31 December 2018: R433m). RIm (2018: RIm) was recognised as dividend income that related to these investments. No equity investments designated at FVOCI have been derecognised in the current year.

E2 Investments in associate companies

Accounting policy

Associates

An associate is an entity over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity. This is generally demonstrated by the group holding in excess of 20%, but no more than 50%, of the voting rights. The group accounts for its investments in associate companies (other than investments in associate companies designated at FVTPL) using the equity accounting method, ie cost plus the group's share of postacquisition changes in net asset value.

The group's share of postacquisition profit or loss and postacquisition movements in OCI are recognised in the income statement and, OCI respectively. The group applies the equity method of accounting from the date on which significant influence commences until the date on which significant influence ceases (or the associate is classified as held for sale), ie when the group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil, inclusive of any long-term debt outstanding. The recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations, or guaranteed obligations, in respect of the associate.

In applying the equity method the investor should use the financial statements of the associate as of the same date as the financial statements of the investor unless it is impracticable to do so. If it is impracticable, the most recent available financial statements of the associate should be used, with adjustments made for the effects of any significant transactions or events occurring between the ends of accounting periods. However, the difference between the reporting date of the associate and that of the investor cannot be longer than three months.

Where an entity in the group transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the associate, but only to the extent that there is no evidence of impairment.

At each reporting date the group determines whether there is objective evidence that the investments in associates are impaired. Objective evidence of impairment for an associate investment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the associate investment may not be recovered. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in note F.

Investments in associates that are held with the intention of disposing thereof within 12 months are accounted for and classified as non-current assets held for sale in accordance with the methodology described in G2.

Common control transactions

Transactions in which combining entities are controlled by the same party or parties before and after the transaction, and where that control is not transitory, are referred to as common control transactions. The group's accounting policy for the acquiring entity is to account for the transaction at book values as reflected in the consolidated financial statements of the selling entity.

The excess of the cost of the transaction over the acquirer's proportionate share of the net assets value acquired in common control transactions, will be allocated to the common control reserve in equity.

Associate companies held by venture capital divisions

Where the group has an investment in an associate or joint-venture company held by a venture capital division, whose primary business is to purchase and dispose of minority stakes in entities, the investment is classified as designated as FVTPL, as the divisions are managed on a fair-value basis. Changes in the fair value of these investments are recognised in non-interest revenue in profit or loss in the period in which they occur.

From 1 July 2018, the Investment Committee has elected to apply the equity method of accounting to Investment Banking's private-equity associates and joint-venture entities. As this election is made on an asset-by-asset basis on initial recognition, private-equity associates and joint-venture entities for which the FVTPL election was made prior to 1 July 2018 remain at FVTPL. In addition, Property Partners' private-equity associates and joint-venture entities continue to be measured at FVTPL.

E2.1 Movement in carrying amount

	2019 Rm	2018 Rm
Carrying amount at beginning of year	786	224
Share of associate companies' gains/(losses) after taxation for the current year	121	(83)
Acquisition of investments in associate companies	342	548
Other movements	(20)	97
Carrying amount at end of year	1 229	786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION E: INVESTMENTS continued

E2 Investments in associate companies continued

E2.2 Analysis of carrying amount

	2019 Rm	2018 Rm
Associate investments – on acquisition: Net asset value	1 085	743
Share of retained losses since acquisition	(39)	(160)
Other movements	183	203
	1 229	786

E2.3 Analysis of investments in associate companies

							Group	
							Carrying amount	
	Nature of activities	2019 %	2018 %	Measurement method	Acquisition date	Year-end	2019 Rm	2018 Rm
Unlisted								
Private equity: Tracker Technology Holdings Proprietary Limited	Vehicle tracking	17,7	17,7	Equity-accounted	November 2018	June	549	506
Private equity: other investments	Various			Equity-accounted			310	42
Strategic investments	Various			Equity-accounted			370	238
							1 229	786

Unless otherwise stated, all entities are domiciled and incorporated in SA. The group has the same proportion of voting rights as its proportion of ownership interest, unless stated otherwise, and has not incurred any contingent liabilities with regard to the associates above.

E3 Investments in subsidiary companies and related disclosure

Accounting policy

Subsidiary undertakings and consolidated structured entities

Subsidiary undertakings are those entities, including unincorporated entities such as trusts and partnerships, that are controlled by the group. The group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities of the entity. The group is exposed to or has rights to variable returns from its involvement with the entity when the investor's returns from its involvement have the potential to vary as a result of the entity's performance. The group considers all facts and circumstances relevant to its involvement with an entity to evaluate whether control exists. The group assesses any changes to the facts and circumstances relevant to the entity and reassesses the consolidation requirements on a continuous basis.

The consolidated financial statements include the assets, liabilities and results of the company plus subsidiaries, including consolidated structured entities from the date control is established until the date that control ceases.

Intragroup balances, transactions, income and expenses, and profits and losses are eliminated in preparation of the consolidated financial statements. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

Subsidiaries include structured entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the group has power over such investees, in which it has an interest, the group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee.

Sponsored entities

Where the group does not have an interest in an unconsolidated structured entity, the group will assess whether it sponsors the specific structured entity. The group will sponsor such an entity by assessing whether the group led the formation of the entity, the name of the group is associated with the name of the entity or it provides certain implicit guarantees to the entity in question.

E3 Investments in subsidiary companies and related disclosure continued

Accounting policy continued

Company

Investments in group companies are accounted for at cost less impairment losses in the separate financial statements. The carrying amounts of these investments are reviewed annually and impaired, when necessary, by applying the impairment methodology described in note F.

Acquisitions and disposals of stakes in group companies

Acquisitions of subsidiaries (entities acquired) and businesses (assets and liabilities acquired) are accounted for using the acquisition method. The cost of a business combination is measured as the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, that asset or liability is measured at the acquisition date fair value. Subsequent changes in such fair values are accounted for either in profit or loss or OCI. Changes in the fair value of a contingent consideration that has been classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3: Business Combinations are recognised at their fair value at the date of acquisition, except for:

- deferred taxation assets or liabilities, which are recognised and measured in accordance with IAS 12: Income Taxes, and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19: Employee Benefits;
- liabilities or equity instruments that relate to the replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2: Share-based Payments; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and discontinued operations, which are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported, these are adjusted during the measurement period (see below). Additional assets or liabilities are recognised to reflect any new information obtained about the facts and circumstances that existed at the date of acquisition, which, if known, would have affected the amounts recognised on that date.

The measurement period is the period from the date of acquisition to the date the group receives complete information about the facts and circumstances that existed at the acquisition date. This measurement period is subject to a maximum of one year after the acquisition date.

Where a business combination is achieved in stages, the group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date on the date the group attains control, and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree before the acquisition date, which previously have been recognised in OCI, are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to the acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

The difference between the proceeds from the disposal of a subsidiary, the fair value of any retained investment and its carrying amount at the date of disposal, including the cumulative amount of any exchange differences recognised in the statement of changes in equity that relate to the subsidiary, is recognised as a gain or loss on the disposal of the subsidiary in the group profit or loss for the period.

All changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interests are increased or decreased and the fair value of the consideration paid or received is recognised directly in equity and attributed to the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION E: INVESTMENTS continued

E3 Investments in subsidiary companies and related disclosure continued

Accounting policy continued

Investments in foreign operations

Nedbank Limited's presentation currency is SA rand. The assets and liabilities, including goodwill and fair-value adjustments, of group entities (including equity-accounted associates) that have functional currencies other than that of the company (SA rand) are translated at the closing exchange rate. Income and expenses are translated using the average exchange rate for the period. The differences that arise on translation of these entities are recognised in other comprehensive income in the statement of comprehensive income. The cumulative exchange differences are recognised as a separate component of equity and are represented by the balance in the foreign currency translation reserve.

On disposal of a foreign operation the cumulative amount in the foreign currency translation reserve related to that operation is transferred to profit or loss for the period when the gain or loss on the disposal of the foreign operation is recognised.

The primary and major determinants for non-rand functional currencies are the economic factors that determine the sales price for goods and services as well as costs. Additional supplementary factors to be considered are funding, autonomy and cashflows

Key assumptions concerning the future and key sources of estimation

Derecognition

The group enters into transactions that may result in the derecognition of certain financial instruments. Judgement is applied as to whether these financial instruments are derecognised from the group's statement of financial position.

E3.1 Analysis of investments in subsidiary companies

	Group			
	Issued capital		Effective holding	
	2019 Rm	2018 Rm	2019 %	2018 %
Non-banking companies²				
Depfin Investments Proprietary Limited	1	1	100	100
Ned Investment Trust	1	1	100	100
Boe Private Equity Investments Limited	1	1	100	100
Pyraned Limited	6	6	100	100

¹ Represents amounts less than R1m.

² These entities are free of any restrictions imposed on the distribution of funds, save for compliance with any local regulations.

Unless otherwise stated:

- all entities are domiciled in SA;
- the financial statements of the subsidiaries used in the preparation of consolidated financial statements are as of the same date or same period as that of the consolidated financial statements; and
- there are no significant restrictions (eg statutory, contractual and regulatory restrictions) on the group's ability to access or use the assets and settle the liabilities of the group.

Headline earnings from subsidiaries (after eliminating intercompany transactions)

	2019 Rm	2018 Rm
Aggregate headline earnings attributable to equity holders	10 478	10 918
Aggregate headline losses attributable to equity holders	(96)	(34)
Total headline earnings	10 382	10 884

General information required in terms of the Companies Act, 71 of 2008, is detailed in respect of only those subsidiaries where the financial position or results are material to the group. It is considered that the disclosure in these statements of such information in respect of the remaining subsidiaries would entail expenses out of proportion to the value to members. Other subsidiaries consist of nominees, property-owning and financial holding companies acquired in the course of lending activities.

Nedbank Group Limited will ensure that, except in the case of political risk and unless specifically excluded by public notice in a country where a subsidiary is domiciled, its banking subsidiaries and its principal non-banking subsidiaries are able to meet their contractual liabilities.

E4 Interests in structured consolidated entities

E4.1 Consolidated structured entities

The group holds certain interests in consolidated structured entities to ring-fence certain risks and/or achieve specific objectives. Structured entities are entities that have been designed so that voting rights are not the predominant factor in deciding who controls the entity.

The group has identified the following consolidated structured entities:

- Old Mutual Alternative Risk Transfer Fund (OMART) (refer to note H1).
- Securitisation vehicles (refer to note E5):
 - » Greenhouse Funding III (RF) Limited;
 - » Greenhouse 5 Funding (RF) Limited; and
 - » Precinct Funding 2 (RF) Limited.

The following judgements have been applied in determining that the group has control over the following structured entities:

Securitisation

The group originated and sponsors certain securitisation vehicles and acts in various capacities with regard to these structures. The group controls these entities and has consolidated these structures since its inception. These securitisation structures include the following:

- Securitisation vehicles consist of the residential mortgage-backed securitisation programmes Greenhouse Funding 5 (RF) Limited and Greenhouse Funding III (RF) Limited and the commercial mortgage-backed securitisation programmes Precinct Funding 2 (RF) Limited. The activities of these vehicles are predetermined and restricted in terms of the programme documentation established at its inception. The group does, however, exercise some discretion in its decisionmaking, which includes the selection and transfer of assets and the management of defaulted assets. Through the provision of administration services, the interest rate hedge and credit enhancement, Nedbank Limited has rights to the residual return of the vehicle. The group has concluded that it controls these entities.

The group has set up securitisation vehicles that acquire the rights, title, interest and related security of commercial and residential mortgage bonds from Nedbank Limited. The creation of these vehicles facilitated the group having appropriately collateralised instruments that can be pledged against the group's committed liquidity facility provided by SARB, if required. The group has concluded that it controls these entities.

Refer to note E5 for further information on the securitisation activities of the group.

E5 Securitisations

The group securitises various consumer and commercial financial assets, generally resulting in the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches or other residual interests (retained interests).

Active securitisation transactions

Nedbank Limited uses securitisation primarily as a funding diversification tool and to add flexibility in mitigating structural liquidity risk. The group currently has three active traditional securitisation transactions:

- Greenhouse Funding III (RF) Limited (Greenhouse III), a residential-mortgage-backed securitisation programme.
- Greenhouse Funding 5 (RF) Limited (Greenhouse 5), a residential-mortgage-backed securitisation programme.
- Precinct Funding 2 (RF) Limited (Precinct Funding 2), a commercial-mortgage-backed securitisation programme.

Greenhouse Funding III (RF) Limited (Greenhouse III)

Greenhouse III is a securitisation vehicle through which the rights, title, interest and related security in respect of residential home loans were acquired from Nedbank Limited under a segregated-series medium-term-note programme.

Greenhouse III is a residential-mortgage-backed securitisation programme implemented during 2014. Greenhouse III securitised R2bn worth of home loans originated by Nedbank Limited through the issuance of senior notes to the capital market and subordinated notes and a subordinated loan provided by Nedbank Limited. The notes issued by Greenhouse III are listed on the JSE and rated by Moody's. The home loans transferred to Greenhouse III continue to be recognised as financial assets held by Nedbank Limited.

Greenhouse III makes use of an internal risk management policy, and uses the Nedbank Group credit-risk-monitoring process to govern lending activities to external parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION E: INVESTMENTS continued

E5 Securitisations continued

Greenhouse Funding III (RF) Limited (Greenhouse III) continued

Nedbank Limited provided Greenhouse III with an interest-bearing subordinated loan at the commencement of the programme to provide part of the initial funding. Interest is payable on a quarterly basis as part of the priority of payments. The full capital amount outstanding plus any accrued interest will be payable in full on the final maturity date, provided that all outstanding notes have been redeemed in full and all secured creditors have been settled.

In the Greenhouse III structure Nedbank holds the class D note, amounting to R100m. These notes are subordinated to the higher-ranking notes in terms of the priority of payments.

Greenhouse Funding 5 (RF) Limited (Greenhouse 5)

Greenhouse 5 is a securitisation vehicle through which the rights, title, interest and related security in respect of residential home loans were acquired from Nedbank Limited under a segregated-series medium-term-note programme.

Greenhouse 5 is a residential-mortgage-backed securitisation programme implemented during 2019. Greenhouse 5 securitised R1bn worth of home loans originated by Nedbank Limited through the issuance of senior notes to the capital market and subordinated notes and a subordinated loan provided by Nedbank Limited. The notes issued by Greenhouse 5 are listed on the JSE and rated by Moody's. The home loans transferred to Greenhouse 5 continue to be recognised as financial assets held by Nedbank Limited.

Greenhouse 5 makes use of an internal risk management policy, and uses the Nedbank Group-credit-risk-monitoring process to govern lending activities to external parties.

Nedbank Limited provided Greenhouse 5 with an interest-bearing subordinated loan at the commencement of the programme to provide part of the initial funding. Interest is payable on a quarterly basis as part of the priority of payments. The full capital amount outstanding plus any accrued interest will be payable in full on the final maturity date, provided that all outstanding notes have been redeemed in full and all secured creditors have been settled.

In the Greenhouse 5 structure Nedbank holds the class B and class C note, amounting to R150m. These notes are subordinated to the higher-ranking notes in terms of the priority of payments.

Precinct Funding 2 (RF) Limited (Precinct Funding 2)

Precinct Funding 2 is a commercial-mortgage-backed securitisation (CMBS) programme. The originator, seller and servicer of the commercial-property mortgage loan portfolio is Nedbank CIB Property Finance, the market leader in commercial-property finance in SA.

The Precinct Funding 2 CMBS Programme was implemented during 2017. Precinct Funding 2 securitised R1bn worth of commercial-property mortgage loans originated by Nedbank Limited through the issuance of senior notes to the capital market and subordinated notes and a subordinated loan provided by Nedbank Limited. The notes issued by Precinct Funding 2 are listed on the JSE and rated by Moody's. The class A and class B notes were placed with third-party investors and the junior notes and subordinated loan retained by Nedbank Limited. The commercial-property mortgage loans transferred to Precinct Funding 2 continue to be recognised as financial assets held by Nedbank Limited.

The Precinct Funding 2 structure allows for more flexibility to replace loans. However, loan replacements are subject to certain portfolio covenants and eligibility criteria.

Precinct Funding 2 makes use of an internal risk management policy and uses the Nedbank Group Limited credit risk monitoring process to govern lending activities to external parties. The primary measures used to identify, monitor and report on the level of exposure to credit risk include individual loan and loan portfolio ageing and performance analysis, analysis of impairment adequacy ratios, analysis of loss ratio trends and analysis of loan portfolio profitability. The maximum credit exposure to credit risk in respect of the mortgage loans is the balance of outstanding advances before taking into account the value of collateral held as security against such exposures and impairments raised. The collateral held as security for the mortgage asset exposure is in the form of first indemnity bonds over fixed commercial property.

Nedbank Limited provided Precinct Funding 2 with an interest-bearing subordinated loan at the commencement of the programme to provide part of the initial funding. Interest is payable on a quarterly basis as part of the priority of payments. The full capital amount outstanding plus any accrued interest will be payable in full on the final maturity date, provided that all outstanding notes have been redeemed in full and all secured creditors have been settled.

Nedbank holds the class C and class D notes of Precinct Funding 2 amounting to R80m. These notes are subordinated to the higher-ranking notes in terms of the priority of payments.

E5 Securitisations continued

Precinct Funding 2 (RF) Limited (Precinct Funding 2) continued

The following table shows the carrying amount of securitised assets, stated at the amount of the group's continuing involvement, where appropriate, together with the associated liabilities, for each category of asset in the statement of financial position:

Rm	2019		2018	
	Carrying amount of assets	Associated liabilities	Carrying amount of assets	Associated liabilities
Loans and advances to clients:				
– Residential mortgage loans	2 129	2 448	1 264	1 089
Less: Impairments	(7)		(6)	
– Commercial mortgage loans	784	705	979	979
Less: Impairments	(1)		(1)	
Total	2 905	3 153	2 236	2 068

This table presents the gross balances within the securitisation schemes and does not reflect any eliminations of intercompany and cash balances held by the various securitisation vehicles.

E6 Related parties

E6.1 Relationship with parent and significant investors

The group's parent company is Nedbank Group Limited, which is incorporated in SA and no longer has an ultimate parent (controlling shareholder) following Old Mutual plc's managed-separation process, as Old Mutual Limited unbundled its direct shareholding in Nedbank Group Limited to approximately 19,9% on 15 October 2018. At 31 December 2019 Old Mutual Limited held 24,09% (31 December 2018: 24,51%) of Nedbank Group Limited's ordinary shares. The above shareholding is inclusive of funds held on behalf other beneficial owners. Old Mutual Limited remains a related party of the group due to its significant shareholding in Nedbank Group Limited. Nedbank Group Limited holds 100% (2018: 100%) of Nedbank Limited's ordinary shares.

Material subsidiaries of the group are identified in note E3.1 and associate companies of the group are identified in note E2.3.

E6.2 Key management personnel compensation

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including all directors of the company and its parent, as well as members of the executive committee who are not directors.

Compensation paid to the board of directors and compensation paid to other key management personnel, as well as the number of share instruments held, are shown below:

	Key management personnel		Total
	Directors		
Compensation (Rm)			
2019			
Directors' fees	22		22
Remuneration – paid by subsidiaries	91	185	276
Short-term employee benefits	46	98	144
Gain on exercise of share instruments	45	87	132
	113	185	298
2018			
Directors' fees	21		21
Remuneration – paid by subsidiaries	99	213	312
Short-term employee benefits	54	119	173
Gain on exercise of share instruments	45	94	139
	120	213	333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION E: INVESTMENTS continued

E6 Related parties continued

E6.2 Key management personnel compensation continued

	Directors	Key management personnel	Total
Number of share instruments			
2019			
Outstanding at the beginning of the year	504 485	879 454	1 383 939
Granted	171 625	321 096	492 721
Forfeited		(8 536)	(8 536)
Exercised	(205 927)	(314 454)	(520 381)
Transferred ¹		(46 404)	(46 404)
Outstanding at the end of the year	470 183	831 156	1 301 339
2018			
Outstanding at the beginning of the year	527 433	950 914	1 478 347
Granted	137 574	235 704	373 278
Forfeited		(6 868)	(6 868)
Exercised	(160 522)	(292 073)	(452 595)
Transferred ¹		(8 223)	(8 223)
Outstanding at the end of the year	504 485	879 454	1 383 939

¹ Represents the net movement in share instruments of members appointed to and resigning from Group Exco.

E6.3 Related-party transactions

Transactions between Nedbank Limited and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between Nedbank Limited and its other related parties are disclosed below. All of these transactions were entered into in the normal course of business.

