



NEDBANK
GROUP

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our **financial expertise**
to do **good**



**NEDBANK GROUP – AUDITED CONSOLIDATED AND
SEPARATE ANNUAL FINANCIAL STATEMENTS**

AFS

FOR THE YEAR ENDED 31 DECEMBER 2019

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ABOUT THIS REPORT

Our consolidated and separate 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 and separate 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, together with an analysis of investment and insurance contract liabilities. A contractual maturity analysis of financial liabilities is also provided.

Section E: Asset management

Refer to this section for an analysis of the group's funds under management.

Section F: 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 G: Generic assets

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

Section H: 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 I: 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 J: Share-based payments

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

Section K: 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 L: 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 M: Cashflow information

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

Section N: 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.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Nedbank Group Limited Reg No 1966/010630/06.

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 and separate financial statements of Nedbank Group Limited (comprising the statements of financial position at 31 December 2019, the statements of comprehensive income, the statements of changes in equity and statements 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 and separate financial statements are fairly presented in accordance with IFRS.

APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

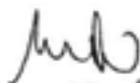
The consolidated and separate annual financial statements of Nedbank Group Limited, as identified in the first paragraph, were approved by the Nedbank Group Limited Board of Directors on 2 March 2020 and are signed on its behalf by:



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 Group 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 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 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, 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 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.

REPORT FROM THE GROUP AUDIT COMMITTEE – 2019 continued

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.

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 Group Limited and 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.
Nedbank Zimbabwe subsidiary	The GAC received regular reports from management regarding the financial performance and accounting implications as a result of hyperinflation and other economic factors in Nedbank Zimbabwe.
Associate investment in ETI	The GAC received regular reports from management in connection with the financial performance of Ecobank Transnational Incorporated (ETI) and the accounting considerations for Nedbank. The GAC noted ETI's financial performance during the 2019 reporting period and management's assessment that no additional adjustment of the impairment provision is required, based on the computed value-in-use (VIU) calculation. The GAC reviewed the group's disclosure of its investment in ETI and the assumptions related to its VIU calculation.
Key judgements	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.
- The GAC reviewed the favourable findings from the JSE Thematic Review on the application of IFRS 9 and IFRS 15.

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 and the Integrated Report, 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 the investment in ETI and assessed the relevant impairment indicators.
- 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.

REPORT FROM THE GROUP AUDIT COMMITTEE – 2019 continued

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, 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 Group and 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.

Future accounting developments

The International Accounting Standards Board (IASB) issued IFRS 17 in May 2017.

The new standard is effective for reporting periods beginning on or after 1 January 2021. The IASB issued an exposure draft on IFRS 17 during 2019, proposing amendments to the standard. One of the proposed amendments was to postpone the effective date of IFRS 17 to 1 January 2022.

The group has established a steering committee to promote, direct and oversee the successful implementation of IFRS 17 in the group. The steering committee is supported by several project workstreams. The impact of implementing IFRS 17 is currently being assessed and status updates on the implementation will be monitored by the GAC throughout 2020.

Key focus areas for 2020

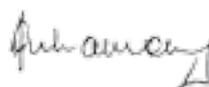
- Continued focus on ensuring that the group's financial systems, processes and controls are operating effectively, are consistent with the group's complexity and are responsive to changes in the environment and industry.
- Through the Chair's Audit Committee College ensure that there is meaningful engagement between the GAC chair and the chairs of subsidiary audit committees.
- The monitoring of accounting implications arising from hyperinflation accounting in the Nedbank Zimbabwe subsidiary and accounting implications from the significant investment in ETI.
- Review and consideration of management's plans in respect of future changes to the International Financial Reporting Standards (IFRS) and other regulations, most notably: IFRS 17: Insurance Contracts, which replaces the current limited guidance contained in IFRS 4: Insurance Contracts.
- 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

Nature of business

Nedbank Group Limited (Nedbank Group, company or group) is a registered bank-controlling company that, through its subsidiaries, offers wholesale and retail banking services as well as insurance, asset management and wealth management. Nedbank Group maintains a primary listing under 'Banks' on the JSE Limited (the JSE), with a secondary listing on the Namibian Stock Exchange.

Annual financial statements

Details of the financial results are set out on pages 18 to 235 of the audited consolidated annual financial statements, which have been prepared under the supervision of Nedbank Group Chief Financial Officer Raisibe Morathi, and audited in compliance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the Companies Act, 71 of 2008 (as amended), and the JSE Listings Requirements.

Integrated report

The board of directors acknowledges its responsibility to ensure the integrity of the Integrated Report. The board has accordingly applied its mind to the report and is of the opinion that it addresses all material issues and fairly presents the integrated performance of the organisation and its impacts.

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 of the 2019 Nedbank Group Limited Integrated Report, which will be available at nedbankgroup.co.za 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 B4 to the annual financial statements.

Details of the members of the board who served during the year and at the reporting date (including changes in directorate that occurred during the period under review) are given below:

Name	Position as director	Date appointed as director	Date resigned/retired as director (where applicable)
Hubert Brody	Independent non-executive director	1 July 2017	
Mike Brown	Chief executive	17 June 2004	
Brian Dames	Independent non-executive director	30 June 2014	
Neo Dongwana	Independent non-executive director	1 June 2017	
Errol Kruger	Independent non-executive director	1 August 2016	
Rob Leith	Non-executive director	13 October 2016, and 1 January 2019	
Mpho Makwana	Lead Independent Director	17 November 2011	
Linda Makalima	Independent non-executive director	1 June 2017	
Tshilidzi Marwala	Independent non-executive director	27 May 2019	
Mantsika Matookane	Independent non-executive director	15 May 2014	
Raisibe Morathi	Chief Financial Officer and executive director	1 September 2009	
Peter Moyo	Non-executive director	11 June 2018	
Vassi Naidoo	Independent Chair	1 May 2015	
Joel Netshitenzhe	Independent non-executive director	5 August 2010	To retire on 22 May 2020
Mfundo Nkuhlu	Chief Operating Officer and executive director	1 January 2015	
Stanley Subramoney	Independent non-executive director	23 September 2015	
Malcolm Wyman	Previous Lead Independent Director	1 August 2009	10 May 2019

American depositary shares

At 31 December 2019 Nedbank Group had 3 810 143 (31 December 2018: 4 694 341) American depositary shares in issue through the Bank of New York Mellon as depositary and trading on over-the-counter (OTC) markets in the United States. Each American depositary share is equal to one ordinary share.

Ownership

The Old Mutual Limited (OML) group has retained (in its shareholder funds) a strategic minority shareholding in Nedbank Group of 19,9% to underpin the ongoing commercial relationship between Nedbank Group and OML. Further details of shareholders appear in note I3 to the separate annual financial statements.

Dividends

The following dividends were declared in respect of the year ended 31 December 2019:

- Interim ordinary dividend of 720 cents per share (2018: 720 cents per share).
- Final ordinary dividend of 695 cents per share (2018: 720 cents per share).

Borrowings

Nedbank Group's borrowing powers are unlimited pursuant to the company's memorandum of incorporation. The details of borrowings appear in note D2.

Directors

Biographical details of the current directors appear online at nedbankgroup.co.za. Details of directors' and prescribed officers' remuneration and Nedbank Group shares issued to them are set out in N3 and will be in the 2019 Remuneration Report, also available at nedbankgroup.co.za.

REPORT FROM OUR DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2019

In terms of Nedbank Group's memorandum of incorporation one-third of the directors are required to retire at each Nedbank Group annual general meeting (AGM) and may offer themselves for election or reelection. The directors so retiring are firstly those appointed since the last shareholders' meeting, and thereafter those longest in office since their last election.

Tshilidzi Marwala was appointed by the board of directors after the AGM held on 10 May 2019 and, in terms of the memorandum of incorporation, his appointment terminates at the close of the AGM to be held on 22 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 and make themselves available for reelection. Separate resolutions will be submitted for approval at the AGM.

In terms of Nedbank Group policy non-executive directors of Nedbank Group who have served on the board for longer than nine years are required to retire at the conclusion of the first AGM held after the nine-year term, unless agreed to otherwise by the board.

Joel Netshitenzhe was appointed to the Nedbank Group board on 5 August 2010 and, having reached his nine-year term, retires at the conclusion of the AGM on 22 May 2020.

Directors' interests

The directors' and prescribed officers' interests in ordinary shares in Nedbank Group and non-redeemable, non-cumulative preference shares in Nedbank Limited at 31 December 2019 (and any movements therein up to the reporting date) are set out in the annual financial statements. 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 Group Audit Committee Report is contained in these annual financial statements. The Group Transformation, Social and Ethics Committee Report will be included in the Governance and Ethics Review, a supplementary report to 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 has conducted an assessment of the company secretary. The board is satisfied that Jackie Katzin is suitably competent, qualified and experienced, and has adequately and effectively performed the role and duties of a Company Secretary and provided the board with independent guidance and support. Ms 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 addresses of the Company Secretary and the registered office are as follows:

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

Property and equipment

There was no material change in the nature of the fixed assets of Nedbank Group 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 Group's memorandum of incorporation.

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

Service contracts have been entered into for Mike Brown, Mfundo Nkulu 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 full online supplementary 2019 Remuneration Report, which will be available at nedbankgroup.co.za on 20 April 2020.

Subsidiary companies

Details of principal subsidiary companies are reflected in note F3 to the annual financial statements.

Acquisition of shares

No shares in Nedbank Group were acquired by Nedbank Group or by a Nedbank Group subsidiary during the financial year under review in terms of the general authority previously granted by shareholders.

Shareholders will be requested to renew the general authority enabling the company or a subsidiary of the company to repurchase shares.

Events after the reporting period

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NEDBANK GROUP LIMITED

Report on the audit of the Nedbank Group Limited consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Nedbank Group Limited (the group and company) set out on pages 18 to 227 which comprise the consolidated and separate statements of financial position at 31 December 2019, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cashflows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Nedbank Group Limited at 31 December 2019, and its consolidated and separate financial performance and consolidated and separate 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 and Separate Financial Statements section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of

financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards), respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current. 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 and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

We have determined that there are no key audit matters to communicate in relation to our audit of the separate financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NEDBANK GROUP LIMITED continued

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 70% 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.

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 increased 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.

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.
- 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.

Key audit matter

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.

How the matter was addressed in the audit

- 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.
- 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, we 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.
 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NEDBANK GROUP LIMITED continued

Key audit matter

How the matter was addressed in the audit

Valuation of financial instruments carried at fair value

Refer to Note 12 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 15.5% of total assets and financial liabilities at FVTPL represented 9% of total liabilities. Of the financial instruments (both assets and liabilities) carried at fair value, 6% 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 tests on manual journal entries, specifically looking at unusual combinations that impact 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. 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. evaluated the reasonability of the cashflows and discount rates used by comparing them to similar financial instruments.
- 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.

Key audit matter

How the matter was addressed in the audit

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 applications with newer applications, migrating data between platforms and changes in financial processes in the responses to these 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 through the Managed Evolution strategy. Additional effort is required to test migration of data and also to understand, document and test controls to mitigate the risks of misstatement 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 SHAREHOLDERS OF NEDBANK GROUP LIMITED continued

Other matter

The consolidated and separate financial statements of Nedbank Group 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 235 page document titled 'Nedbank Group Limited audited consolidated and separate annual financial statements for the year ended 31 December 2019' which includes the report from the Group Audit Committee, the Certification from the company secretary and the Directors' Report as required by the Companies Act of South Africa, as well as the (additional information not covered by the independent auditors report) contained in the audited consolidated and separate financial statements report, which we obtained prior to the date of this report. The other information also comprises the Nedbank Group Integrated Report for the year ended 31 December 2019, which is expected to be made available to us after the date of this report. The other information does not include the consolidated and separate financial statements and our auditors' report thereon.

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

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

If, based on the work we have performed on the other information 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. When we read the Nedbank Group Integrated Report for the year ended 31 December 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either

intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities 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.

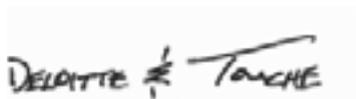
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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.

Report on other legal and regulatory requirements

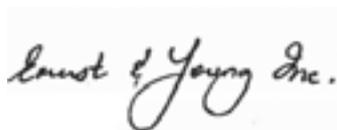
In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Nedbank Group Limited for 46 years and Ernst Young Inc. has been the auditor of Nedbank Group Limited for 1 year.

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

Deloitte & Touche
Registered Auditor

Per: Lito Nunes
Chartered Accountant (SA)
Partner

2 March 2020

The logo for Ernst & Young Inc., featuring the company name in a stylized, handwritten 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)	B6.1.1	82 747	75 536
Interest received on other financial instruments and similar income	B6.1.1	933	405
Interest and similar income		83 680	75 941
Interest expense and similar charges	B6.1.2	53 513	47 122
Net interest income		30 167	28 819
Impairments charge on financial instruments	C2.1	6 129	3 688
Income from lending activities		24 038	25 131
Non-interest revenue	B6.2	25 997	25 976
Operating income		50 035	51 107
Total operating expenses	B7	32 179	31 632
Zimbabwe hyperinflation	NI	296	
Indirect taxation	B8.1	1 096	942
Profit from operations before non-trading and capital items		16 464	18 533
Non-trading and capital items	B9	(651)	(164)
Profit from operations		15 813	18 369
Share of gains of associate companies	F2.1	793	528
Profit before direct taxation		16 606	18 897
Direct taxation	B8.2.1	3 796	4 762
Profit for the year		12 810	14 135
Other comprehensive (losses)/income (OCI) net of taxation	B8.2.3	(1 075)	(341)
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations including the effect of hyperinflation		(159)	449
Share of OCI of investments accounted for using the equity method		(1 025)	(318)
Debt investments at FVOCI – net change in fair value		(232)	(20)
Items that may not subsequently be reclassified to profit or loss			
Gains/(losses) on property revaluations		186	(91)
Remeasurements on long-term employee benefit assets		300	(345)
Share of OCI of investments accounted for using the equity method		(145)	(16)
Total comprehensive income for the year		11 735	13 794
Profit attributable to:			
– Ordinary shareholders		12 001	13 376
– Holders of preference shares		313	323
– Holders of additional tier 1 capital instruments		478	267
– Non-controlling interest – ordinary shareholders		18	169
Profit for the year		12 810	14 135
Total comprehensive income attributable to:			
– Ordinary shareholders		11 017	13 175
– Holders of preference shares		313	323
– Holders of additional tier 1 capital instruments		478	267
– Non-controlling interest – ordinary shareholders		(73)	29
Total comprehensive income for the year		11 735	13 794
Basic earnings per share (cents)	B2	2 500	2 768
Diluted earnings per share (cents)	B2	2 462	2 712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Assets			
Cash and cash equivalents	C6	14 149	13 162
Other short-term securities	C4	64 451	79 362
Derivative financial instruments	C7	35 243	22 692
Government and other securities	C3	128 510	96 791
Loans and advances	C11	796 833	736 305
Other assets	H3	15 393	19 836
Current taxation assets		281	186
Investment securities	F1	28 961	22 404
Non-current assets held for sale	H2	735	305
Investments in associate companies	F2	3 917	4 041
Deferred taxation assets	B8.3	389	254
Investment property		56	
Property and equipment ¹	G1	11 977	9 371
Long-term employee benefit assets	H1.1	5 602	4 966
Mandatory reserve deposits with central banks	C6	23 486	21 629
Intangible assets	G2	13 366	12 608
Total assets		1 143 349	1 043 912
Equity and liabilities			
Ordinary share capital	B4.1	481	477
Ordinary share premium		18 096	17 315
Reserves		69 020	65 986
Total equity attributable to ordinary equity holders		87 597	83 778
Holders of preference shares	B4.2	3 222	3 222
Holders of additional tier 1 capital instruments	B5	6 850	3 397
Non-controlling interest attributable to ordinary shareholders		780	874
Total equity		98 449	91 271
Derivative financial instruments	C7	27 991	20 003
Amounts owed to depositors	D1	904 382	825 804
Provisions and other liabilities ²	K1.1	23 297	25 602
Current taxation liabilities		161	363
Non-current liabilities held for sale	H2	598	
Deferred taxation liabilities	B8.3	939	669
Long-term employee benefit liabilities	H1.1	2 533	2 749
Investment contract liabilities	D3	24 571	20 035
Insurance contract liabilities	D4	715	1 829
Long-term debt instruments	D2	59 713	55 587
Total liabilities		1 044 900	952 641
Total equity and liabilities		1 143 349	1 043 912

¹ Includes right-of-use assets.

² 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
Balance at 1 January 2018	481 568 888	482	18 688	(1 580)	1 944
Shares issued in terms of employee incentive schemes	2 130 389	2	626		
Repurchase of odd-lot holdings	(7 056 639)	(7)	(1 972)		
Additional tier 1 capital instruments issued					
Shares (acquired)/no longer held by group entities and BEE schemes	486 097		(27)		
Preference share dividend					
Additional tier 1 capital instruments interest paid					
Dividends to shareholders					
Total comprehensive income/(losses) for the year				191	(91)
Profit attributable to ordinary equity holders and non-controlling interest					
Exchange differences on translating foreign operations				589	
Movement in fair-value reserve					
Losses on property revaluations					(91)
Remeasurements on long-term employee benefit assets					
Share of OCI of investments accounted for using the equity method				(398)	
Transfer (from)/to reserves					(128)
Share-based payments reserve movement					
Other movements					
Balance at 31 December 2018	477 128 735	477	17 315	(1 389)	1 725
Impact of adopting IFRS 16, net of taxation					
Balance at 1 January 2019	477 128 735	477	17 315	(1 389)	1 725
Shares issued in terms of employee incentive schemes	4 170 790	4	825		
Additional tier 1 capital instruments issued					
Shares (acquired)/no longer held by group entities and BEE schemes	(125 146)		(44)		
Preference share dividend					
Additional tier 1 capital instruments interest paid					
Dividends to shareholders					
Total comprehensive (losses)/income for the year				(855)	186
Profit attributable to ordinary equity holders and non-controlling interest					
Exchange differences on translating foreign operations including the effect of hyperinflation ⁷				(68)	
Movement in fair-value reserve					
Gains on property revaluations					186
Remeasurements on long-term employee benefit assets					
Share of OCI of investments accounted for using the equity method				(787)	
Transfer (from)/to reserves					(72)
Share-based payments reserve movement					
Other movements					
Balance at 31 December 2019	481 174 379	481	18 096	(2 244)	1 839

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 or joint venture that is disposed of is included in the determination of profit/loss on disposal of the subsidiary, associate company or joint venture.

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.

Reserves

Share-based payments reserve ³	Other non-distributable reserves ⁴	FVOCI reserve ⁵	Other distributable reserves ⁶	Total equity attributable to equity holders of the parent	Holders of preference shares	Holders of additional tier 1 capital instruments	Non-controlling interest attributable to ordinary shareholders	Total equity
1 334	25	1 004	56 708	78 605	3 222	2 635	845	85 307
				628				628
				(1 979)				(1 979)
				-		750		750
			(59)	(86)				(86)
				-	(323)			(323)
				-		(255)		(255)
			(6 744)	(6 744)				(6 744)
-	-	60	13 015	13 175	323	267	29	13 794
			13 376	13 376	323	267	169	14 135
				589			(140)	449
		(20)		(20)				(20)
				(91)				(91)
			(345)	(345)				(345)
		80	(16)	(334)				(334)
(4)	(105)		237	-				-
177				177				177
			2	2				2
1 507	(80)	1 064	63 159	83 778	3 222	3 397	874	91 271
			(651)	(651)			(7)	(658)
1 507	(80)	1 064	62 508	83 127	3 222	3 397	867	90 613
(632)			(197)	-				-
				-		3 500		3 500
				(44)				(44)
				-	(313)			(313)
				-		(525)		(525)
			(7 112)	(7 112)			(14)	(7 126)
-	-	(470)	12 156	11 017	313	478	(73)	11 735
			12 001	12 001	313	478	18	12 810
				(68)			(91)	(159)
		(232)		(232)				(232)
			300	300				300
		(238)	(145)	(1 170)				(1 170)
46	25		1	-				-
591				591				591
			18	18				18
1 512	(55)	594	67 374	87 597	3 222	6 850	780	98 449

⁴ Represents other non-distributable revaluation surplus on capital items and non-distributable reserves transferred from other distributable reserves of R168m (2018: R143m) to comply with various banking regulations. This balance is offset by the Banco Único put option of R223m.