	Due from/(owing to)	
Outstanding balances (Rm)	2019	2018
Old Mutual group		
Deposits owing to Old Mutual group	(16 897)	(7 310)
Bank balances owing to Old Mutual group	(7 810)	(10 932)
Loan due from Old Mutual group	622	457
Bonds, derivatives and other financial instruments (owing to)/due from Old Mutual group	(2 031)	604
Fellow subsidiaries of Nedbank Group Limited		
Loans owing to Nedgroup Securities Proprietary Limited	1 764	6 570
Loans due from/(owing to) Nedbank Malawi Limited	39	28
Loans due/(owing to) from Nedbank Group fellow subsidiaries	(1 703)	2 766
Bank balances due from Nedgroup Securities Proprietary Limited	(2)	(1)
Deposits owing to Syfrets Securities Limited	(1)	(8 676)
Deposits due from/(owing to) other fellow subsidiaries	1 038	952
Bank balances owing to Nedbank Group fellow subsidiaries	(2 324)	(3 328)
Equity derivatives with Nedbank Group fellow subsidiaries	263	
Forward exchange rate contracts with various Nedbank Group fellow subsidiaries	(216)	2
Interest rate contracts with various Nedbank Group fellow subsidiaries	278	(4)
Associates		
Loans due from associates	1 970	2 164
Deposits owing to associates	(209)	(220)
Bank balances due from/(owing to) associates	(52)	31
Key management personnel		
Mortgage bonds due from key management personnel	17	17
Deposits owing to key management personnel	(18)	(13)
Bank balances due from key management personnel	3	3
Bank balances owing to key management personnel	(4)	(7)
Key management personnel – directors	(39)	(51)
Key management personnel – other	(83)	(93)
Share-based payments reserve	(122)	(144)

E6 Related parties continued

E6.3 Related-party transactions continued

	Due from/(owing to)	
Outstanding balances (Rm)	2019	2018
Long-term employee benefit plans		
Bank balances owing to Nedgroup Medical Aid Fund	(4)	(10)
Bank balances owing to Nedgroup Pension Fund	(26)	(32)
Bank balances and deposits owing to other funds	(1 095)	(1 358)
	Income/(expense)	
Transactions (Rm)	2019	2018
Old Mutual group		
Interest income from Old Mutual group	486	76
Interest expense to Old Mutual group	(2 031)	(1 162)
Insurance premiums to Old Mutual Insure Ltd	(157)	(154)
Claims recovered from Old Mutual Insure Ltd	73	88
Commission income from Old Mutual Insure Ltd	28	27
Management fee income from Old Mutual group	107	116
Management fee expense to Old Mutual group	(7)	(19)
Fees received for provision of information technology services	273	277
Rent paid to Old Mutual group	(18)	(17)
Fellow subsidiaries of Nedbank Group Limited		
Dividend declared to Nedbank Group Ltd	(2 800)	(3 100)
Interest income from Nedbank Group fellow subsidiaries	174	236
Interest income from Syfrets Securities Limited		593
Interest income from Nedgroup Securities Proprietary Limited	202	4
Interest expense to Syfrets Securities Limited	(386)	(826)
Interest expense to other Nedbank Group fellow subsidiaries	(141)	(187)
Interest expense to Nedgroup Securities Proprietary Limited	(182)	(1)
Management fee income from Nedbank Group fellow subsidiaries	292	384
Management fee expense to Nedbank Group fellow subsidiaries	(118)	(108)
Associates		
Interest income from associates	5	3
Interest expense to associates	(17)	(16)
Key management personnel		
Interest income from key management personnel	3	2
Interest expense to key management personnel	(3)	(2)
Key management personnel – directors	(8)	(31)
Key management personnel – other	7	(54)
Share-based payments expense (included in staff costs)	(1)	(85)
Long-term employee benefit plans		
Interest expense to Nedgroup Pension Fund	(2)	(1)
Interest expense to Nedgroup Medical Aid Fund		(1)
Interest expense to other funds	(66)	(115)
<p>The Nedbank Group Pension Fund has an insurance policy (Optiplus policy) with Old Mutual Life Assurance Company (SA) Limited in respect of its pension plan obligations. Nedbank Limited has an insurance policy (Symmetry policy) with Old Mutual Life Assurance Company (SA) Proprietary Limited in respect of its postretirement medical aid obligations. The group has an interest in the OMART cell captive in respect of its disability plan obligations. The value of this policy and this interest are shown as reimbursement rights, with a corresponding liability. In the case of the interest in the cell captive the group recognises the surplus in the cell captive. The amounts included in the financial statements in respect of this policy and this interest are as follows:</p>		
– Optiplus policy reimbursement right	753	760
– Symmetry policy reimbursement right	1 139	1 148
– OMART policy reimbursement right (note G1.1)	632	665
Included in long-term employee benefit assets	2 524	2 573
Optiplus policy obligation	(753)	(760)
Postretirement medical aid obligation	(1 023)	(1 430)
Disability obligation	(632)	(463)
Included in long-term employee benefit liabilities	(2 408)	(2 653)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION F: GENERIC ASSETS

Accounting policy

Impairment (all assets other than financial assets, deferred taxation assets and investment property)

The group assesses all assets (other than financial assets, deferred taxation assets and investment property) for indications of impairment or the reversal of a previously recognised impairment at each reporting date. These impairments (where the carrying amount of an asset exceeds its recoverable amount) or the reversal of a previously recognised impairment are recognised in profit or loss for the period. Intangible assets not yet available for use are tested, at least annually, for impairment.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use (VIU). The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing VIU, the expected future pretax cashflows from the asset are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset, the cashflows of which are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of these assets. Qualifying assets are assets that necessarily take a substantial period of time to prepare for their intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are complete.

All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs capitalised are disclosed in the notes by asset category and are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred, less any investment income on the temporary investment of those borrowings are capitalised.

F1 Property and equipment

Accounting policy

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the group and they have a cost that can be measured reliably.

Subsequent expenditure is capitalised to the carrying amount of items of property and equipment if it is measurable and it is probable that it increases the future economic benefits associated with the asset. All other expenses are recognised in profit or loss as an expense when incurred.

Subsequent to initial recognition, computer equipment, vehicles and furniture and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings, the fair values of which can be reliably measured, are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation increases are credited directly to other comprehensive income and presented in equity under the heading 'Revaluation reserve'. However, revaluation increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Revaluation decreases are recognised in profit or loss. However, decreases are debited directly to equity to the extent of any credit balance existing in the revaluation surplus in respect of the same asset. Land and buildings are revalued on the same basis as investment properties.

F1 Property and equipment continued

Accounting policy continued

Depreciation

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Items of property and equipment that are classified as held for sale in terms of IFRS 5: Non-current Assets Held for Sale and Discontinued Operations are not depreciated. The depreciable amounts of property and equipment are recognised in profit or loss on a straight-line basis over the estimated useful lives of the items of property and equipment, unless they are included in the carrying amount of another asset. The useful lives, residual values and depreciation methods for property and equipment are assessed and adjusted (where required) on an annual basis.

On revaluation, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the item concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount and residual values.

Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred taxation, between the revaluation reserve and retained earnings as the property is utilised. Land is not depreciated.

The maximum initial estimated useful lives are as follows:

Computer equipment	five years
Motor vehicles	six years
Fixtures and furniture	10 years
Leasehold property	20 years
Significant leasehold property components	10 years
Freehold property	50 years
Significant freehold property components	five years

Derecognition

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in respect of an individual item of property and equipment is transferred directly to retained earnings in the statement of changes in equity.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in profit or loss when the compensation becomes receivable.

Leases

The group as lessee

Refer to note A2 for initial implementation (transition date) accounting policies and elections.

The group is party to the following types of lease contracts:

- ATMs.
- Branches.
- Campus sites.
- Office space.
- Computer and office equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION F: GENERIC ASSETS continued

F1 Property and equipment continued

Accounting policy continued

Leases continued

The group as lessee continued

Contract assessment and allocation of consideration

At the inception of a new contract the group assesses whether the contract is or contains a lease. In assessing whether a contract conveys the right to control the use of an identified asset, the group considers whether:

- the contract involves the use of an asset explicitly or implicitly identified in the contract. This asset must be physically distinct or represent substantially all the capacity of the asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the group has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- the group has the right to direct the use of the asset, ie to direct how and for what purpose the asset is used.

At inception or on reassessment of a modified contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices and the aggregate standalone price of the non-lease components. Non-lease components are recognised as an expense in profit or loss in the period in which they arise.

Lease term

The group determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the group is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the group is reasonably certain not to exercise that option.

In assessing whether the group is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the group considers all relevant facts and circumstances that create an economic incentive for the group to exercise the option to extend the lease, or not to exercise the option to terminate the lease. Lease terms are on average three years for ATMs, five years for branches and 13 years for office blocks.

Right-of-use asset (initial and subsequent measurement)

The right-of-use asset is initially measured at cost, which comprises:

- the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date;
- less any lease incentives received;
- plus, any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability. Impairment losses are determined in accordance with IAS 36: Impairment of Assets. If the lease transfers ownership of the underlying asset to the group by the end of the lease term or if the cost of the right-of-use asset reflects that it is reasonably certain that the group will exercise a purchase option, the group depreciates the right-of-use asset over the useful life. Otherwise, the group depreciates the right-of-use asset over the shorter of the useful life and the lease term. The group's principles governing estimating useful lives of the right-of-use assets are determined using the same principles as those ascribed for property and equipment.

Onerous leases (impairment assessment)

Onerous leases are dealt with in IAS 36: Impairment of Assets, except for short-term leases, low-value leases and leases that became onerous before commencement date of the lease, which are dealt with in IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

The group assesses for impairment indicators in the right-of-use asset, considering a combination of the following factors:

- When significant decline in expected economic benefits from the full operational effects of the lease contract has occurred.
- When the leased asset is underutilised, renounced, relinquished or abandoned.
- Combined with an array of factors to conclude on the presences of an onerous lease.

Each case is assessed and weighed based on its prevailing merits, facts and circumstances.

F1 Property and equipment continued

Accounting policy continued

Leases continued

The group as lessee continued

Onerous leases (impairment assessment) continued

Impairment losses reduce the right-of-use asset and are recognised in profit and loss. In most cases an onerous lease does not discharge or extinguish the existing lease liability at time of occurrence of the impairment event. Any additional penalties to cancel the lease are present-valued and included as part of the lease liability in accordance with IFRS 16.

Disclosure for lease liabilities are done in note J1.1.

The group as lessor

The group determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease the group assesses whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying assets. In this case the lease is classified as a finance lease, otherwise it is classified as an operating lease. If the arrangement contains lease and non-lease components, the group allocates the consideration in the contract to each component on the basis of their relative standalone prices.

Operating leases

Assets leased out under operating leases are included under property and equipment in the statement of financial position. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. Leased assets are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

F1.1 Property and equipment

	2019 Rm	2018 Rm
Property and equipment (owned) (note F1.2)	8 534	8 367
Right-of-use assets (leased) (note F1.3)	1 869	
Property and equipment	10 403	8 367

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION F: GENERIC ASSETS continued

F1 Property and equipment continued

F1.2 Property and equipment (owned)

	Land		Buildings		Computer equipment		Furniture and other equipment		Vehicles		Total	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Gross carrying amount												
Balance at 1 January	744	761	6 630	6 255	5 669	5 086	3 063	2 544	25	30	16 131	14 676
Acquisitions	45		319	620	869	584	400	465	2	1	1 635	1 670
Increases/(decreases) arising from revaluations ¹	11	(17)	58	24							69	7
Transfers from non-current assets held for sale ²	7		45								52	–
Disposals	(1)		(255)	(96)	(290)	(144)	(142)	(118)	(2)	(6)	(690)	(364)
Impairments			(148)								(148)	–
Writeoff of accumulated depreciation on revaluations				(9)							–	(9)
Transfers between assets			182	(169)			(182)	169			–	–
Transfers from intangible assets (note F2)				4		142					–	146
Effect of movements in foreign exchange rates and other movements				1	(3)	1	1	3			(2)	5
Balance at 31 December	806	744	6 831	6 630	6 245	5 669	3 140	3 063	25	25	17 047	16 131
Accumulated depreciation and impairment losses												
Balance at 1 January			1 896	1 677	3 966	3 382	1 884	1 623	18	18	7 764	6 700
Depreciation charge for the year			421	390	710	721	317	280	3	3	1 451	1 394
Writeoff of accumulated depreciation on revaluations				(9)							–	(9)
Disposals			(126)	(75)	(281)	(139)	(130)	(109)	(1)	(3)	(538)	(326)
Transfers between assets				(86)				86			–	–
Effect of movements in foreign exchange rates and other movements			(164)	(1)	(1)	2	1	4			(164)	5
Balance at 31 December	–	–	2 027	1 896	4 394	3 966	2 072	1 884	20	18	8 513	7 764
Carrying amount												
At 1 January	744	761	4 734	4 578	1 703	1 704	1 179	921	7	12	8 367	7 976
At 31 December	806	744	4 804	4 734	1 851	1 703	1 068	1 179	5	7	8 534	8 367

¹ Gains on property revaluations are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss.

² Land and buildings transferred from non-current assets held for sale to property and equipment, as the sale was no longer highly probable.

Equipment (principally computer equipment, motor vehicles, fixtures and furniture) is stated at cost less accumulated depreciation and impairment losses. Land and buildings are recognised at the revalued amount, which is based on external valuations obtained every three years on a rotation basis for all properties in accordance with the group's accounting policy. The valuers are members or associates of the Institute of Valuers (SA) or a local equivalent in the case of foreign subsidiaries. An annual internal review is also done on those properties not subject to external valuation. The carrying amount of properties is the fair value as determined by the valuers less subsequent accumulated depreciation and impairment losses. Adjustments in the valuation of the properties are recorded in the revaluation reserve, which is amortised over the remaining useful life of the property. In determining the fair value of properties the following factors are considered:

F1 Property and equipment continued

F1.2 Property and equipment (owned) continued

Type of property	Valuation method	Significant inputs	Parameters	Land		Buildings	
				2019 Rm	2018 Rm	2019 Rm	2018 Rm
Commercial property	Market-comparable approach and discounted cashflow	Income capitalisation rates	8,0–12,0% (2018: 8,0–13,0%)	801	739	4 794	4 724
Residential property	Market-comparable approach and replacement value	Price per square metre		5	5	10	10
Total land and buildings				806	744	4 804	4 734

In accordance with IFRS 13: Fair Value, Measurement the measurement of the group's properties is considered to be recurring. Recurring fair-value measurements are those that IFRS requires or permits to be recognised in the statement of financial position at the end of each reporting period. Furthermore, the group classifies its properties measured at fair value into level 3 of the fair-value hierarchy. Level 3 fair-value measurements are those that include the use of significant unobservable inputs.

In respect of certain properties there are restrictions of title in terms of regulatory restrictions such as servitudes. This does not have a material effect on the ability of the group to transfer these properties. No material plant and equipment have been pledged as security for liabilities.

If land and buildings were carried under the cost and not the revaluation model, the carrying amount would have been R3 441m (2018: R2 917m).

F1.3 Right-of-use assets (leased) Right-of-use assets reconciliation

	2019 Rm
Balance at the beginning of the year	2 060
Depreciation charge for the year	(806)
Additions	188
Lease modifications ²	464
Impairment losses	(33)
Derecognition	(4)
Effect of movements in foreign exchange rates and other movements	¹
Balance at the end of the year	1 869

¹ Represents amounts less than R1m.

² Relates to amendments to new and existing lease contracts subsequent to 1 January 2019. Included in lease modifications are reinstatement costs of R19m.

Depreciation charge by class of right-of-use assets

	2019 Rm
Property (ATMs, branches, offices and campus sites)	727
Office equipment	79
	806
Closing balances by class of right-of-use assets	
Property (ATMs, branches, offices and campus sites)	1 711
Office equipment	158
	1 869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION F: GENERIC ASSETS continued

F2 Intangible assets

Accounting policy

Goodwill

Goodwill arises on the acquisition of subsidiaries and is recognised as an asset on the date that control is acquired, being the acquisition date. Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred plus the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any), this excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is tested for impairment at least once a year. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the goodwill attributable to the subsidiary is included in the determination of the profit or loss on disposal.

Goodwill and goodwill impairment

Goodwill arises on the acquisition of subsidiaries and associates. Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investments, the carrying amount of goodwill is included in the carrying amount of the investment.

Goodwill is allocated to one or more CGUs, being the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to the CGUs in which the synergies from the business combinations are expected. Each CGU containing goodwill is tested annually for impairment. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses that are recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. However, the carrying amount of these other assets may not be reduced below the highest of its fair value less costs to sell, its VIU and zero.

Impairment testing procedures

The recoverable amount of a CGU is the higher of its fair value less cost to sell and its VIU. The fair value less cost to sell is determined by ascertaining the current market value of an asset (or the CGU) and deducting any costs related to the realisation of the asset.

In assessing VIU, the expected future cashflows from the CGU are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the particular CGU.

Impairment losses relating to goodwill are not reversed and all impairment losses are recognised in capital and non-trading items for the period.

Computer software and development costs (not yet commissioned)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and expenditure on internally generated goodwill and brands are recognised as an expense in profit or loss for the period.

If costs can be measured reliably and future economic benefits are available, expenditure on computer software and other development activities, whereby set procedures and processes are applied to a project for the production of new or substantially improved products and processes, is capitalised if the computer software and other developed products or processes are technically and commercially feasible and the group has intention and sufficient resources to complete development. The expenditure capitalised includes the cost of materials and directly attributable employee and other direct costs. Computer development expenditure is amortised only once the relevant software is available for use in the manner intended by management. Capitalised software is stated at cost less accumulated amortisation and impairment losses.

Amortisation of computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, which do not exceed 10 years and are reviewed annually. Subsequent expenditure relating to computer software is capitalised only when it increases the future economic benefits embodied in the specific asset, in its current condition, to which it relates. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. The profit or loss on the disposal of computer software is recognised in non-trading and capital items (in profit or loss). The profit or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

The amortisation methods and residual values of these intangible assets are reviewed annually.

F2 Intangible assets continued

Key assumptions concerning the future and key sources of estimation

Goodwill impairment

Management considers at least annually whether the current carrying value of goodwill is to be impaired. The first step of the impairment review process requires the identification of independent CGUs by segmenting the group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the unit, including the allocated goodwill, is compared with its fair value or VIU to determine whether any impairment exists. If the recoverable amount of a unit is less than its carrying value, goodwill will be impaired.

Detailed calculations may need to be carried out, taking into consideration changes in the market in which a business operates (eg competitive activity and regulatory change). In the absence of readily available market price data this calculation is based on discounting expected pretax cashflows at a risk-adjusted interest rate appropriate to the operating unit, the determination of both of which requires the exercise of judgement. The estimation of pretax cashflows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cashflows. While forecasts are compared with actual performance and external economic data, expected cashflows naturally reflect management's view of future performance.

Intangible assets other than goodwill

An internally generated intangible asset, specifically internally developed software generated during the development phase, is recognised as an asset if certain conditions are met. These conditions include technical feasibility, intention to complete the development, ability to use the asset under development and demonstration of how the asset will generate probable future economic benefits.

The cost of a recognised internally generated intangible asset comprises all costs directly attributable to making the asset capable of being used as intended by management. Conversely, all expenditure arising during the research phase is expensed as incurred.

The decision to recognise internally generated intangible assets requires significant judgement, particularly in the following areas:

- Evaluation of whether or not activities should be considered research activities or development activities.
- Assumptions about future market conditions, client demand and other developments.
- Assessment of whether completing an asset is technically feasible. The term 'technical feasibility' is not defined in the accounting standards, and therefore requires a group-specific and necessarily judgemental approach.
- Evaluation of the future ability to use or sell the intangible asset arising from the development and the assessment of probability of future benefits from sale or use.
- Evaluation of whether or not a cost is directly or indirectly attributable to an intangible asset and whether or not a cost is necessary for completing a development.

All intangible assets of the group have finite useful lives. Consequently, the depreciable amount of the intangible assets is allocated on a systematic basis over their useful lives. Judgement is applied to the following:

- Determining the useful life of an intangible asset, based on estimates regarding the period over which the intangible asset is expected to produce economic benefits to the group.
- Determining the appropriate amortisation method. Accounting standards require that the straight-line method be used, unless management can reliably determine the pattern in which the future economic benefits of the asset are expected to be consumed by the group.

Both the amortisation period and the amortisation method have an impact on the amortisation expenses recorded in each period.

In making impairment assessments for the group's intangible assets, management uses certain complex assumptions and estimates about future cashflows, which require significant judgement and assumptions about future developments. These assumptions are affected by various factors, including changes in the group's business strategy, internal forecasts and estimation of the group's weighted-average cost of capital. Due to these factors, actual cashflows and values could vary significantly from the forecast future cashflows and related values derived using the discounted-cashflow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION F: GENERIC ASSETS continued

F2 Intangible assets continued

Rm	Goodwill	Software	Development costs (not yet commissioned)	Total
2019				
Cost				
Balance at the beginning of the year	1 617	13 349	1 924	16 890
Acquisitions		336	2 004	2 340
Development costs commissioned to software		2 070	(2 070)	–
Impairment losses ¹		(99)	(132)	(231)
Disposals and retirements		(596)		(596)
Balance at the end of the year	1 617	15 060	1 726	18 403
Accumulated amortisation and impairment losses				
Balance at the beginning of the year	224	8 124	4	8 352
Amortisation charge		1 139		1 139
Disposals and retirements		(596)		(596)
Foreign currency translation and other movements		(3)	3	–
Balance at the end of the year	224	8 664	7	8 895
Carrying amount				
At the beginning of the year	1 393	5 225	1 920	8 538
At the end of the year	1 393	6 396	1 719	9 508
2018				
Cost				
Balance at the beginning of the year	1 636	10 754	2 395	14 785
Acquisitions		357	2 100	2 457
Development costs commissioned to software		2 297	(2 297)	–
Impairment losses ¹		(16)	(128)	(144)
Disposals and retirements	(19)	(29)		(48)
Transfers from property and equipment (note 26)			(146)	(146)
Foreign currency translation and other movements		(14)		(14)
Balance at the end of the year	1 617	13 349	1 924	16 890
Accumulated amortisation and impairment losses				
Balance at the beginning of the year	224	7 217	3	7 444
Amortisation charge		938		938
Disposals and retirements		(16)		(16)
Foreign currency translation and other movements		(15)	1	(14)
Balance at the end of the year	224	8 124	4	8 352
Carrying amount				
At the beginning of the year	1 412	3 537	2 392	7 341
At the end of the year	1 393	5 225	1 920	8 538

¹ Impaired intangible assets consist of projects mainly within the Nedbank Retail and Business Banking Cluster. The main indicators of the impairment of a project are the decommissioning of the project and/or the project not reaching full functionality. When one of these indicators is present, the project is tested for impairment by comparing its recoverable amount with its carrying amount. Where the recoverable amount of a project is lower than its carrying value, the project is impaired.

F2 Intangible assets continued

F2.1 Analysis of goodwill by segment

	2019 Rm	2018 Rm
Nedbank Corporate and Investment Banking	757	757
Nedbank Retail and Business Banking	629	629
Other	7	7
	1 393	1 393

Goodwill is allocated to individual CGUs based on business activity. Impairment testing is done on a regular basis by comparing the net carrying value of the CGUs with the estimated VIU. The VIU is determined by discounting estimated future cashflows of each CGU. The discounted-cashflow calculations have been performed using Nedbank's cost of equity, which is calculated using the Capital Asset Pricing Model. No impairments resulting from impairment testing have been effected for the reporting periods presented. Management regards the useful lives of all CGUs to be indefinite. See note F2 for key assumptions used when assessing goodwill impairment.

The VIU of the various CGUs was based on the following assumptions:

	2019	2018
Risk-free rate (%)	9,02	8,77
Beta range	0,73–0,88	0,82–1,06
Equity risk premium (%)	6,10	6,10
Terminal growth rate (%)	1,54	5,20
Cashflow projection (years)	3	3
Discount rate range (%)	13,48–14,37	13,77–15,22

	2019 Rm	2018 Rm
Goodwill on a geographical basis relates to SA in total and is as follows:		
– Carrying amount	1 393	1 393
– Estimated recoverable amount	81 284	103 083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION G: OTHER ASSETS

GI Long-term employee benefits

Accounting policy

The group operates a number of postemployment defined-benefit and defined-contribution plans for eligible employees. The assets of these plans are generally held in separate trustee-administered funds. These benefits are accounted for in accordance with IAS 19: Employee Benefits.

Defined-benefit plans

The liability recognised in the statement of financial position in respect of defined-benefit pension plans is the present value of the defined-benefit obligation at the reporting date less the fair value of plan assets.

The defined-benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is determined by discounting the estimated future cash outflows using yields for government bonds that have maturity dates approximating the terms of the group's obligations.

Gains or losses resulting from remeasurements are recognised immediately in OCI. Remeasurements include actuarial gains and losses, return on plan assets, excluding amounts included in net interest, and the asset ceiling, excluding amounts included in net interest.

Current service costs and net interest on the defined-benefit liability are recognised immediately as an expense in profit or loss. Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date the group recognises related restructuring costs.

Plan assets are only offset against plan liabilities where they are assets held by long-term employee benefit funds or qualifying insurance policies. Qualifying insurance policies exclude any policies held by the group's holding or subsidiary companies.

Defined-contribution plans

Contributions to defined-contribution plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Postemployment benefit plans

The group provides postretirement medical benefits and disability cover for eligible employees. The non-pension postemployment benefits are accounted for, in accordance with their nature, as either a defined-contribution plan or a defined-benefit plan. Similarly, the expected costs associated with such benefits are accounted for in a manner consistent with their classification.

Short-term employee benefits

Short-term employee benefits include salaries, accumulated leave payments, bonuses and non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount to be paid under short-term cash bonus plans or accumulated leave if the group has a present, legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Key assumptions concerning the future and key sources of estimation

The group provides pension plans for employees. Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs.

For defined-benefit schemes, including postretirement medical aid schemes, actuarial valuation of each of the scheme's obligations using the projected-unit credit method and the fair valuation of each of the scheme's assets are performed annually in accordance with the requirements of IAS 19: Employee Benefits.

The actuarial valuation is dependent on a series of assumptions (note G1.1.2), the key ones being interest rates, mortality, investment returns and inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the group's own experience. The returns on fixed-interest investments are set to market yields at the valuation date (less an allowance for risk) to ensure consistency with the asset valuation. The returns on equities are based on the long-term outlook for global equities at the calculation date, having regard to current market yields and dividend growth expectations.

The inflation assumption reflects long-term expectations of both earnings and retail price inflation.

G1 Long-term employee benefits continued

Postemployment and other long-term employee benefits

The group has a number of defined-benefit and defined-contribution plans in terms of which it provides pension, postretirement medical aid and long-term disability benefits to employees and their dependants on retirement, death or disability. All eligible employees and former employees are members of trustee-administered or underwritten schemes within the group, financed by company and employee contributions. All SA retirement plans are governed by the Pension Funds Act, 24 of 1956. The defined-benefit funds are actuarially valued using the projected-unit credit method. Any deficits are funded to ensure the ongoing financial soundness of the funds.

The benefits provided by the defined-benefit schemes are based on years of membership and/or salary levels. These benefits are provided from contributions by employees, the group, and income from the assets of these schemes. The benefits provided by the defined-contribution schemes are determined by the accumulated contributions and investment earnings.

At the dates of the latest valuations, the defined-benefit plans were in a sound financial position in terms of section 16 of the Pension Funds Act. The funds that constitute the assets and liabilities that the group has recognised in the statement of financial position in respect of its defined-benefit plans are listed below. The latest actuarial valuations were performed at 31 December 2019.

Postemployment benefits

Defined-benefit pension funds

Nedgroup Pension Fund (including the Optiplus policy).
Nedbank UK Pension Fund.

Defined-benefit medical aid schemes

Nedgroup Medical Aid Scheme for Nedbank employees and pensioners.
Nedgroup Medical Aid Scheme for past BoE employees and pensioners.

Other long-term employee benefits

Disability fund

Nedbank Group Disability Fund (including the OMART policy).

Insurance policies held with related parties

Optiplus (Nedgroup Pension Fund), OMART (Nedbank Group Disability Fund) and PRMA (Symmetry) annuity policies are insurance policies, the proceeds of which can be used only to pay or fund the employee benefits under the specific funds. However, these policies are not qualifying insurance policies in terms of IAS 19: Employee Benefits since they are held with related parties. These rights to reimbursement are therefore recognised as separate assets and in all other respects are treated in the same way as other plan assets.

G1.1 Analysis of long-term employee benefit assets and liabilities

Rm	Notes	Assets	Liabilities
2019			
Postemployment benefits ¹	G1.1.1	4 873	(1 769)
Other long-term employee benefits – disability fund		632	(632)
		5 505	(2 401)
2018			
Postemployment benefits	G1.1.1	4 301	(2 185)
Other long-term employee benefits – disability fund		463	(463)
		4 764	(2 648)

¹ In terms of IAS 19 the postemployment benefits asset includes non-qualifying insurance policies for pension funds to the value of R746m (2018: R760m), the pension and provident fund net asset refers to the sum of pension and provident funds with a net positive fund value of R2 171m (2018: R1 623m), the contribution asset R816m (2018: R774m) and the medical aid fund asset R1 140m (2018: R1 148m).

The group's defined-benefit obligation in terms of the Nedbank Group Disability Fund is recognised together with the fair value of the assets held in OMART. OMART is a structured entity controlled by the group and was established to fund this defined-benefit obligation of R463m (2018: R463m). The value of the OMART asset held by the group is R463m (2018: R463m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION G: OTHER ASSETS continued

G1 Long-term employee benefits continued

G1.1 Analysis of long-term employee benefit assets and liabilities continued

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
G1.1.1 Net asset/(liability) recognised 2019				
Present value of defined-benefit obligation	(3 579)	(1 023)		(4 602)
Fair value of plan assets	5 870	1 140	816	7 826
Funded status ¹	2 291	117	816	3 224
Unrecognised due to paragraph 65 limit	(120)			(120)
	2 171	117	816	3 104
2018				
Present value of defined-benefit obligation	(4 074)	(1 429)		(5 503)
Fair value of plan assets ¹	5 767	1 148	774	7 689
Funded status	1 693	(281)	774	2 186
Unrecognised due to paragraph 65 limit	(70)			(70)
	1 623	(281)	774	2 116

¹ The medical aid fund net liability refers to the sum of medical aid funds with a negative fund value of R117m (2018: R281m).

G1.1.2 Postemployment benefits

Rm	Present value of obligation	Fair value of plan asset	Surplus/(deficit)	Unrecognised due to paragraph 65 limit	Net asset/(liability)
Analysis of postemployment benefit assets and liabilities 2019					
Pension funds	3 579	5 870	2 291	(120)	2 171
Nedgroup Fund	3 181	5 353	2 172		2 172
Nedbank UK Fund	398	517	119	(120)	(1)
Medical aid funds	1 023	1 140	117	-	117
Nedgroup scheme for Nedbank employees	956	1 064	108		108
Nedgroup scheme for BoE employees	67	76	9		9
Contribution asset		816	816		816
Total	4 602	7 826	3 224	(120)	3 104
2018					
Pension funds	4 074	5 767	1 693	(70)	1 623
Nedgroup Fund	3 698	5 321	1 623		1 623
Nedbank UK Fund	376	446	70	(70)	-
Medical aid funds	1 429	1 148	(281)	-	(281)
Nedgroup scheme for Nedbank employees	1 356	1 070	(286)		(286)
Nedgroup scheme for BoE employees	73	78	5		5
Contribution asset		774	774		774
Total	5 503	7 689	2 186	(70)	2 116

G1 Long-term employee benefits continued

G1.1 Analysis of long-term employee benefit assets and liabilities continued

G1.1.2 Postemployment benefits continued

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Present value of defined-benefit obligation				
2019				
Balance at the beginning of the year	4 074	1 429		5 503
Current service cost	19	1		20
Interest cost	340	(257)		83
Contributions by plan participants	4			4
Actuarial losses ¹	(414)	(65)		(479)
Benefits paid	(451)	(85)		(536)
Impact of foreign currency exchange rate changes	7			7
Balance at the end of the year	3 579	1 023	-	4 602
2018				
Balance at the beginning of the year	4 616	2 203		6 819
Current service cost	13	42		55
Interest cost	366	150		516
Contributions by plan participants	5			5
Actuarial losses ¹	(513)	142		(371)
Benefits paid	(450)	(85)		(535)
Impact of foreign currency exchange rate changes	9			9
Settlement	28	(1 023)		(995)
Balance at the end of the year	4 074	1 429	-	5 503
Fair value of plan assets				
2019				
Balance at the beginning of the year	5 767	1 148	774	7 689
Expected return on plan assets	493	106	38	637
Actuarial gains ¹	40	(28)		12
Contributions by the employer	24			24
Contributions by plan participants	5			5
Benefits paid	(451)	(86)		(537)
Scheme-settled administration costs	(6)			(6)
Impact of foreign currency exchange rate changes	(2)		4	2
Balance at the end of the year	5 870	1 140	816	7 826
2018				
Balance at the beginning of the year	7 780	1 441		9 221
Expected return on plan assets	573	133	(39)	667
Actuarial gains/(losses) ¹	(635)	(216)		(851)
Contributions by the employer	17	30	813	860
Refund of contributions		(155)		(155)
Contributions by plan participants	5			5
Benefits paid	(450)	(85)		(535)
Scheme-settled administration costs	(7)			(7)
Impact of foreign currency exchange rate changes	35			35
Transfer of Nedbank (Swaziland) Limited and Nedbank (Lesotho) Limited to Nedbank Group Limited	(1 551)			(1 551)
Balance at the end of the year	5 767	1 148	774	7 689

¹ The R454m (2018: R480m) recognised in OCI is the sum of the actuarial loss on the plan liabilities and the actuarial gain/loss on plan assets less taxation, before the IAS 19 paragraph 65 limit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION G: OTHER ASSETS continued

G1 Long-term employee benefits continued

G1.1 Analysis of long-term employee benefit assets and liabilities continued

G1.1.2 Postemployment benefits continued

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Net (income)/expense recognised				
2019				
Current service cost	19			19
Interest (received)/cost	(153)	(363)	(36)	(552)
Scheme-settled plan administration costs	7			7
Asset recognition – benefit of rule change allocated to the fund	4			4
Past service cost – vested benefit	3			3
	(120)	(363)	(36)	(519)
2018				
Current service cost	13	42		55
Interest (received)/cost	(207)	17	39	(151)
Scheme-settled plan administration costs	7			7
Asset recognition – benefit of rule change allocated to the fund	5			5
Effect of application of asset ceiling	3			3
Gain on settlement		(257)		(257)
	(179)	(198)	39	(338)
Movements in net asset/(liability) recognised				
2019				
Balance at the beginning of the year	1 623	(281)	774	2 116
Net income/(expense) recognised in the statement of comprehensive income	120	363	38	521
Net remeasurements – debit for the year	421	37		458
Contributions paid by the employer	25			25
Impact of foreign currency exchange rate changes	(7)	(2)	4	(5)
Asset ceiling	(11)			(11)
Balance at the end of the year	2 171	117	816	3 104
2018				
Balance at the beginning of the year	3 100	(762)		2 338
Net income/(expense) recognised in the statement of comprehensive income	179	198	(39)	338
Net remeasurements – debit for the year	(122)	(358)		(480)
Contributions paid by the employer	17	30	813	860
Refund of contributions		(155)		(155)
Impact of foreign currency exchange rate changes	(28)			(28)
Settlement	28			28
Settlement of active members	(1 551)	766		(785)
Balance at the end of the year	1 623	(281)	774	2 116
Distribution of plan assets (%)				
2019				
Equity instruments	26,34	49,00		30,02
Debt instruments	31,40	19,00		29,38
Property	3,65	5,00		3,87
Cash	0,32	18,00		3,19
International		6,00		0,98
Other	38,29	3,00		32,56
	100,00	100,00	–	100,00
2018				
Equity instruments	29,10	48,00		32,24
Debt instruments	33,52	20,00		31,28
Property	4,61	6,00		4,84
Cash	5,92	18,00		7,93
International	26,85	6,00		23,39
Other		2,00		0,32
	100,00	100,00	–	100,00
Actual return on plan assets (Rm)				
2019	534	78	39	651
2018	(63)	(83)	(39)	(185)

G1 Long-term employee benefits continued

G1.1 Analysis of long-term employee benefit assets and liabilities continued

G1.1.2 Postemployment benefits continued

Principal actuarial assumptions (%)	Pension and provident funds	Medical aid funds
2019		
Discount rates	1,90 to 9,50	9,60
Expected rates of return on plan assets	1,90 to 9,50	9,60
Inflation rate	2,00 to 4,90	5,20
Expected rates of salary increases	5,90 to 5,90	5,20
Pension increase allowance	0,00 to 4,90	
Annual increase to medical aid subsidy		7,20
Average expected retirement age (years)	60 to 65	
2018		
Discount rates	2,75–9,40	9,80–9,80
Expected rates of return on plan assets	2,75–9,40	10,00
Inflation rate	2,30–5,60	5,80–5,80
Expected rates of salary increases	6,60–6,60	6,00
Pension increase allowance	0,56–5,60	
Annual increase to medical aid subsidy		7,80–7,80
Average expected retirement age (years)	60	60

Sensitivity analysis

Defined-benefit obligation

The defined-benefit obligation has been recalculated to show the effect of the discount rate and inflation rate assumptions on the defined-benefit obligation by adding and subtracting one percent to each assumption. This sensitivity analysis is for the Nedgroup Pension Fund.

Rm	Main result	Discount rate plus one percent	Discount rate minus one percent	Inflation rate plus one percent	Inflation rate minus one percent
2019					
Defined-benefit obligation	3 186	3 168	3 206	3 454	2 957
Change(%)		(0,6)	0,6	8,4	(7,2)
2018					
Defined-benefit obligation	3 702	3 496	3 927	3 943	3 479
Change(%)		(5,6)	6,1	6,5	(6,0)

Medical aid accrued liability

The sensitivity analysis provided below shows the impact of changes to these assumptions on the accrued liability value at 31 December 2019.

Rm	Main result	Medical subsidy rate plus one percent	Medical subsidy rate minus one percent	Discount rate plus half a percent	Discount rate minus half a percent
Medical aid accrued liability	1 023	1 110	927	964	1 063
Change(%)		8,5	(9,4)	(5,8)	3,9

The sensitivity analysis provided below shows the impact of changes to these assumptions on the accrued liability value at 31 December 2018.

Rm	Main result	Medical subsidy rate plus one percent	Medical subsidy rate minus one percent	Discount rate plus half a percent	Discount rate minus half a percent
Medical aid accrued liability	1 430	1 529	1 344	1 383	1 481
Change(%)		6,9	(6,0)	(3,3)	3,6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION G: OTHER ASSETS continued

G1 Long-term employee benefits continued

G1.1 Analysis of long-term employee benefit assets and liabilities continued

G1.1.2 Postemployment benefits continued

Sensitivity analysis continued

Pension funds

The expected long-term return is a function of the expected long-term returns on equities, cash and bonds. In setting these assumptions the asset splits at the latest available date were used and adjustments were made to reflect the effect of expenses.

Weighted-average assumptions	2019	2018
Discount rate	8,83%	8,89%
Expected return on plan assets	8,83%	8,89%
Future salary increases	5,90%	6,09%
Future pension increases	4,47%	5,21%

Medical aid funds

The overall expected long-term rate of return on plan assets is 8.83%. The expected rate of return is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected rate of return is based on the expected performance of the entire portfolio.

Experience adjustments on present value of defined-benefit obligations for the past five years (Rm)

2019	(95)	65	(30)
2018	(291)	(142)	(433)
2017	(48)	163	115
2016	(64)	(97)	(161)
2015	(89)	113	24
2014	55	(42)	13

Experience adjustments on fair value of plan assets for the past five years (Rm)

2019	(28)	(28)
2018	(216)	(216)
2017	(24)	(24)
2016	(40)	(40)
2015	(14)	(14)
2014	(24)	(24)

Estimate of future contributions

Contributions expected for ensuing year	25	25
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Fund surplus/(deficit) for the past five years

Rm	Present value of obligation	Fair value of plan asset	Surplus/(deficit)
Pension funds			
2019	3 580	5 871	2 291
2018	4 074	5 767	1 693
2017	4 616	7 780	3 164
2016	4 954	7 485	2 531
2015	5 065	7 576	2 511
2014	5 024	7 053	2 029
Medical aid funds			
2019	1 023	1 140	117
2018	1 429	1 148	(281)
2017	2 203	1 441	(762)
2016	2 133	1 343	(790)
2015	1 832	1 254	(578)
2014	1 772	1 170	(602)

G2 Non-current assets held for sale

Accounting policy

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount will be recovered principally through sale rather than use.

Immediately before classification as held for sale, all assets and liabilities are remeasured in accordance with the group's accounting policies. Non-current assets (or disposal groups) held for sale are measured at the lower of the carrying amount and fair value less incremental, directly attributable, cost to sell (excluding taxation and finance charges) and are not depreciated.

Non-current assets held for sale	Previously included in	2019 Rm	2018 Rm
Properties sold not yet transferred ¹	Property and equipment	90	305
		90	305

¹ Commitments for the sale of properties have commenced and are anticipated to be concluded within the following 12 months. Transfer of the properties is expected to take place during the following year.

G3 Other assets

	2019 Rm	2018 Rm
Sundry debtors and other accounts	10 559	12 055
Impairment of other assets	(15)	(15)
	10 544	12 040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS

Accounting policy

Financial instruments recognised in the statement of financial position include all financial assets and financial liabilities, including derivative instruments, but excluding investments in subsidiaries, associate companies and joint arrangements (other than investments held by venture capital divisions), employee benefit assets and liabilities and leases. Financial instruments are accounted for under IAS 32: Financial Instruments – Presentation, IAS 39: Financial Instruments – Recognition and Measurement (Hedging), IFRS 9: Financial Instruments, IFRS 7: Financial Instruments – Disclosures and IFRS 13: Fair Value Measurement.

Financial assets and financial liabilities

Measurement basis of financial instruments

There are two bases of measurement, namely amortised cost and fair value.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual terms of the instrument. Regular-way purchase and sales of financial assets are recognised on trade date, the date on which the group commits to purchase or sell the asset.

At initial recognition the group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets or financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition an ECL, is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Amortised cost and effective interest rate

The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective-interest-rate method of any difference between the initial contractual amount and the maturity amount, less any cumulative impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (ie its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts, fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets (assets that are credit-impaired at initial recognition) the group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of the ECLs in estimated future cashflows.

When the group revises the estimates of future cashflows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate, discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- purchased or originated credit-impaired financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- financial assets that are not purchased or originated credit-impaired, but have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (ie net of the ECL allowance).

Fair value

The fair value of a financial instrument is the amount that would be received on selling the asset or paid on transferring a liability in an orderly transaction between market participants at the measurement date.

The fair value of instruments that are quoted in an active market is determined using quoted prices where they represent those at which regularly and recently occurring transactions take place.

The group uses valuation techniques to establish the fair value of instruments where quoted prices in active markets are not available.

For a detailed discussion of the fair value of financial instruments refer to note H2.

Accounting policy continued

Financial assets and financial liabilities continued

Financial assets

(i) Classification and measurement

The group applies IFRS 9 and classifies its financial assets in the following measurement categories:

- FVTPL.
- FVOCI.
- Amortised cost.

The classification requirements of investments in debt and equity instruments are described below:

Debt instruments

The classification of investments in debt instruments depends on:

- the business model within which the financial assets are held and managed; and
- the contractual cashflow characteristics of the financial assets, ie whether the cashflows represent 'solely payments of principal and interest'.

Financial assets are measured at amortised cost if they are held within a business model of which the objective is to hold those assets for the purpose of collecting contractual cashflows and those cashflows comprise solely payments of principal and interest (ie 'hold to collect' business model).

Financial assets are measured at FVOCI if they are held within a business model of which the objective is achieved by both collecting contractual cashflows and selling financial assets and those contractual cashflows comprise solely payments of principal and interest (ie 'hold to collect and sell' business model). Movements in the carrying amount of these financial assets are taken through OCI, except for impairment gains or losses, interest revenue and foreign exchange gains or losses, which are recognised in profit or loss.

Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The remaining financial assets are measured at FVTPL. All derivative instruments that are either financial assets or financial liabilities are classified as mandatorily at fair value and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cashflows are solely payments of principal and interest.

The group reclassifies debt investments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Investments in equity instruments

For equity investments that are held neither for trading nor for contingent consideration the group may irrevocably elect to present subsequent changes in the fair value of these equity investments in OCI. Where the equity investment is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified in equity.

Alternatively, where the group does not make the abovementioned election, fair-value changes are recognised in profit or loss. This election is made on an investment-by-investment basis. On initial recognition the group may irrevocably designate a financial asset otherwise meeting the requirements for measurement at amortised cost or FVOCI, or as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(ii) Impairments

Impairments in terms of IFRS 9 are determined based on an ECL model.

The ECL model applies to financial assets measured at amortised cost and debt instruments at FVOCI, lease receivables and certain loan commitments, as well as financial guarantee contracts.

Under IFRS 9 loss allowances are measured on either of the following bases:

- Twelve-month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date.
- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

Accounting policy continued

Financial assets and financial liabilities continued

Financial assets continued

(ii) Impairments continued

The group is required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. Indicators of an SICR in the retail portfolio may include any of the following:

- Short-term forbearance.
- Direct debit cancellation.
- Extension to the terms granted.
- Previous arrears within the past months.

Indicators of an SICR in the wholesale portfolio may include any of the following:

- Significant increase in the credit spread.
- Significant adverse changes in business, financial and/or economic conditions in which the client operates.
- Actual or expected forbearance or restructuring.
- Significant change in collateral value.
- Early signs of liquidity and cashflow problems, such as a delay in the servicing of trade creditors/loans.

Measurement of ECLs

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The abovementioned probability-weighted outcome considers the possibility of a credit loss occurring and the possibility of no credit loss occurring, even if the possibility of a credit loss occurring is low. Credit losses are measured as the present value of all cash shortfalls (ie the difference between the cashflows due to the entity in accordance with the contract and the cashflows that the group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

The assessment of the ECL of a financial asset or portfolio of financial assets entails estimations of the likelihood of defaults occurring and of default correlations between counterparties. The group measures ECL using probability of default (PD), exposure at default (EAD) and loss-given default (LGD). These three components are multiplied together and adjusted for the likelihood of default. The calculated ECL is then discounted using the original effective interest rate of the financial asset.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The group has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. The Nedbank Group Economic Unit provides a forecast of economic variables and an overview of the economy quarterly or more often, if necessary. Significant judgement and estimates are applied in this process of incorporating forward-looking information into the SICR assessment and ECL calculation.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cashflows of the financial asset have occurred. The group's definition of credit-impaired is aligned to its internal definition of default.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, and the amortised cost is presented on the face of the statement of financial position.

For debt securities at FVOCI the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset. For off-balance-sheet exposures, such as financial guarantee contracts, the loss allowance is presented in 'Provisions and other liabilities' on the face of the statement of financial position.