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.

⁷ The initial application of IAS 29 resulted in an opening adjustment of R246m (non-controlling interest of R82m and R164m attributable to the parent). The effect of hyperinflation is further described in note NI.

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	M1	29 357	26 974
Cash received from clients	M2	109 895	101 558
Cash paid to clients, employees and suppliers	M3	(82 006)	(76 209)
Dividends received on investments	M4	221	354
Recoveries on loans previously written off		1 247	1 271
Change in funds for operating activities		(9 853)	(12 369)
Increase in operating assets	M5	(93 763)	(65 560)
Increase in operating liabilities	M6	83 910	53 191
Net cash from operating activities before taxation		19 504	14 605
Taxation paid	M7	(4 726)	(4 684)
Cashflows from operating activities		14 778	9 921
Cashflows utilised by investing activities		(11 362)	(6 848)
Acquisition of property and equipment, computer software and development costs and investment property		(4 691)	(4 250)
Disposal of property and equipment, computer software and development costs and investment property		15	16
Disposal of investment banking assets		22	5
Acquisition of associate companies		(342)	(548)
Acquisition of investment securities		(10 770)	(2 754)
Disposal of investment securities		4 404	683
Cashflows utilised by financing activities		(630)	(4 012)
Proceeds from issue of ordinary shares		588	542
Repurchase of odd-lot holdings			(1 979)
Issue of additional tier 1 capital instruments		3 500	750
Issue of long-term debt instruments	D2.1	12 895	9 504
Redemption of long-term debt instruments	D2.1	(8 749)	(5 495)
Capital repayments of lease liabilities		(947)	
Dividends paid to ordinary shareholders		(7 126)	(6 744)
Preference share dividends paid		(313)	(323)
Additional tier 1 capital instruments interest paid		(478)	(267)
Effects of exchange rate changes on opening cash and cash equivalents		58	(392)
Net increase/(decrease) in cash and cash equivalents¹		2 844	(1 331)
Cash and cash equivalents at the beginning of the year ²		34 791	36 122
Cash and cash equivalents at the end of the year²	C6	37 635	34 791

¹ Includes the effect of hyperinflation. This is further described in Note NI.

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 and separate financial statements of Nedbank Group 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) and IAS 29: Financial Reporting in Hyperinflationary Economies, 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 except IFRS 17: Insurance Contracts, 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 and separate 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 Group Limited, together with its subsidiaries, including consolidated structured entities and associates, presented as a single entity (the group). The financial information presented in the separate financial statements comprises that of the parent company, Nedbank Group Limited (the company).

The financial statements of the group and company are presented in SA rand, the functional currency of the company, 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 associate companies can be accounted for in the separate financial statements at cost, or 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

A2 Change in accounting policies: leases

The group as a lessee

IFRS 16: Leases (IFRS 16) was issued in January 2016 and replaces IAS 17: Leases (IAS 17) 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:

- 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 of 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.
- For Nedbank Africa Regions the group invoked the practical expedient election of adopting a single discount rate to a portfolio of homogenous leases with reasonably similar characteristics.
- The group has not applied the practical expedient to separate the non-lease components. The group does not account for the lease and non-lease components as a single-lease component.

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 R3 751m and accompanying right-of-use assets of R2 711m. 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 R291m, which was recognised through retained earnings. An IAS 17 straight-lining liability balance of R126m and an accompanying deferred tax asset of R35m 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 R658m.

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 K1).

Refer to the accounting policies in respect of the initial and subsequent measurement of right-of-use assets (G1) and for the initial and subsequent measurement of lease liabilities (K1).

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)	5 307
Discounted operating lease commitments at 1 January 2019	(1 418)
Cashflows related to short-term leases	(138)
1 January 2019 lease liabilities	3 751

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	17 792		17 792
Retained earnings	63 159	(651)	62 508
Other reserves	2 827		2 827
Total equity attributable to ordinary equity holders	83 778	(651)	83 127
Holders of preference shares	3 222		3 222
Holders of additional tier 1 capital instruments	3 397		3 397
Non-controlling interest attributable to ordinary shareholders	874	(7)	867
Total equity	91 271	(658)	90 613
Property and equipment (including right-of-use asset)	9 371	2 711	12 082
Total assets	9 371	2 711	12 082
Provisions and other liabilities (including lease liability)	25 602	3 751	29 353
Total liabilities	25 602	3 751	29 353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

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, which 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 the accounting policies and critical accounting estimates with the board and Nedbank Group Audit Committee.

A2 Change in accounting policies: leases continued

A4 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2019 reporting period and have not been early adopted by the group. The group's assessment of the impact of the new standards can be found in the following notes:

- IFRS 17: Insurance Contracts (refer to note D4).

There are no other 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.

Description of segments

Nedbank Corporate and Investment Banking

Nedbank 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.

Nedbank Africa Regions

Nedbank Africa Regions is responsible for the group's banking operations and expansion activities in the rest of Africa and has client-facing subsidiaries (retail and wholesale banking) in Lesotho, Malawi, Namibia, Swaziland, Mozambique and Zimbabwe. The division also holds the 21,2% investment in ETI, manages the Ecobank–Nedbank Alliance and facilitates investments in other countries in Africa. Effective from 1 February 2020 the group disposed of its operations in Malawi (refer to note N2 for further details).

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

B1 Segmental reporting continued

	Total		Nedbank Corporate and Investment Banking	
	2019	2018	2019	2018
Statement of financial position (Rm)				
Assets				
Cash and cash equivalents	37 635	34 791	1 798	4 719
Other short-term securities	64 451	79 362	30 773	53 946
Derivative financial instruments	35 243	22 692	35 174	22 653
Government and other securities	128 510	96 791	63 270	51 131
Loans and advances	796 833	736 305	395 589	358 639
Other assets	80 677	73 971	17 122	16 719
Intergroup assets	-	-	-	-
Total assets	1 143 349	1 043 912	543 726	507 807
Equity and liabilities				
Total equity	98 449	91 271	34 885	33 555
Derivative financial instruments	27 991	20 003	27 973	19 986
Amounts owed to depositors	904 382	825 804	379 656	348 310
Provisions and other liabilities	52 814	51 247	8 426	15 878
Long-term debt instruments	59 713	55 587	705	979
Intergroup liabilities	-	-	92 081	89 099
Total equity and liabilities	1 143 349	1 043 912	543 726	507 807

Nedbank Retail and Business Banking		Nedbank Wealth		Nedbank Africa Regions		Centre ¹	
2019	2018	2019	2018	2019	2018	2019	2018
6 168	3 105	1 746	1 562	6 341	5 615	21 582	19 790
		20 701	18 833	4 083	4 776	8 894	1 807
		7	6	38	10	24	23
				848	668	64 392	44 992
349 396	326 763	30 741	31 111	21 678	21 037	(571)	(1 245)
10 610	10 762	24 238	19 630	4 898	4 915	23 809	21 945
11 577	14 984			499	497	(12 076)	(15 481)
377 751	355 614	77 433	71 142	38 385	37 518	106 054	71 831
30 573	28 471	4 204	4 225	5 943	6 812	22 844	18 208
		6	5	11	12	1	
338 901	322 520	40 060	39 495	30 223	29 472	115 542	86 007
5 829	3 534	29 703	24 764	1 891	894	6 965	6 177
2 448	1 089			317	328	56 243	53 191
		3 460	2 653			(95 541)	(91 752)
377 751	355 614	77 433	71 142	38 385	37 518	106 054	71 831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B1 Segmental reporting continued

	Total		Nedbank Corporate and Investment Banking	
	2019	2018	2019	2018
Statement of comprehensive income (Rm)				
Net interest income	30 167	28 819	7 390	7 246
Impairments charge on financial instruments	6 129	3 688	917	103
Income from lending activities	24 038	25 131	6 473	7 143
Non-interest revenue	25 997	25 976	8 175	8 521
Operating income	50 035	51 107	14 648	15 664
Total operating expenses	32 179	31 632	6 604	6 572
Zimbabwe hyperinflation	296	–	–	–
Indirect taxation	1 096	942	181	86
Profit/(Loss) from operations²	16 464	18 533	7 863	9 006
Share of gains/(losses) of associate companies	793	528	121	(83)
Profit before direct taxation²	17 257	19 061	7 984	8 923
Direct taxation ²	3 942	4 807	1 836	2 197
Profit after direct taxation²	13 315	14 254	6 148	6 726
Profit attributable to non-controlling interest:				
– Ordinary shareholders	18	169	(19)	12
– Preference shareholders	313	323	–	–
– Additional tier 1 capital instrument noteholders	478	267	–	–
Headline earnings/(loss)⁴	12 506	13 495	6 167	6 714
Selected ratios				
Non-interest revenue to total income (%)	46,3	47,4	52,5	54,0
Non-interest revenue to total operating expenses (%)	80,8	82,1	123,8	129,7
Cost-to-income ratio (%)	56,5	57,2	42,1	41,9
Effective taxation rate (%)	22,8	25,2	23,0	24,6
Revenue (Rm) ³	56 164	54 795	15 565	15 767

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 and tax thereon.

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

⁴ Includes the effect of hyperinflation. This is further described in note NI.

Depreciation costs of R2 454m (2018: R1 512m) and amortisation costs of R1 232m (2018: R1 033m) for property, equipment, computer software, capitalised development and other intangible assets are charged on an activity-justified transfer pricing methodology by the segment owning the assets to the segment utilising the benefits thereof.

During the year management determined that the results of the group's investment in Ecobank Transnational Incorporated (ETI) should be reported solely as part of the Nedbank Africa Regions Cluster's performance, and the previous distinction between managed operations and ETI is therefore no longer required.

Nedbank Retail and Business Banking		Nedbank Wealth		Nedbank Africa Regions		Centre ¹	
2019	2018	2019	2018	2019	2018	2019	2018
19 831	18 692	1 148	1 113	1 547	1 627	251	141
4 823	3 433	57	39	233	113	99	
15 008	15 259	1 091	1 074	1 314	1 514	152	141
13 318	12 591	3 436	3 484	1 220	1 206	(152)	174
28 326	27 850	4 527	4 558	2 534	2 720	-	315
20 384	20 032	3 113	3 012	2 427	2 416	(349)	(400)
				296			
548	275	113	108	58	37	196	436
7 394	7 543	1 301	1 438	(247)	267	153	279
				672	611		
7 394	7 543	1 301	1 438	425	878	153	279
2 059	2 114	259	305	(64)	23	(148)	168
5 335	5 429	1 042	1 133	489	855	301	111
				32	153	5	4
42	50					271	273
						478	267
5 293	5 379	1 042	1 133	457	702	(453)	(433)
40,2	40,2	75,0	75,8	44,1	42,6		
65,3	62,9	110,4	115,7	50,3	49,9		
61,5	64,0	67,9	65,5	70,6	70,2		
27,8	28,0	19,9	21,2	(15,0)	2,6		
33 149	31 283	4 584	4 597	2 767	2 833	99	315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B2 Earnings per share

Basic earnings and headline earnings per share are calculated by dividing the relevant earnings amount by the weighted-average number of shares in issue. Diluted earnings and diluted headline earnings per share are calculated by dividing the relevant earnings by the weighted-average number of shares in issue after taking the dilutive impact of potential ordinary shares to be issued into account.

	Basic		Headline	
	Basic	Diluted	Basic	Diluted
2019				
Profit attributable to ordinary equity holders (Rm)	12 001	12 001	12 001	12 001
Adjusted for:				
– Non-trading and capital items (note B9)			651	651
– Taxation on non-trading and capital items (note B8.2.1)			(146)	(146)
Adjusted profit attributable to ordinary equity holders (Rm)	12 001	12 001	12 506	12 506
Weighted-average number of ordinary shares	479 960 027	479 960 027	479 960 027	479 960 027
Adjusted for:				
– Share schemes that have a dilutive effect		7 518 415		7 518 415
Adjusted weighted-average number of ordinary shares	479 960 027	487 478 442	479 960 027	487 478 442
Earnings per share (cents)	2 500	2 462	2 605	2 565
2018				
Profit attributable to ordinary equity holders (Rm)	13 376	13 376	13 376	13 376
Adjusted for:				
– Non-trading and capital items (note B9)			164	164
– Taxation on non-trading and capital items (note B8.2.1)			(45)	(45)
Adjusted profit attributable to ordinary equity holders (Rm)	13 376	13 376	13 495	13 495
Weighted-average number of ordinary shares	483 240 926	483 240 926	483 240 926	483 240 926
Adjusted for:				
– Share schemes that have a dilutive effect		9 918 265		9 918 265
Adjusted weighted-average number of ordinary shares	483 240 926	493 159 191	483 240 926	493 159 191
Earnings per share (cents)	2 768	2 712	2 793	2 736

The diluted-earnings-per-share calculations are based on the group's daily average share price of 24 954 cents (2018: 27 017 cents).

B3 Dividends

B3.1 Ordinary shares

	Last day to trade (cum dividend)	Cents per share	Rm
2019			
Final declared for 2018 – paid 2019	2 April 2019	720	3 541
Interim declared for 2019	10 September 2019	720 ¹	3 585
Ordinary dividends paid 2019		1 440	7 126
Final ordinary dividend declared for 2019		695 ¹	

¹ Total dividend declared for 2019 was 1 415 cents per share and the dividend cover ratio equalled 1,84 times.

2018

Final declared for 2017 – paid 2018	3 April 2018	675	3 347
Interim declared for 2018	4 September 2018	695 ²	3 397
Ordinary dividends paid 2018		1 370	6 744
Final ordinary dividend declared for 2018	2 April 2019	720 ²	

² Total dividend declared for 2018 was 1 415 cents per share and the dividend cover ratio equalled 1,97 times.

Dividend distributions include payments to participants in employee and BEE share schemes.

B3.2 Non-controlling interest – preference shareholders

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
Less: Dividends declared in respect of shares held by group entities			(31,6)
			313,2
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
Less: Dividends declared in respect of shares held by group entities			(31,7)
			322,8

¹ Profit share calculated semi-annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B4 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 B3 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.

B4.1 Ordinary share capital

	2019 Rm	2018 Rm
Authorised		
600 000 000 (2018: 600 000 000) ordinary shares of R1 each	600	600
Issued		
497 053 536 (2018: 493 182 664) fully paid ordinary shares of R1 each	497	493
Treasury shares arising from share repurchases by subsidiaries of 15 879 157 (2018: 16 053 929) fully paid ordinary shares of R1 each	(16)	(16)
	481	477

Subject to the restrictions imposed by the Companies Act, 71 of 2008, and by shareholders in terms of the authority previously provided, the unissued shares are under the control of the directors until the forthcoming AGM.

The treasury shares held are used mainly for the purpose of fulfilling the options and share awards outstanding in terms of the share schemes (for both employees and third parties).

B4.2 Preference share capital and premium

	2019 Rm	2018 Rm
Authorised		
Nedbank Group Limited preference share capital and premium		
1 000 000 (2018: 1 000 000) cumulative redeemable non-participating preference shares of R10 000 each	10 000	10 000
Nedbank Limited preference share capital and premium		
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		
Nedbank Limited preference share capital and premium		
358 277 491 (2018: 358 277 491) non-redeemable non-cumulative, non-participating preference shares of R0,001 each	1	1
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	3 222	3 222
	3 222	3 222

¹ Represents amounts less than R1m.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B5 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 ¹	20 May 2016	21 May 2021	3-month JIBAR + 7,00% per annum	1 500	1 517
NEDTIB ¹	25 November 2016	26 November 2021	3-month JIBAR + 6,25% per annum	500	505
NGLTIA	30 June 2017	1 July 2022	3-month JIBAR + 5,65% per annum	600	613
NGLTIB	19 October 2018	20 October 2023	3-month JIBAR + 4,64% per annum	750	762
NGTI03	22 March 2019	25 March 2024	3-month JIBAR + 4,40% per annum	671	
NGTI04	24 June 2019	15 January 2025	3-month JIBAR + 4,50% per annum	1 829	
NGTI05	22 November 2019	22 May 2025	3-month JIBAR + 4,25% per annum	1 000	
Total				6 850	3 397

¹ These instruments were issued by a subsidiary of the group, Nedbank Limited, and are therefore classified as a non-controlling interest.

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 Group Limited or 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. Accordingly, the instruments are classified as equity instruments and disclosed as part of the non-controlling shareholders.

B6 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.

B6 Revenue continued

Accounting policy continued

IFRS 15: Revenue from Contracts with Customers continued

• 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B6 Revenue continued

Accounting policy continued

IFRS 15: Revenue from Contracts with Customers continued

- **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.

B6.1 Net interest income

B6.1.1 Interest and similar income

	2019 Rm	2018 Rm
Home loans (including properties in possession)	15 073	14 314
Commercial mortgages	16 369	15 581
Instalment debtors	14 277	13 099
Credit cards	2 581	2 461
Overdrafts	2 373	2 081
Term and other loans	18 358	15 982
Personal loans	5 151	4 764
Government and other securities	7 162	4 388
Short-term funds and securities	2 336	3 271
	83 680	75 941
Interest and similar income may be analysed as follows:		
– Interest and similar income from financial instruments at amortised cost	81 396	75 031
– Interest and similar income from financial instruments at FVOCI	1 351	505
– Interest and similar income from financial instruments at FVTPL	933	405
	83 680	75 941

B6.1.2 Interest expense and similar charges

	2019 Rm	2018 Rm
Deposit and loan accounts	30 628	28 469
Current and savings accounts	1 074	1 016
Negotiable certificates of deposit ²	8 283	7 344
Other interest-bearing liabilities ²	11 626	10 244
Long-term debt instruments	5 338	5 116
Interest expense related to fair-value activities ²	(3 436)	(5 067)
	53 513	47 122
Interest expense and similar charges may be analysed as follows:		
– Interest expense and similar charges from financial instruments at amortised cost	52 718	47 110
– Interest expense and similar charges from financial instruments at FVTPL	795	12
	53 513	47 122

¹ Includes interest expense of R293m 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 at 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 R47 122m. 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.

Interest expense and similar charges includes the effect of hyperinflation. This is further described in note NI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B6 Revenue continued

B6.2 Non-interest revenue

	2019 Rm	2018 Rm
Commission and fees income ²	22 503	21 697
Administration fees	1 255	1 203
Card income	6 101	5 710
Cash-handling fees	1 136	1 056
Exchange commission	652	554
Guarantee income	267	275
Insurance commission	752	780
Other commission	5 137	4 673
Other fees	2 651	3 098
Service charges	4 552	4 348
Commission and fees expense	(3 764)	(3 418)
Administration fees	(3)	(2)
Card income	(2 358)	(2 054)
Insurance commission	(236)	(236)
Other commission	(746)	(687)
Other fees	(412)	(434)
Service charges	(9)	(5)
Net insurance income (note B6.2.2)	1 837	1 859
Fair-value adjustments (note B6.2.1)	60	(2)
Fair-value adjustments	(49)	(30)
Hedged-accounted portfolios	109	28
Net trading income ³	4 524	4 429
Foreign exchange	1 291	1 460
Debt securities	2 708	2 482
Equities	426	445
Commodities	99	42
Private-equity income	262	697
Realised gains, interest and other income	678	524
Unrealised losses	(461)	(157)
Dividends received	45	330
Investment income	198	29
Dividends received on investments	176	24
Long-term-asset sales	22	5
Net sundry income	377	685
Rents received	53	50
Rental income from properties in possession	1	1
Other sundry income	324	635
	25 997	25 976

¹ Represents amounts less than R1m.

² Commission and fees income includes R1 819m (2018: R1 990m) related to trust and fiduciary fees.

³ Trading income includes R3 436m (2018: R5 067m) of amortised-cost funding related to fair-value activities. Please refer note B6.1.2 for further details.

Non-interest revenue includes the effect of hyperinflation. This is further described in note NI.