Accounting policy continued

Financial assets and financial liabilities continued

Financial assets continued

(iii) Modification of loans

The group may renegotiate or otherwise modify the contractual cashflows of loans to clients. When this happens, the group assesses whether the new terms are substantially different to the original terms. In the normal course of business restructures, a combination of qualitative and quantitative factors needs to be considered to establish whether the change to the contractual cashflows is substantial. However, in a distressed restructure the group needs to determine whether it is merely attempting to recover the original cashflows in the most optimal manner – and as such the original cashflows have not expired – or whether the risks and rewards associated with the cashflows have been altered fundamentally enough for the original instrument to be derecognised.

The group is of the view that the abovementioned principle can be applied by type of modification for retail exposures, as we assume there is a homogenous business process and objective underlying each type of modification. The application to wholesale exposures should be dealt with on a case-by-case basis through consultation by the business unit with the group's IFRS Advisory Division, as it may be necessary to take into account whether the modification is considered substantial based on the unique facts and circumstances.

Should the terms be substantially different, the group derecognises the original financial asset and recognises a 'new' financial asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes and for determining whether a significant increase in credit risk has occurred. However, the group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

Should the terms not be substantially different, the renegotiation or modification does not result in derecognition, and the group recalculates the gross carrying amount based on the revised cashflows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cashflows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Revolving products

A revolving credit facility (RCF) may be seen as financial instrument that is either:

- one continuous instrument, with one origination date that could be many years in the past; or
- a series of one-year instruments, each of which would have a different origination date.

With respect to revolving credit facilities, the key consideration of whether the issuing of a new card, change in credit limit, or conducting a credit review results in derecognition of the loan or facility is the robustness of the process followed and the resulting impact on credit risk management. Where the process is not considered to be sufficiently robust, ie it is purely procedural in nature, the original RCF will not be derecognised and the date of origination will remain the date at which the facility was first contractually extended (or was subject to a robust process that resulted in derecognition). If the process is considered to be robust, the date of origination would be the date of derecognition of the previous facility or loan.

The group considers the following factors to determine whether a review (annual or otherwise) is robust, ie would result in derecognition:

- The effectiveness of the review in mitigating or managing credit risk until the next scheduled review.
- Evidence that specific action is taken as a result of the outcome of the review, for example:
 - » changes in facility limits;
 - » repricing of the facility;
 - » changes in required collateral or security;
 - » changes to the terms and conditions of the facility; or
 - » withdrawal of the facility.
- The review is performed at a facility or client level (or client group).
- The review is done holistically, taking into account the income derived from the facility and the other income generated from the client in comparison to the risk taken.
- Increased monitoring or scrutiny of the facility, for example additional controls and/or approvals, are put in place until the next review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

Accounting policy continued

Financial assets and financial liabilities continued

Financial assets continued

(iv) Derecognition other than a modification

The group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when, and only when:

- the contractual rights to the cashflows arising from the financial asset have expired; or
- the group transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- the group transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retaining control of the asset.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in non-interest revenue for the period.

The group enters into transactions where it retains the contractual rights to receive cashflows from assets but assumes a contractual obligation to pay those cashflows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition when the group;

- has no obligation to make payments unless it collects equivalent amounts from the assets;
- is prohibited from selling or pledging the assets; and
- has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the group retains a subordinated residual interest.

Financial liabilities

(i) Classification and measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: This classification is applied to derivative financial liabilities, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated as FVTPL are presented partially in OCI (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability).
- Financial liabilities arising from the transfer of financial assets that did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the group recognises any expenses incurred on the financial liability.
- Financial guarantee contracts and loan commitments.

(ii) Derecognition

A financial liability (or part of a financial liability) is derecognised when, and only when, the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired.

Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements are retained in the financial statements, as the group retains all risks and rewards of ownership of the securities. The securities are recorded as trading or investment securities and the counterparty liability is included in amounts owed to depositors, deposits from banks, or other money market deposits. Securities purchased under agreements to resell are recorded as loans and advances to banks or clients. The difference between the sale and repurchase price is treated as interest and recognised over the duration of the agreements using the effective-interest-rate method.

Securities lent to counterparties are also retained in the financial statements and any interest earned is recognised in profit or loss using the effective-interest-rate method. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in non-interest revenue. The obligation to return them is recorded at fair value as a trading liability.

Accounting policy continued

Financial assets and financial liabilities continued

Financial liabilities continued

Acceptances

Acceptances comprise undertakings by the group to pay bills of exchange drawn on clients. The group expects most acceptances to be settled simultaneously with the reimbursement from clients. Acceptances are recorded as liabilities within amounts owed to depositors, with the corresponding asset recorded in the statement of financial position within loans and advances.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits and cash equivalents that are short-term (ie with a maturity of less than 90 days from acquisition), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. Cash and cash equivalents therefore include cash and balances with central banks that can be withdrawn on demand (except where a specific minimum balance at the end of the day is required to be maintained), other eligible bills and amounts due from banks.

Investment contract liabilities

Liabilities for unit-linked and market-linked contracts are reported at fair value. For unit-linked contracts, the fair value is calculated as the account value of the units, ie the number of units held multiplied by the bid price value of the assets in the underlying fund (adjusted for taxation). For market-linked contracts the fair value of the liability is determined with reference to the fair value of the underlying assets. This fair value is calculated in accordance with the financial soundness valuation basis, except that negative rand reserves arising from the capitalisation of future margins are not permitted. The fair value of the liability, at a minimum, reflects the initial deposit of the client, which is repayable on demand.

Investment contract liabilities (other than unit-linked and market-linked contracts) are measured at amortised cost.

Contribution income relating to investment contracts

Contribution income includes lump sums received in respect of linked businesses with retirement funds and are accounted for when due. The contribution income is set off directly against the liability under investment contracts.

Benefits relating to investment contracts

Policyholder benefits are accounted for when claims are intimated directly against the liability under investment contracts.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Issued financial guarantee contracts are recognised as insurance contracts and are measured at the best estimate of the expenditure required to settle any financial obligation at the reporting date. Liability adequacy testing is performed to ensure that the carrying amount of the liability for issued financial guarantee contracts is sufficient. Any increase in the liability relating to guarantees is recognised in profit or loss.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment, and where the group cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the ECLs are recognised as a provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

Key assumptions concerning the future and key sources of estimation

Fair value of financial instruments

Certain of the group's financial instruments are carried at FVTPL, such as those designated by management under the fair-value option.

Other non-derivative financial assets may be designated as FVOCI. FVOCI financial investments are initially recognised at fair value and are subsequently held at fair value. Gains and losses arising from changes in fair value of such assets are included as a separate component of OCI and presented in equity.

The fair value of a financial instrument is the amount that would be received on selling the asset or paid on transferring the liability in an orderly transaction at the measurement date between knowledgeable and willing parties, other than in a forced or liquidation sale. Financial instruments entered into as trading transactions, together with any associated hedging, are measured at fair value and the resultant profits and losses are included in net trading income, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in trading portfolio assets and liabilities or derivative financial instruments, reduced by the effects of netting agreements where there is an intention to settle net with counterparties.

Details of the processes, procedures and assumptions used in the determination of fair value are discussed in note I2.

In particular, the areas that involve the greatest amount of judgement and complexity include the following:

- Assessing whether instruments are trading with sufficient frequency and volume that they can be considered liquid.
- The inclusion of a measure of the counterparties non-performance risk in the fair value measurement of loans and advances, which involves the modelling of dynamic credit spreads.
- The inclusion of credit valuation adjustment (CVA) and funding valuation adjustments (FVA) in the fair-value measurement of derivative instruments.
- The inclusion of own credit risk in the calculation of the fair value of financial liabilities.

These concepts are continuously developing and evolving within the context of the SA market and therefore changes in these assumptions will arise as the market develops.

Securitisations

The group sponsors the formation of structured entities primarily for the purpose of securitising financial assets for funding diversification purposes and to add flexibility in mitigating structural liquidity risk. Where it is difficult to determine whether the group controls a structured entity, the group makes judgements in terms of IFRS about whether it has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. In arriving at judgement, these factors are considered both jointly and separately.

HI Consolidated statement of financial position – categories of financial instruments

	Notes	At FVTPL		FVOCI		Financial instruments at amortised cost	Non-financial assets, liabilities and equity
		Total Rm	Mandatorily at fair value Rm	Designated ¹ Rm	Debt instruments Rm	Equity instruments Rm	
2019							
Assets							
Cash and cash equivalents	C6	8 199				8 199	
Other short-term securities	C4	42 395	33 055			9 340	
Derivative financial instruments	C7	34 923	34 923				
Government and other securities	C3	127 662	35 317			92 345	
Loans and advances	CI.1	787 110	30 017	9 323	15 872	731 893	5
Other assets	G3	10 544				9 294	1 250
Current taxation assets		213					213
Investment securities	E1	9 007	8 547			433	27
Non-current assets held for sale	G2	90					90
Investments in associate companies	E2	1 229					1 229
Deferred taxation assets	B7.3	42					42
Investment property	0	56					56
Property and equipment	F1	10 403					10 403
Long-term employee benefit assets	GI.1	5 505					5 505
Mandatory reserve deposits with central bank	C6	21 424				21 424	
Intangible assets	F2	9 508					9 508
Total assets		1 068 310	141 859	9 323	15 872	433	28 328
Equity and liabilities							
Ordinary share capital	B3.1	28					28
Ordinary share premium		19 182					19 182
Reserves		53 582			309	7	53 266
Total equity attributable to ordinary equity holders		72 792	-	-	309	7	72 476
Preference share capital and premium	B3.2	3 561					3 561
Holders of preference shares		7					7
Holders of additional tier 1 capital instruments	B4	6 850					6 850
Non-controlling interest attributable to ordinary shareholders		9					9
Total equity		83 219	-	-	309	7	82 903
Derivative financial instruments	C7	27 621	27 621				
Amounts owed to depositors	D1	881 297	33 772				10
Provisions and other liabilities	JI.1	13 473	879				10 092
Current taxation liabilities		42					42
Deferred taxation liabilities	B7.3	645					645
Long-term employee benefit liabilities	GI.1	2 401					2 401
Long-term debt instruments	D2	59 612					
Total liabilities		985 091	62 272	-	-	-	13 190
Total equity and liabilities		1 068 310	62 272	-	309	7	96 093

¹ Refer to note H4 in respect of financial instruments designated as FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H1 Consolidated statement of financial position – categories of financial instruments continued

	Notes	At FVTPL		FVOCI			Financial instruments at amortised cost Rm	Non-financial assets, liabilities and equity Rm
		Total Rm	Mandatorily at fair value Rm	Designated ¹ Rm	Debt instruments Rm	Equity instruments Rm		
2018								
Assets								
Cash and cash equivalents	C6	7 931					7 931	
Other short-term securities	C4	57 844	36 344				21 500	
Derivative financial instruments	C7	22 412	22 412					
Government and other securities	C3	96 123	28 495				67 628	
Loans and advances	CI.1	725 792	18 129	5 467	18 426		683 770	
Other assets	G3	12 040					10 776	1 264
Current taxation assets		105						105
Investment securities	E1	6 787	6 354			433		
Non-current assets held for sale	G2	305						305
Investments in associate companies	E2	786						786
Deferred taxation assets	B7.3	40						40
Property and equipment	F1	8 367						8 367
Long-term employee benefit assets	GI.1	4 764						4 764
Mandatory reserve deposits with central bank	C6	19 789					19 789	
Intangible assets	F2	8 538						8 538
Total assets		971 623	111 734	5 467	18 426	433	811 394	24 169
Equity and liabilities								
Ordinary share capital	B3.1	28						28
Ordinary share premium		19 182						19 182
Reserves		49 636						49 636
Total equity attributable to ordinary equity holders		68 846	–	–	–	–		68 846
Preference share capital and premium	B3.2	3 561						3 561
Holders of preference shares		561						561
Holders of additional tier 1 capital instruments	B4	3 416						3 416
Non-controlling interest attributable to ordinary shareholders		23						23
Total equity		76 407	–	–	–	–	–	76 407
Derivative financial instruments	C7	19 761	19 761					
Amounts owed to depositors	DI	806 487	21 579				784 908	
Provisions and other liabilities	JI.1	10 414	466				4 795	5 153
Current taxation liabilities		272						272
Deferred taxation liabilities	B7.3	224						224
Long-term employee benefit liabilities	GI.1	2 648						2 648
Long-term debt instruments	D2	55 410					55 410	
Total liabilities		895 216	41 806	–	–	–	845 113	8 297
Total equity and liabilities		971 623	41 806	–	–	–	845 113	84 704

¹ Refer to note H4 in respect of financial instruments designated as FVTPL.

H2 Fair-value measurement – financial instruments

H2.1 Valuation of financial instruments

Background

Information obtained from the valuation of financial instruments is used by the group to assess the performance of the business and, in particular, provide assurance that the risk and return measures that the business has taken are accurate and complete. It is important that the valuation of financial instruments accurately represent the financial position of the group while complying with the requirements of the applicable accounting standards.

The fair value of a financial instrument is the amount that would be received on selling the asset or paid on transferring a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

Control environment

Validation and approval

The business unit entering into the transaction is responsible for the initial determination and recording of the fair value of the transaction. There are normalised review protocols for the independent review and validation of fair values separate from the business unit entering into the transaction. These include, but are not limited to:

- daily controls over the profit or loss recorded by trading and treasury frontoffice traders;
- specific controls to ensure consistent pricing policies and procedures are adhered to;
- independent valuation of structures, products and trades; and
- periodic review of all elements of the modelling process.

The validation of pricing and valuation methodologies is verified by a specialist team that is part of the group's risk management function and that is independent of all the business units. A specific area of focus is the marking-to-model of illiquid and/or complex financial instruments.

The review of the modelling process includes approval of model revisions, vetting of model inputs, review of model results and more specifically the verification of risk calculations. All valuation techniques are validated and reviewed by qualified senior staff and are calibrated and backtested for validity by using prices from any observable current market transaction in the same instrument (ie without modification or repackaging) or based on any observable market data. The group obtains market data consistently in the same market where the instrument was originated or purchased.

If the fair-value calculation deviates from the quoted market value due to inaccurate observed market data, these deviations in the valuation are documented and presented at a review committee, which is independent of both the business unit and the specialist team, for approval. The committee will need to consider both the regulatory and accounting requirements in arriving at an opinion on whether the deviation is acceptable.

The group refines and modifies its valuation techniques as markets and products develop and as the pricing for individual products becomes more or less readily available. While the group believes its valuation techniques are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions may result in different estimates of fair value at the different reporting dates.

Stress testing and sensitivity measures

Comprehensive stress testing is conducted by the group, in which the following, at a minimum, are considered:

- Anticipated future projected trading positions.
- Historical events.
- Scenario testing to evaluate plausible future events.
- Specific testing to supplement the value-at-risk (VaR) methodology (ie one-day holding period and 99% confidence interval).

For further discussion in respect of stress testing and sensitivity measures refer to note H2.7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H2 Fair-value measurement – financial instruments continued

H2.1 Valuation of financial instruments continued

Valuation methodologies

The objective of a fair-value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair-value measurement includes, but is not limited to, consideration of the following:

- The particular asset or liability that is being measured (consistently with its unit of account).
- The principal (or most advantageous) market for the asset or liability.
- The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair-value hierarchy within which the inputs are categorised.

Quoted price

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The appropriate quoted market price for an asset held or a liability to be issued is usually the current bid price and, for an asset to be acquired or a liability held, the asking price.

The objective of determining fair value is to arrive at the transaction price of an instrument on the measurement date (ie without modifying or repackaging the instrument) in the principal (or most advantageous) active market to which the business has immediate access.

The existence of published price quotations in an active market is the most reliable evidence of fair value and, when they exist, they are used without adjustment to measure the financial asset or financial liability. A market is considered to be active if transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

These quoted prices would generally be classified as level 1 in terms of the fair-value hierarchy prescribed by IFRS 13: Fair Value Measurement.

Valuation techniques

If the market for a financial instrument is not active, the group establishes fair value by using various valuation techniques. These valuation techniques may include using:

- recent arm's-length market transactions between knowledgeable, willing parties;
- the current fair value of another instrument that is substantially the same in nature;
- the value of the net asset of the underlying business;
- earnings multiples;
- discounted-cashflow analysis; and
- various option pricing models.

If there is a valuation technique that is commonly used by market participants to price the financial instrument and that technique has been demonstrated to provide reasonable estimates of prices obtained in actual market transactions, the group will use that technique. In applying valuation techniques, and to the extent possible, the group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's-length exchange and motivated by normal business considerations. In applying valuation techniques the group uses estimates and assumptions that are consistent with available information about the estimates and assumptions that market participants would use in setting a price for the financial instrument.

Fair value is therefore estimated on the basis of the results of a valuation technique that makes maximum use of market inputs and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if:

- it reasonably reflects how the market could be expected to price the instrument; and
- the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Therefore, a valuation technique:

- will incorporate all relevant factors that market participants would consider in determining a price; and
- is consistent with accepted economic methodologies for pricing financial instruments.

H2 Fair-value measurement – financial instruments continued

H2.1 Valuation of financial instruments continued

Valuation methodologies continued

If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the various component parts.

If a rate (rather than a price) is quoted in an active market, the group uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the group adjusts for these factors.

Valuation techniques applied by the group would generally be classified as level 2 or level 3 in terms of the fair-value hierarchy prescribed by IFRS 13: Fair Value Measurement. The determination of whether an instrument is classified as level 2 or level 3 is dependent on the significance of observable inputs versus unobservable inputs in relation to the fair value of the instrument.

Observable markets

Quoted market prices in active markets are the best evidence of fair value and are used as the basis of measurement, if available. A determination of what constitutes 'observable market data' will necessitate significant judgement. It is the group's belief that 'observable market data' comprises, in the following hierarchical order:

- prices or quotes from an exchange or listed markets in which there are sufficient liquidity and activity;
- proxy observable market data that is proven to be highly correlated and has a logical, economic relationship with the instrument that is being valued; and
- other direct and indirect market inputs that are observable in the marketplace.

Data is considered by the group to be observable if the data is:

- verifiable;
- readily available;
- regularly distributed;
- from multiple independent sources;
- transparent; and
- not proprietary.

Data is considered by the group to be market-based if the data is:

- reliable;
- based on consensus within reasonably narrow, observable ranges;
- provided by sources that are actively involved in the relevant market; and
- supported by actual market transactions.

It is not intended to imply that all of the above characteristics must be present to conclude that the evidence qualifies as observable market data. Judgement is applied based on the strength and quality of the available evidence.

Inputs to valuation techniques

An appropriate valuation technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. Inputs are selected on a basis that is consistent with the characteristics of the instrument that market participants would take into account in a transaction for that instrument. Principal inputs to valuation techniques applied by the group include, but are not limited to, the following:

- Discount rate: Where discounted-cashflow techniques are used, estimated future cashflows are based on management's best estimates and the discount rate used is a market rate at the reporting date for an instrument with similar terms and conditions.
- The time value of money: The business may use well-accepted and readily observable general interest rates, such as the Johannesburg Interbank Agreed Rate (SA), London Interbank Offered Rate (UK) or an appropriate swap rate, as the benchmark rate to derive the present value of a future cashflow.
- Credit risk: Credit risk is the risk of loss associated with a counterparty's failure or inability to fulfil its contractual obligations. The valuation of the relevant financial instrument takes into account the effect of credit risk on fair value by including an appropriate adjustment for the risk taken.
- Foreign currency exchange prices: Active currency exchange markets exist for most major currencies, and prices are quoted daily on various trading platforms and in financial publications.
- Commodity prices: Observable market prices are available for those commodities that are actively traded on exchanges in SA, London, New York, Chicago and other commercial exchanges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H2 Fair-value measurement – financial instruments continued

H2.1 Valuation of financial instruments continued

Inputs to valuation techniques continued

- **Equity prices:** Prices (and indices of prices) of traded equity instruments are readily observable on JSE Limited or any other recognised international exchange. Present-value techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.
- **Volatility:** Measures of the volatility of actively traded items can be reasonably estimated by the implied volatility in current market prices. The shape and skew of the volatility curve is derived from a combination of observed trades and doubles in the market. In the absence of an active market a methodology to derive these volatilities from observable market data will be developed and utilised.
- **Recovery rates/loss-given default:** These are used as an input to valuation models as an indicator of the severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.
- **Prepayment risk and surrender risk:** Expected repayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data.
- **Servicing costs:** If the cost of servicing a financial asset or financial liability is significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability.
- **Dividends:** Consistent consensus dividend forecasts adjusted for internal investment analysts' projections can be applied to each share. Forecasts are usually available for the current year plus one additional year. Thereafter, a constant growth rate would be applied to the specific dates into the future for each individual share.
- **Inception profit (day 1 gain or loss):** The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique, the variables of which include data from observable markets only.

Valuation adjustments

To estimate a reliable fair value, where appropriate, the group applies certain valuation adjustments to the pricing information derived from the above sources. In making appropriate adjustments, the group considers certain adjustments to the modelled price that market participants would make when pricing that instrument. Factors that would be considered include, but are not limited to, the following:

- **Own credit on financial liabilities:** The carrying amount of financial liabilities held at fair value is adjusted to reflect the effect of changes in the group's own credit spreads. As a result, the carrying value of issued bonds and subordinated-debt instruments that have been designated as FVTPL is adjusted by reference to the movement in the appropriate spreads. The resulting gain or loss is recognised in profit or loss in the consolidated statement of comprehensive income.
- **Counterparty credit spreads:** Adjustments are made to market prices when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameter).

Valuation techniques by instrument

Other short-term securities and government and other securities

The fair value of these instruments is based on quoted market prices from an exchange dealer, broker, industry group or pricing service, when available. When they are unavailable, the fair value is determined by reference to quoted market prices for similar instruments, adjusted, as appropriate, for the specific circumstances of the instruments.

Where these instruments include corporate bonds, the bonds are valued using observable active quoted prices or recently executed transactions, except where observable price quotations are not available. Where price quotations are not available, the fair value is determined based on cashflow models, where significant inputs may include yield curves and bond or single-name credit default swap spreads.

Derivative financial instruments

Derivative contracts can be traded either through an exchange or over the counter (OTC) and are valued using market-standard models and quoted parameter inputs. Parameter inputs are obtained from pricing services, consensus pricing services and recently occurring transactions in active markets, whenever possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices through model calibration procedures. Other inputs are not observable, but can generally be estimated from historical data or other sources.

H2 Fair-value measurement – financial instruments continued

H2.1 Valuation of financial instruments continued

Valuation techniques by instrument continued

Loans and advances

Loans and advances include mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations, and other secured and unsecured loans.

In the absence of an observable market for these instruments, the fair value is determined by using internally developed models that are specific to the instrument and that incorporate all available observable inputs. These models involve discounting the contractual cashflows by using an at-inception credit-adjusted zero-coupon curve. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance.

Investment securities

Investment securities include private-equity investments, listed investments and unlisted investments.

The fair value of listed investments is determined with reference to quoted bid prices at the close of business on the relevant securities exchange.

Where private-equity investments are involved, the exercise of judgement is required due to uncertainties inherent in estimating the fair value. The fair value of private equity is determined using appropriate valuation methodologies that, depending on the nature of the investment, may include an analysis of the investee's financial position and results, risk profiles and prospects, discounted-cashflow analysis, enterprise value comparisons with similar companies, price/earnings comparisons and earnings multiples. For each investment the relevant methodology is applied consistently over time and may be adjusted for changes in market conditions relative to that instrument.

The fair value of unlisted investments is determined using appropriate valuation techniques that may include, but are not limited to, discounted-cashflow analysis, net-asset-value calculations and directors' valuations.

Other assets

Short positions or long positions in equities arise in trading activities where equity shares not owned by the group are sold in the market to third parties. The fair value of these instruments is determined by reference to the gross short/long position valued at the offer rate.

Investments in instruments that do not have a quoted market price in an active market and the fair value of which cannot be reliably measured, as well as derivatives that are linked to and have to be settled by delivery of such unquoted equity instruments, are measured at fair value, using models considered to be appropriate by management.

Amounts owed to depositors

Amounts owed to depositors include deposits under repurchase agreements, negotiable certificates of deposit and other deposits. These instruments incorporate all market risk factors, including a measure of the group's credit risk relevant for that financial liability when designated as FVTPL.

The fair value of these financial liabilities is determined by discounting the contractual cashflows using a Nedbank Limited-specific credit-adjusted yield curve that reflects the level at which the group would issue similar instruments at the reporting date. The market risk parameters are valued consistently to similar instruments held as assets.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. When the fair value of a financial liability cannot be reliably determined, the liability is recorded at the amount due. Fair value is considered reliably measurable if:

- the variability in the range of reasonable fair-value estimates is not significant for that instrument; or
- the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

Investment contract liabilities

The fair value of investment contract liabilities is determined by reference to the fair value of the underlying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H2 Fair-value measurement – financial instruments continued

H2.1 Valuation of financial instruments continued

Valuation techniques by instrument continued

Long-term debt instruments

The fair value of long-term debt instruments is determined by reference to published market values on the relevant exchange, when they are:

- available; and
- considered to be trading with sufficient volume and frequency.

When the above conditions are not met, the fair value is determined using models considered to be appropriate by management. As far as possible, inputs to these models will leverage observable inputs for similar instruments with similar coupons and maturities.

Complex instruments

These instruments are valued by using internally developed models that are specific to the instrument and that have been calibrated to market prices. In less active markets data is obtained from less frequent market transactions and broker quotes, and through extrapolation and interpolation techniques. Where observable prices or inputs are not available, other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions are used. These models are continually reviewed and assessed to ensure that the best available data is being used in the determination of fair value.

Other liabilities

Short positions or long positions in equities arise in trading activities where equity shares, not owned by the group, are sold in the market to third parties. The fair value of these instruments is determined by reference to the gross short/long position valued at the offer rate.

Where the group has assets and liabilities with offsetting market risks, it may use middle-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position, as appropriate.

H2 Fair-value measurement – financial instruments continued

H2.1 Valuation of financial instruments continued

Summary of principal valuation techniques – level 2 instruments

The following table sets out the group's principal valuation techniques used in determining the fair value of financial assets and financial liabilities classified as level 2 in the fair-value hierarchy:

	Valuation technique	Key inputs
Assets		
Other short-term securities	Discounted-cashflow model	Discount rates
Derivative financial instruments	Discounted-cashflow model	Discount rates
	Black-Scholes model	Risk-free rates and volatilities
	Multiple valuation techniques	Valuation multiples
	Discounted-cashflow model	Discount rates
Government and other securities	Discounted-cashflow model	Interest rate curves
Loans and advances	Discounted-cashflow model	Money market rates and interest rates
Investment securities	Adjusted net asset value	Underlying price of market-traded instruments
	Dividend yield method	Dividend growth rates
Liabilities		
Derivative financial instruments	Discounted-cashflow model	Discount rates
	Black-Scholes model	Risk-free rates and volatilities
	Multiple valuation techniques	Valuation multiples
Amounts owed to depositors	Discounted-cashflow model	Discount rates
Provisions and other liabilities	Discounted-cashflow model	Discount rates
Long-term debt instruments	Discounted-cashflow model	Discount rates

Summary of principal valuation techniques – level 3 instruments

The summary of the valuation techniques applicable to those financial assets and financial liabilities classified as level 3 in the fair-value hierarchy is set out in note H2.7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H2 Fair-value measurement – financial instruments continued

H2.2 Fair-value hierarchy

H2.2.1 Financial assets

Rm	Notes	At fair value through profit or loss					
		Total financial assets	Total financial assets recognised at amortised cost	Total financial assets recognised at fair value	Mandatorily at fair value		
					Level 1	Level 2	Level 3
2019		1 039 982	872 495	167 487	33 331	101 512	7 016
Cash and cash equivalents	C6	29 623	29 623	–			
Other short-term securities	C4	42 395	9 340	33 055		33 055	
Derivative financial instruments	C7	34 923		34 923	61	34 862	
Government and other securities	C3	127 662	92 345	35 317	32 599	2 718	
Loans and advances	CI	787 105	731 893	55 212		30 017	
Other assets	G3	9 294	9 294	–			
Investment securities	EI	8 980		8 980	671	860	7 016
2018		947 454	811 394	136 060	25 559	80 630	5 545
Cash and cash equivalents	C6	27 720	27 720	–			
Other short-term securities	C4	57 844	21 500	36 344		36 344	
Derivative financial instruments	C7	22 412		22 412	38	22 374	
Government and other securities	C3	96 123	67 628	28 495	25 505	2 990	
Loans and advances	CI	725 792	683 770	42 022		18 129	
Other assets	G3	10 776	10 776	–			
Investment securities	EI	6 787		6 787	16	793	5 545

Summary of fair-value hierarchies		Total financial assets recognised at fair value	
Rm		2019	2018
Other short-term securities		33 055	36 344
Derivative financial instruments		34 923	22 412
Government and other securities		35 317	28 495
Loans and advances		55 212	42 022
Investment securities		8 980	6 787
		167 487	136 060

Reconciliation to categorised statement of financial position		Mandatorily at fair value	
Rm		2019	2018
Level 1		33 331	25 559
Level 2		101 512	80 630
Level 3		7 016	5 545
		141 859	111 734

Reconciliation to statement of financial position		
Rm		
Total financial assets		
Total non-financial assets		
Total assets		

At fair value through profit or loss			At FVOCI					
Level 1	Designated Level 2	Level 3	Debt instruments			Equity instruments		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
-	9 323	-	-	15 872	-	-	-	433
	9 323			15 872				433
-	5 467	-	-	18 426	-	-	-	433
	5 467			18 426				433

Total financial assets classified as level 1		Total financial assets classified as level 2		Total financial assets classified as level 3	
2019	2018	2019	2018	2019	2018
61	38	33 055	36 344		
32 599	25 505	34 862	22 374		
		2 718	2 990		
		55 212	42 022		
671	16	860	793	7 449	5 978
33 331	25 559	126 707	104 523	7 449	5 978
Designated as FVTPL		FVOCI: Debt instruments		FVOCI: Equity instruments	
2019	2018	2019	2018	2019	2018
9 323	5 467	15 872	18 426	433	433
9 323	5 467	15 872	18 426	433	433
		Note	2019	2018	
		HI	1 039 982	947 454	
		HI	28 328	24 169	
			1 068 310	971 623	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H2 Fair-value measurement – financial instruments continued

H2.2 Fair-value hierarchy

H2.2.2 Financial liabilities

Rm	Notes
2019	
Derivative financial instruments	C7
Amounts owed to depositors	D1
Provisions and other liabilities	J1.1
Long-term debt instruments	D2

Rm	Notes
2018	
Derivative financial instruments	C7
Amounts owed to depositors	D1
Provisions and other liabilities	J1.1
Long-term debt instruments	D2

Summary of fair-value hierarchies	Total financial liabilities recognised at fair value		Total financial liabilities classified as level 1		Total financial liabilities classified as level 2	
Rm	2019	2018	2019	2018	2019	2018
Derivative financial instruments	27 621	19 761	16	8	27 605	19 753
Amounts owed to depositors	33 772	21 579	75		33 697	21 579
Provisions and other liabilities	879	466	879	466		
	62 272	41 806	970	474	61 302	41 332

Reconciliation to categorised statement of financial position

Rm	Mandatorily at fair value	
	2019	2018
Level 1	970	474
Level 2	61 302	41 332
	62 272	41 806

Reconciliation to statement of financial position

Rm	Note	2019	2018
Total financial liabilities	H1	971 901	886 919
Total equity and non-financial liabilities	H1	96 409	84 704
Total equity and liabilities		1 068 310	971 623

The tables presented above analyse the financial assets and financial liabilities that are measured at fair value by level of fair-value hierarchy

At FVTPL					
Total financial liabilities	Total financial liabilities recognised at amortised cost	Total financial liabilities recognised at fair value	Mandatorily at fair value		
			Level 1	Level 2	Level 3
971 901	909 629	62 272	970	61 302	-
27 621		27 621	16	27 605	
881 287	847 515	33 772	75	33 697	
3 381	2 502	879	879		
59 612	59 612	-			

At FVTPL					
Total financial liabilities	Total financial liabilities recognised at amortised cost	Total financial liabilities recognised at fair value	Mandatorily at fair value		
			Level 1	Level 2	Level 3
886 919	845 113	41 806	474	41 332	-
19 761		19 761	8	19 753	
806 487	784 908	21 579		21 579	
5 261	4 795	466	466		
55 410	55 410	-			

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Valuation techniques using market data that is either directly or indirectly observable. Various factors influence the availability of observable data and these may vary from product to product and change over time. Factors include, for example, the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the market, the maturity of market modelling and the nature of the transaction (bespoke or generic).

Level 3: Valuation techniques that include significant inputs that are unobservable. To the extent that a valuation is based on inputs that are not market-observable the determination of the fair value can be more subjective, dependent on the significance of the unobservable inputs to the overall valuation. Unobservable inputs are determined based on the best information available and may include reference to similar instruments, similar maturities, appropriate proxies or other analytical techniques.

as required by IFRS 13: Fair Value Measurement. The levels of the hierarchy are defined as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H2 Fair-value measurement – financial instruments continued

H2.3 Details of changes in valuation techniques

There have been no significant changes to valuation techniques.

H2.4 Transfers between levels of the fair-value hierarchy

There were no significant transfers between level 1 and level 2 of the fair-value hierarchy during 2019.

In terms of the group's policy, transfers of financial instruments between levels of the fair-value hierarchy are deemed to have occurred at the end of the reporting period.

H2.5 Level 3 reconciliation

Assets

Rm	Opening balance at 1 January	Gains in non- interest revenue in profit for the year	(Losses)/ Gains relating to investments in equity instruments at FVOCI and debt instruments at FVOCI in OCI for the year	Purchases	Issues	Sales	Settle- ments	Transfers from level 2	Closing balance at 31 December
2019									
At FVTPL – Mandatorily at fair value	5 545	–	(43)	2 585	1 976	(772)	(2 275)	–	7 016
Investment securities	5 545		(43)	2 585	1 976	(772)	(2 275)		7 016
At FVOCI – Equity instruments	433	–	–	–	–	–	–	–	433
Investment securities	433								433
Total financial assets classified as level 3	5 978	–	(43)	2 585	1 976	(772)	(2 275)	–	7 449
2018									
At FVTPL – Mandatorily at fair value	4 302	211	–	–	2 201	(181)	(988)	–	5 545
Investment securities	4 302	211			2 201	(181)	(988)		5 545
At FVOCI – Equity instruments	410	–	3	–	–	–	–	20	433
Investment securities	410		3					20	433
Total financial assets classified as level 3	4 712	211	3	–	2 201	(181)	(988)	20	5 978

H2 Fair-value measurement – financial instruments continued

H2.6 Unrealised gains

The unrealised gains arising on instruments classified as level 3 include the following:

	2019 Rm	2018 Rm
Private-equity gains		211
	-	211

H2.7 Effect of changes in significant unobservable assumptions

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques that include assumptions that are not market-observable. Where these scenarios apply, the group performs stress testing on the fair value of the relevant instruments. When performing the stress testing, appropriate levels for the unobservable input parameters are chosen so that they are consistent with prevailing market evidence and in line with the group's approach to valuation control. The following information is intended to illustrate the potential impact of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable input parameters and which are classified as level 3 in the fair-value hierarchy. However, the disclosure is neither predictive nor indicative of future movements in fair value.

The following table shows the effect on the fair value of changes in unobservable input parameters to reasonably possible alternative assumptions:

	Valuation technique	Significant unobservable input	Variance in fair value %	Amount recognised in the statement of financial position Rm	Favourable change in value Rm	Un-favourable change in value Rm
2019 Assets						
Investment securities	Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations, dividend yields	Valuation multiples, correlations, volatilities and credit spreads	Between (17) and 21	7 449	1 566	(1 239)
Total financial assets classified as level 3				7 449	1 566	(1 239)
2018 Assets						
Investment securities	Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations and dividend yields	Valuation multiples, correlations, volatilities and credit spreads	Between (10) and 13	5 978	788	(620)
Total financial assets classified as level 3				5 978	788	(620)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H3 Assets and liabilities not measured at fair value for which fair value is disclosed

Certain financial instruments of the group are not carried at fair value and are measured at amortised cost. The calculation of the fair value of the financial instruments incorporates the group's best estimate of the value at which the financial assets could be exchanged, or financial liabilities transferred, between market participants at the measurement date. The group's estimate of what fair value is does not necessarily represent what it would be able to sell the asset for or transfer the respective financial liability for in an involuntary liquidation or distressed sale.

The fair values of these respective financial instruments at the reporting dates detailed below are estimated only for the purpose of IFRS disclosure:

Rm	Carrying value	Fair value	Level 1	Level 2	Level 3
2019					
Financial assets	833 578	809 538	63 219	26 929	719 390
Other short-term securities	9 340	9 332		9 332	
Government and other securities	92 345	91 088	63 219	17 597	10 272
Loans and advances	731 893	709 118			709 118
Financial liabilities	59 612	62 115	38 130	23 985	-
Long-term debt instruments	59 612	62 115	38 130	23 985	
2018					
Financial assets	772 898	760 518	44 554	21 460	694 504
Other short-term securities	21 500	21 460		21 460	
Government and other securities	67 628	66 844	44 554		22 290
Loans and advances	683 770	672 214			672 214
Financial liabilities	55 410	56 226	27 944	28 282	-
Long-term debt instruments	55 410	56 226	27 944	28 282	

Loans and advances

Loans and advances, recognised in note C1.1, that are not recognised at fair value principally comprise variable-rate financial assets. The interest rates on these variable-rate financial assets are adjusted when the applicable benchmark interest rate changes.

Loans and advances are not actively traded in most markets and it is therefore not possible to determine the fair value of these loans and advances using observable market prices and market inputs. Due to the unique characteristics of the loans and advances portfolio and the fact that there have been no recent transactions involving the disposal of such loans and advances, there is no basis to determine a price that could be negotiated between market participants in an orderly transaction. The group is not currently in the position of a forced sale of such underlying loans and advances and it would therefore be inappropriate to value the loans and advances on a forced-sale basis.

For specifically impaired loans and advances the carrying value, as determined after consideration of the group's IFRS 9 ECLs, is considered the best estimate of fair value.

The group has developed a methodology and model to determine the fair value of the gross exposures for the performing loans and advances measured at amortised cost. This model incorporates the use of average interest rates and projected monthly cashflows per product type. Future cashflows are discounted using interest rates at which similar loans would be granted to borrowers with similar credit ratings and maturities. Methodologies and models are updated on a continuous basis for changes in assumptions, forecasts and modelling techniques. Future forecasts of the group's probability of default (PDs) and loss-given defaults (LGDs) for the periods 2020 to 2022 (2018: for the periods 2019 to 2021) are based on the latest available internal data and are applied to the projected cashflows of the first three years. Thereafter PDs and LGDs are gradually reverted to their long-run averages and are applied to the remaining projected cashflows. Inputs into the model include various assumptions used in the pricing of loans and advances. The determination of such inputs is highly subjective and therefore any change to one or more of the assumptions may result in a significant change in the determination of the fair value of loans and advances.

H3 Assets and liabilities not measured at fair value for which fair value is disclosed continued

Government and other securities

The fair value of high-quality SA government bonds listed in an active market is based on the available market prices (level 1). The fair value of corporate bonds not quoted or traded in an active market is based on the discounted-cashflow methodology (level 2) and those that use significant unobservable inputs (level 3). The discounted-cashflow methodology principles (level 3) are the same as those used to determine the fair value of loans and advances. See note C3 for further detail.

Other short-term securities

The fair value of other short-term securities is determined using a discounted-cashflow analysis (level 2). See note C4 for further detail.

Long-term debt instruments

The fair value of long-term debt instruments not quoted or where the market is considered to be inactive is based on the available market prices (level 1) or the discounted-cashflow analysis (level 2).

Amounts owed to depositors

The amounts owed to depositors principally comprise variable-rate liabilities and hedge-accounted fixed-rate liabilities. The carrying value of the amounts owed to depositors approximates fair value because the instruments reprice to current market rates at frequent intervals. In addition, a significant portion of the balance is callable or is short term in nature.

Cash and cash equivalents, other assets, mandatory deposits with central banks, and provisions and other liabilities

The carrying values of cash and cash equivalents, other assets, mandatory deposits with central banks and provisions and other liabilities are considered a reasonable approximation of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals.

H4 Financial instruments designated as fair value through profit or loss

The group has satisfied the criteria for designation of financial instruments as FVTPL in terms of the accounting policies.

Various fixed-rate advances and liabilities are entered into by the group. The overall interest rate risk of the group is economically hedged by way of interest rate swaps and managed by the Group Asset and Liability Committee (ALCO). The interest rate risk is then traded to the market through the central trading desk.

The swaps and frontdesk trading instruments meet the definition of 'derivatives', and are measured at fair value in terms of IFRS 9. Fixed-rate advances and liabilities, however, do not meet this definition. Therefore, to avoid any accounting mismatch of holding the advances at amortised cost and the hedging instruments at fair value, the advances and liabilities are designated as FVTPL and are held at fair value.

Various instruments are designated as FVTPL, which is consistent with the group's documented risk management or investment strategy. The fair value of the instruments is managed and reviewed on a regular basis by the risk/investment functions of the group. The risk of the portfolio is measured and monitored on a fair-value basis.

H4.1 Financial assets designated as FVTPL

Rm	Maximum exposure to credit risk	
	2019	2018
Mortgage loans	3 785	2 188
Loans and advances (secured and unsecured)	5 535	3 278
Other loans	3	1
	9 323	5 467

Nedbank Limited has estimated the change in credit risk as being the amount arising from the change in fair value of the financial instrument that is not attributable to changes in market conditions that give rise to market risk. Individual credit spreads for loans or receivables that have been designated as FVTPL are determined at inception of the deal. The credit spread is calculated as the difference between the benchmark interest rate and the interest rate the client is charged. Subsequent changes in the benchmark interest rate and the credit spread give rise to changes in fair value in the financial instrument. Loans and advances are reviewed for observable changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. No credit derivatives are used to hedge the credit risk on any of the financial assets designated as FVTPL.

A breakdown of the financial assets that are designated as FVTPL can be found in note H1. A detailed explanation of how each financial asset is valued can be found in note H2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H5 Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when the group has a legally enforceable right to set off the financial asset and financial liability and the group has an intention of settling the asset and liability on a net basis or realising the asset and settling the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

In accordance with the requirements of IFRS 7: Financial Instruments: Disclosures, the table below sets out the impact of:

- recognised financial instruments that are set off in the statement of financial position in accordance with the requirements of IAS 32: Financial Instruments: Presentation; and
- financial instruments that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions that did not qualify for presentation on a net basis.

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

Certain master netting arrangements may not meet the criteria for offsetting in the statement of financial position because:

- these agreements create a right of setoff that is enforceable only following an event of default, insolvency or bankruptcy; and
- the group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Master netting arrangements and similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements.

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

2019

Rm	Effects of netting on the statement of financial position			Related amounts not set off in the statement of financial position			Total amounts recognised in the statement of financial position
	Gross amounts	Amounts set off in the statement of financial position in accordance with IAS 32	Net amounts included in the statement of financial position ¹	Amounts that may be netted off on the occurrence of a future event	Net amounts reflecting the effect of master netting arrangements	Amounts not subject to IFRS 7 offsetting disclosure ²	
Financial assets							
Derivative financial assets	33 887	(1 445)	32 442	(21 356)	11 086	2 481	34 923
Loans and advances	71 418	(60 475)	10 943		10 943	776 167	787 110
Cash and cash equivalents	3 347	(1 650)	1 697		1 697	6 502	8 199
Total financial assets	108 652	(63 570)	45 082	(21 356)	23 726	785 150	830 232
Financial liabilities							
Derivative financial liabilities	(33 728)	6 815	(26 913)	21 356	(5 557)	(708)	(27 621)
Amounts owed to depositors	(95 699)	56 755	(38 944)		(38 944)	(842 353)	(881 297)
Total financial liabilities	(129 427)	63 570	(65 857)	21 356	(44 501)	(843 061)	(908 918)

¹ Includes the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to master netting agreements, but where no offsetting has been applied. Excludes financial instruments that are neither subject to setoff nor master netting agreements.

² Includes financial instruments that are neither subject to setoff nor master netting agreements.

H5 Offsetting financial assets and financial liabilities continued

2018

Rm	Effects of netting on the statement of financial position			Related amounts not set off in the statement of financial position			Total amounts recognised in the statement of financial position
	Gross amounts	Amounts set off in the statement of financial position in accordance with IAS 32 ¹	Net amounts included in the statement of financial position ²	Amounts that may be netted off on the occurrence of a future event	Net amounts reflecting the effect of master netting arrangements	Amounts not subject to IFRS 7 offsetting disclosure ³	
Financial assets							
Derivative financial assets	22 480	(1 123)	21 357	(15 828)	5 529	1 055	22 412
Loans and advances	52 532	(42 285)	10 247		10 247	680 851	725 792
Cash and cash equivalents	1 914	(1 553)	361		361	7 570	7 931
Total financial assets	76 926	(44 961)	31 965	(15 828)	16 137	689 476	756 135
Financial liabilities							
Derivative financial liabilities	(23 010)	4 311	(18 699)	15 828	(2 871)	(1 062)	(19 761)
Amounts owed to depositors	(99 019)	40 650	(58 369)		(58 369)	(711 758)	(806 487)
Total financial liabilities	(122 029)	44 961	(77 068)	15 828	(61 240)	(712 820)	(826 248)

¹ During the year, the group reviewed and refined its processes for identification of financial instruments subject to offsetting. As a result, the comparative information has been restated.