B6.2.1 Analysis of fair-value adjustments

	2019 Rm	2018 Rm
Fair-value adjustments can be analysed as follows:		
- Financial instruments designated as FVTPL	1 825	3
- Financial instruments mandatorily at fair value	(1 765)	(5)
	60	(2)

B6.2.2 Net insurance income

Insurance contract income	1 780	1 768
Net insurance premium income	3 246	3 056
Gross premiums received	3 437	3 255
Reinsurance premiums	(191)	(199)
Net insurance claims and benefits	(2 327)	(1 661)
Gross claims and benefits paid	(2 395)	(1 756)
Reinsurance recoveries	68	95
Net commission and administration fees paid	(232)	(264)
Investment income	140	153
Changes in insurance contracts	953	484
Investment contract income	57	91
Investment income	501	318
Changes in investment contracts	(444)	(227)
	1 837	1 859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

	2019 Rm	2018 Rm
B7 Total operating expenses		
Staff costs	17 322	17 450
Remuneration and other staff costs	15 282	14 487
Short-term incentives	1 980	2 625
Long-term employee benefits (note H11) ¹	(510)	(400)
Share-based payments expense – employees	570	738
Computer processing	4 878	4 341
Depreciation of computer equipment	746	753
Depreciation of right-of-use assets: computer equipment	79	
Amortisation of computer software	1 167	958
Short-term lease charges for computer equipment	217	336
Development costs	377	187
Other computer-processing expenses	2 292	2 107
Communication and travel	845	841
Depreciation of vehicles	7	8
Other communication and travel expenses	838	833
Occupation and accommodation	2 274	2 416
Depreciation of owner-occupied land and buildings	451	423
Depreciation of right-of-use assets: land and buildings	813	
Short-term lease charges for land and buildings		914
Other occupation and accommodation expenses	1 010	1 079
Marketing and public relations	1 455	1 532
Fees and assurances	4 152	3 989
Auditors' remuneration	171	195
Statutory and regulatory audit	167	163
Non-audit services	4	32
Other fees and assurance costs	3 981	3 794
Furniture, office equipment and consumables	683	644
Depreciation of furniture and other equipment	358	328
Short-term lease charge for furniture and other equipment	13	14
Other office equipment and consumables	312	302
Other operating expenses	570	419
Amortisation of intangible assets	65	75
BBBEE share-based payments expenses		3
Other sundries	505	341
	32 179	31 632

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 H1.

Operating expenses includes the effect of hyperinflation. This is further described in note N1.

B8 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.

B8.1 Indirect taxation

	2019 Rm	2018 Rm
Value-added taxation ¹	860	730
Transaction-based taxes	236	212
	1 096	942

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.

B8.2 Direct taxation

B8.2.1 Charge for the year

SA normal taxation:		
– Current charge	3 405	4 353
– Capital gains taxation – deferred	2	41
– Deferred taxation	406	75
Foreign taxation	358	438
Current and deferred taxation on income	4 171	4 907
Prior-year overprovision	(229)	(100)
Total taxation on income	3 942	4 807
Taxation on non-trading and capital items	(146)	(45)
	3 796	4 762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

	2019 Rm	2018 Rm
B8 Taxation continued		
B8.2 Direct taxation continued		
B8.2.2 Taxation rate reconciliation		
Standard rate of SA normal taxation	28,0	28,0
Non-taxable income	(1,8)	(1,4)
Share of profits of associate companies	(1,3)	(0,9)
Capital items	(0,2)	(0,1)
Foreign income and section 9D attribution	(1,0)	(0,6)
Additional tier 1 capital instruments ¹	(0,8)	
Net monetary loss (note NI)	0,3	
Non-deductible expenses	0,8	0,7
Prior-year overprovision	(1,2)	(0,5)
Effective taxation rate	22,8	25,2

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.

B8.2.3 Income tax recognised in other comprehensive income

Rm	Gross	Taxation	Net of taxation
2019			
Exchange differences on translating foreign operations	(159)		(159)
Share of OCI of investments accounted for using the equity method	(1170)		(1170)
Debt investments at fair value through OCI (FVOCI) – net change in fair value	(321)	89	(232)
Remeasurements on long-term employee benefit assets	417	(117)	300
Gains on property revaluations	255	(69)	186
2018			
Exchange differences on translating foreign operations	449		449
Share of OCI of investments accounted for using the equity method	(334)		(334)
Debt investments at fair value through OCI (FVOCI) – net change in fair value	(26)	6	(20)
Remeasurements on long-term employee benefit assets	(480)	135	(345)
Gains on property revaluations	(112)	21	(91)

B8.2.4 Future taxation relief

The group has estimated taxation losses of R615m (2018: R410m) that can be set off against future taxable income, of which R128m (2018: R154m) has been applied to the deferred taxation balance.

B8.3 Deferred taxation

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

Deferred-taxation assets

– Deferred-taxation assets to be recovered after more than 12 months	389	254
	389	254

Deferred-taxation liabilities

– Deferred-taxation liabilities to be recovered after more than 12 months	(939)	(669)
	(939)	(669)

Net deferred-taxation liabilities

	(550)	(415)
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The gross movement on the deferred-income taxation account is as follows:

– Balance at the beginning of the year	(415)	(572)
– Statement of comprehensive income charge	(316)	(37)
– Tax charge/(credit) relating to components of other comprehensive income	(97)	162
– Tax (credit)/charge directly to equity	284	88
– Reclassification between taxation types and categories	(6)	(56)
Balance at the end of the year	(550)	(415)

The movement in deferred-taxation assets and liabilities during the year, without taking into consideration the offsetting of balances with the same tax jurisdiction is as follows:

Deferred-taxation assets	IFRS 16	Credit impairments	Deferred revenue	Medical aid	Provisions	Taxation losses	Total
Balance at 31 December 2017		1 548	198	214	722	93	2 775
Charged/(credited) to the income statement		(192)	19	(21)	723	(50)	479
Charged to other comprehensive income				100			100
Charged/(credited) directly to equity		178	186		(136)		228
Reclassification between taxation types and categories				(214)	(212)		(426)
Balance at 31 December 2018	–	1 534	403	79	1 097	43	3 156
Charged/(credited) to the income statement	27	474	42	(10)	(268)	(8)	257
Charged to other comprehensive income				(101)			(101)
Charged directly to equity	253				59		312
Reclassification between taxation types and categories				32	(6)		26
Balance at 31 December 2019	280	2 008	445	–	882	35	3 650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

B8 Taxation continued

B8.3 Deferred taxation continued

Deferred-taxation liabilities	Accelerated asset allowances	Property revaluations	Deferred acquisition costs
Balance at 31 December 2017	(578)	(669)	(595)
(Credited)/charged to the income statement	(376)		(107)
(Credited)/charged to other comprehensive income		21	
Charged/(credited) directly to equity		42	
Reclassification between tax types and categories			
Balance at 31 December 2018	(954)	(606)	(702)
(Credited)/(charged) to the income statement	(470)		(88)
(Credited)/charged to other comprehensive income ¹		(69)	
Charged/(credited) directly to equity		28	
Reclassification between tax types and categories			
Balance at 31 December 2019	(1 424)	(647)	(790)

¹ Includes the effect of hyperinflation. This is further described in note NI.

B9 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 separately disclosed on the face of the statement of comprehensive income, being remeasurements excluded from the calculation of headline earnings per share 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 property and equipment, impairment of property, equipment and intangible assets and fair-value adjustments of investment properties (other than those arising from the investment properties held by the group's life insurance subsidiaries).

Rm	2019		2018	
	Gross	Net of taxation	Gross	Net of taxation
Profit attributable to ordinary equity holders		12 001		13 376
Non-trading and capital items	651	505	164	119
IAS 16 loss on disposal of property and equipment	18	13	29	21
IAS 36 goodwill impairment	117	117		
IAS 36 impairment of property and equipment	148	107		
IFRS 5 impairment of non-current assets held for sale	48	48		
IFRS 16 impairment of right-of-use assets	33	24		
IAS 36 impairment of intangible assets	289	198	135	98
IAS 40 profit on revaluation of investment properties	(2)	(2)		
Headline earnings		12 506		13 495

Pension fund	Capital investments	Share-based payments	FVOCI	Acquired intangible assets	Total
(867)	(178)	(138)		(292)	(3 317)
(42)	(21)	11		19	(516)
35			6		62
		43	(255)		(170)
214				156	370
(660)	(199)	(84)	(249)	(117)	(3 571)
(153)	70	30		38	(573)
(16)			89		4
(32)		(56)			(28)
(32)					(32)
(861)	(129)	(110)	(160)	(79)	(4 200)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION C: CORE BANKING ASSETS

Accounting policy

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

C1 Loans and advances

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	342 039	322 635
Home loans	162 238	156 414
Commercial mortgages	179 801	166 221
Instalment debtors	130 067	121 003
Credit cards	17 089	16 608
Other loans and advances	325 172	291 547
Properties in possession	150	152
Overdrafts	26 747	22 587
Personal loans	24 829	22 219
Term and other loans	206 899	191 125
Overnight loans	14 945	14 616
Foreign-client lending	13 163	10 902
Preference shares and debentures	12 766	15 312
Factoring accounts	6 563	5 815
Deposits placed under reverse repurchase agreements	18 164	8 758
Trade, other bills and bankers' acceptances	5	13
Fair-value hedge-accounted portfolios	941	48
Gross loans and advances	814 367	751 793
Impairment of loans and advances (note C2)	(17 534)	(15 488)
	796 833	736 305
Gross loans and advances comprises:		
– Loans and advances to clients	792 118	736 971
– Loans and advances to banks	22 249	14 822
	814 367	751 793

See note C1.6 for a breakdown of loans and advances by operating segment.

	2019 Rm	2018 Rm
C1.2 Sectoral analysis		
Individuals	298 464	283 244
Financial services, insurance and real estate	217 051	210 590
Banks	22 249	14 822
Manufacturing	69 722	60 863
Building and property development	8 934	10 721
Transport, storage and communication	34 912	34 815
Retailers, catering and accommodation	9 551	7 848
Wholesale and trade	31 297	28 256
Mining and quarrying	32 082	34 934
Agriculture, forestry and fishing	17 509	8 111
Government and public sector	21 906	11 830
Other services	50 690	45 759
	814 367	751 793
C1.3 Geographical analysis		
SA	712 332	664 782
Rest of Africa	48 429	43 157
Europe	36 438	33 976
Asia	8 248	7 220
United States	1 014	668
Rest of world	7 906	1 990
	814 367	751 793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C1 Loans and advances continued

C1.4 Classification of loans and advances

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

Rm	Total	
	2019	2018
Mortgage loans	336 359	318 225
Instalment debtors	130 066	121 003
Credit cards	17 089	16 608
Properties in possession	150	152
Overdrafts	26 746	22 587
Personal, term and other loans	231 057	213 808
Overnight loans	14 946	14 616
Preference shares and debentures	12 579	15 154
Factoring accounts	6 560	5 815
Trade, other bills and bankers' acceptances	5	13
Fair-value hedge-accounted portfolios	907	55
	776 464	728 036
Loans and advances at FVTPL	37 897	23 755
Other balances	6	2
Gross loans and advances (note C1.1)	814 367	751 793

	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	
	2019	2018	2019	2018	2019	2018
	293 150	272 858	32 886	35 434	10 323	9 933
	105 416	99 599	18 043	16 437	6 607	4 967
	14 555	13 384	737	1 419	1 797	1 805
	95				55	152
	20 939	17 864	4 485	3 463	1 322	1 260
	210 804	192 370	12 733	14 728	7 520	6 710
	11 498	13 759	3 277	857	171	
	12 307	14 658	75	142	197	354
	6 115	5 611	400	154	45	50
	5	13				
	907	55				
	675 791	630 171	72 636	72 634	28 037	25 231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

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)	675 791	630 171	275 662	265 612
Mortgage loans	293 150	272 858	111 053	99 929
Instalment debtors	105 416	99 599	4 350	4 064
Credit cards	14 555	13 384	1 155	1 705
Properties in possession	95			
Overdrafts	20 939	17 864	4 530	4 304
Personal, term and other loans	210 804	192 370	135 769	133 723
Overnight loans	11 498	13 759	9 873	10 507
Preference shares and debentures	12 307	14 658	8 799	9 990
Factoring accounts	6 115	5 611	133	1 378
Trade, other bills and bankers' acceptances	5	13		12
Fair-value hedge-accounted portfolios	907	55		
Subject to lifetime expected credit losses (stage 2) – not credit-impaired	72 636	72 634	5 813	8 851
Mortgage loans	32 886	35 434	2 272	2 942
Instalment debtors	18 043	16 437	19	49
Credit cards	737	1 419	1	1
Overdrafts	4 485	3 463	266	172
Personal, term and other loans	12 733	14 728	2 588	5 070
Overnight loans	3 277	857	667	538
Preference shares and debentures	75	142		79
Factoring accounts	400	154		
Subject to lifetime expected credit losses (stage 3) – credit-impaired	28 037	25 231	-	-
Mortgage loans	10 323	9 933		
Instalment debtors	6 607	4 967		
Credit cards	1 797	1 805		
Properties in possession	55	152		
Overdrafts	1 322	1 260		
Personal, term and other loans	7 520	6 710		
Overnight loans	171			
Preference shares	197	354		
Factoring accounts	45	50		
Total loans and advances	776 464	728 036	281 475	274 463
Provision for impairment of off-balance-sheet items ¹	271	210	36	26
Subject to 12-month expected credit losses (stage 1)	118	91	21	20
Subject to lifetime expected credit losses (stage 2) – not credit-impaired	67	59	15	6
Subject to lifetime expected credit losses (stage 3) – credit-impaired	86	60		
Total credit quality	776 735	728 246	281 511	274 489

¹ Provision for impairment of off-balance-sheet items includes the ECL allowance recognised with respect to financial guarantees and loan commitments of R220m (2018: R169m), credit balances and zero balances of the various loans and advances products.

NGR 13–20		NGR 21–25		NP 1–3		Unrated	
2019	2018	2019	2018	2019	2018	2019	2018
356 701	327 443	23 643	22 428	-	-	19 785	14 688
167 102	160 307	7 454	6 067			7 541	6 555
98 215	88 961	991	4 537			1 860	2 037
9 802	8 567	3 483	3 022			115	90
						95	
14 021	11 887	645	191			1 743	1 482
56 462	45 812	11 054	8 534			7 519	4 301
1 625	3 082		3				167
3 508	4 668						
5 966	4 159	16	74				
						5	1
						907	55
37 931	26 486	28 286	36 732	-	-	606	565
10 352	12 331	19 946	19 968			316	193
17 198	5 438	755	10 866			71	84
104	132	628	1 282			4	4
3 046	2 378	1 124	851			49	62
6 244	5 905	3 735	3 614			166	139
690	196	1 920	40				83
75	63						
222	43	178	111				
-	-	-	-	26 772	23 977	1 265	1 254
				9 786	9 547	537	386
				6 518	4 854	89	113
				1 786	1 794	11	11
				55	91		61
				1 189	1 065	133	195
				7 025	6 222	495	488
				171			
				197	354		
				45	50		
394 632	353 929	51 929	59 160	26 772	23 977	21 656	16 507
97	87	35	26	86	66	17	5
67	49	13	13		6	17	3
30	38	22	13				2
				86	60		
394 729	354 016	51 964	59 186	26 858	24 043	21 673	16 512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C1 Loans and advances continued

C1.5 Credit quality of loans and advances continued

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: 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.

C1.6 Segmental analysis

Rm	Total		Nedbank Corporate and Investment Banking	
	2019	2018	2019	2018
Mortgage loans	342 039	322 635	145 612	134 995
Home loans	162 238	156 414	10	11
Commercial mortgages	179 801	166 221	145 602	134 984
Instalment debtors	130 067	121 003	2 795	2 170
Credit cards	17 089	16 608		
Other loans and advances	325 172	291 547	249 399	223 077
Properties in possession	150	152		2
Overdrafts	26 747	22 587	5 557	3 594
Personal loans	24 829	22 219		
Term and other loans	206 899	191 125	188 305	172 558
Overnight loans	14 945	14 616	13 078	12 644
Foreign client lending	13 163	10 902	11 821	10 451
Preference shares and debentures	12 766	15 312	12 440	15 077
Factoring accounts	6 563	5 815		
Deposits placed under reverse repurchase agreements	18 164	8 758	18 164	8 758
Trade, other bills and bankers' acceptances	5	13		
Macro fair-value hedge-accounted portfolios	941	48	34	(7)
Loans and advances before impairments	814 367	751 793	397 806	360 242
Impairment of advances	(17 534)	(15 488)	(2 217)	(1 603)
Total loans and advances	796 833	736 305	395 589	358 639
Comprises:				
– Loans and advances to clients	741 906	697 846	344 366	323 734
– Trading loans and advances	32 678	23 637	32 678	23 637
– Loans and advances to banks	22 249	14 822	18 545	11 268
Total loans and advances	796 833	736 305	395 589	358 639

Nedbank Retail and Business Banking		Nedbank Wealth		Nedbank Africa Regions		Centre	
2019	2018	2019	2018	2019	2018	2019	2018
162 479	153 928	25 802	25 983	8 662	8 195	(516)	(466)
138 811	133 163	16 988	17 068	6 941	6 672	(512)	(500)
23 668	20 765	8 814	8 915	1 721	1 523	(4)	34
125 285	116 229	62	68	2 364	2 914	(439)	(378)
16 958	16 501			131	107		
58 749	52 836	5 106	5 247	11 270	10 623	648	(236)
44	68	11	22	95	60		
17 871	14 809	171	174	3 148	4 010		
22 663	20 005			2 166	2 214		
10 028	10 680	4 738	4 892	4 087	3 287	(259)	(292)
1 270	1 220			597	752		
170	163			1 172	288		
140	76	186	159				
6 563	5 815						
				5	12		1
						907	55
363 471	339 494	30 970	31 298	22 427	21 839	(307)	(1 080)
(14 075)	(12 731)	(229)	(187)	(749)	(802)	(264)	(165)
349 396	326 763	30 741	31 111	21 678	21 037	(571)	(1 245)
349 394	326 770	28 393	27 909	20 324	20 689	(571)	(1 256)
2	(7)	2 348	3 202	1 354	348		11
349 396	326 763	30 741	31 111	21 678	21 037	(571)	(1 245)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

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 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.

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 charge on financial instruments		
Balance at the beginning of the year	15 845	14 447
Stage 1 ECL allowance	2 889	2 806
Stage 2 ECL allowance	3 587	3 886
Stage 3 ECL allowance	9 369	7 755
Statement of comprehensive income charge net of recoveries	6 129	3 688
Stage 1 ECL allowance	545	174
Stage 2 ECL allowance	482	(64)
Stage 3 ECL allowance	5 040	3 600
Non-loans and advances	6	5
Off-balance-sheet allowance	56	(27)
Adjusted for:	(3 795)	(2 290)
– Recoveries	1 247	1 271
– Interest in suspense	723	434
– Amounts written off/other transfers	(5 765)	(3 995)
Balance at the end of the year	18 179	15 845
Stage 1 ECL allowance	3 455	2 889
Stage 2 ECL allowance	3 932	3 587
Stage 3 ECL allowance	10 792	9 369
Split by measurement category	18 179	15 845
Loans and advances	17 534	15 488
Loans and advances at FVOCI	340	122
Non-loans and advances	34	25
Off-balance-sheet allowance	271	210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.2 Impairments charge 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	2 282	264	(148)	2 398
Commercial mortgages	973	110	(23)	1 060
Properties in possession	18	(7)	(3)	8
Credit cards	2 404	930	(1 045)	2 289
Overdrafts	949	268	(210)	1 007
Instalment debtors	4 298	1 998	(1 469)	4 827
Preference shares and debentures	132	(33)		99
Personal, term and other loans	4 533	2 435	(901)	6 067
Overnight loans	39	96	2	137
Factoring accounts	22	17	(6)	33
Trade, other bills and banker's acceptances	1		(1)	–
Financial guarantees and loan commitments	169	45	6	220
	15 820	6 123	(3 798)	18 145
Total impairment – 2018				
Home loans	2 435	245	(398)	2 282
Commercial mortgages	844	91	38	973
Properties in possession	28	(8)	(2)	18
Credit cards	2 185	1 059	(840)	2 404
Overdrafts	884	217	(152)	949
Instalment debtors	3 109	1 907	(718)	4 298
Preference shares and debentures	79	50	3	132
Personal, term and other loans	4 543	1 821	(1 831)	4 533
Overnight loans	115	(80)	4	39
Factoring accounts	29	1	(8)	22
Trade, other bills and banker's acceptances	1			1
Financial guarantees and loan commitments	161	5	3	169
	14 413	5 308	(3 901)	15 820

The balance at the end of the year of R18 145m (2018: R15 820m) includes the ECL relating to loans and advances at amortised cost of R17 534m (2018: R15 488m), loans and advances at FVOCI of R340m (2018: R122m) and off-balance-sheet items of R271m (2018: R210m).