² Includes the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to master netting agreements, but where no offsetting has been applied. Excludes financial instruments that are neither subject to setoff nor master netting agreements.

³ Includes financial instruments that are neither subject to setoff nor master netting agreements.

H6 Collateral

Accounting policy

Financial and non-financial assets are held as collateral in respect of recognised financial assets. Such collateral, except cash collateral, is not recognised by the group, as the group does not retain the risks and rewards of ownership, and is obliged to return such collateral to counterparties on settlement of the related obligations. Should a counterparty be unable to settle its obligations, the group takes possession of collateral or calls on other credit enhancements as full or part settlement of such amounts. These assets are recognised when the applicable recognition criteria under IFRS are met, and the group's accounting policies are applied from the date of recognition.

Cash collateral is recognised when the group receives the cash and is reported as amounts received from depositors. Collateral is also given to counterparties under certain financial arrangements, but such assets are not derecognised where the group retains the risks and rewards of ownership. Such assets are at risk to the extent that the group is unable to fulfil its obligations to counterparties.

H6.1 Collateral pledged

The group has pledged government and other securities (note C3) and negotiable certificates of deposit (note C4) amounting to R25 551m (2018: R22 595m) as collateral for deposits received under repurchase agreements, of which R12 611m (2018: R9 600m) relates to sell-/buybacks. These amounts represent assets that have been transferred, but that do not qualify for derecognition under IFRS 9. The associated liabilities of R25 349m (2018: R21 443m), of which R12 734m (2018: R9 241m) relates to sell-/buybacks, are disclosed in note D1.

These transactions are entered into under terms and conditions that are standard industry practice in securities borrowing and lending activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: FINANCIAL INSTRUMENTS continued

H6 Collateral continued

H6.2 Collateral held to mitigate credit risk

Credit risk mitigation refers to the actions that can be taken by the group to manage its exposure to credit risk so as to align such exposure with its risk appetite. This action can be proactive or reactive and the level of mitigation that a bank desires may be influenced by external factors such as the economic cycle or internal factors such as a change in risk appetite.

References to credit risk mitigation normally focus on the taking of collateral as well as the management of such collateral. While collateral is an essential component of credit risk mitigation, there are a number of other methods used for mitigating credit risk. The group's credit risk policy acknowledges the role to be played by credit risk mitigation in the management of credit risk, but emphasises that collateral on its own is not necessarily a justification for lending. The primary consideration for any lending opportunity should rather be the borrower's financial position and ability to repay the facility from its own resources and cashflow.

The group generally segregates collateral received into the following two classes:

- **Financial collateral**

The group takes financial collateral to support credit exposures in the trading book. This includes cash and debt securities in respect of derivative transactions.

These transactions are entered into under terms and conditions that are standard industry practice in securities borrowing and lending activities.

- **Non-financial collateral**

In secured financial transactions the group takes other physical collateral to recover outstanding exposure in the event of the borrower being unable or unwilling to fulfil its obligations. This includes mortgages over property (both residential and commercial), liens over business assets (including, but not limited to, plant, vehicles, aircraft, inventories, trade debtors and financial securities that have a tradable market, such as shares and other securities) and guarantees from parties other than the borrower.

Should a counterparty be unable to settle its obligations, the group takes possession of collateral as full or part settlement of such amounts. In general, the group seeks to dispose of such property and other assets that are not readily convertible into cash as soon as the market for the relevant asset permits.

The group monitors the concentration levels of collateral to ensure that it is adequately diversified. In particular, the following collateral types are common in the marketplace:

- **Retail portfolio**

- » Mortgage lending that are secured by mortgage bonds over residential property.
- » Instalment credit transactions that are secured by the assets financed.
- » Overdrafts that are either unsecured or secured by guarantees, suretyships or pledged securities.

- **Wholesale portfolio**

- » Commercial properties that are supported by the property financed and a cession of the leases.
- » Instalment credit type of transactions that are secured by the assets financed.
- » Working capital facilities when secured, usually by either a claim on specific assets (fixed assets, inventories or trade debtors) or other collateral, such as guarantees.
- » Term and structured lending, which usually relies on guarantees or credit derivatives (where only internationally recognised and enforceable agreements are used).
- » Credit exposure to other banks, where the risk is commonly mitigated through the use of financial control and netting agreements.

The valuation and management of collateral across all business units of the group are governed by the Group Credit Policy.

Management considers collateral held in the retail portfolio to be homogeneous by nature and therefore more reliably identifiable. Generally, valuations in respect of mortgage portfolios are updated using statistical index models, published data by service providers are used for motor vehicles, and physical inspection is performed for other types of collateral. Physical valuations are performed six-monthly on the defaulted book. At 31 December 2019 management considered R273 363m (2018: R246 149m) to be a reasonable estimate of the gross collateral held in the retail portfolio. The 2018 gross collateral held in the retail portfolio has been restated by R1 176m due to a change in methodology for determining the gross value of collateral.

H6 Collateral continued

H6.2 Collateral held to mitigate credit risk continued

Management considers collateral held in the wholesale portfolio to be non-homogeneous and often exhibiting illiquid characteristics and therefore valuing collateral of this nature requires a significant level of judgement. Collateral of this nature is valued at the inception of a transaction and at least annually during the life of the transaction, usually as part of the facility review, which includes a review of the security structure and covenants to ensure that proper title is retained over the relevant collateral. At 31 December 2019 management considered R230 404m (2018: R236 852m) to be a reasonable estimate of the gross collateral held in the wholesale portfolio.

A further consideration with regard to the valuation and management of collateral is that when credit intervention is required, or in the case of default, all items of collateral relating to that particular client portfolio are immediately revalued. In such instances physical inspection by an expert valuer is required. This process also ensures that an appropriate impairment is evaluated timeously.

As part of the reverse repurchase agreements, the group has received securities as collateral that are allowed to be sold or repledged in the absence of default. The fair value of these securities at the reporting date amount to R18 315m (2018: R9 081m), of which none have been sold or repledged.

H6.3 Collateral taken possession of and recognised in the statement of financial position

Included in properties in possession (note C1.1) is an amount of R55m (2018: R88m), which represents retail assets the group has acquired during the year by taking possession of collateral held as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: SHARE-BASED PAYMENTS

Accounting policy

Equity-settled share-based payment transactions with employees

The group receives services from employees as consideration for equity instruments of the group. The fair value of the employee services is measured at the grant date, by reference to the fair value of the equity instruments.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for the equity instruments, will be received in the future during the vesting period. The services are accounted for in profit or loss in the statement of comprehensive income as they are rendered during the vesting period, with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Where the equity instruments are no longer outstanding, the accumulated share-based payment reserve in respect of those equity instruments is transferred to retained earnings.

Nedbank Group Limited shares, share options over Nedbank Group Limited shares and equity instruments in respect of Nedbank Group Limited shares are granted to employees as part of their remuneration package as services are rendered. The following are the share and share option schemes that have been in place during the year. All schemes are equity-settled at group level, except the Nedbank UK schemes, the Nedbank Wealth Management International schemes and the Nedbank Africa scheme, all of which are cash-settled.

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until the vesting date, with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the statements of comprehensive income as staff costs.

Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using standard-option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments. Vesting conditions, other than market conditions, are not taken into account in determining fair value. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount.

Share-based payment transactions with persons or entities other than employees

Transactions in which equity instruments are issued to historically disadvantaged individuals and organisations in SA for less than fair value are accounted for as share-based payments. Where the group has issued such instruments and expects to receive services in return for equity instruments, the share-based payments charge is spread over the related vesting (ie service) period. In instances where such services could not be identified the cost has been expensed with immediate effect. The valuation techniques are consistent with those mentioned above.

As the group cannot reliably estimate the fair value of services received nor the value of additional benefits received, the group rebuts the presumption that such services and business can be measured reliably. The group therefore measures its fair value by reference to the fair value of the shares, share options or equity instruments granted, in line with the group's accounting policy. The fair value of share option awards is measured at the grant date using the Black-Scholes valuation model. For the non-option equity awards the fair value is measured by reference to the listed share price, which includes the participant's right to dividends over the vesting period.

II Description of arrangements

Scheme	Trust/ Special- purpose vehicle (SPV)	Description	Vesting requirements	Maximum term
Traditional employee schemes				
Nedbank Group (2005) Share Option and Restricted-share Scheme	Nedbank Group (2005) Share Scheme Trust	Restricted shares are granted to key personnel to motivate senior employees to remain with the group. The granting of restricted shares is based on job level, merit and performance, and is entirely at the discretion of the trustees acting on recommendations of executive management. Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.	Three years' service and achievement of performance targets based on average return on equity, as well as the Nedbank Group Limited share price performance against the financial index (2017 tranche). In addition, the grants include a strategic collaboration condition with Old Mutual applicable to group and cluster executives only. Where the performance target is not met, 50% will vest where applicable, provided that the three years' service has been reached. The performance condition against the financial index was replaced with diluted headline earnings per share compound annual growth rate in 2018.	3 years
Nedbank Group (2005) Matched-share Scheme	Nedbank Group (2005) Share Scheme Trust	All employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares.	Three years' service and achievement of Nedbank Group Limited performance target. Where this performance target is not met, 50% will vest provided that the three years' service has been reached.	3 years
Nedbank UK Long-term Incentive Plan (LTIP)	n/a	Employees who perform services in the United Kingdom on behalf of the group will be considered for participation in the UK LTIP. Selected employees will be granted share appreciation rights (SARs). SARs are similar to options in that they are granted at a predetermined exercise price vesting and expiry date. When the participant elects to exercise SARs, the employer settles the difference between the current market price and the exercise price in cash.	Completion of three years' service, from grant date, subject to corporate performance targets being met.	3 years
Nedbank UK Matched Scheme	n/a	All UK employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares.	Completion of three years' service, from grant date, subject to corporate performance targets being met.	3 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: SHARE-BASED PAYMENTS continued

II Description of arrangements continued

Scheme	Trust/ Special- purpose vehicle (SPV)	Description	Vesting requirements	Maximum term
Nedbank Wealth Management International Long-term Incentive Plan (LTIP)	n/a	Restricted shares are granted to key Nedbank Wealth Management International personnel to motivate senior employees to remain with the group. The granting of restricted shares is based on job level, merit and performance, and is entirely at the discretion of the trustees acting on recommendations of executive management. Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.	Completion of three years' service, from grant date, subject to corporate performance targets being met.	3 years
Nedbank Wealth Management International Matched Scheme	n/a	All Nedbank Wealth Management International employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares.	Completion of three years' service, from grant date, subject to corporate performance targets being met.	3 years
Nedbank Africa Restricted-share Scheme	n/a	Restricted shares are granted to key Nedbank Africa personnel to motivate senior employees to remain with the group. The granting of restricted shares is based on job level, merit and performance, and is entirely at the discretion of the trustees acting on recommendations of executive management. Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.	Completion of three years' service, from grant date, subject to corporate performance targets being met.	3 years
Nedbank Africa Matched-share Scheme	n/a	All employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested, which will be matched by the group with shares.	Three years' service and achievement of corporate performance targets. Where these performance targets are not met, 50% will vest provided that the three years' service has been reached.	3 years

12 Effect on profit and financial position

	Share-based payments expense		Share-based payments reserve/liability	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Traditional employee schemes	570	738	1 430	1 421
Nedbank Group (2005) Share Option and Restricted-share Scheme	421	608	1 137	1 123
Nedbank Group (2005) Matched-share Scheme	156	123	251	253
Nedbank UK Long-term Incentive Plan ¹	(11)	(3)	7	13
Nedbank UK Matched-share Scheme ¹	1	2	2	2
Nedbank Wealth Management International Long-term Incentive Plan ¹	(5)	4	11	14
Nedbank Wealth Management International Matched-share Scheme ¹	1	1	3	2
Nedbank Africa Restricted-share Scheme and Matched-share Scheme ¹	7	3	19	14
Nedbank Eyethu BEE schemes	-	3	-	6
Black Executive Scheme ²		2		6
Black Management Scheme ²		1		
	570	741	1 430	1 427

¹ This scheme is cash-settled and therefore creates a liability.

² On 31 March 2019, the Black Executive and Black Management shares have fully vested. However, the schemes will wind down in March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: SHARE-BASED PAYMENTS continued

I3 Movements in number of instruments

	2019		2018	
	Number of instruments	Weighted-average exercise price R	Number of instruments	Weighted-average exercise price R
Nedbank Group (2005) Share Option and Restricted-share Scheme				
Outstanding at the beginning of the year	9 369 675		9 401 279	
Granted	3 446 610		2 983 119	
Transfers			5 472	
Forfeited	(271 571)		(415 109)	
Exercised	(3 476 881)		(2 605 086)	
Outstanding at the end of the year	9 067 833		9 369 675	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (R)		256,48		299,11
Nedbank Group (2005) Matched-share Scheme				
Outstanding at the beginning of the year	2 178 999		2 245 223	
Granted	974 666		711 361	
Forfeited	(129 947)		(148 130)	
Exercised	(788 276)		(629 455)	
Outstanding at the end of the year	2 235 442		2 178 999	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (R)		261,32		285,00
Nedbank UK Long-term Incentive Plan				
Outstanding at the beginning of the year	81 720		94 132	
Granted	33 095		18 179	
Forfeited	(20 265)		(2 957)	
Exercised	(19 942)		(27 634)	
Outstanding at the end of the year	74 608		81 720	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (GBP)		-		-
Nedbank UK Matched-share Scheme				
Outstanding at the beginning of the year	12 833		16 779	
Granted	3 982		3 294	
Exercised	(4 198)		(7 240)	
Outstanding at the end of the year	12 617		12 833	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (GBP)		-		-

13 Movements in number of instruments continued

	2019		2018	
	Number of instruments	Weighted-average exercise price R	Number of instruments	Weighted-average exercise price R
Nedbank Wealth Management International Long-term Incentive Plan				
Outstanding at the beginning of the year	101 331		76 267	
Granted	59 079		50 826	
Forfeited			(4 602)	
Transfers	985			
Exercised	(31 060)		(21 160)	
Outstanding at the end of the year	130 335		101 331	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (GBP)		-		-
Nedbank Wealth Management International Matched-share Scheme				
Outstanding at the beginning of the year	15 961		13 059	
Granted	12 681		7 024	
Forfeited	(151)			
Exercised	(4 146)		(4 122)	
Outstanding at the end of the year	24 345		15 961	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (GBP)		-		-
Nedbank Africa Restricted-share Scheme				
Outstanding at the beginning of the year	100 734		107 264	
Granted	45 727		35 764	
Transfers			(5 472)	
Forfeited	(11 898)		(20 406)	
Exercised	(29 184)		(16 416)	
Outstanding at the end of the year	105 379		100 734	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (R)		-		-
Nedbank Africa Matched-share Scheme				
Outstanding at the beginning of the year	3 982		2 840	
Granted	3 028		1 142	
Exercised	(2 109)			
Outstanding at the end of the year	4 901		3 982	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (GBP)		-		-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: SHARE-BASED PAYMENTS continued

13 Movements in number of instruments continued

	2019		2018	
	Number of instruments	Weighted-average exercise price R	Number of instruments	Weighted-average exercise price R
Black Executive Scheme				
Outstanding at the beginning of the year	115 852		287 101	
Exercised	(115 852)		(171 249)	
Outstanding at the end of the year	-		115 852	
Exercisable at the end of the year	-	-	70 807	171,83
Weighted-average share price for share instruments exercised (R)		255,90		285,25
Black Management Scheme				
Outstanding at the beginning of the year	5 944		83 248	
Forfeited			(2 125)	
Exercised	(5 944)		(47 490)	
Expired			(27 689)	
Outstanding at the end of the year	-		5 944	
Exercisable at the end of the year	-	-	5 944	161,90
Weighted-average share price for share instruments exercised (R)		251,24		279,80

14 Instruments outstanding at the end of the year by exercise price

	2019		2018	
	Number of instruments	Weighted-average remaining contractual life (years)	Number of instruments	Weighted-average remaining contractual life (years)
Nedbank Group (2005) Share Option and Restricted-share Scheme				
0,00	9 067 833	1,3	9 369 675	1,2
	9 067 833	1,3	9 369 675	1,2
Nedbank Group (2005) Matched-share Scheme				
0,00	2 235 442	1,4	2 178 999	1,2
	2 235 442	1,4	2 178 999	1,2
Nedbank UK Long-term Incentive Plan				
0,00	74 608	1,4	81 720	1,2
	74 608	1,4	81 720	1,2
Nedbank UK Matched-share Scheme				
0,00	12 617	1,1	12 833	1,2
	12 617	1,1	12 833	1,2

14 Instruments outstanding at the end of the year by exercise price continued

	2019		2018	
	Number of instruments	Weighted-average remaining contractual life (years)	Number of instruments	Weighted-average remaining contractual life (years)
Nedbank Wealth Management International Long-term Incentive Plan				
0,00	130 335	1,5	101 331	1,3
	130 335	1,5	101 331	1,3
Nedbank Wealth Management International Matched-share Scheme				
0,00	24 345	1,7	15 961	1,4
	24 345	1,7	15 961	1,4
Black Executive Scheme				
0,00			14 622	0,2
161,88			39 574	0,2
182,98			24 690	0,6
189,90			36 966	1,2
	-		115 852	0,6
Black Management Scheme				
161,88			5 944	0,2
	-		5 944	0,2
Nedbank Africa Restricted-share Scheme				
0,00	105 379	1,4	100 734	1,0
	105 379	1,4	100 734	1,0
Nedbank Africa Matched-share Scheme				
0,00	4 901	1,1	3 982	1,6
	4 901	1,1	3 982	1,6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: SHARE-BASED PAYMENTS continued

15 Instruments granted during the year

	Nedbank Group (2005) Share Option and Restricted-share Scheme ¹	Nedbank Group (2005) Matched-share Scheme ²	Nedbank UK Long-term Incentive Plan ¹	Nedbank UK Matched Scheme ¹	Nedbank Wealth Management International Long-term Incentive Plan ¹	Nedbank Wealth Management International Matched Scheme ¹	Nedbank Africa Restricted-share Scheme ¹	Nedbank Africa Matched-share Scheme ¹
2019								
Number of instruments granted	3 446 610	974 666	33 095	3 982	59 079	12 681	45 727	3 028
Weighted-average fair value per instrument granted (R)	256,20	213,12	245,62	251,24	258,03	251,24	254,05	251,24
Weighted-average share price (R)	256,20	251,24	245,62	251,24	258,03	251,24	254,05	251,24
Weighted-average life (years)	3	3	3	3	3	3	3	3
Number of participants	1 493	2 245	11	6	19	28	8	1
Weighted-average vesting period (years)	3	3	3	3	3	3	3	3
2018								
Number of instruments granted	2 983 119	711 361	18 179	3 294	50 826	7 024	35 764	1 142
Weighted-average fair value per instrument granted (R) ³	293,21	198,87	295,80	285,00	292,56	285,00	295,79	285,00
Weighted-average share price (R)	293,21	285,54	295,80	285,00	292,56	285,00	295,79	285,00
Weighted-average life (years)	3	3	3	3	3	3	3	3
Number of participants	1 464	2 047	10	4	17	20	55	2
Weighted-average vesting period (years)	3	3	3	3	3	3	3	3

¹ The weighted-average fair value of instruments granted during the year has been calculated using the closing price of Nedbank Group Limited quoted on JSE Limited.

² The weighted-average fair value of instruments granted during the year has been calculated using the closing price of Nedbank Group Limited quoted on JSE Limited of R251,24 (2018: R285,54) less the present value of dividends anticipated over the vesting period.

³ Fair value per instrument has been recalculated in line with a change in the valuation methodology for shares linked to the financial index.

SECTION J: OTHER LIABILITIES

J1 Provisions and other liabilities

Accounting policy

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, in respect of which it is probable that an outflow of economic benefits will occur and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the reasonable estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of discounting is material, the provision is discounted. The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Gains from the expected disposal of assets are not taken into account in measuring provisions. Provisions are reviewed at each reporting date and adjusted to reflect the current reasonable estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by a party outside the group, the reimbursement is recognised when it is virtually certain that it will be received if the group settles the obligation. The reimbursement is recorded as a separate asset at an amount not exceeding the related provision. The expense for the provision is presented net of the reimbursement in profit or loss.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from an executory contract are lower than the unavoidable cost of meeting the obligations under the contract. Future operating costs or losses are not provided for.

Client loyalty

When a cardholder makes a purchase that is regarded as eligible spend, the person or entity is granted points that can be redeemed at a later date for goods or services. Points do not expire, unless a client is delinquent or their account is dormant, in which case the points accrued are forfeited as stated in the terms and conditions. Client loyalty programmes are accounted for in accordance with IFRS 15 and a contract liability is recognised. The revenue normally earned by the group when clients transact on their Nedbank cards is reduced by the expected amount payable arising from the issue of points.

If the expectation regarding the amount to be paid changes, this is recognised in revenue. When the group settles the liability, there will be no additional revenue recognised and the costs will be offset against the liability.

Lease liabilities

Refer to note A2 for initial implementation (transition date) accounting policies and elections.

Initial and subsequent measurement

The lease liability is initially measured at a present value of unpaid lease payments on the commencement date (the date the underlying asset is available for use). The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the group uses the incremental borrowing rate being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable by the group under residual value guarantees;
- variable lease payments that are based on an index or a rate;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the group is reasonably certain to exercise that option.

The lease liability is subsequently measured under IFRS 9 at amortised cost using the effective-interest method. Interest expense is recognised in profit and loss and capitalised to the lease liability.

Reassessment of lease liability

After the commencement date the group remeasures the lease liability to reflect changes to the lease payments. The carrying amount of the lease liability is remeasured by discounting the revised lease payments using a revised discount rate if:

- there is a change in the lease term; or
- the group changes its assessment of whether it will exercise an option to purchase the underlying asset.

The carrying amount of the lease liability is remeasured by discounting the revised lease payments using the original discount rate if there is a change in:

- the amounts expected to be payable under a residual value guarantee; or
- future lease payments resulting from a change in an index or a rate used to determine those payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION J: OTHER LIABILITIES continued

J1 Provisions and other liabilities continued

Accounting policy continued

Lease liabilities continued

If the change in lease payments results from a change in floating rates, the group uses a revised discount rate that reflects changes in the interest rate.

The group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. When corresponding adjustments to the right-of-use asset reduces the carrying amount to zero, the group recognises any remaining amount of the remeasurement in profit or loss.

Lease modifications

The group accounts for modifications as a separate lease using a new discount rate if the modification is a material economic alteration of the initial contract. This would occur if the modification in question:

- increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

For a lease modification that does not meet the criteria to be recognised as a separate lease at the effective date of the lease modification, the group accounts for the lease by:

- allocating the consideration in the modified contract between lease and non-lease components;
- determining the lease term of the modified lease; and
- remeasuring the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined, or the group's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

Additionally, for a lease modification that is not accounted for as a separate lease, the group accounts for the remeasurement of the lease liability by doing the following:

- Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
- Making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Variable lease expense

The group recognises variable lease expenses not contingent or dependent on an index or a rate as an expense in profit or loss in the period in which the event or condition that triggers the payment occurs.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer equipment and small items of office furniture. Leases with values of less than R20 000 are considered as low-value leases. The group does not recognise right-of-use assets and lease liabilities for short-term and low-value leases.

The group considers a short-term lease to be a new lease if:

- there is a lease modification; or
- there is any change in the lease term (for example, the group exercises an option not previously included in its determination of the lease term).

Derecognition

Termination of a lease, partial or fully, results in derecognition of the right-of-use asset and the corresponding lease liability. The group recognises any profit and loss in the period in which the termination occurs.

Critical judgements and assumptions

Discount rates

The group's incremental borrowing rate is lease-specific and is determined using an array of assumptions and judgements surrounding the characteristics of the contract. The group considers:

- the credit risk of the group (swap yield curves are also used as anchors for most leases);
- the tenor of the lease; and
- the economic environment (the country, the currency and the date that the lease is entered into) in which the transaction occurs.

Refer to note F1 for accounting policies applied for right-of-use assets.

J1 Provisions and other liabilities continued

J1.1 Analysis of carrying amount

	2019 Rm	2018 Rm
Creditors and other accounts	7 040	6 060
Client loyalty programmes liability	347	462
Short-trading securities and spot positions	879	466
Provision for the impairment of off-balance-sheet items	255	201
Provision for bonuses (note J1.2)	1 791	2 389
Leave pay accrual (note J1.3)	871	836
Lease liabilities (note J1.5)	2 290	
	13 473	10 414

J1.2 Provision for bonuses

Balance at the beginning of the year	2 389	2 128
Recognised in profit or loss	1 773	2 425
Utilised during the year	(2 369)	(2 166)
Foreign currency translation and other movements	(2)	2
Balance at the end of the year	1 791	2 389

J1.3 Leave pay accrual

Balance at the beginning of the year	836	818
Recognised in profit or loss	355	554
Utilised during the year	(320)	(536)
Balance at the end of the year	871	836

J1.4 Day one gains and losses

The group enters into transactions where the fair value of the financial instruments are determined using valuation models for which certain inputs are not based on market-observable prices or rates. Such financial instruments are initially recognised at the transaction price, which is the best indicator of fair value. The transaction price may differ from the valuation amount obtained, giving rise to a day one profit or loss.

The difference between the transaction price and the valuation amount, commonly referred to as 'day one profit or loss', is deferred and either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market-observable inputs, or realised when the financial instrument is derecognised.

The group's day one gains are attributable to loans and advances.

	2019 Rm	2018 Rm
Gains recognised in the statement of comprehensive income	395	427

J1.5 Lease liabilities

Lease liabilities reconciliation

	2019 Rm
Balance at the beginning of the year	2 506
Interest expense	204
Additions	188
Lease modifications	445
Lease payments	(1 049)
Derecognition	(4)
Effect of movements in foreign exchange rates and other movements	¹
Balance at the end of the year	2 290

¹ Represents amounts less than Rlm.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION J: OTHER LIABILITIES continued

J1 Provisions and other liabilities continued

	2019 Rm
J1.5 Lease liabilities <small>continued</small>	
Current and non-current lease liabilities	
Current lease liabilities	954
Non-current lease liabilities	1 336
Total lease liabilities	2 290

J2 Contingent liabilities and undrawn facilities

	2019 Rm	2018 Rm
Guarantees on behalf of clients	23 220	31 973
Letters of credit and discounting transactions	6 702	8 936
Irrevocable unutilised facilities and other	145 183	133 800
	175 105	174 709

The group, in the ordinary course of business, enters into transactions that expose the group to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise (refer to note J1). Possible obligations and known liabilities, where no reliable estimate can be made or it is considered improbable that an outflow would result, are reported as contingent liabilities. This is in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

There are a number of legal or potential claims against Nedbank Limited and its subsidiary companies, the outcome of which cannot currently be foreseen. None of these matters are material in nature.

J3 Commitments

J3.1 Capital expenditure approved by directors

	2019 Rm	2018 Rm
Contracted	373	435
Not yet contracted	1 573	2 320
	1 946	2 755

Funds to meet capital expenditure commitments will be provided from group resources. In addition, capital expenditure is incurred in the normal course of business throughout the year.

J3.2 Commitments under derivative instruments

The group enters into option contracts, financial futures contracts, forward rate and interest rate swap agreements, and other financial agreements in the normal course of business (note C7).

SECTION K: RISK AND BALANCE SHEET MANAGEMENT

K1 Financial risk management

The group's risk management procedures include, but are not limited to, credit risk, liquidity risk, interest rate risk in the banking book and market risk. Additional information relating to the group's risk management policies and procedures are disclosed in the unaudited Risk and Capital Management Report, available at nedbank.co.za.

K2 Capital management

Nedbank Group's Capital Management Framework reflects the integration of risk, capital, strategy and performance measurement across the group and contributes significantly to the ERMF.

The board-approved Solvency and Capital Management Policy requires the group to be capitalised at the greater of Basel III regulatory capital and economic capital.

The Group Capital Management Division is housed in the Balance Sheet Management Cluster that reports to the Chief Financial Officer and is mandated with the implementation of the Capital Management Framework and the Internal Capital Adequacy Assessment Process (ICAAP) across the group. The capital management incorporating ICAAP's responsibilities of the board and management are incorporated in their respective terms of reference as contained in the ERMF and are assisted by the board's Group Risk and Capital Management Committee, Group ALCO and the Executive Risk Committee respectively.

Capital, reserves and long-term debt instruments

The group's Capital Management Framework, policies and processes cover the group's capital and reserves in accordance with the consolidated statement of changes in equity, as well as the long-term debt instruments detailed in note D2.

Further details on the ERMF, capital management and regulatory requirements are disclosed in the Pillar 3: Risk and Capital Management Report, which is unaudited unless stated otherwise.

K3 Liquidity gap

Banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks. Through the robust Liquidity Risk Management Framework the group manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Liquidity Risk Management Framework include maintaining financial-market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

In terms of measuring, managing and mitigating liquidity mismatches Nedbank focuses on two types of liquidity risk: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that the group is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, or the inability to roll over maturing debt or meet contractual commitments to lend.

Liquidity risk management is a vital risk management function in all entities across all jurisdictions and currencies, and is a key focus for the group.

The board of directors retains ultimate responsibility for the effective management of liquidity risk. Through the Group Risk and Capital Management Committee (GRCMC) (a board committee), the board has delegated its responsibility for the management of liquidity risk to Group ALCO.

The group's Liquidity Risk Management Framework articulates the board-approved risk appetite in the form of limits and guidelines, and sets out the responsibilities, processes, reporting and assurance required to support the management of liquidity risk. The Liquidity Risk Management Framework is reviewed annually by Group ALCO and approved by the GRCMC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION K: RISK AND BALANCE SHEET MANAGEMENT continued

K3 Liquidity gap continued

Rm	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Non- determined	Total
2019							
Cash and cash equivalents (including mandatory reserve deposits with central banks)	29 623						29 623
Other short-term securities	15 991	12 182	10 202	3 461	559		42 395
Derivative financial instruments	8 419	2 731	3 519	7 113	13 141		34 923
Government and other securities	5 922	313	797	46 923	73 707		127 662
Loans and advances	147 135	32 418	64 895	309 499	196 639	36 524	787 110
Other assets			213			46 384	46 597
	207 090	47 644	79 626	366 996	284 046	82 908	1 068 310
Total equity						83 219	83 219
Derivative financial instruments	6 789	2 031	2 953	5 637	10 211		27 621
Amounts owed to depositors	564 522	77 210	111 340	90 907	11 185	26 133	881 297
Provisions and other liabilities	209	179	370	1 336	238	14 229	16 561
Long-term debt instruments	1 025	464	4 523	30 994	22 606		59 612
	572 545	79 884	119 186	128 874	44 240	123 581	1 068 310
Net liquidity gap	(365 455)	(32 240)	(39 560)	238 122	239 806	(40 673)	-
2018							
Cash and cash equivalents (including mandatory reserve deposits with central banks)	27 720						27 720
Other short-term securities	17 913	15 265	20 224	4 338	104		57 844
Derivative financial instruments	3 284	2 015	1 570	5 252	10 291		22 412
Government and other securities	792	578	1 305	42 387	51 061		96 123
Loans and advances	112 971	40 071	58 395	296 680	194 269	23 406	725 792
Other assets						41 732	41 732
	162 680	57 929	81 494	348 657	255 725	65 138	971 623
Total equity						76 407	76 407
Derivative financial instruments	2 821	1 530	1 512	5 627	8 271		19 761
Amounts owed to depositors	545 394	71 658	83 167	67 899	11 012	27 357	806 487
Provisions and other liabilities			272			13 286	13 558
Long-term debt instruments	1 474	5 080	2 300	27 429	19 127		55 410
	549 689	78 268	87 251	100 955	38 410	117 050	971 623
Net liquidity gap	(387 009)	(20 339)	(5 757)	247 702	217 315	(51 912)	-

This note has been prepared on a contractual maturity basis.

The group has high-quality liquid assets and other sources of quick liquidity. Other sources of quick liquid assets include corporate bonds and listed equities, unencumbered trading securities, price-sensitive overnight loans, other banks' paper and unutilised bank credit lines.

SECTION K: RISK AND BALANCE SHEET MANAGEMENT continued

K4 Interest rate risk in the banking book

	2019 Rm	2018 Rm
Net interest income sensitivity		
One percent instantaneous decline in interest rates ¹	(1 184)	(1 287)

¹ Nedbank London: 0,5% instantaneous decline in interest rates.

Management of interest rate risk in the banking book

The group employs various analytical techniques to measure interest rate sensitivity monthly in the banking book on both an earnings and economic-value basis (where appropriate) for balance sheets with material exposure to interest rate risk. Assets, liabilities and derivative financial instruments are modelled and reported based on their contractual repricing or maturity characteristics. Where advances are exposed to prepayments and deposits to ambiguous repricing, Group ALCO approves the use of prepayment models for the hedging of fixed-rate advances and behavioural repricing assumptions for the modelling and reporting of ambiguous repricing deposits, where appropriate.

Sensitivity analysis

At the reporting date, the net interest income sensitivity of the banking book for a 1% parallel reduction in interest rates measured over 12 months is a decrease in net interest income of approximately R1 184m before tax (2018: R1 287m), which is within the board's approved risk limit. The group's net interest income sensitivity exhibits very little convexity and will therefore also result in an increase in pretax net interest income of similar amounts should interest rates increase by one percent. Net interest income sensitivity is actively managed through on- and off-balance-sheet interest rate risk management strategies for the group's expected interest rate view and impairment sensitivity.

K5 Historical value at risk (99%, one-day) by risk type

Value at risk (VaR) is the potential loss in pretax profit due to adverse market movements over a defined holding period with a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. It facilitates the consistent measurement of risk across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The 99% one-day VaR number used by the group reflects, at a 99% confidence level, that the daily loss will not exceed the reported VaR and therefore that the daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days.

The group uses one year of historical data to estimate VaR. Some of the considerations taken into account when reviewing the VaR numbers are the following:

- That the assumed one-day holding period will not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.
- That the historical VaR assumes the past is a good representation of the future, which may not always be the case.
- That the 99% confidence level does not indicate the potential loss beyond this interval.
- That a product or listing is new in the market, limited historical data would be available. In such cases, a proxy is chosen to act as an estimate for the historical rates of the relevant risk factor. Depending on the amount of (limited) historical rates available, regression analysis is used on the chosen proxy to refine the link between the proxy and the actual rates.

Additional risk measures are used to monitor the individual trading desks, including performance triggers, approved trading products, concentration of exposures, maximum tenor limits and market liquidity constraints.

All market risk models are subject to periodic independent validation in terms of the Group Market Risk Management Framework. A formal review of all existing valuation models is conducted at least annually. Should the review process indicate that models need to be updated, a formal independent review will take place. All new risk models developed are independently validated prior to implementation.

The group's current trading activities are focused on liquid markets, which are in line with the current regulatory liquidity horizon assumption of a 10-day holding period, as per Basel III.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION K: RISK AND BALANCE SHEET MANAGEMENT continued

K5 Historical value at risk (99%, one-day) by risk type continued

Rm	2019				2018			
	Average	Minimum	Maximum	Year-end	Average	Minimum	Maximum	Year-end
Foreign exchange	4,3	0,9	11,6	2,6	3,2	0,6	11,5	3,5
Interest rate	34,6	20,2	45,3	35,0	30,6	15,8	46,0	31,4
Equity	0,5	<0,1	3,9	1,0	0,2		2,4	
Credit	7,7	4,0	9,7	4,7	9,2	6,9	12,3	8,2
Commodity	0,1	<0,1	0,7	0,1	0,1		2,1	0,2
Diversification	(12,1)			(10,1)	(12,8)			(12,6)
Total VAR exposure	35,1	22,4	47,6	33,3	30,5	16,8	50,8	30,7

SECTION L: CASHFLOW INFORMATION

	2019 Rm	2018 Rm
L1 Reconciliation of profit from operations to cash generated by operations		
Profit from operations	13 028	14 718
Adjusted for:		
– Depreciation (note B6)	1 451	1 394
– Depreciation of right-of-use assets (note B6)	806	
– Amortisation: computer software and intangible assets (note B6)	1 139	938
– Movement in impairments on financial instruments	7 180	4 776
– Long-term-asset sales (note B5.2)	(23)	(5)
– Unrealised losses (note B5.2) ¹	461	
– Non-trading and capital items (note B8)	424	164
– Indirect taxation (note B7.1)	961	804
Cash generated by operations	25 427	22 789
¹ During 2019 management enhanced the group's cashflow disclosure by including unrealised losses on private-equity investments in the reconciliation of profit from operations to cash generated by operations. Comparative information has not been restated as the amounts are not material.		
L2 Cash received from clients		
Interest and similar income (note B5.1.1)	79 240	72 739
Commission and fees income (note B5.2)	16 004	15 525
Net trading income (note B5.2)	4 062	3 930
Private-equity income/(losses)	212	344
Other non-interest income	855	738
	100 373	93 276

SECTION L: CASHFLOW INFORMATION continued

	2019 Rm	2018 Rm
L3 Cash paid to clients, employees and suppliers		
Interest expense and similar charges (note B5.1.2)	(51 888)	(46 774)
Staff costs (note B6)	(14 927)	(15 288)
Computer processing	(2 580)	(2 259)
Communication and travel	(717)	(721)
Occupation and accommodation	(929)	(1 737)
Marketing and public relations (note B6)	(1 368)	(1 452)
Fees and assurances (note B6)	(3 227)	(3 202)
Furniture, office equipment and consumables	(293)	(282)
Other operating expenses	(454)	(343)
	(76 383)	(72 058)
L4 Dividends received		
Dividends received on investments	210	342
	210	342
L5 Increase in operating assets		
Other short-term securities	15 449	15 628
Government and other securities	(31 539)	(47 374)
Loans and advances and other operating assets	(79 924)	(32 754)
	(96 014)	(64 500)
L6 Increase in operating liabilities		
Current and savings accounts	1 656	5 376
Other deposits, loan accounts and foreign currency liabilities	39 695	49 720
Negotiable certificates of deposit	29 107	11 824
Deposits received under repurchase agreements	3 906	(3 172)
Creditors and other liabilities	8 540	(9 353)
	82 904	54 395
L7 Taxation paid		
Amounts receivable at the beginning of the year	(167)	(116)
Statement of comprehensive income charge (excluding deferred taxation)	(2 617)	(3 746)
Current taxation recognised in equity	101	846
Amounts receivable at the end of the year	(171)	167
	(2 854)	(2 849)
Total indirect taxation (note B7.1)	(961)	(804)
Taxation paid	(3 815)	(3 653)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION M: ADDITIONAL INFORMATION

M1 Foreign currency conversion

Accounting policy

Foreign currency transactions

Individual entities within the group may use a different functional currency than that of the group, being the currency of the primary economic environment in which the respective entities operate. Transactions in foreign currencies are translated into the functional currency of the individual entities at the date of the transaction by applying the spot exchange rate ruling at the transaction date to the foreign currency amounts. The consolidated financial statements are presented in SA rand, which is the group's presentation currency.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the respective entities of the group at the spot exchange rate ruling at the reporting date.

Exchange differences that arise on the settlement or translation of monetary items at rates that are different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period that they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the respective functional currencies of the group entities using the foreign exchange rates ruling at the dates when the fair values were determined.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are converted into the functional currency of the respective group entities at the rate of exchange ruling at the date of the transaction and are not retranslated subsequently.

Exchange differences on non-monetary items are recognised consistently, with the gains and losses that arise on such items, ie exchange differences relating to an item for which gains and losses are recognised directly in equity, generally recognised in equity. Similarly, exchange differences for non-monetary items for which gains and losses are recognised in profit or loss are recognised in profit or loss in the period in which they arise.

Exchange rates

	Average		Closing	
	2019	2018	2019	2018
UK pound to rand	18,43	17,64	18,43	18,32
US dollar to rand	14,44	13,24	14,01	14,38

Geographic analyses

The geographic analyses within various notes are based on the geographic location of the clients or transactions and not the domicile of the group entity.

M2 Events after the reporting period

There are no material events after the reporting period to report on.

M3 Directors' emoluments

The following disclosures are those required by the Companies Act, 71 of 2008, in respect of remuneration of directors and prescribed officers:

M3.1 Total remuneration of executive directors and prescribed officers

	Mike Brown		Mfundo Nkuhlu		Raisibe Morathi	
R'000	2019	2018	2019	2018	2019	2018
Cash portion of package	7 669	7 352	5 176	4 869	4 736	4 536
Other benefits	223	173	177	159	173	122
Defined-contribution retirement fund	1 102	1 050	747	702	597	567
Guaranteed remuneration	8 994	8 575	6 100	5 730	5 506	5 225
Cash performance incentive	6 250	8 500	3 750	5 125	4 375	5 050
Cash performance incentive (delivered in shares)	5 250	7 500	2 750	4 125	3 375	4 050
Total short-term incentive (STI) ¹	11 500	16 000	6 500	9 250	7 750	9 100
Total remuneration ²	20 494	24 575	12 600	14 980	13 256	14 325
Value of share-based awards (face value at award) ³	15 500	16 500	10 250	10 250	10 250	9 500
Total direct remuneration	35 994	41 075	22 850	25 230	23 506	23 825

	Iolanda Ruggiero		Ciko Thomas		Brian Kennedy	
R'000	2019	2018	2019	2018	2019	2018
Cash portion of package	3 514	3 343	4 507	4 117	4 444	4 222
Other benefits	105	96	134	120	243	243
Defined-contribution retirement fund	505	480	734	669	353	336
Guaranteed remuneration	4 124	3 919	5 375	4 906	5 040	4 801
Cash performance incentive	2 375	3 300	4 250	4 950	6 250	9 950
Cash performance incentive (delivered in shares)	1 375	2 300	3 250	3 950	5 250	8 950
Total short-term incentive (STI) ¹	3 750	5 600	7 500	8 900	11 500	18 900
Total remuneration ²	7 874	9 519	12 875	13 806	16 540	23 701
Value of share-based awards (face value at award) ³	6 750	7 000	10 250	10 000	9 675	9 000
Total direct remuneration	14 624	16 519	23 125	23 806	26 215	32 701

¹ In terms of the rules of the Matched-share Scheme (MSS), the total STI has the potential to increase by up to 27.5% (before share price movement) if the deferred amount is invested in the MSS for 36 months and the performance condition in the MSS is met.

² Total remuneration is the sum of guaranteed remuneration and total STI.

³ This is the value of the share-based awards made in the following financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION M: ADDITIONAL INFORMATION continued

M3 Directors' emoluments continued

M3.2 Non-executive directors' remuneration

Name	Notes	Nedbank and Nedbank Group board fees (R000)	Committee fees (R000)	2019 (R000)	2018 (R000)
BA Dames		519	605	1 125	978
T Marwala	1	316	127	443	
EM Kruger	2	1 298	1 582	2 880	2 392
ID Gladman				-	712
JB Hemphill				-	321
PM Makwana	3	655	1 152	1 807	1 487
MA Matooane		519	442	962	902
NP Mnxasana				-	539
V Naidoo	4	5 871		5 871	5 528
JK Netshitenzhe		519	408	927	860
RAG Leith	5,5a, 5b	519	561	1 080	712
SS Subramoney		519	1 277	1 796	1 677
MI Wyman	6	252	172	424	1 150
L Makolima		519	605	1 125	978
NP Dongwana		519	719	1 238	1 085
HR Brody	7	519	854	1 374	1 379
MP Moyo		519	502	1 021	542
TA Boardman				-	176
Total		13 063	9 006	22 073	21 418

1 Tshilidzi Marwala was appointed as a member of the Nedbank Limited and Nedbank Group Limited boards, Group Information Technology Committee and Group Transformation, Social and Ethics Committee, effective from 27 May 2019.

2 Mpho Makwana was appointed as chairman of the Group Directors' Affairs Committee and Group Related-party Transactions Committee and as Lead Independent Director, effective from 10 May 2019.

3 Vassi Naidoo was appointed as a member of the Group Related-party Transactions Committee, effective from 1 March 2019.

4 Errol Kruger's board fees are inclusive of the Nedbank Private Wealth (Isle of Man) Chairman fees of £42 400 (R779 024).

5 RAG Leith was appointed to the Nedbank Limited and Nedbank Group Limited boards, effective from 1 January 2019.

5a RAG Leith was appointed to the Group Credit Committee and the Group Risk and Capital Management Committee, effective from 18 January 2019.

5b RAG Leith was appointed as member of Group Information Technology Committee, effective from 1 March 2019.

6 Malcolm Wyman retired from the Group Remco, Group Related-party Transactions Committee and Group Directors' Affairs Committee, effective from 10 May 2019.

7 Hubert Brody stepped down from the Group Credit Committee, effective from 18 January 2019.

Where applicable, board fees include travel reimbursements for business mileage.