	Total impairment		Stage 1: 12-month ECL allowance		Stage 2: Lifetime ECL allowance (not credit-impaired)		Stage 3: Lifetime ECL allowance (credit-impaired)	
	2019	2018	2019	2018	2019	2018	2019	2018
C2.3 Sectoral analysis								
Individuals	12 900	12 093	2 347	1 927	2 614	2 649	7 939	7 517
Financial services, insurance and real estate	1 525	1 410	278	351	681	507	566	552
Manufacturing	848	549	208	113	233	143	407	293
Building and property development	232	260	30	29	59	44	143	187
Transport, storage and communication	504	246	45	31	23	83	436	132
Retailers, catering and accommodation	60	48	25	19	15	13	20	16
Wholesale and trade	618	215	111	83	83	37	424	95
Mining and quarrying	164	106	98	79	39	15	27	12
Agriculture, forestry and fishing	362	235	63	46	25	20	274	169
Government and public sector	130	85	32	20	32	14	66	51
Other services	802	573	186	184	128	61	488	328
	18 145	15 820	3 423	2 882	3 932	3 586	10 790	9 352

C2.4 Geographical analysis

	Total impairment		Stage 1: 12-month ECL allowance		Stage 2: Lifetime ECL allowance (not credit-impaired)		Stage 3: Lifetime ECL allowance (credit-impaired)	
	2019	2018	2019	2018	2019	2018	2019	2018
SA	16 794	14 733	3 008	2 592	3 804	3 427	9 982	8 714
Other African countries	752	733	278	196	117	118	357	419
Europe	397	132	29	16	1	9	367	107
Asia	5	4	5	4				
United States	4	-	4					
Other	193	218	99	74	10	32	84	112
	18 145	15 820	3 423	2 882	3 932	3 586	10 790	9 352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

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.

C2.6 Definition of 'default'

For the purposes of determining 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 (PD, LGD and 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 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.

C2.8 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	18 145		
Base	18 066	(79)	(0,4%)
Mild	18 650	505	2,8%
High	19 355	1 210	6,7%
Positive	17 345	(800)	(4,4%)
	Total ECL allowance	Difference to weighted economic scenario	Percentage difference to weighted economic scenario
2018 – Rm			
Weighted economics	15 820		
Base	15 688	(132)	(0,8%)
Mild	15 851	31	0,2%
High	16 430	610	3,9%
Positive	15 336	(484)	(3,1%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.10 Segmental analysis of impairments charge on financial instruments

Rm	Nedbank Corporate and Investment Banking	Nedbank Retail and Business Banking	Nedbank Wealth	Nedbank Africa Regions	Centre	
2019						
ECL allowance at the beginning of the year	15 845	1 866	12 796	187	816	180
Stage 1	2 889	601	2 042	25	220	1
Stage 2	3 587	548	2 791	22	78	148
Stage 3	9 369	717	7 963	140	518	31
Statement of comprehensive income charge net of recoveries	6 129	917	4 823	57	233	99
Stage 1	545	(1)	476	(1)	71	
Stage 2	482	254	102	4	23	99
Stage 3	5 040	616	4 241	54	129	
Non-loans and advances	6	2			4	
Off-balance-sheet allowance	56	46	4		6	
Recoveries	1 247	20	1 196		31	
Interest in suspense	723	83	640			
Amounts written off against the impairment/other transfers	(5 765)	(140)	(5 311)	(15)	(300)	1
ECL allowance at the end of the year	18 179	2 746	14 144	229	780	280
Stage 1	3 455	659	2 507	24	249	16
Stage 2	3 932	768	2 819	25	72	248
Stage 3	10 792	1 319	8 818	180	459	16
Split by measurement category	18 179	2 746	14 144	229	780	280
Loans and advances	17 534	2 217	14 075	229	749	264
Loans and advances at FVOCI	340	340				
Non-loans and advances	34	8			9	17
Off-balance sheet allowance	271	181	69		22	(1)

Rm	Total	Nedbank Corporate and Investment Banking	Nedbank Retail and Business Banking	Nedbank Wealth	Nedbank Africa Regions	Centre
2018						
ECL allowance at the beginning of the year	14 447	2 040	11 320	160	758	169
Stage 1	2 806	456	2 106	39	189	16
Stage 2	3 886	910	2 739	10	78	149
Stage 3	7 755	674	6 475	111	491	4
Statement of comprehensive income charge net of recoveries	3 688	103	3 433	39	113	-
Stage 1	174	142	(76)		108	
Stage 2	(64)	(399)	344	(5)	(4)	
Stage 3	3 600	386	3 155	44	15	
Non-loans and advances	5	5				
Off-balance-sheet allowance	(27)	(31)	10		(6)	
Recoveries	1 271	26	1 185		60	
Interest in suspense	434	40	394			
Amounts written off against the impairment/other transfers	(3 995)	(343)	(3 536)	(12)	(115)	11
ECL allowance at the end of the year	15 845	1 866	12 796	187	816	180
Stage 1	2 889	601	2 042	25	220	1
Stage 2	3 587	548	2 791	22	78	148
Stage 3	9 369	717	7 963	140	518	31
Split by measurement category	15 845	1 866	12 796	187	816	180
Loans and advances	15 488	1 603	12 731	187	802	165
Loans and advances at FVOCI	122	122				
Non-loans and advances	25	6			3	16
Off-balance sheet allowance	210	135	65		11	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.11 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	35 627	37 332
Derivative financial instruments	35 243	22 692
Government and other securities	35 912	28 735
Loans and advances	37 897	23 755
Other assets	3 632	6 195
Investment securities	28 809	22 404
	177 120	141 113

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	7 835	1 572	6 263	7 832
Commercial mortgages	2 488	505	1 983	2 360
Properties in possession	55	7	48	19
Credit cards and overdrafts	3 119	1 911	1 208	4 170
Personal, term and other loans	7 520	3 941	3 579	4 624
Instalment debtors	6 607	2 704	3 903	6 665
Preference shares and debentures	197	33	164	237
Overnight loans	171	11	160	720
Factoring accounts	45	15	30	51
	28 037	10 699	17 338	26 678

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
2018				
Home loans	6 976	1 430	5 546	10 045
Commercial mortgages	2 957	435	2 522	2 830
Properties in possession	152	18	134	106
Credit cards and overdrafts	3 065	2 048	1 017	398
Personal, term and other loans	6 710	2 758	3 952	758
Instalment debtors	4 967	2 532	2 435	3 856
Preference shares and debentures	354	62	292	375
Factoring accounts	50	8	42	51
	25 231	9 291	15 940	18 419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.11 Credit risk exposure continued

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

Loans and advances

Rm LTV distribution	Home loans	Commercial mortgages	Properties in possession
2019			
Lower than 50%	1 112	352	
50% to 75%	1 633	215	
75% to 100%	2 992	977	19
Higher than 100%	2 098	944	36
Total	7 835	2 488	55

Rm LTV distribution	Home loans	Commercial mortgages	Properties in possession
2018			
Lower than 50%	814	222	1
50% to 75%	1 317	1 205	
75% to 100%	3 717	1 423	88
Higher than 100%	1 128	107	63
Total	6 976	2 957	152

Gross carrying amount of credit-impaired financial assets

Credit cards and overdrafts	Term loans	Other loans to clients	Instalment debtors	Preference shares and debentures	Factoring accounts
392	620	48	203	8	4
14	82	22	370		11
163	392	60	1 129		7
2 550	6 129	338	4 905	189	23
3 119	7 223	468	6 607	197	45

Gross carrying amount of credit-impaired financial assets

Credit cards and overdrafts	Term loans	Other loans to clients	Instalment debtors	Preference shares and debentures	Factoring accounts
2 156	5 703	12	205		
720	15	147	208		
91	483	60	935		50
98	263	24	3 629	354	
3 065	6 464	243	4 977	354	50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 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:

Loans and advances Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
2019			
Balance at the beginning of the year	624 114	2 881	621 233
New financial assets originated or purchased	227 743	2 505	225 238
Financial assets written off			-
Repayments and other movements	(150 109)	3 002	(153 111)
Transfers to 12-month ECL	23 245	747	22 498
Transfers to lifetime ECL (not credit-impaired)	(46 431)	(2 309)	(44 122)
Transfers to lifetime ECL (credit-impaired)	(11 992)	(3 399)	(8 593)
Foreign exchange movements	1 460	(6)	1 466
Net balances (refer note C2.2)	668 030	3 421	664 609
Total credit and zero balances ¹	6 855	(43)	6 898
Balance at the end of the year	674 885	3 378	671 507
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.

	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
Changes in model and macroeconomic factors¹				
Change in macroeconomic factors	(7)	(44)	(18)	
Model reground	63			

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.

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
72 622	3 587	69 035	25 182	9 352	15 830	721 918	15 820	706 098
		-				227 743	2 505	225 238
		-	(5 452)	(3 183)	(2 269)	(5 452)	(3 183)	(2 269)
(20 731)	829	(21 560)	(5 754)	(811)	(4 943)	(176 594)	3 020	(179 614)
(21 236)	(587)	(20 649)	(2 009)	(160)	(1 849)			
50 645	2 612	48 033	(4 214)	(303)	(3 911)			
(8 285)	(2 507)	(5 778)	20 277	5 906	14 371			
(397)	1	(398)	18	(12)	30	1 081	(17)	1 098
72 618	3 935	68 683	28 048	10 789	17 259	768 696	18 145	750 551
17	(4)	21	(11)	(2)	(9)	6 861	(49)	6 910
72 635	3 931	68 704	28 037	10 787	17 250	775 557	18 096	757 461
								37 897
								340
								271
								907
								(43)
								796 833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Home loans Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	133 726	236	133 490
New financial assets originated or purchased	11 709	62	11 647
Financial assets written off			-
Repayments and other movements	(4 073)	466	(4 539)
Transfers to 12-month ECL	5 614	6	5 608
Transfers to lifetime ECL (not credit-impaired)	(5 473)	(205)	(5 268)
Transfers to lifetime ECL (credit-impaired)	(1 828)	(293)	(1 535)
Foreign exchange movements	387	15	372
Net balances	140 062	287	139 775
Total credit and zero balances	158	(1)	159
Balance at the end of the year	140 220	286	139 934

Commercial mortgages Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	138 998	300	138 698
New financial assets originated or purchased	46 282	174	46 108
Financial assets written off			-
Repayments and other movements	(30 389)	(121)	(30 268)
Transfers to 12-month ECL	7 582	59	7 523
Transfers to lifetime ECL (not credit-impaired)	(7 535)	(37)	(7 498)
Transfers to lifetime ECL (credit-impaired)	(1 456)	(140)	(1 316)
Foreign exchange movements	(552)	(16)	(536)
Net balances	152 930	219	152 711
Total credit and zero balances			-
Balance at the end of the year	152 930	219	152 711

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
15 574	616	14 958	6 965	1 430	5 535	156 265	2 282	153 983
		-			-	11 709	62	11 647
		-	(243)	(179)	(64)	(243)	(179)	(64)
(991)	(52)	(939)	(985)	(200)	(785)	(6 049)	214	(6 263)
(5 085)	(16)	(5 069)	(529)	10	(539)	-	-	-
6 675	274	6 401	(1 202)	(69)	(1 133)	-	-	-
(1 992)	(288)	(1 704)	3 820	581	3 239	-	-	-
	4	(4)			-	387	19	368
14 181	538	13 643	7 826	1 573	6 253	162 069	2 398	159 671
4		4	9	(1)	10	171	(2)	173
14 185	538	13 647	7 835	1 572	6 263	162 240	2 396	159 844

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
19 856	238	19 618	2 957	435	2 522	161 811	973	160 838
		-			-	46 282	174	46 108
		-	(13)	(12)	(1)	(13)	(12)	(1)
(3 167)	51	(3 218)	(344)	14	(358)	(33 900)	(56)	(33 844)
(6 991)	(54)	(6 937)	(591)	(5)	(586)	-	-	-
9 248	152	9 096	(1 713)	(115)	(1 598)	-	-	-
(734)	(48)	(686)	2 190	188	2 002	-	-	-
489	(3)	492	2		2	(61)	(19)	(42)
18 701	336	18 365	2 488	505	1 983	174 119	1 060	173 059
		-			-	-	-	-
18 701	336	18 365	2 488	505	1 983	174 119	1 060	173 059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Properties in possession Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year			-
New financial assets originated or purchased	38		38
Financial assets written off			-
Repayments and other movements	59		59
Foreign exchange movements	(2)		(2)
Net balances	95	-	95
Total credit and zero balances			-
Balance at the end of the year	95	-	95

Credit cards and overdrafts Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	25 380	619	24 761
New financial assets originated or purchased	7 746	303	7 443
Financial assets written off			-
Repayments and other movements	678	937	(259)
Transfers to 12-month ECL	2 187	120	2 067
Transfers to lifetime ECL (not credit-impaired)	(5 294)	(336)	(4 958)
Transfers to lifetime ECL (credit-impaired)	(1 459)	(785)	(674)
Foreign exchange movements	(22)	2	(24)
Net balances	29 216	860	28 356
Total credit and zero balances	6 278	(42)	6 320
Balance at the end of the year	35 494	818	34 676

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		-	152	18	134	152	18	134
		-			-	38	-	38
		-	(4)	(4)	-	(4)	(4)	-
	1	(1)	(33)	(7)	(26)	26	(6)	32
		-	(2)		(2)	(4)		(4)
-	1	(1)	113	7	106	208	8	200
		-	(58)		(58)	(58)	-	(58)
-	1	(1)	55	7	48	150	8	142

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
4 874	686	4 188	3 027	2 048	979	33 281	3 353	29 928
		-			-	7 746	303	7 443
		-	(1 632)	(918)	(714)	(1 632)	(918)	(714)
(1 985)	9	(1 994)	(478)	(388)	(90)	(1 785)	558	(2 343)
(2 085)	(97)	(1 988)	(102)	(23)	(79)	-	-	-
5 331	347	4 984	(37)	(11)	(26)	-	-	-
(855)	(423)	(432)	2 314	1 208	1 106	-	-	-
(71)	2	(73)	(11)	(4)	(7)	(104)	-	(104)
5 209	524	4 685	3 081	1 912	1 169	37 506	3 296	34 210
13	(4)	17	38	(1)	39	6 329	(47)	6 376
5 222	520	4 702	3 119	1 911	1 208	43 835	3 249	40 586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Personal, term and other loans Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	192 370	909	191 461
New financial assets originated or purchased	105 769	1 012	104 757
Financial assets written off			-
Repayments and other movements	(76 825)	1 144	(77 969)
Transfers to 12-month ECL	2 722	65	2 657
Transfers to lifetime ECL (not credit-impaired)	(11 862)	(655)	(11 207)
Transfers to lifetime ECL (credit-impaired)	(2 710)	(1 371)	(1 339)
Foreign exchange movements	921	(1)	922
Net balances	210 385	1 103	209 282
Total credit and zero balances	419		419
Balance at the end of the year	210 804	1 103	209 701

Instalment debtors Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	99 599	655	98 944
New financial assets originated or purchased	51 707	586	51 121
Financial assets written off			-
Repayments and other movements	(34 299)	1 092	(35 391)
Transfers to 12-month ECL	2 992	50	2 942
Transfers to lifetime ECL (not credit-impaired)	(10 566)	(833)	(9 733)
Transfers to lifetime ECL (credit-impaired)	(4 007)	(748)	(3 259)
Foreign exchange movements	(10)		(10)
Net balances	105 416	802	104 614
Total credit and zero balances			-
Balance at the end of the year	105 416	802	104 614

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
14 728	866	13 862	6 710	2 758	3 952	213 808	4 533	209 275
		-			-	105 769	1 012	104 757
		-	(1 637)	(1 227)	(410)	(1 637)	(1 227)	(410)
(10 337)	470	(10 807)	(980)	151	(1 131)	(88 142)	1 765	(89 907)
(2 300)	(11)	(2 289)	(422)	(54)	(368)	-	-	-
12 331	706	11 625	(469)	(51)	(418)	-	-	-
(1 582)	(1 005)	(577)	4 292	2 376	1 916	-	-	-
(107)	(3)	(104)	26	(12)	38	840	(16)	856
12 733	1 023	11 710	7 520	3 941	3 579	230 638	6 067	224 571
		-			-	419	-	419
12 733	1 023	11 710	7 520	3 941	3 579	231 057	6 067	224 990

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
16 437	1 111	15 326	4 967	2 532	2 435	121 003	4 298	116 705
		-			-	51 707	586	51 121
		-	(1 917)	(839)	(1 078)	(1 917)	(839)	(1 078)
(3 865)	104	(3 969)	(2 552)	(414)	(2 138)	(40 716)	782	(41 498)
(2 772)	(45)	(2 727)	(220)	(5)	(215)	-	-	-
11 365	892	10 473	(799)	(59)	(740)	-	-	-
(3 122)	(741)	(2 381)	7 129	1 489	5 640	-	-	-
		-	(1)		(1)	(11)	-	(11)
18 043	1 321	16 722	6 607	2 704	3 903	130 066	4 827	125 239
		-			-	-	-	-
18 043	1 321	16 722	6 607	2 704	3 903	130 066	4 827	125 239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Preference shares and debentures Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	14 658	68	14 590
New financial assets originated or purchased	2 373	17	2 356
Repayments and other movements	(4 578)	(14)	(4 564)
Transfers to 12-month ECL	71		71
Transfers to lifetime ECL (not credit-impaired)	(217)	(9)	(208)
Net balances	12 307	62	12 245
Total credit and zero balances			-
Balance at the end of the year	12 307	62	12 245

Overnight loans Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	13 759	23	13 736
New financial assets originated or purchased	1 486	182	1 304
Repayments and other movements	(862)	(345)	(517)
Transfers to 12-month ECL	2 035	339	1 696
Transfers to lifetime ECL (not credit-impaired)	(5 146)	(166)	(4 980)
Transfers to lifetime ECL (credit-impaired)	(512)	(17)	(495)
Foreign exchange movements	739	(3)	742
Net balances	11 499	13	11 486
Total credit and zero balances			-
Balance at the end of the year	11 499	13	11 486

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
142	2	140	354	62	292	15 154	132	15 022
		-			-	2 373	17	2 356
(205)	(2)	(203)	(165)	(34)	(131)	(4 948)	(50)	(4 898)
(71)		(71)			-	-	-	-
209	4	205	8	5	3	-	-	-
75	4	71	197	33	164	12 579	99	12 480
		-			-	-	-	-
75	4	71	197	33	164	12 579	99	12 480

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
857	16	841			-	14 616	39	14 577
		-			-	1 486	182	1 304
(125)	237	(362)	(204)	25	(229)	(1 191)	(83)	(1 108)
(1 896)	(305)	(1 591)	(139)	(34)	(105)	-	-	-
5 148	166	4 982	(2)		(2)	-	-	-
		-	512	17	495	-	-	-
(708)	(1)	(707)	4	3	1	35	(1)	36
3 276	113	3 163	171	11	160	14 946	137	14 809
		-			-	-	-	-
3 276	113	3 163	171	11	160	14 946	137	14 809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Factoring accounts Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	5 611	10	5 601
New financial assets originated or purchased	633	2	631
Financial assets written off			-
Repayments and other movements	187	8	179
Transfers to 12-month ECL	42		42
Transfers to lifetime ECL (not credit-impaired)	(338)	(5)	(333)
Transfers to lifetime ECL (credit-impaired)	(20)	(5)	(15)
Net balances	6 115	10	6 105
Total credit and zero balances			-
Balance at the end of the year	6 115	10	6 105

Trade, other bills and banker's acceptances Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	13	1	12
Repayments and other movements	(7)		(7)
Foreign exchange movements	(1)	(1)	-
Net balances	5		5
Total credit and zero balances			-
Balance at the end of the year	5	-	5

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

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
154	4	150	50	8	42	5 815	22	5 793
		-			-	633	2	631
(56)	(1)	(55)	(6)	(4)	(2)	(6)	(4)	(2)
(36)		(36)	(6)	6	(19)	118	13	105
338	5	333			-	-	-	-
		-	20	5	15	-	-	-
400	8	392	45	15	30	6 560	33	6 527
		-			-	-	-	-
400	8	392	45	15	30	6 560	33	6 527

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		-			-	13	1	12
		-			-	(7)	-	(7)
		-			-	(1)	(1)	-
		-			-	5	-	5
		-			-	-	-	-
-	-	-	-	-	-	5	-	5

	Not credit-impaired		Credit-impaired	Total
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL (excluding purchased/originated)	
	Allowance for ECL	Allowance for ECL	Allowance for ECL	Allowance for ECL
	60	48	61	169
	167			167
	(165)	12	36	(117)
	108	(59)	(49)	-
	(63)	66	(3)	-
	(40)	(2)	42	-
	(2)	2	1	1
	65	67	88	220
				-
	65	67	88	220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

2018

	Not credit-impaired		
	Subject to 12-month ECL		
Loans and advances Rm	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	604 150	2 775	601 375
New financial assets originated or purchased	167 656	2 280	165 376
Financial assets written off			–
Repayments and other movements	(115 776)	2 394	(118 170)
Transfers to 12-month ECL	23 600	242	23 358
Transfers to lifetime ECL (not credit-impaired)	(43 694)	(1 882)	(41 812)
Transfers to lifetime ECL (credit-impaired)	(10 029)	(2 967)	(7 062)
Foreign exchange movements	(1 793)	39	(1 832)
Net balances (refer to note C2.2)	624 114	2 881	621 233
Total credit and zero balances	6 002	(28)	6 030
Balance at the end of the year	630 116	2 853	627 263
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			

Changes in model and macroeconomic factors¹

Rm

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Home loans Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	128 870	281	128 589
New financial assets originated or purchased	10 819	94	10 725
Financial assets written off			-
Repayments and other movements	(2 848)	327	(3 175)
Transfers to 12-month ECL	5 793	16	5 777
Transfers to lifetime ECL (not credit-impaired)	(7 124)	(212)	(6 912)
Transfers to lifetime ECL (credit-impaired)	(1 791)	(269)	(1 522)
Foreign exchange movements	7	(1)	8
Net balances	133 726	236	133 490
Total credit and zero balances	134	(1)	135
Balance at the end of the year	133 860	235	133 625

Commercial mortgages Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	146 223	314	145 909
New financial assets originated or purchased	38 443	171	38 272
Financial assets written off			-
Repayments and other movements	(32 689)	(117)	(32 572)
Transfers to 12-month ECL	7 787	104	7 683
Transfers to lifetime ECL (not credit-impaired)	(19 606)	(62)	(19 544)
Transfers to lifetime ECL (credit-impaired)	(873)	(107)	(766)
Foreign exchange movements	(287)	(3)	(284)
Net balances	138 998	300	138 698
Total credit and zero balances			-
Balance at the end of the year	138 998	300	138 698

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
14 721	640	14 081	6 858	1 514	5 344	150 449	2 435	148 014
		-			-	10 819	94	10 725
		-	(279)	(270)	(9)	(279)	(270)	(9)
(865)	(51)	(814)	(1 025)	(250)	(775)	(4 738)	26	(4 764)
(5 128)	(13)	(5 115)	(665)	(3)	(662)	-	-	-
8 664	315	8 349	(1 540)	(103)	(1 437)	-	-	-
(1 817)	(276)	(1 541)	3 608	545	3 063	-	-	-
(1)	1	(2)	8	(3)	11	14	(3)	17
15 574	616	14 958	6 965	1 430	5 535	156 265	2 282	153 983
4		4	11		11	149	(1)	150
15 578	616	14 962	6 976	1 430	5 546	156 414	2 281	154 133

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
11 811	210	11 601	1 849	320	1 529	159 883	844	159 039
		-			-	38 443	171	38 272
		-	(15)	(34)	19	(15)	(34)	19
(2 784)	176	(2 960)	(738)	(59)	(679)	(36 211)	-	(36 211)
(7 390)	(89)	(7 301)	(398)	(15)	(383)	(1)	-	(1)
19 848	64	19 784	(242)	(2)	(240)	-	-	-
(1 629)	(123)	(1 506)	2 501	230	2 271	(1)	-	(1)
		-		(5)	5	(287)	(8)	(279)
19 856	238	19 618	2 957	435	2 522	161 811	973	160 838
		-			-	-	-	-
19 856	238	19 618	2 957	435	2 522	161 811	973	160 838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Properties in possession Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year		2	(2)
New financial assets originated or purchased	1		1
Financial assets written off			-
Repayments and other movements		(2)	2
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 Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	21 525	566	20 959
New financial assets originated or purchased	5 515	161	5 354
Financial assets written off			-
Repayments and other movements	1 940	1 090	850
Transfers to 12-month ECL	1 009	38	971
Transfers to lifetime ECL (not credit-impaired)	(3 139)	(473)	(2 666)
Transfers to lifetime ECL (credit-impaired)	(1 410)	(762)	(648)
Foreign exchange movements	(60)	(1)	(59)
Net balances	25 380	619	24 761
Total credit and zero balances	5 868	(27)	5 895
Balance at the end of the year	31 248	592	30 656

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
	1	(1)	162	25	137	162	28	134
		-			-	1	-	1
		-	1		1	1	-	1
	(1)	1	(12)	(7)	(5)	(12)	(10)	(2)
		-	1		1	-	-	-
-	-	-	152	18	134	152	18	134
		-			-	-	-	-
-	-	-	152	18	134	152	18	134

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
4 110	654	3 456	2 283	1 849	434	27 918	3 069	24 849
		-			-	5 515	161	5 354
		-	(952)	(879)	(73)	(952)	(879)	(73)
(793)	(6)	(787)	(296)	(86)	(210)	851	998	(147)
(937)	(34)	(903)	(72)	(4)	(68)	-	-	-
3 193	486	2 707	(54)	(13)	(41)	-	-	-
(741)	(415)	(326)	2 151	1 177	974	-	-	-
42	1	41	(33)	4	(37)	(51)	4	(55)
4 874	686	4 188	3 027	2 048	979	33 281	3 353	29 928
8	(8)	16	38	(1)	39	5 914	(36)	5 950
4 882	678	4 204	3 065	2 047	1 018	39 195	3 317	35 878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Personal, term and other loans Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	175 410	809	174 601
New financial assets originated or purchased	54 666	1 092	53 574
Financial assets written off			–
Repayments and other movements	(34 894)	449	(35 343)
Transfers to 12-month ECL	5 361	43	5 318
Transfers to lifetime ECL (not credit-impaired)	(4 318)	(384)	(3 934)
Transfers to lifetime ECL (credit-impaired)	(2 399)	(1 104)	(1 295)
Foreign exchange movements	(1 456)	4	(1 460)
Net balances	192 370	909	191 461
Total credit and zero balances			–
Balance at the end of the year	192 370	909	191 461

Instalment debtors Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	94 304	680	93 624
New financial assets originated or purchased	47 921	645	47 276
Financial assets written off			–
Repayments and other movements	(32 640)	680	(33 320)
Transfers to 12-month ECL	2 732	38	2 694
Transfers to lifetime ECL (not credit-impaired)	(9 379)	(729)	(8 650)
Transfers to lifetime ECL (credit-impaired)	(3 342)	(657)	(2 685)
Foreign exchange movements	3	(2)	5
Net balances	99 599	655	98 944
Total credit and zero balances			–
Balance at the end of the year	99 599	655	98 944

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
24 073	1 308	22 765	4 893	2 426	2 467	204 376	4 543	199 833
		-			-	54 666	1 092	53 574
		-	(1 304)	(1 187)	(117)	(1 304)	(1 187)	(117)
(7 364)	(335)	(7 029)	(51)	(65)	14	(42 309)	49	(42 358)
(5 308)	(19)	(5 289)	(53)	(24)	(29)	-	-	-
4 706	507	4 199	(388)	(123)	(265)	-	-	-
(1 240)	(597)	(643)	3 638	1 702	1 936	(1)	1	(2)
(139)	2	(141)	(25)	29	(54)	(1 620)	35	(1 655)
14 728	866	13 862	6 710	2 758	3 952	213 808	4 533	209 275
		-			-	-	-	-
14 728	866	13 862	6 710	2 758	3 952	213 808	4 533	209 275

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
13 917	855	13 062	3 769	1 574	2 195	111 990	3 109	108 881
		-			-	47 921	645	47 276
		-	(753)	(969)	216	(753)	(969)	216
(3 457)	(53)	(3 404)	(2 300)	886	(3 186)	(38 397)	1 513	(39 910)
(2 432)	(32)	(2 400)	(300)	(5)	(295)	-	1	(1)
10 301	792	9 509	(923)	(63)	(860)	(1)	-	(1)
(1 891)	(453)	(1 438)	5 233	1 110	4 123	-	-	-
(1)	2	(3)	241	(1)	242	243	(1)	244
16 437	1 111	15 326	4 967	2 532	2 435	121 003	4 298	116 705
		-			-	-	-	-
16 437	1 111	15 326	4 967	2 532	2 435	121 003	4 298	116 705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Preference shares and debentures Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	13 475	26	13 449
New financial assets originated or purchased	7 181	36	7 145
Repayments and other movements	(6 136)		(6 136)
Transfers to 12-month ECL	320	1	319
Transfers to lifetime ECL (not credit-impaired)	(4)		(4)
Transfers to lifetime ECL (credit-impaired)	(178)	(37)	(141)
Foreign exchange movements		42	(42)
Net balances	14 658	68	14 590
Total credit and zero balances			-
Balance at the end of the year	14 658	68	14 590

Overnight loans Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	18 957	24	18 933
New financial assets originated or purchased	2 472	9	2 463
Repayments and other movements	(8 067)	(8)	(8 059)
Transfers to 12-month ECL	425	1	424
Transfers to lifetime ECL (not credit-impaired)	(28)	(3)	(25)
Net balances	13 759	23	13 736
Total credit and zero balances			-
Balance at the end of the year	13 759	23	13 736

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
4 799	53	4 746				18 274	79	18 195
		-				7 181	36	7 145
(4 168)	(26)	(4 142)	3		3	(10 301)	(26)	(10 275)
(320)	(1)	(319)				-	-	-
4		4				-	-	-
(173)	(25)	(148)	351	62	289	-	-	-
	1	(1)				-	43	(43)
142	2	140	354	62	292	15 154	132	15 022
		-				-	-	-
142	2	140	354	62	292	15 154	132	15 022

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
2 051	91	1 960				21 008	115	20 893
		-				2 472	9	2 463
(797)	(77)	(720)				(8 864)	(85)	(8 779)
(425)	(1)	(424)				-	-	-
28	3	25				-	-	-
857	16	841	-	-	-	14 616	39	14 577
		-				-	-	-
857	16	841	-	-	-	14 616	39	14 577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2 Impairments charge on financial instruments continued

C2.12 Loss allowance continued

Factoring accounts Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	5 385	11	5 374
New financial assets originated or purchased	626	1	625
Financial assets written off			-
Repayments and other movements	(442)	5	(447)
Transfers to 12-month ECL	173	1	172
Transfers to lifetime ECL (not credit-impaired)	(96)	(2)	(94)
Transfers to lifetime ECL (credit-impaired)	(35)	(6)	(29)
Net balances	5 611	10	5 601
Total credit and zero balances			-
Balance at the end of the year	5 611	10	5 601

Trade, other bills and banker's acceptances Rm	Not credit-impaired		
	Subject to 12-month ECL		
	Gross carrying amount	Allowance for ECL	Amortised cost
Balance at the beginning of the year	1	1	-
New financial assets originated or purchased	12		12
Net balances	13	1	12
Total credit and zero balances			-
Balance at the end of the year	13	1	12

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

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
404	11	393	45	7	38	5 834	29	5 805
		-			-	626	1	625
		-	(8)		(8)	(8)	-	(8)
(176)	(8)	(168)	(19)	(5)	(14)	(637)	(8)	(629)
(170)	(1)	(169)	(3)		(3)	-	-	-
96	2	94			-	-	-	-
		-	35	6	29	-	-	-
154	4	150	50	8	42	5 815	22	5 793
		-			-	-	-	-
154	4	150	50	8	42	5 815	22	5 793

Not credit-impaired			Credit-impaired			Total		
Subject to lifetime ECL			Subject to lifetime ECL (excluding purchased/originated)					
Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost	Gross carrying amount	Allowance for ECL	Amortised cost
		-			-	1	1	-
		-			-	12	-	12
-	-	-	-	-	-	13	1	12
		-			-	-	-	-
-	-	-	-	-	-	13	1	12

Not credit-impaired		Credit-impaired	Total
Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL (excluding purchased/originated)	
Allowance for ECL	Allowance for ECL	Allowance for ECL	Allowance for ECL
61	61	39	161
71			71
		(1)	(1)
(30)	(20)	(12)	(62)
(17)	17		-
(25)	(10)	35	-
60	48	61	169
			-
60	48	61	169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

C2.13 Financial assets written off

Key assumptions concerning the future and key sources of estimation

Writeoff and postwriteoff recoveries

A loan or 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	5 149	3 215

C2.14 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.

The group continues to monitor whether there is a subsequent SICR 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	151
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	102
Impact of modification on the ECL allowances associated with these assets	1	2

Rm	2019	2018
C3 Government and other securities		
C3.1 Analysis		
Government and government-guaranteed securities	95 652	70 981
Other dated securities ¹	31 224	25 817
Macro fair-value hedge-accounted portfolios	1 645	
Impairment of government and other securities	(11)	(7)
	128 510	96 791
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	100 428	72 894
Other sectors	176	1 298
	128 510	96 791
¹ Includes securitised assets. See note F5.		
C4 Other short-term securities		
C4.1 Analysis		
Negotiable certificates of deposit	18 709	21 881
Treasury bills and other bonds	45 749	57 483
Impairment of other short-term securities	(7)	(2)
	64 451	79 362
C4.2 Sectoral analysis		
Banks	16 767	21 638
Government and public sector	45 295	57 449
Other sectors	2 389	275
	64 451	79 362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

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	60 009	75 437	1 893	898	2 549	3 027	64 451	79 362
Negotiable certificates of deposit	18 372	21 881	337				18 709	21 881
Treasury bills and other	41 637	53 556	1 556	898	2 556	3 029	45 749	57 483
Impairment of other short-term securities					(7)	(2)	(7)	(2)
Government and other securities	126 775	94 539	1 591	957	144	1 295	128 510	96 791
Government and government-guaranteed securities	95 291	70 173	292	612	69	196	95 652	70 981
Other dated securities	29 849	24 372	1 299	345	76	1 100	31 224	25 817
Macro fair-value hedge-accounted portfolios	1 645						1 645	-
Impairment of government and other securities	(10)	(6)			(1)	(1)	(11)	(7)
	186 784	169 976	3 484	1 855	2 693	4 322	192 961	176 153

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 Ba1. 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

Rm	2019	2018
Coins and banknotes	6 651	7 945
Money at call and short notice	6 948	4 913
Balances with central banks – other than mandatory reserve deposits	550	304
Cash and cash equivalents excluding mandatory reserve deposits with central banks	14 149	13 162
Mandatory reserve deposits with central banks	23 486	21 629
	37 635	34 791

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

C7 Derivative financial instruments continued

C7.1 Total carrying amount of derivative financial instruments

Rm	2019	2018
Gross carrying amount of assets	35 243	22 692
Gross carrying amount of liabilities	(27 991)	(20 003)
Net carrying amount	7 252	2 689

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.

Rm	2019			2018		
	Notional principal	Positive value	Negative value	Notional principal	Positive value	Negative value
Equity derivatives	45 984	21 139	24 845	41 318	25 007	16 311
Options written	11 217		11 217	8 733		8 733
Options purchased	12 382	12 382		11 250	11 250	
Futures ²	22 385	8 757	13 628	21 335	13 757	7 578
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	
Swaps	1	1	1	8	4	4
Futures	247	247	1	2 410	2 410	1
Exchange rate derivatives	565 617	268 080	297 537	431 572	214 767	216 805
Forwards	396 758	210 268	186 490	279 289	139 367	139 922
Futures	2 278	1 218	1 060	2 366	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	5 697 361	3 787 742	1 909 619	5 947 800	2 993 035	2 954 765

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 R7 877m (2018: R12 999m) and negative notionals of R13 381m (2018: R7 421m).

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.

Rm	2019			2018		
	Net carrying amount	Carrying amount of assets	Carrying amount of liabilities	Net carrying amount	Carrying amount of assets	Carrying amount of liabilities
Equity derivatives	(128)	1 060	1 188	(230)	803	1 033
Options written	(974)		974	(937)		937
Options purchased	791	791		505	505	
Futures ¹	55	269	214	202	298	96
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	3 869	17 552	13 683	1 092	7 741	6 649
Forwards	2 360	10 512	8 152	732	4 036	3 304
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	3 088	15 918	12 830	1 727	13 547	11 820
Interest rate swaps	2 650	14 428	11 778	1 663	12 585	10 922
Forward rate agreements	216	848	632	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	7 252	35 243	27 991	2 689	22 692	20 003

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

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					
Maturity analysis					
Under one year	728	695	12 139	1 393	14 955
One to five years	332	18	2 980	3 817	7 147
Over five years			2 433	10 708	13 141
	1 060	713	17 552	15 918	35 243
2018					
Maturity analysis					
Under one year	511	511	4 883	1 226	7 131
One to five years	292	90	1 369	3 505	5 256
Over five years			1 489	8 816	10 305
	803	601	7 741	13 547	22 692
Derivative liabilities					
2019					
Maturity analysis					
Under one year	951	283	9 867	1 040	12 141
One to five years	232	7	2 424	2 976	5 639
Over five years	5		1 392	8 814	10 211
	1 188	290	13 683	12 830	27 991
2018					
Maturity analysis					
Under one year	580	426	3 936	1 101	6 043
One to five years	453	75	1 863	3 244	5 635
Over five years			850	7 475	8 325
	1 033	501	6 649	11 820	20 003
Notional principal of derivatives					
2019					
Maturity analysis					
Under one year	38 711	4 283	494 653	2 998 223	3 535 870
One to five years	6 067		54 118	1 500 801	1 560 986
Over five years	1 206		16 846	582 453	600 505
	45 984	4 283	565 617	5 081 477	5 697 361
2018					
Maturity analysis					
Under one year	34 997	2 644	323 042	3 477 826	3 838 509
One to five years	5 406	49	73 489	1 377 878	1 456 822
Over five years	915		35 040	616 513	652 468
	41 318	2 693	431 571	5 472 217	5 947 799

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

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 Sector Conduct 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	2019			
	Notional amount of hedged items		Accumulated amount of fair-value adjustments on the hedged item	
	Assets	Liabilities	Assets	Liabilities
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

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

Rm	2018			
	Notional amount of hedged items		Accumulated amount of fair-value adjustments on the hedged item	
	Assets	Liabilities	Assets	Liabilities
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

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	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019
Change in the fair value of hedged items	678	(125)	83	(83)	588	743	(349)	906	(418)	(530)	(112)	714
Change in the fair value of the hedging instruments	(601)	112	(81)	80	(589)	(722)	334	(881)	401	515	113	(692)
Net fair-value change	77	(13)	2	(3)	(1)	21	(15)	25	(17)	(15)	1	22

Rm	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018
Change in the fair value of hedged items	(106)	333	100	(107)	(316)	(444)	377	(723)	73	(257)	883	353
Change in the fair value of the hedging instruments	107	(332)	(91)	120	321	457	(362)	724	(37)	276	(834)	(285)
Net fair-value change	1	1	9	13	5	13	15	1	36	19	49	68

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

SECTION D: CORE BANKING LIABILITIES

D1 Amounts owed to depositors

Accounting policy

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

D1.1 Classifications

	2019 Rm	2018 Rm
Current accounts	86 199	85 267
Savings deposits	32 586	32 442
Other deposits and loan accounts	614 909	573 103
Call and term deposits	325 730	305 251
Fixed deposits	66 735	66 314
Cash management deposits	75 748	73 659
Other deposits and loan accounts	146 696	127 879
Foreign currency liabilities	25 734	23 316
Negotiable certificates of deposit	118 984	89 919
Deposits received under repurchase agreements ¹	25 644	21 877
Macro fair-value hedge-accounted portfolios	326	(120)
	904 382	825 804
Comprises:		
– Amounts owed to depositors	846 625	765 516
– Amounts owed to banks	57 757	60 288
	904 382	825 804

¹ The group has pledged government and other securities (note C3) and negotiable certificates of deposit (note C4) amounting to R27 001m (2018: R24 079m) as collateral for deposits received under repurchase agreements, of which R12 611m (2018: 9 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 644m (2018: R21 877m), 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.