M3 Directors' emoluments continued

M3.2 Non-executive directors' remuneration continued

Number of shares	Beneficial direct 2019	Beneficial direct 2018	Beneficial indirect 2019	Beneficial indirect 2018
Directors				
Hubert Brody	2 556	2 556		
Mike Brown ³	412 897	311 408	214 611	259 775
Brian Dames	64	64		
Mantsika Matooane	2 261	2 261		
Nomavuso Mnxasana ²				7 420
Raisibe Morathi ^{3,4}	31 045	172 384	266 856	120 862
Peter Moyo			51 128	75 556
Vassi Naidoo			49 254	49 254
Mfundo Nkuhlu ³	90 818	61 085	133 361	144 484
Malcolm Wyman ¹			321	321
Stanley Subramoney			2 300	2 300
Prescribed officers				
Brian Kennedy	26 000	26 096	151 129	161 890
Ciko Thomas	24 277	17 500	103 510	113 872
Iolanda Ruggiero	48 351	19 793	89 755	98 562
Total ordinary shares	638 269	613 147	1 062 225	1 034 296

¹ Retired 10 May 2019.

² Retired 10 May 2018.

³ In addition to share trades that took place during 2019, which were announced on SENS as required in terms of the JSE Listings Requirements, adjustments between beneficial direct and beneficial indirect holdings have been made to ensure the JSE's definitions are being correctly applied and to ensure all shares held in the Nedbank Group (2005) Share Option, Matched-share Scheme and Restricted-share Scheme are consistently deemed to be held on a beneficial indirect basis.

⁴ Holdings have been restated for 20 400 Black Executive Trust options, which were exercised in May 2016.

No change in the above interests occurred between 31 December 2019 and 2 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION M: ADDITIONAL INFORMATION continued

M3 Directors' emoluments continued

M3.3 Share-based payments to executive directors and prescribed officers

	Opening balance at 1 January 2019				Awards made during 2019			
	Number of restricted shares/options	Date of issue/inception	Issue price (R)	Vesting date	Number of restricted shares/options	Date of issue/inception	Issue price (R)	Final vesting/exercise date
Executive directors								
MWT Brown								
Nedbank restricted shares	70 851	17 March 2016	190,54	18 March 2019				
	58 197	15 March 2017	249,15	16 March 2020				
	48 376	14 March 2018	299,73	15 March 2021				
					61 122	14 March 2019	269,95	15 March 2022
Compulsory Bonus Share Scheme ¹	22 563	31 March 2016	189,58	1 April 2019				
	14 371	31 March 2017	258,33	1 April 2020				
	12 034	31 March 2018	291,36	1 April 2021				
					16 307	31 March 2019	252,95	1 April 2022
Voluntary Bonus Share Scheme ⁴	1 556	31 March 2016	189,58	1 April 2019				
	1 249	8 May 2017	220,17	9 May 2020				
	943	31 March 2018	291,36	1 April 2021				
					1 087	31 March 2019	252,95	1 April 2022
Total value of dividends								
Total	230 140				78 516			
MC Nkuhlu								
Nedbank restricted shares	45 922	17 March 2016	190,54	18 March 2019				
	37 126	15 March 2017	249,15	16 March 2020				
	31 695	14 March 2018	299,73	15 March 2021				
					37 969	14 March 2019	269,95	15 March 2022
Compulsory Bonus Share Scheme ¹	11 670	31 March 2016	189,58	1 April 2019				
	7 717	31 March 2017	258,33	1 April 2020				
	6 606	31 March 2018	291,36	1 October 2021				
					8 969	31 March 2019	252,95	1 April 2022
Voluntary Bonus Share Scheme ⁴	1 556	31 March 2016	189,58	1 April 2019				
	1 249	8 May 2017	220,17	9 May 2020				
	943	31 March 2018	291,36	1 October 2021				
					1 087	31 March 2019	252,95	1 April 2022
Total value of dividends								
Total	144 484				48 025			

Awards vesting/lapsing during 2019					Dividends	Closing balance at 31 December 2019		
Number of restricted shares/options released	Number of restricted shares/options lapsed	Market price at vesting (R)	Value gained on vesting (R)	Notional value of loss on lapsing ⁵ (R)	Total value of dividends paid in respect of all plans ⁶ (R)	Number of restricted shares/options	End of performance period	Final vesting/exercise date
68 088	2 763	261,85	17 828 843	(723 492)		58 197	31 December 2019	16 March 2020
						48 376	31 December 2020	15 March 2021
						61 122	31 December 2021	15 March 2022
45 126 ³		251,24	11 337 456			14 371	31 December 2019	1 April 2020
						12 034	31 December 2020	1 April 2021
						16 307	31 December 2021	1 April 2022
3 112 ³		251,24	781 859			1 249	31 December 2019	1 April 2020
						943	31 December 2020	1 April 2021
						1 087	31 December 2021	1 April 2022
					3 520 094			
116 326	2 763		29 948 158	(723 492)	3 520 094	213 686		
44 132	1 790	261,85	11 555 964	(468 712)		37 126	31 December 2019	16 March 2020
						31 695	31 December 2020	15 March 2021
						37 969	31 December 2021	15 March 2022
23 340 ³		251,24	5 863 942			7 717	31 December 2019	1 April 2020
						6 606	31 December 2020	1 April 2021
						8 969	31 December 2021	1 April 2022
3 112 ³		251,24	781 859			1 249	31 December 2019	1 April 2020
						943	31 December 2020	1 April 2021
						1 087	31 December 2021	1 April 2022
					2 190 931			
70 584	1 790		18 201 765	(468 712)	2 190 931	133 361		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION M: ADDITIONAL INFORMATION continued

M3 Directors' emoluments continued

M3.3 Share-based payments to executive directors and prescribed officers continued

	Opening balance at 1 January 2019				Awards made during 2019			
	Number of restricted shares/ options	Date of issue/ inception	Issue price (R)	Vesting date	Number of restricted shares/ options	Date of issue/ inception	Issue price (R)	Final vesting/ exercise date
Executive directors <small>continued</small>								
RK Morathi Nedbank restricted shares	39 361	17 March 2016	190,54	18 March 2019				
	32 109	15 March 2017	249,15	16 March 2020				
	29 192	14 March 2018	299,73	15 March 2021				
					35 191	14 March 2019	269,95	15 March 2022
Compulsory Bonus Share Scheme ¹	10 892	31 March 2016	189,58	1 April 2019				
	7 717	31 March 2017	258,33	1 April 2020				
	6 842	31 March 2018	291,36	1 October 2019				
					8 806	31 March 2019	252,95	1 April 2022
Voluntary Bonus Share Scheme ⁴	1 556	31 March 2016	189,58	1 April 2019				
	1 249	8 May 2017	220,17	9 May 2020				
	943	31 March 2018	291,36	1 April 2021				
					1 087	31 March 2019	252,95	1 April 2022
Total value of dividends								
Total	129 861				45 084			
Prescribed officers								
B Kennedy Nedbank restricted shares	15 744	18 March 2016	190,54	19 March 2019				
	23 617	17 March 2016	190,54	18 March 2019				
	13 646	16 March 2017	249,15	17 March 2020				
	20 469	15 March 2017	249,15	16 March 2020				
	11 343	15 March 2018	299,73	16 March 2021				
	17 015	14 March 2018	299,73	15 March 2021				
					33 339	14 March 2019	269,95	15 March 2022
Compulsory Bonus Share Scheme ¹	23 730	31 March 2016	189,58	1 April 2019				
	17 713	31 March 2017	258,33	1 April 2020				
	14 865	31 March 2018	291,36	1 April 2021				
					19 460	31 March 2019	252,95	1 April 2022
Voluntary Bonus Share Scheme ⁴	1 556	31 March 2016	189,58	1 April 2019				
	1 249	31 March 2017	220,17	1 April 2020				
	943	31 March 2018	291,36	1 April 2021				
					1 087	31 March 2019	252,95	1 April 2022
Total value of dividends								
Total	161 890				53 886			

Awards vesting/lapsing during 2019					Dividends	Closing balance at 31 December 2019		
Number of restricted shares/options released	Number of restricted shares/options lapsed	Market price at vesting (R)	Value gained on vesting (R)	Notional value of loss on lapsing ⁵ (R)	Total value of dividends paid in respect of all plans ⁶ (R)	Number of restricted shares/options	End of performance period	Final vesting/exercise date
37 826	1 535	261,85	9 904 738	(401 940)		32 109 29 192 35 191	31 December 2019 31 December 2020 31 December 2021	16 March 2020 15 March 2021 15 March 2022
21 792 ³		251,24	5 475 022			7 717 6 842 8 806	31 December 2019 31 December 2020 31 December 2021	1 April 2020 1 April 2021 1 April 2022
3 112 ³		251,24	781 859			1 249 943 1 087	31 December 2019 31 December 2020 31 December 2021	1 April 2020 1 April 2021 1 April 2022
					1 998 288			
62 730	1 535		16 161 619	(401 940)	1 998 288	123 136		
15 744 ² 23 122	495	261,29 261,85	4 113 750 6 054 496	(129 616)		13 646 20 469 11 343 17 015 33 339	31 December 2019 31 December 2019 31 December 2020 31 December 2020 31 December 2021	17 March 2020 16 March 2020 16 March 2021 15 March 2021 15 March 2022
47 460 ³		251,24	11 923 850			17 713 14 865 19 460	31 December 2019 31 December 2020 31 December 2021	1 April 2020 1 April 2021 1 April 2022
3 112 ³		251,24	781 859			1 249 943 1 087	31 December 2019 31 December 2020 31 December 2021	1 April 2020 1 April 2021 1 April 2022
					2 408 875			
89 438	495		22 873 955	(129 616)	2 408 875	151 129		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION M: ADDITIONAL INFORMATION continued

M3 Directors' emoluments continued

M3.3 Share-based payments to executive directors and prescribed officers continued

	Opening balance at 1 January 2019				Awards made during 2019			
	Number of restricted shares/options	Date of issue/inception	Issue price (R)	Vesting date	Number of restricted shares/options	Date of issue/inception	Issue price (R)	Final vesting/exercise date
Prescribed officers <small>continued</small>								
C Thomas Nedbank restricted shares	14 957	17 March 2016	190,54	18 March 2019				
	9 971	18 March 2016	190,54	19 March 2019				
	9 447	12 August 2016	211,87	12 August 2019				
	14 169	11 August 2016	211,87	12 August 2019				
	12 040	16 March 2017	249,15	17 March 2020				
	18 061	15 March 2017	249,15	16 March 2020				
	11 343	15 March 2018	299,73	16 March 2021				
	17 015	14 March 2018	299,73	15 March 2021				
					37 043	14 March 2019	269,95	15 March 2022
Compulsory Bonus Share Scheme ¹	2 307	31 March 2017	258,33	1 April 2020				
	4 562	31 March 2018	291,36	1 April 2021				
					8 588	31 March 2019	252,95	1 April 2022
Voluntary Bonus Share Scheme ⁴					1 087	31 March 2019	252,95	1 April 2022
Total value of dividends								
Total	113 872				46 718			
I Ruggiero Nedbank restricted shares	12 595	18 March 2016	190,54	19 March 2019				
	18 893	17 March 2016	190,54	18 March 2019				
	10 435	16 March 2017	249,15	17 March 2020				
	15 653	15 March 2017	249,15	16 March 2020				
	8 007	15 March 2018	299,73	16 March 2021				
	12 011	14 March 2018	299,73	15 March 2021				
					25 930	14 March 2019	269,95	15 March 2022
Compulsory Bonus Share Scheme ¹	7 780	31 March 2016	189,58	1 April 2019				
	5 429	31 March 2017	258,33	1 April 2020				
	4 011	31 March 2018	291,36	1 April 2021				
					5 000	31 March 2019	252,95	1 April 2022
Voluntary Bonus Share Scheme ⁴	1 556	31 March 2016	189,58	1 April 2019				
	1 249	8 May 2017	220,17	9 May 2020				
	943	31 March 2018	291,36	1 April 2021				
Total value of dividends					1 087	31 March 2019	252,95	1 April 2022
Total	98 562				32 017			

¹ Matching on the Compulsory Bonus Share Scheme occurs only on shares in the scheme at the vesting date. If corporate performance targets (CPTs) are met, 100% matching occurs.

² Restricted-share awards with time-based vesting only.

³ Match occurred at one share for each share in the Compulsory Bonus Share Scheme and Voluntary Bonus Share Scheme at the vesting date.

⁴ For the Voluntary Bonus Share Scheme employees invest their own Nedbank shares in the scheme. After three years, if the CPTs are met, a 100% matching occurs.

⁵ Value determined based on the number of shares lapsing, multiplied by the market share price on the scheduled vesting date.

⁶ Plans exclude the Voluntary Bonus Share Scheme, which consists of own shares.

Awards vesting/lapsing during 2019					Dividends	Closing balance at 31 December 2019		
Number of restricted shares/options released	Number of restricted shares/options lapsed	Market price at vesting (R)	Value gained on vesting (R)	Notional value of loss on lapsing ⁵ (R)	Total value of dividends paid in respect of all plans ⁶ (R)	Number of restricted shares/options	End of performance period	Final vesting/exercise date
14 643	314	261,85	3 834 270	(82 221)				
9 971 ²		261,29	2 605 323					
9 447 ²		219,84	2 076 828					
13 872	297	219	3 037 968	(65 043)				
						12 040	31 December 2019	17 March 2020
						18 061	31 December 2019	16 March 2020
						11 343	31 December 2020	16 March 2021
						17 015	31 December 2020	15 March 2021
						37 043	31 December 2021	15 March 2022
2 307		219,85	507 194			2 282	31 December 2020	1 April 2021
2 280		235,99	538 057			5726	31 December 2021	1 April 2022
2 862		235,99	675 403					
1 087		219,85	238 977					
					2 122 962			
56 469	611		13 514 020	(147 264)	2 122 962	103 510		
12 595 ²		261,29	3 290 948					
18 497	396	261,85	4 843 439	(103 693)				
						10 435	31 December 2019	17 March 2020
						15 653	31 December 2019	16 March 2020
						8 007	31 December 2020	16 March 2021
						12 011	31 December 2020	15 March 2021
						25 930	31 December 2021	15 March 2022
15 560 ³		251,24	3 909 294					
						5 429	31 December 2019	1 April 2020
						4 011	31 December 2020	1 April 2021
						5 000	31 December 2021	1 April 2022
3 112 ³		251,24	781 859					
						1 249	31 December 2019	1 April 2020
						943	31 December 2020	1 April 2021
						1 087	31 December 2021	1 April 2022
					1 469 117			
49 764	396		12 825 540	(103 693)	1 469 117	89 755		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION M: ADDITIONAL INFORMATION continued

M4 Preference shareholder analysis

Register date:

Authorised share capital:

Issued share capital:

27 December 2019

1 000 000 000 shares

358 277 491 shares

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1-1 000 shares	368	5,74	116 447	0,03
1 001-10 000 shares	2 539	39,61	15 482 484	4,32
10 001-100 000 shares	3 044	47,49	96 485 732	26,93
100 001-1 000 000 shares	425	6,63	96 808 982	27,02
1 000 001 shares and over	34	0,53	149 383 846	41,70
Total	6 410	100,00	358 277 491	100,00
Distribution of shareholders				
Banks	10	0,16	5 047 743	1,41
Close corporations	72	1,12	3 942 275	1,10
Endowment funds	85	1,33	8 684 691	2,42
Individuals	4 282	66,80	96 386 752	26,90
Insurance companies	18	0,28	30 816 281	8,60
Investment companies	2	0,03	12 020 145	3,35
Medical aid schemes	5	0,08	356 192	0,10
Mutual funds	71	1,10	57 979 771	16,20
Trusts	1 512	23,59	63 679 877	17,77
Other corporations	45	0,70	1 390 869	0,39
Private companies	274	4,27	30 855 554	8,61
Public companies	3	0,05	2 283 100	0,64
Own holdings	1	0,02	37 300 000	10,41
Retirement funds	30	0,47	7 534 241	2,10
Total	6 410	100,00	358 277 491	100,00
Public/non-public shareholders				
Non-public shareholders	13	0,20	47 994 058	13,40
Nedbank Group Limited and associates	13	0,20	47 994 058	13,40
Public shareholders	6 397	99,80	310 283 433	86,60
Total	6 410	100,00	358 277 491	100,00

	Number of shares	%
Beneficial shareholders holding 5% or more		
Nedbank Group Limited	47 994 058	13,40
Prescient	28 917 076	8,07
Total	76 911 134	21,47

	Number of shares	2019 % holding	2018 % holding
Major managers			
Prescient Investment Management (SA)	37 491 789	10,46	11,97
Nedbank Group Limited (SA)	37 300 000	10,41	10,41
Investec Securities Proprietary Limited	31 896 247	8,90	7,48
Nedgroup Private Wealth (Pty) Ltd	30 913 226	8,63	9,50
Sanlam Investment Management	21 401 805	5,97	5,91
Abax Investments (SA)	7 864 691	2,20	2,45
Bridge Fund Managers Proprietary Limited (SA)	7 777 539	2,17	2,18
Outsurance Insurance Company Limited (SA)	7 586 720	2,12	2,12
STANLIB Asset Management (SA)	7 117 929	1,99	1,80
Hollard Insurance (ZA)	5 629 051	1,57	1,35
Sasfin Asset Managers Proprietary Limited (SA)	4 500 413	1,26	1,12
Various Retail Holders (ZA)	4 476 324	1,25	1,27
BJM Private Client Services Ltd (ZA)	4 243 364	1,18	1,20
Climor Trust (SA)	3 982 983	1,11	0,82
Graaf Baronetcy Fund (ZA)	3 281 296	0,92	0,92

COMPLIANCE WITH IFRS – FINANCIAL STATEMENT NOTES

Note number	Note description	IFRS required
A1	Principal accounting policies	IAS 1
A2	Change in accounting policies: Leases	IAS 1, IAS 8 and IFRS 16
A3	Key assumptions concerning the future and key sources of estimation	IAS 1
A4	New standards and interpretations not yet adopted	IAS 8
B1	Segmental reporting	IFRS 8
B2	Dividends	IAS 1, IAS 10, and IAS 32
B3	Share capital	IAS 1 and IAS 32
B4	Additional tier 1 capital instruments	IAS 32, IFRS 7, IFRS 9 and IFRS 13
B5.1	Net interest income	IAS 32, IFRS 7, IFRS 9, IFRS 13 and IFRS 15
B5.2	Non-interest revenue	IAS 20, IAS 32, IFRS 4, IFRS 7, IFRS 8, IFRS 9, IFRS 13 and IFRS 15
B6	Total operating expenses	IAS 1, IAS 19, IFRS 2 and IFRS 8
B7.1	Indirect taxation	IAS 1
B7.2	Direct taxation	IAS 12
B7.3	Deferred taxation	IAS 12
B8	Non-trading and capital items	IAS 1, IAS 16 and IAS 36
C1	Loans and advances	IFRS 7, IFRS 8, IFRS 9 and IFRS 13
C2	Impairments charge on financial instruments	IFRS 7, IFRS 8 and IFRS 9
C3	Government and other securities	IAS 1, IAS 32, IFRS 7, IFRS 8, IFRS 9 and IFRS 13
C4	Other short-term securities	IAS 1, IFRS 7, IFRS 8, IFRS 9 and IFRS 13
C5	Credit analysis of other short-term securities, and government and other securities	IFRS 7
C6	Cash and cash equivalents	IAS 1, IAS 7 and IFRS 7
C7	Derivative financial instruments	IAS 32, IAS 39, IFRS 7, IFRS 9 and IFRS 13
D1	Amounts owed to depositors	IAS 1, IFRS 7, IFRS 8, IFRS 9 and IFRS 13
D2	Long-term debt instruments	IAS 32, IFRS 7, IFRS 9 and IFRS 13
D3	Contractual maturity analysis for financial liabilities	IFRS 7
E1	Investment securities	IAS 32, IFRS 7, IFRS 9 and IFRS 13
E2	Investments in associate companies	IAS 28, IFRS 11, IFRS 12 and IFRS 13
E3	Investments in subsidiary companies and related disclosure	IAS 27, IFRS 10 and IFRS 12
E4	Interests in structured consolidated entities	IFRS 12
E5	Securitisations	IFRS 7, IFRS 9, IFRS 12 and IFRS 13
E6	Related parties	IAS 24
F1	Property and equipment	IAS 16, IAS 36, IFRS 13 and IFRS 16
F2	Intangible assets	IAS 38 and IAS 36
G1	Long-term employee benefits	IAS 19 and IFRIC 14
G2	Non-current assets held for sale	IFRS 5 and IFRS 13
G3	Other assets	IAS 1, IFRS 7, IFRS 9 and IFRS 13
H1	Consolidated statement of financial position – categories of financial instruments	IFRS 7 and IFRS 9
H2	Fair-value measurement – financial instruments	IFRS 7, IFRS 9 and IFRS 13
H3	Assets and liabilities not measured at fair value for which fair value is disclosed	IFRS 7, IFRS 9 and IFRS 13
H4	Financial instruments designated as fair value through profit or loss	IAS 32, IFRS 7, IFRS 9 and IFRS 13
H5	Offsetting financial assets and financial liabilities	IFRS 7 and IAS 32
H6	Collateral	IFRS 7
I	Share-based payments	IFRS 2
J1	Provisions and other liabilities	IAS 37, IAS 32, IFRS 7, IFRS 9, IFRS 13 and IFRS 16
J2	Contingent liabilities and undrawn facilities	IAS 37 and IAS 10
J3	Commitments	IAS 37, IAS 10 and IFRS 7
K1	Financial risk management	IAS 1
K2	Capital management	IAS 1
K3	Liquidity gap	IFRS 7
K4	Interest rate risk in the banking book	IFRS 7
K5	Historical value at risk (99%, one-day) by risk type	IFRS 7
L	Cashflow information	IAS 7
M1	Foreign currency conversion	IAS 21
M2	Events after the reporting period	IAS 10
M4	Preference shareholder analysis	IAS 1



NEDBANK SAYS 'YES' TO YES

The Youth Employment Service (YES) was launched by President Cyril Ramaphosa in 2018 as an initiative between government, business, labour and civil society to tackle a national plan to build economic pathways for the youth with the aim of reducing the youth unemployment rate in SA through the creation of one million work opportunities over three years. At Nedbank we are committed to our role in the broader SA society and to delivering on our purpose of using our financial expertise to do good. On 26 April Nedbank signed the YES CEO Pledge, committing to go beyond business as usual by creating meaningful job opportunities for our youth, thereby becoming the biggest corporate contributor to the YES initiative to date. Of the more than 3 300 YES recruits for 2019, Nedbank has onboarded 250 into the organisation and the balance was placed with our sponsored implementation partners.



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