See note D1.4 for a breakdown of amounts owed to depositors by operating segment.

	2019 Rm	2018 Rm
D1.2 Sectoral analysis		
Banks	57 757	60 288
Government and public sector	80 714	74 837
Individuals	250 592	236 463
Business sector	515 319	454 216
	904 382	825 804
D1.3 Geographical analysis		
SA	803 982	732 173
The rest of Africa	37 845	35 728
Europe	52 176	37 177
Asia	8 433	10 394
United States	1 946	10 332
	904 382	825 804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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D1 Amounts owed to depositors continued

D1.4 Segmental analysis

Rm	Total		Nedbank Corporate and Investment Banking	
	2019	2018	2019	2018
Current accounts	86 199	85 267	6 628	8 385
Savings deposits	32 586	32 442	1	
Other deposits and loan accounts	614 909	573 103	328 434	300 549
Call and term deposits	325 730	305 251	114 658	109 848
Fixed deposits	66 735	66 314	13 680	11 837
Cash management deposits	75 748	73 659	61 782	60 016
Other deposits and loan accounts	146 696	127 879	138 314	118 848
Foreign currency liabilities	25 734	23 316	19 244	17 933
Negotiable certificates of deposit	118 984	89 919		
Deposits received under repurchase agreements	25 644	21 877	25 349	21 443
Macro fair-value hedge-accounted portfolios	326	(120)		
Amounts owed to depositors	904 382	825 804	379 656	348 310
Comprises:				
– Amounts owed to clients	752 215	765 516	344 497	292 884
– Amounts owed to banks	152 167	60 288	35 159	55 426
Total amounts owed to depositors	904 382	825 804	379 656	348 310

D2 Long-term debt instruments

Instrument type	Maturity dates	Interest rates	2019 Rm	2018 Rm
Subordinated debt¹				
Callable notes (rand-denominated – floating)	16 January 2020 to 1 July 2020	JIBAR plus 2,75% to 3,50%	1 895	3 989
Callable notes (rand-denominated – fixed)	28 November 2020 to 19 November 2027	8,92% to 11,29%	430	891
Long-term debenture	2 August 2027 to 15 September 2030	Zero coupon, JIBAR plus 3,00% to 10,82%	317	316
Basel III subordinated debt²				
Callable notes (rand-denominated – floating)	15 March 2022 to 1 December 2028	JIBAR plus 3,75% to 4,00%	11 587	9 037
Securitised liabilities³				
Callable notes (rand-denominated – floating)	27 January 2028 to 25 February 2053	JIBAR plus 1,02% to 10,0%	3 152	2 069
Senior unsecured debt⁴				
Senior unsecured notes – fixed	28 November 2020 to 19 November 2027	8,79% to 11,39%	17 512	18 833
Senior unsecured notes – floating	19 April 2020 to 1 August 2020	JIBAR plus 0,85% to 2,25%	22 139	20 421
Senior unsecured green bonds	29 April 2022 to 30 April 2026	JIBAR plus 1,10% to 1,41%	2 644	
Unsecured debentures	30 November 2029	Zero coupon	37	31
Total long-term debt instruments in issue			59 713	55 587

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

² During 2019 one Basel III subordinated debt instruments 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.

Nedbank Retail and Business Banking		Nedbank Wealth		Nedbank Africa Regions		Centre	
2019	2018	2019	2018	2019	2018	2019	2018
69 996	67 200	1 838	1 777	7 645	7 846	92	59
10 661	10 141	21 130	21 354	794	947		
252 231	240 128	17 070	16 354	17 335	16 275	(161)	(203)
187 061	172 663	12 964	11 662	11 044	11 075	3	3
49 079	52 385	677	669	3 299	1 424		(1)
10 979	10 497	1 384	1 939	1 524	1 136	79	71
5 112	4 583	2 045	2 084	1 468	2 640	(243)	(276)
6 013	5 051	22	10	455	322		
				3 699	3 648	115 285	86 271
				295	434		
						326	(120)
338 901	322 520	40 060	39 495	30 223	29 472	115 542	86 007
339 359	321 244	40 112	39 486	(65 641)	28 341	93 888	83 561
(458)	1 276	(52)	9	95 864	1 131	21 654	2 446
338 901	322 520	40 060	39 495	30 223	29 472	115 542	86 007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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D2 Long-term debt instruments continued

D2.1 Movement in carrying amount

	2019 Rm	2018 Rm
Balance at the beginning of the year	55 587	51 576
Changes arising from cash movements	(1 157)	(1 082)
Issue of long-term debt instruments	12 895	9 504
Redemption of long-term debt instruments	(8 749)	(5 495)
Interest paid	(5 303)	(5 091)
Acquisition of own long-term debt	(63)	(24)
Changes arising from non-cash movements	5 346	5 117
Accrued interest and unwinding of premiums/discount	5 346	5 150
Fair-value adjustments		(33)
Balance at the end of the year	59 713	55 587

Investment contract liabilities and insurance contract liabilities

Contracts under which the group accepts insurance risk from another party by agreeing to compensate such party or other beneficiaries if a specified uncertain future event adversely affects the party or other beneficiaries, are classified as insurance contract liabilities. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

D3 Investment contract liabilities

Accounting policy

Linked products

Linked products are investment-related products where the policyholder bears the investment risk on the assets held in these investment products. The policy benefits are directly linked to the value of the assets in the fund. Linked products are designated and measured at FVTPL at each reporting date. Linked products are revalued using valuation techniques such as discounted cashflow methods, index values and closing market values. The valuations are also adjusted for the effects of changes in foreign exchange rates.

	2019 Rm	2018 Rm
Balance at the beginning of the year	20 035	18 134
Premium income	6 739	5 882
Investment income	1 587	757
Annuities	(319)	(300)
Death and disability benefits	(477)	(409)
Withdrawals/Surrenders	(3 361)	(4 163)
Other movements	367	134
Balance at the end of the year	24 571	20 035

Policies held within investment contracts are recorded at market-related values.

D4 Insurance contract liabilities

Accounting policy

Policy liabilities

The policy liabilities under unmaturing policies, including unexpired claims, are calculated in accordance with the Standard of Actuarial Practice Note (SAP) 104 as issued by the Actuarial Society of SA. Claims intimated, but not paid, are provided for. The actuarial statement of financial position is included as a separate item in the group's annual financial statements. The group performs a liability adequacy test on its liabilities in line with IFRS 4: Insurance Contracts.

New standards and interpretations not yet adopted

IFRS 17: Insurance contracts

IFRS 17 is a comprehensive new standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4: Insurance Contracts. The group has established a steering committee to promote, direct and oversee the successful implementation of IFRS 17 in the group. The committee is supported by several project workstreams. The impact of implementing IFRS 17 is currently being assessed.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative information required. The IASB issued an exposure draft on IFRS 17 during 2019. The exposure draft included proposed amendments to the standard. One of the proposed amendments was to postpone the effective date of IFRS 17 to 1 January 2022. Feedback has been received on the exposure draft and the IASB is currently deliberating. The final amendments to the standard are expected to be issued in mid-2020. The group's steering committee is closely monitoring the IASB and related industry information.

	2019 Rm	2018 Rm
Balance at the beginning of the year	1 829	2 277
Net premiums	2 069	1 918
Individual – recurring premiums	2 172	2 006
Net reinsurance premiums	(103)	(88)
Investment income	725	534
Dividends	14	14
Interest	539	791
Realised and unrealised gains/losses on investments	172	(271)
Policyholders' benefits paid	(1 758)	(1 160)
Annuities	(27)	(73)
Death and disability benefits	(601)	(569)
Maturities	(1 093)	(450)
Gross surrenders and withdrawals	(37)	(68)
Total expenses	(566)	(743)
Administration expenses	(369)	(369)
Commission	(144)	(295)
Indirect taxation	(53)	(79)
Transfer to operating profit	(1 584)	(997)
Balance at the end of the year	715	1 829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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D5 Contractual maturity analysis for financial liabilities

Rm	Statement of financial position amount	<3 months	>3 months <6 months	>6 months <1 year
2019				
Long-term debt instruments	59 713	1 839	1 614	6 840
Investment contract liabilities	24 571	24 571		
Insurance contract liabilities	715			
Amounts owed to depositors	904 382	618 817	82 565	117 036
Current accounts	86 199	86 250		
Savings deposits	32 586	32 242	290	1
Other deposits and loan accounts	614 909	440 193	51 210	63 678
Foreign currency liabilities	25 734	16 999	3 388	4 293
Negotiable certificates of deposit	118 984	17 459	27 677	49 064
Deposits received under repurchase agreements	25 644	25 674		
Macro fair-value hedge-accounted portfolios	326			
Derivative financial instruments – liabilities	27 991	6 983	2 121	3 037
Lease liabilities	3 379	310	282	513
Provisions and other liabilities	24 149	12		161
	1 044 900	652 532	86 582	127 587
Contingent liabilities and undrawn facilities				
Guarantees on behalf of clients		25 018		
Letters of credit and discounting transactions		7 148		
Irrevocable utilised facilities and other		148 099		
	-	180 265	-	-
2018				
Long-term debt instruments	55 587	2 293	6 172	4 555
Investment contract liabilities	20 035	20 035		
Insurance contract liabilities	1 829			
Amounts owed to depositors	825 804	596 989	75 965	87 220
Current accounts	85 267	85 269		
Savings deposits	32 442	32 442		
Other deposits and loan accounts	573 103	420 772	48 921	54 459
Foreign currency liabilities	23 316	16 971	1 444	866
Negotiable certificates of deposit	89 919	19 653	25 600	31 895
Deposits received under repurchase agreements	21 877	21 882		
Macro fair-value hedge-accounted portfolios	(120)			
Derivative financial instruments – liabilities	20 003	2 779	1 570	1 694
Provisions and other liabilities	29 383			363
	952 641	622 096	83 707	93 832
Contingent liabilities and undrawn facilities				
Guarantees on behalf of clients		29 802		
Letters of credit and discounting transactions		9 654		
Irrevocable utilised facilities and other		136 381		
	-	175 837	-	-

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, long-term employee benefit liabilities and non-current liabilities held for sale. Derivatives are not profiled on an undiscounted basis.

	>1 year < 5 years	>5 years	Non- determinable maturity	Total
	43 816	26 816		80 925
				24 571
			715	715
	96 519	10 786	-	925 723
				86 250
	47			32 580
	60 470	10 786		626 337
	1 265			25 945
	34 411			128 611
				25 674
	326			326
	5 639	10 211		27 991
	2 128	1 168		4 401
		19 101	4 875	24 149
	148 102	68 082	5 590	1 088 475
				25 018
				7 148
				148 099
	-	-	-	180 265
	40 051	23 500		76 571
				20 035
			1 829	1 829
	73 403	10 174	-	843 751
				85 269
				32 442
	50 521	10 294		584 967
	4 039			23 320
	18 843			95 991
				21 882
		(120)		(120)
	5 635	8 325		20 003
			29 020	29 383
	119 089	41 999	30 849	991 572
				29 802
				9 654
				136 381
	-	-	-	175 837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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SECTION E: ASSET MANAGEMENT

E1 Managed funds

Accounting policy

The group, through a number of subsidiaries, operates unit trusts, holds and invests funds on behalf of clients and acts as a trustee in a number of fiduciary capacities. In addition, companies in the group operate securities and custodial services on behalf of clients. Commissions and fees earned in respect of trust and management activities performed are included in the consolidated statement of comprehensive income as non-interest revenue. The funds under management described below includes funds of funds, however, are not included in the group's consolidated statement of financial position.

	2019 Rm	2018 Rm
E1.1 Fair value of funds under management – by type		
Unit trusts	273 243	241 421
Third party	946	839
Private clients	56 947	55 078
	331 136	297 338
E1.2 Fair value of funds under management – by geography		
SA	264 448	241 364
Rest of world	66 688	55 974
	331 136	297 338

E1.3 Reconciliation of movement in funds under management – by type

	Unit trusts Rm	Third party Rm	Private clients Rm	Total Rm
Balance at 31 December 2017	251 088	449	60 776	312 313
Inflows	483 512	390	10 066	493 968
Outflows	(494 266)	(69)	(10 377)	(504 712)
Mark-to-market value adjustment	(7 480)	(32)	(5 793)	(13 305)
Foreign currency translation differences	8 567	101	406	9 074
Balance at 31 December 2018	241 421	839	55 078	297 338
Inflows	550 540	14	10 178	560 732
Outflows	(536 004)	(24)	(9 876)	(545 904)
Mark-to-market value adjustment	18 497	110	1 527	20 134
Foreign currency translation differences	(1 211)	7	40	(1 164)
Balance at 31 December 2019	273 243	946	56 947	331 136

E1.4 Reconciliation of movement in funds under management – by geography

	SA Rm	Rest of world Rm	Total Rm
Balance at 31 December 2017	256 058	56 255	312 313
Inflows	483 089	10 879	493 968
Outflows	(488 308)	(16 404)	(504 712)
Mark-to-market value adjustment	(9 475)	(3 830)	(13 305)
Foreign currency translation differences		9 074	9 074
Balance at 31 December 2018	241 364	55 974	297 338
Inflows	550 173	10 559	560 732
Outflows	(535 803)	(10 101)	(545 904)
Mark-to-market value adjustment	8 714	11 420	20 134
Foreign currency translation differences		(1 164)	(1 164)
Balance at 31 December 2019	264 448	66 688	331 136

SECTION F: INVESTMENTS

F1 Investment securities

Accounting policy

Refer to Section I: Financial instruments for the group's accounting policies regarding financial assets and liabilities and Section F.2 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	7 315	5 543	378	140	(434)	99
Private-equity associates – Property Partners	1 885	1 361	10	30	6	58
Private-equity associates – Investment Banking	898	1 070	7	24	(145)	(12)
Private-equity (unlisted) – Property Partners	1 559	1 551	10	65	37	8
Private-equity (unlisted) – Investment Banking	2 973	1 561	351	21	(332)	45
Listed investments	896	25	1	6	(5)	
Unlisted investments	2 758	3 060	41	14	143	55
Taquanta Asset Managers portfolio	468	463	5	5	137	28
Strate Limited	143	143	8	6		
Other	2 147	2 454	28	3	6	27
Total listed and unlisted investments	10 969	8 628	420	160	(296)	154
Listed policyholder investments at market value	13 253	10 048				
Unlisted policyholder investments at directors' valuation	4 750	3 742				
Net policyholder liabilities	(11)	(14)				
Total policyholder investments	17 992	13 776				
Total investment securities	28 961	22 404				

Refer to note I2.2.1 for the classification of investment securities in terms of the fair-value hierarchy.

The group has designated 11 (2018: 10) investments at FVOCI as these investments are held with strategic intent. The fair value of these investments was R965m at 31 December 2019 (31 December 2018: R942m). R7m (2018: R8m) was recognised as dividend income that related to these investments. No equity investments designated at FVOCI have been derecognised in the current year.

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F2 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 or joint venture 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 G.

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 H2.

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 and joint ventures 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.

Key assumptions concerning the future and key sources of estimation

Investment in Ecobank Transnational Incorporated (ETI)

As in previous financial years, one of the group's associate investments, ETI, will report results for the year ended 31 December 2019 subsequent to the release of the group's audited consolidated financial statements. Therefore, as allowed by IAS 28, the group uses the most recent public information of ETI (at 30 September 2019, ie a quarter in arrears) to determine its share of ETI's earnings and OCI. In addition, as required by IAS 28, the group considers whether adjustments for significant transactions or events between 30 September 2019 and 31 December 2019, are required, based on publicly available information. The resulting equity-accounted earnings is translated from US dollar to rand at the average exchange rate applicable for the quarter in which the group accounts for the earnings and OCI. The group's share of the net assets of ETI is translated from US dollar to rand at the closing exchange rate.

The carrying value of Nedbank Group's strategic investment in ETI decreased from R3,2bn to R2,7bn during the year. The market value of the group's investment in ETI, based on its quoted share price on 31 December 2019, was R1,3bn. On 28 February 2020 the market value of the group's investment in ETI was R1,2bn. Based on the group's 2016 VIU calculation, management determined that an impairment provision of R1,0bn was appropriate. This calculation must be revisited at each reporting period where the indicators of impairment are reconsidered and VIU calculation reassessed taking into account any future changes in estimates and assumptions.

The difference between market value and carrying value is significant and prolonged, which represented evidence of an impairment indicator at 31 December 2019. Where there is an impairment indicator, IFRS determines that an impairment test be computed, which compares the VIU and the carrying value of the investment. The computation of the VIU in accordance with IFRS is subject to significant judgement as it is based on, among other things, economic estimates, macroeconomic assumptions and the discounting of future cashflow estimates. Based on this VIU calculation, management determined that the recoverable amount was greater than the carrying value. The R1,0bn impairment recognised in 2016 has therefore neither been increased nor reversed in the current reporting period. An increase in the discount rate applied during the VIU computation of 0,1%, or a reduction in the estimated future cashflows of 0,2%, would have resulted in the recoverable amount being equal to the carrying value at 31 December 2019.

ETI has been an important long-term investment for the group, providing our clients with a pan-African transactional banking network and access to dealflow in Central and West Africa since its acquisition in 2014. The group remains supportive of ETI's endeavours of delivering a return on equity in excess of its cost of equity in due course.

F2.1 Movement in carrying amount

	2019 Rm	2018 Rm
Carrying amount at the beginning of the year	4 041	3 553
Impact of adopting new accounting standards, net of taxation		(780)
Share of associate companies' profit after taxation for the year	793	528
Share of associate companies' OCI for the year	(1170)	(333)
Dividends received from equity-accounted associate companies	(20)	
Acquisition of investments in associate companies	342	548
Foreign currency translation and other movements	(69)	525
Carrying amount at the end of the year	3 917	4 041

F2.2 Analysis of carrying amount

	2019 Rm	2018 Rm
Associate investments – on acquisition: net asset value	7 377	7 035
Impact of adopting new accounting standards, net of taxation	(780)	(780)
Share of retained earnings since acquisition	1 439	646
Share of OCI since acquisition	(3 994)	(2 824)
Dividends received from equity-accounted associate companies	(179)	(159)
Impairment provision for investments in associate companies	(1 000)	(1 000)
Foreign currency translation and other movements ¹	1 054	1 123
	3 917	4 041

¹ Of this amount, R17m (2018: R45m) relates to foreign currency movements on the R1,0bn impairment recorded in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F2 Investments in associate companies continued

F2.3 Analysis of investments in associate companies

	Nature of activities	Percentage holding	
		2019 %	2018 %
Associate companies			
Listed			
Ecobank Transnational Incorporated (Togo) ²	Banking	21,2	21,2
Unlisted			
Private equity: Tracker Technology Holdings Proprietary Limited	Vehicle tracking	17,7	17,7
Private equity: other investments	Various		
Other strategic investments	Various		

¹ Includes on-balance-sheet and off-balance-sheet exposure.

² ETI is a pan-African bank and its shares are listed on the stock exchanges of Nigeria, Ghana and Côte d'Ivoire.

Unless otherwise stated above, 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 listed above.

F2.4 Additional disclosure relating to material associate company

	Ecobank Transnational Incorporated ¹	
	2019 Rm	2018 Rm
Fair value of investment in Ecobank Transnational Incorporated based on the closing quoted price on the Nigerian Stock Exchange		
Based on the NAFEX NGN/USD and prevailing ZAR/USD exchange rates	1 311	2 908
Statement of comprehensive income		
Revenue	16 880	18 098
Profit from continuing operations	3 093	3 264
Post-tax profit from discontinued operations	56	9
Other comprehensive (losses)/income	(2 710)	(1 070)
Total comprehensive income	439	2 203
Statement of financial position²		
Current assets	191 360	189 903
Non-current assets	124 872	124 635
Current liabilities	248 354	245 123
Non-current liabilities	42 332	40 329

¹ The information provided for ETI has been based on the latest available financial information, being the financial results available at 30 September 2019.

² Comparative information for 2018 has been restated to better reflect the latest split between current and non-current assets and liabilities as reflected in ETI's latest annual report.

Measurement method	Acquisition date	Year-end	Group			
			Carrying amount		Net exposure to/(from) associates ¹	
			2019 Rm	2018 Rm	2019 Rm	2018 Rm
Equity-accounted	October 2014	December	2 674	3 245	69	333
Equity-accounted	November 2018	June	549	506		
Equity-accounted			285	42		
Equity-accounted			409	248		
			3 917	4 041	69	333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F2 Investments in associate companies continued

F2.4 Additional disclosure relating to material associate company continued

ETI's VIU at 31 December 2019 has been determined using the following assumptions:

	2019
Adjusted risk-free rate (%)	8,9
Equity risk premium (%)	5,2
Beta	1,2
Terminal growth rate (%)	1,7
Cashflow projection (years)	5
Discount rate (%)	20,2

F3 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 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.

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 G.

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.

Investments in foreign operations

Nedbank Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F3 Investments in subsidiary companies and related disclosure continued

F3.1 Analysis of investments in subsidiary companies

	Group			
	Issued capital		Effective holding	
	2019 Rm	2018 Rm	2019 %	2018 %
Banking²				
Nedbank Limited	27	27	100	100
Nedbank Namibia Limited	17	17	100	100
Nedbank (Malawi) Limited	32	32	100	100
Nedbank (Lesotho) Limited	20	20	100	100
Nedbank (Swaziland) Limited	12	12	65,08	65,08
Nedbank Private Wealth Limited (Isle of Man)	186	186	100	100
Banco Único, SA (Mozambique)	563	563	50% plus one share	50% plus one share
Nedbank Zimbabwe Limited (Previously MBCA Bank Limited)	1	1	66,02	66,02
Trust and securities entities³				
Nedgroup Private Wealth Stockbrokers Proprietary Limited	1	1	100	100
Nedgroup Trust Limited (Jersey)	1	1	100	100
Nedgroup Collective Investments (RF) Proprietary Limited ⁵	6	6	100	100
Syfrets Securities Limited	1	1	100	100
Other companies³				
Nedgroup Private Wealth Proprietary Limited	1	1	100	100
Depfin Investments Proprietary Limited	1	1	100	100
Dr Holsboer Benefit Fund ⁴	1	1	100	100
Nedgroup Investments Africa (Mauritius)	1	1	100	100
Nedbank Group Insurance Company Limited	11	11	100	100
Nedcapital Investment Holdings Proprietary Limited (Namibia)	1	1	100	100
Ned Settle Services Proprietary Limited	1	1	100	100
Nedcor Trade Services Limited (Mauritius)	4	4	100	100
NedEurope Limited (Isle of Man)	6 167	6 167	100	100
Nedgroup Insurance Company Limited ⁵	5	5	100	100
Nedgroup International Holdings Limited (Isle of Man)	1	1	100	100
Nedbank Group Insurance Holdings Limited	17	17	100	100
Nedgroup Life Assurance Company Limited	15	15	100	100
Nedgroup Securities Proprietary Limited	10	10	100	100
Nedgroup Structured Life Limited	1	1	100	100
NedNamibia Holdings Limited (Namibia)	18	18	100	100
Visigro Investments (Proprietary) Limited	1	1	100	100
Other companies				
Impairment of subsidiaries				

¹ Represents amounts less than R1m.

² The banking subsidiary companies are restricted in terms of Basel regulations and prudential requirements with regard to the distribution of funds to their holding company.

³ These entities are free of any restrictions imposed on the distribution of funds, save for compliance with any local regulations.

⁴ The entity is governed by the terms of a trust deed. Restrictions are in place with regard to access or the use of the entity's assets.

⁵ In terms of a dispensation received from the Financial Sector Conduct Authority these companies are not allowed to declare any distributions to its holding company.

The composition of the group is illustrated in note F3.1. 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 those 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.

Company

Book value of investments		Net indebtedness	
2019 Rm	2018 Rm	2019 %	2018 %
27 559	24 059	6 223	2 685
17	17		
19	19		
285	285	12	11
353	353		
566	566		
11	222		
25	11		
	25	71	71
1 612	1 612		
196	196	260	260
34	34		
429	429		
155	155		
5	5	(4)	18
31 266	27 988	6 562	3 045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F3 Investments in subsidiary companies and related disclosure continued

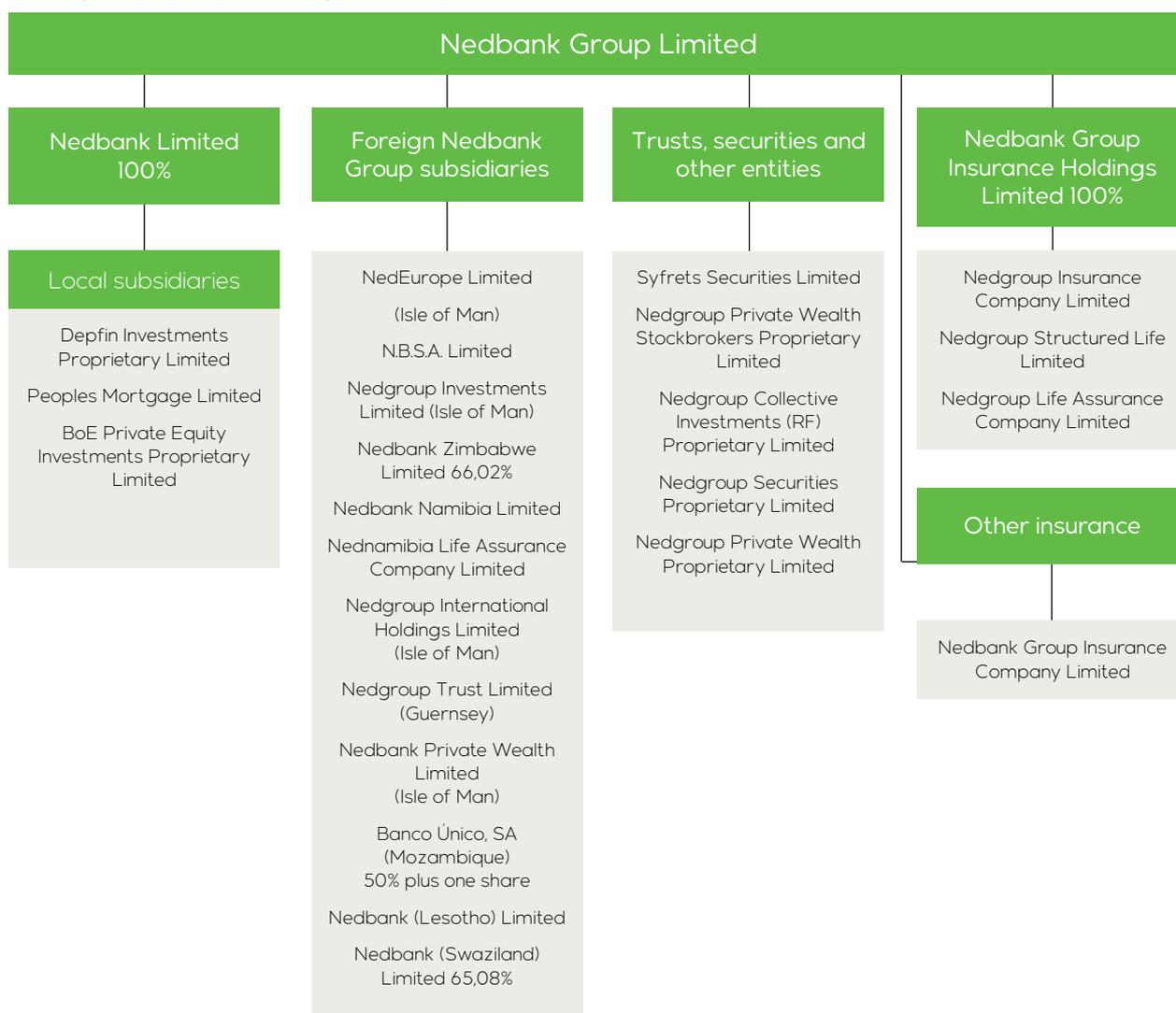
F3.1 Analysis of investments in subsidiary companies continued

	2019 Rm	2018 Rm
Headline earnings from subsidiaries (after eliminating intercompany transactions)		
Aggregate headline earnings attributable to equity holders	12 829	13 608
Aggregate headline losses attributable to equity holders	(323)	(113)
Total headline earnings	12 506	13 495

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.

F3.2 MAJOR SUBSIDIARY COMPANIES



All subsidiaries are wholly owned, unless stated otherwise.

F3.3 MATERIAL NON-CONTROLLING INTERESTS

The table below provides details of non-wholly owned subsidiaries of the group that have material non-controlling interests:

	Banco Único, SA (Mozambique)		Nedbank (Swaziland) Limited		Nedbank Zimbabwe Limited	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Financial position						
Total assets	5 986	5 704	5 291	5 322	2 193	1 604 ¹
Total liabilities	5 868	5 587	4 424	4 539	2 007	1 347 ¹
Accumulated non-controlling interests at the end of the year	416	409	279	299	63	88 ²
Comprehensive income						
Income from lending activities	291	260	266	266	105	279
Non-interest revenue	193	200	173	166	346	375
Zimbabwe hyperinflation					(296)	–
Profit from continuing operations	69	75	121	128	(160)	214
Total comprehensive income	69	75	121	126	(160)	214
Profit allocated to non-controlling interests during the reporting period	44	36	42	45	(54)	71
Cashflows						
Cashflows from/(utilised by) operating activities	79	(338)	(228)	509	1 050	(303) ³
Cashflows utilised by investing activities	(58)	(45)	(9)	(11)	(14)	(26) ³
Cashflows utilised by financing activities			(34)	(33)		
Net increase/(decrease) in cash and cash equivalents	21	(383)	(271)	465	1 036	(329) ³
Dividends paid to non-controlling interests			12	22		

¹ Comparative information has been restated for Nedbank Zimbabwe Limited for 2018. Nedbank Group estimated the RTGS dollar: USD exchange rate using a combination of the Old Mutual share price implied rate and the fuel price implied rate.

The conversion of Nedbank Zimbabwe's functional currency took place in terms of IAS 21, with differential recognised as a foreign currency translation reserve (FCTR) (through OCI). The amount recognised in FCTR was derived from total assets and total liabilities, however, the adjustment was incorrectly excluded on these line items.

² Due to the above impact the correct allocation to non-controlling interest has been updated.

³ Comparative information with regard to the cashflow statement: In accordance with the above, the conversion of Nedbank Zimbabwe's functional currency took place in terms of IAS 21. The USD-ZAR rate was erroneously applied as opposed to the implied rate mentioned above.

F4 Interests in structured consolidated and unconsolidated structured entities

F4.1 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).
- Employee Benefit Trust Schemes (refer to note J3).
- Community Trust (refer to note J1).
- Dr Holsboer Benefit Fund.
- Securitisation vehicles (refer to note F5):
 - » Greenhouse Funding III (RF) Limited;
 - » Greenhouse 5 Funding (RF) Limited; and
 - » Precinct Funding 2 (RF) Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F4 Interests in structured consolidated and unconsolidated structured entities continued

F4.1 Consolidated structured entities continued

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 F5 for further information on the securitisation activities of the group.

Employee share schemes

The group has established employee share schemes for the benefit of its employees in return for their employment services rendered. Funding is provided by the group or its subsidiaries to acquire shares that are held on behalf of employees. The trustees have limited rights and act within narrowly defined parameters in terms of the trust deed. The trustees receive limited remuneration, if any, for their services rendered in terms of the trust. The group has concluded that the trustees act merely as agents and that the group has control over the trust.

Dr Holsboer Benefit Fund

Nedbank is the founder of the trust. The fund was established in terms of a trust deed for the benefit of employees of the group. The beneficiaries of the trust include employees, contractors and pensioners, as nominated by the trustees in their sole discretion. The trustees have the right to vest or distribute net income of the trust at their discretion. The founder, Nedbank Group Limited, reserves the right to terminate the appointment of any of the trustees. In terms of the trust deed, the trustees are not entitled to remuneration for their services unless the founder and all the trustees unanimously agree. The group has concluded that the trustees merely act in an agent capacity and that the group has control over the trust.

Community Trust

The trust was formed with the specific purpose of providing previously disadvantaged communities with the opportunity to receive certain benefits. The group consolidates this trust because of the specific purpose for which the trust was formed and the group's involvement in the key decisionmaking processes relating to the operation of the trust.

F4.2 Unconsolidated structured entities

The following judgements were used in determining that the group does not have control over the following structured entities:

Investment funds

The group acts as fund manager to a number of investment funds. The group holds seed capital in certain investment funds where the group assists in starting the investment fund and the group is required by ASISA rules to hold a minimum interest in the investment fund. In determining whether the group controls such an investment, focus is usually on the assessment of decisionmaking rights as fund manager, the investor's rights to remove the fund manager and the aggregate economic interests of the group in the fund in the form of interest held and management fees.

In most instances the group's decisionmaking authority, in its capacity as fund manager, with regard to these investment funds is regarded to be well defined. Discretion is, however, exercised when decisions regarding the relevant activities of these funds are being made.

Fees earned by the group in its capacity as fund manager are considered to be market-related, commensurate with the services provided and include only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's-length basis.

As a result, the group has concluded that it acts as agent on behalf of the investors in all instances. Therefore, the group does not control these funds and has not consolidated these investment funds.

Analysis of the group's interests in unconsolidated structured entities

The following table summarises the carrying values recognised in the statement of financial position of the group's interests in unconsolidated structured entities:

	Rm
2019	
Carrying amount of the group's interest	8
Fees earned	847
Total assets under management	213 316
2018	
Carrying amount of the group's interest	5
Fees earned	930
Total assets under management	190 567

Investment funds

The group's maximum exposure to losses from its interests in unconsolidated structured entities is limited to the group's interests in the investment funds. The group does not provide any financial support to these investment funds.

Sponsored entities

In addition to the above unconsolidated structured entities, the group has sponsored certain BEE schemes in which it does not have an interest. The group does not earn any fees or income from these entities, nor has the group transferred any assets to these sponsored entities.

F5 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 Group 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F5 Securitisations continued

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.

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.

F6 Related parties

F6.1 Relationship with significant investors

Following Old Mutual plc's managed-separation process, the group no longer has a parent (controlling shareholder) as Old Mutual Limited unbundled its direct shareholding in the group 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 of other beneficial owners. Old Mutual Limited remains a related party of the group due to its significant shareholding in the group.

Material subsidiaries of the group are identified in note F3.1 and associate companies of the group are identified in note F2.3.

F6.2 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:

Compensation (Rm)	Key management personnel		Total
	Directors	personnel	
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

F6 Related parties continued

F6.2 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.

F6.3 Related-party transactions

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

Outstanding balances (Rm)	Due from/(Owing to)	
	2019	2018
Old Mutual group		
Bonds, derivatives and other financial instruments (owing to)/due from Old Mutual group	(2 031)	604
Loan due from Old Mutual group	622	457
Deposits owing to Old Mutual group	(16 897)	(7 310)
Bank balances owing to Old Mutual group	(7 810)	(10 932)
Associate companies		
Loans due from associate companies	2 059	2 167
Deposits owing to associate companies	(209)	(220)
Bank balances owing to associate companies	(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)

Outstanding balances (Rm)	Due from/(Owing to)	
	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)

Transactions (Rm)	Income/(Expense)	
	2019	2018
Old Mutual group		
Dividend paid to the Old Mutual group	(1 748)	(3 610)
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 from Old Mutual group	273	277
Rent paid to Old Mutual group	(18)	(17)
Associate companies		
Interest income from associate companies	5	3
Interest expense to associate companies	(17)	(16)
Key management personnel		
Interest income from key management personnel	3	2
Interest expense to key management personnel	(3)	(2)
The share-based payments charge in respect of the entities that are participants in the Nedbank Eyethu BEE schemes and key management personnel is detailed below:		
– Key management personnel – other		1
Share-based payments expense (included in BEE transaction expenses)	–	1
Key management personnel – directors	(8)	(31)
Key management personnel – other	7	(54)
Share-based payments expense (included in staff costs)	(1)	(85)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

F6 Related parties continued

F6.3 Related-party transaction continued

	Income/(Expense)	
	2019	2018
Long-term employee benefit plans		
Interest expense to Nedgroup Pension Fund	(2)	(8)
Interest expense to Nedgroup Medical Aid Fund		(1)
Interest expense to other funds	(66)	(115)
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:		
– Optiplus policy reimbursement right	753	760
– Symmetry policy reimbursement right	1139	1148
– OMART policy reimbursement right (note H11)	729	665
Included in long-term employee benefit assets	2 621	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)

SECTION G: 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 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.

G1 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

G1 Property and equipment continued

Accounting policy continued

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 type of lease contracts:

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

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 represents 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 a 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.

Impairment losses reduce the right-of-use asset and are recognised in profit and loss. In most cases a 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 K1.

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.

G1.1 Property and equipment

	2019 Rm	2018 Rm
Property and equipment (owned) (note G1.2)	9 599	9 371
Right-of-use assets (leased) (note G1.3)	2 378	
Property and equipment	11 977	9 371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

G1 Property and equipment continued

G1.2 Property and equipment (owned)

	Land		Buildings	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Gross carrying amount				
Balance at 1 January	962	851	7 083	6 783
Acquisitions	45	124	393	652
Increases/(decreases) arising from revaluations ¹	32	(15)	77	30
Transfers from non-current assets held for sale ²	7		45	
Disposals	(1)		(258)	(97)
Impairments			(148)	
Writeoff of accumulated depreciation on revaluations				(9)
Transfers between assets			229	(216)
Transfers to intangible assets (note G2)				9
Effect of movements in foreign exchange rates and other movements ³	(70)	2	47	(69)
Balance at 31 December	975	962	7 468	7 083
Accumulated depreciation and impairment losses				
Balance at 1 January			1 970	1 737
Depreciation charge for the year			451	423
Writeoff of accumulated depreciation on revaluations				(9)
Disposals			(129)	(76)
Transfers between assets				(86)
Effect of movements in foreign exchange rates and other movements ³			(184)	(19)
Balance at 31 December	-	-	2 108	1 970
Carrying amount				
At 1 January	962	851	5 113	5 046
At 31 December	975	962	5 360	5 113

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.

³ Includes the effect of hyperinflation. This is further described in Note NI.

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:

	Computer equipment		Furniture and other equipment		Vehicles		Total	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm	2019 Rm	2018 Rm
	5 984	5 375	3 724	3 119	72	70	17 825	16 198
	906	630	470	527	5	5	1 819	1 938
							109	15
							52	-
	(295)	(149)	(153)	(133)	(4)	(7)	(711)	(386)
							(148)	-
							-	(9)
	4	(30)	(235)	246	2		-	-
		142					-	151
	(8)	16	(62)	(35)	(16)	4	(109)	(82)
	6 591	5 984	3 744	3 724	59	72	18 837	17 825
	4 184	3 561	2 250	1 955	50	43	8 454	7 296
	746	753	358	328	7	8	1 562	1 512
							-	(9)
	(286)	(140)	(138)	(113)	(2)	(4)	(555)	(333)
	(1)		1	86			-	-
	(28)	10	(1)	(6)	(10)	3	(223)	(12)
	4 615	4 184	2 470	2 250	45	50	9 238	8 454
	1 800	1 814	1 474	1 164	22	27	9 371	8 902
	1 976	1 800	1 274	1 474	14	22	9 599	9 371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

G1 Property and equipment continued

G1.2 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%)	970	957	5 350	5 103
Residential property	Market-comparable approach and replacement value	Price per square metre		5	5	10	10
Total land and buildings				975	962	5 360	5 113

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 550m (2018: R3 028m).

G1.3 Right-of-use assets (leased)

Right-of-use assets reconciliation

	2019 Rm
Balance at the beginning of the year	2 711
Depreciation charge for the year	(892)
Additions	215
Lease modifications ¹	401
Impairment losses	(33)
Derecognition	(21)
Effect of movements in foreign exchange rates and other movements ²	(3)
Balance at the end of the year	2 378

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

² Right-of-use assets includes the effect of hyperinflation. This is further described in note NI.

Depreciation charge by class of right-of-use assets

	2019 Rm
Property (ATMs, branches, offices and campus sites)	813
Office equipment	79
	892

Closing balances by class of right-of-use assets

	2019 Rm
Property (ATMs, branches, offices and campus sites)	2 220
Office equipment	158
	2 378

G2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

G2 Intangible assets continued

Accounting policy continued

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.

Contractual client relationships

Contractual client relationships, including the present value of inforce business in insurance businesses, acquired in a business combination, are recognised at fair value at the date of acquisition. The contractual client relationships have a finite useful life and are carried at cost less accumulated amortisation. The useful lives and residual values of these client relationships are reviewed on an annual basis. Amortisation is calculated using the straight-line method over the expected life of the client relationship.

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.

The group's annual impairment test indicated that the goodwill relating to a cash-generating unit within Nedbank Wealth was impaired, hence R117m of goodwill has been written off. This impairment was recognised in non-trading and capital items (note B9).

The most significant amount of the remaining goodwill relates to Nedbank Limited. Management believes that reasonable changes in key assumptions used to determine the recoverable amount of Nedbank Limited's goodwill would not result in impairment.

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.

G2.1 Movement in carrying amount

Rm	Client				Total
	Goodwill	Software	Development costs (not yet commissioned)	relationships, contractual rights and other	
2019					
Cost					
Balance at the beginning of the year	6 650	13 674	1 951	757	23 032
Acquisitions		378	2 029	1	2 408
Development costs commissioned to software		2 082	(2 082)		
Impairment losses ¹	(117)	(99)	(132)	(58)	(406)
Disposals and retirements		(596)			(596)
Foreign currency translation and other movements	1	(21)	(3)	(18)	(41)
Balance at the end of the year	6 534	15 418	1 763	682	24 397
Accumulated amortisation and impairment losses					
Balance at the beginning of the year	1 477	8 364	10	573	10 424
Amortisation charge		1 167		65	1 232
Disposals and retirements		(596)			(596)
Foreign currency translation and other movements		(19)	1	(11)	(29)
Balance at the end of the year	1 477	8 916	11	627	11 031
Carrying amount					
At the beginning of the year	5 173	5 310	1 941	184	12 608
At the end of the year	5 057	6 502	1 752	55	13 366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

G2 Intangible assets continued

G2.1 Movement in carrying amount continued

Rm	Goodwill	Software	Development costs (not yet commissioned)	Client relationships, contractual rights and other	Total
2018					
Cost					
Balance at the beginning of the year	6 608	11 020	2 415	810	20 853
Acquisitions		393	2 129	141	2 663
Development costs commissioned to software		2 313	(2 313)		-
Impairment losses ¹		(16)	(128)		(144)
Disposals and retirements		(32)	(1)	(194)	(227)
Transfers from property and equipment (note G1)			(151)		(151)
Foreign currency translation and other movements	42	(4)			38
Balance at the end of the year	6 650	13 674	1 951	757	23 032
Accumulated amortisation and impairment losses					
Balance at the beginning of the year	1 477	7 427	4	561	9 469
Amortisation charge		958		75	1 033
Disposals and retirements		(17)		(53)	(70)
Foreign currency translation and other movements ²		(4)	6	(10)	(8)
Balance at the end of the year	1 477	8 364	10	573	10 424
Carrying amount					
At the beginning of the year	5 131	3 593	2 411	249	11 384
At the end of the year	5 173	5 310	1 941	184	12 608

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.

² Includes the effect of hyperinflation. This is further described in Note NI.

G2.2 Analysis of goodwill by segment

	2019 Rm	2018 Rm
Nedbank Corporate and Investment Banking	2 023	2 023
Nedbank Retail and Business Banking	1 449	1 449
Nedbank Wealth	1 427	1 542
Nedbank Africa Regions	158	159
	5 057	5 173

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. Impairment testing has resulted in the impairment of goodwill in the Nedbank Wealth segment during the year. Management regards the useful lives of all CGUs to be indefinite.

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

	2019	2018
Risk-free rate range (%)	0,77–9,93	1,25–8,77
Beta range	0,45–0,98	0,56–1,06
Equity risk premium (%)	5,50–6,50	5,50–6,50
Terminal growth rate range (%)	0,00–6,20	0,00–5,50
Cashflow projection (years)	3–5	3–5
Discount rate range (%)	5,97–27,81	7,45–25,54

Geographical split of goodwill is based on the area in which the CGU operates:

	2019 Rm	2018 Rm
– SA	4 481	4 596
– The rest of Africa	158	159
– Rest of world	418	418
	5 057	5 173
The recoverable amount is estimated as follows:		
– SA	114 942	172 897
– The rest of Africa	2 949	3 591
– Rest of world	5 385	4 719
	123 276	181 207

SECTION H: OTHER ASSETS

H1 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 offset against plan liabilities only 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION H: OTHER ASSETS continued

HI Long-term employee benefits continued

Accounting policy continued

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 H11.2), 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.

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.

Other funds, consisting of Nedbank (Swaziland) Limited Pension Fund and Nedbank Lesotho Pension Fund.

Nedbank Private Wealth Pension Scheme.

Defined-contribution pension funds

Nedbank Private Wealth Pension Scheme.

Defined-benefit medical aid schemes

Nedgroup Medical Aid Scheme for Nedbank employees and pensioners [including the Old Mutual Post-retirement Medical Aid (PRMA) annuity policy].

Nedgroup Medical Aid Scheme for past BoE employees and pensioners.

Nedbank Namibia Medical Aid Fund.

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.

H1.1 Analysis of long-term employee benefit assets and liabilities

Rm	Notes	Assets	Liabilities
2019			
Postemployment benefits ¹	H1.1	4 873	(1 901)
Other long-term employee benefits – disability fund		729	(632)
		5 602	(2 533)
2018			
Postemployment benefits	H1.1	4 301	(2 286)
Other long-term employee benefits – disability fund		665	(463)
		4 966	(2 749)

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 R632m (2018: R463m). The value of the OMART asset held by the group is R729m (2018: R665m).

¹ In terms of IAS 19 the postemployment benefits asset refers to the sum of pension and provident funds with a net positive fund value of R2 174m (2018: R1 625m), non-qualifying insurance policies taken on the funds of R748m (2018: R760m), the medical aid fund net asset refers to non-qualifying insurance policies taken on the fund of R1 140m (2018: R1 149m) and the contribution asset R811m (2018: R774m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

HI Long-term employee benefits continued

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

HI.1.1 Net asset/(liability) recognised (Rm)

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
2019				
Present value of defined-benefit obligation	(4 053)	(1 031)		(5 084)
Fair value of plan assets	6 265	1 140	811	8 216
Funded status ¹	2 212	109	811	3 132
Unrecognised due to paragraph 65 limit	(160)			(160)
	2 052	109	811	2 972
2018				
Present value of defined-benefit obligation	(4 476)	(1 441)		(5 917)
Fair value of plan assets	6 111	1 149	774	7 260
Funded status	1 635	(292)	774	1 343
Unrecognised due to paragraph 65 limit	(102)			(102)
	1 533	(292)	774	1 241

¹ In terms of IAS 19: Employee Benefits insurance policies issued by related parties of the reporting entity are excluded from the definition of qualifying insurance policies. The fair value of plan assets includes non-qualifying insurance policies for pension funds to the value of R753m (2018: R760m) and for medical aid to the value of R1 139m (2018: R1 149m).

HI.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	4 053	6 265	2 212	(160)	2 052
Nedgroup Fund	3 180	5 354	2 174		2 174
Nedbank UK Fund	398	517	119	(119)	-
Nedbank Private Wealth Funds	259	137	(122)		(122)
Other funds	216	257	41	(41)	-
Medical aid funds	1 031	1 140	109	-	109
Nedgroup scheme for Nedbank employees	956	1 064	108		108
Nedgroup scheme for BoE employees	67	76	9		9
Nedbank Namibia scheme (unfunded)	8		(8)		(8)
Contribution asset		811	811		811
Total	5 084	8 216	3 132	(160)	2 972

Rm	Present value of obligation	Fair value of plan asset	Surplus/ (Deficit)	Unrecognised due to paragraph 65 limit	Net asset/ (liability)
2018					
Pension funds	4 476	6 111	1 635	(102)	1 533
Nedgroup Fund	3 697	5 322	1 625		1 625
Nedbank UK Fund	376	446	70	(70)	-
Fairbairn Funds	204	112	(92)		(92)
Other funds	199	231	32	(32)	-
Medical aid funds	1 441	1 149	(292)	-	(292)
Nedgroup scheme for Nedbank employees	1 358	1 071	(287)		(287)
Nedgroup scheme for BoE employees	73	78	5		5
Nedbank Namibia scheme (unfunded)	10		(10)		(10)
Contribution asset		774	774		774
Total	5 917	8 034	2 117	(102)	2 015

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	4 476	1 441		5 917
Current service cost	27			27
Past service cost	2			2
Interest cost	364	(255)		109
Contributions by plan participants	11			11
Actuarial losses ¹	(371)	(67)		(438)
Benefits paid	(468)	(88)		(556)
Impact of foreign currency exchange rate changes	12			12
Balance at the end of the year	4 053	1 031	-	5 084
2018				
Balance at the beginning of the year	5 036	2 213		7 249
Current service cost	22	42		64
Past service cost	7			7
Interest cost	390	150		540
Contributions by plan participants	11			11
Actuarial losses ¹	(567)	139		(428)
Benefits paid	(465)	(80)		(545)
Impact of foreign currency exchange rate changes	14			14
Settlement of active members	28	(1 023)		(995)
Balance at the end of the year	4 476	1 441	-	5 917

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

HI Long-term employee benefits continued

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

HI.1.2 Postemployment benefits

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Fair value of plan assets				
2019				
Balance at the beginning of the year	6 111	1 149	774	8 034
Expected return on plan assets	517	106	37	660
Actuarial gains/(losses) ¹	55	(29)		26
Contributions by the employer	40			40
Contributions by plan participants	11			11
Benefits paid	(468)	(86)		(554)
Scheme-settled administration costs	(7)			(7)
Impact of foreign currency exchange rate changes	6			6
Balance at the end of the year	6 265	1 140	811	8 216
2018				
Balance at the beginning of the year	8 119	1 441		9 560
Expected return on plan assets	593	133	(39)	687
Actuarial gains/(losses) ¹	(663)	(216)		(879)
Contributions by the employer	32		813	845
Settlement	(1 551)			(1 551)
Contributions by plan participants	11	25		36
Refund of contributions		(154)		(154)
Benefits paid	(465)	(80)		(545)
Scheme-settled administration costs	(11)			(11)
Impact of foreign currency exchange rate changes	46			46
Balance at the end of the year	6 111	1 149	774	8 034

¹ The R426m (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.

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Net (income)/expense recognised				
2019				
Current service cost	27			27
Interest (received)/cost	(153)	(361)	(37)	(551)
Scheme-settled plan administration costs	7			7
Past service cost-vested benefit	2			2
Effect of application of asset ceiling	5			5
	(112)	(361)	(37)	(510)
2018				
Current service cost	22	42		64
Interest (received)/cost	(203)	17	(39)	(225)
Scheme-settled plan administration costs	11			11
Past service cost-vested benefit	7			7
Effect of application of asset ceiling		(257)		(257)
	(163)	(198)	-	(400)

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Movements in net asset/(liability) recognised				
2019				
Balance at the beginning of the year	1 533	(292)	774	2 015
Net income recognised in the statement of comprehensive income	112	361	37	510
Net remeasurements-debit for the year	378	39		417
Refund of contributions		1		1
Contributions paid by the employer	40			40
Impact of foreign currency exchange rate changes	4			4
Asset ceiling	(15)			(15)
Balance at the end of the year	2 052	109	811	2 972
2018				
Balance at the beginning of the year	3 006	(772)		2 234
Net income/(expense) recognised in the statement of comprehensive income	163	198	(39)	322
Net remeasurements-debit for the year	(125)	(355)		(480)
Refund of contributions		(154)		(154)
Contributions paid by the employer	32	25	813	870
Impact of foreign currency exchange rate changes	36			36
Settlement	(28)			(28)
Settlement of active members	(1 551)	766		(785)
Balance at the end of the year	1 533	(292)	774	2 015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

HI Long-term employee benefits continued

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

HI.1.2 Postemployment benefits continued

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Distribution of plan assets (%)				
2019				
Equity instruments	24,69	49,00		30,72
Debt instruments	32,72	19,00		32,39
Property	6,71	5,00		7,18
Cash	0,30	18,00		7,55
International		6,00		21,84
Other	35,58	3,00		0,32
	100,00	100,00	-	100,00
2018				
Equity instruments	29,48	48,00		32,40
Debt instruments	32,79	20,00		30,77
Property	4,44	6,00		4,69
Cash	6,64	18,00		8,44
International	26,65	6,00		23,39
Other		2,00		0,31
	100,00	100,00	-	100,00
Actual return on plan assets				
2019				
	572	78	39	689
2018				
	(70)	(83)	(39)	(153)

Principal actuarial assumptions (%)	Pension and provident funds	Medical aid funds
2019		
Discount rates	1,90-9,50	9,60-9,70
Expected rates of return on plan assets	1,90-9,50	9,60-9,60
Inflation rate	2,00-5,90	4,80-5,20
Expected rates of salary increases	5,90-5,90	5,20-5,20
Pension increase allowance	0,00-5,90	
Annual increase to medical aid subsidy		0,06-7,20
Average expected retirement age (years)	60-65	
2018		
Discount rates	2,75-9,40	9,70-9,80
Expected rates of return on plan assets	2,75-9,40	9,80-9,80
Inflation rate	2,30-5,60	5,80-6,40
Expected rates of salary increases	6,60-6,60	5,80-5,80
Pension increase allowance	0,56-5,60	
Annual increase to medical aid subsidy		7,80-7,90
Average expected retirement age (years)	60-65	60 and 63

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, Nedbank (Swaziland) Limited Pension Fund and Nedbank Lesotho 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	3 402	3 373	3 433	3 693	3 156
Change (%)		(0,9)	0,9	8,6	(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	1 030	1 110	927	964	1 063
Change(%)		7,8	(10,0)	(6,4)	3,2

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

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	8,66	8,80
- Expected return on plan assets	8,66	8,80
- Future salary increases	5,53	5,75
- Future pension increases	4,33	5,10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

HI Long-term employee benefits continued

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

HI.1.2 Postemployment benefits continued

Medical aid funds

The overall expected long-term rate of return on plan assets is 9.4%. 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.

Rm	Pension and provident funds	Medical aid funds	Contribution asset	Total
Experience adjustments on present value of defined-benefit obligations for the past five years				
2019	(84)	67		(17)
2018	(337)	(139)		(476)
2017	(35)	162		127
2016	(51)	(98)		(149)
2015	(94)	112		18
Experience adjustments on fair value of plan assets for the past five years				
2019		28		28
2018		(216)		(24)
2017		(24)		(40)
2016		(40)		(14)
2015		(14)		(24)
Estimate of future contributions				
Contributions expected for ensuing year	41			41

Fund surplus/(deficit) for the past five years

	Present value of obligation	Fair value of plan asset	Surplus/(Deficit)
Pension funds			
2019	4 053	6 265	2 212
2018	4 476	6 111	1 635
2017	5 036	8 119	3 083
2016	5 167	7 586	2 419
2015	5 240	7 694	2 454
Medical aid funds			
2019	1 030	1 139	109
2018	1 441	1 149	(292)
2017	2 213	1 441	(772)
2016	2 143	1 343	(800)
2015	1 841	1 254	(587)
2014	1 780	1 170	(610)

H2 Non-current assets and liabilities 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.

Properties sold not yet transferred

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.

Nedbank (Malawi) Limited

During 2019 the group announced its intention to sell its investment in its Nedbank (Malawi) Limited subsidiary and therefore classified it as a disposal group held for sale. The group considered Nedbank (Malawi) Limited to meet the criteria to be classified as held for sale at 31 December 2019 for the following reasons:

- The group had obtained the required internal approvals for the sale.
- Nedbank (Malawi) Limited was available for immediate sale and could be sold to the buyer in its current condition.
- A potential buyer had been identified.
- The actions to complete the sale were initiated in 2019 and are expected to be completed within one year.

An impairment loss of R51m has been recognised in non-trading and capital items in respect of the disposal group held for sale.

At 31 December 2019 the disposal group was measured at fair value less costs to sell. Non-current assets held for sale comprises properties sold but not yet transferred and the disposal group in relation to Nedbank (Malawi) Limited.

	2019 Rm	2018 Rm
Non-current assets held for sale		
Properties sold but not yet transferred and previously included in property and equipment	90	305
Nedbank (Malawi) Limited, previously included in:	645	-
Cash and cash equivalents	31	
Other short-term securities	396	
Loans and advances	206	
Other assets	5	
Investment securities	1	
Deferred taxation assets	5	
Mandatory reserve deposits with central banks	1	
	735	305
Non-current liabilities held for sale		
Nedbank (Malawi) Limited, previously included in:	598	-
Amounts owed to depositors	570	
Provisions and other liabilities	28	
	598	-

H3 Other assets

	2019 Rm	2018 Rm
Sundry debtors and other accounts ¹	11 776	13 659
Trading securities and spot positions	3 632	6 195
Impairment of other assets	(15)	(18)
	15 393	19 836

¹ The year 2019 includes the impact of hyperinflation, which was less than R1m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: 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 12.

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 which 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: FINANCIAL INSTRUMENTS continued

Accounting policy continued

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.

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: FINANCIAL INSTRUMENTS continued

Accounting policy continued

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 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.

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 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.

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 12. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION I: FINANCIAL INSTRUMENTS

I Financial Instruments

II Consolidated statement of financial position – categories of financial instruments

		At FVTPL		
	Notes	Total Rm	Mandatorily at fair value Rm	Designated ¹ Rm
2019				
Assets				
Cash and cash equivalents	C6	14 149		
Other short-term securities	C4	64 451	35 627	
Derivative financial instruments	C7	35 243	35 243	
Government and other securities	C3	128 510	35 463	449
Loans and advances	C1.1	796 833	28 574	9 323
Other assets	H3	15 393	3 632	
Current taxation assets		281		
Investment securities	F1	28 961	27 968	
Non-current assets held for sale	H2	735		
Investments in associate companies	F2	3 917		
Deferred taxation assets	B8.3	389		
Investment property	0	56		
Property and equipment	G1	11 977		
Long-term employee benefit assets	H1.1	5 602		
Mandatory reserve deposits with central banks	C6	23 486		
Intangible assets	G2	13 366		
Total assets		1 143 349	166 507	9 772
Equity and liabilities				
Ordinary share capital	B4.1	481		
Ordinary share premium		18 096		
Reserves		69 020		
Total equity attributable to ordinary equity holders		87 597	-	-
Holders of preference shares	B4.2	3 222		
Holders of additional tier 1 capital instruments	B5	6 850		
Non-controlling interest attributable to ordinary shareholders		780		
Total equity		98 449	-	-
Derivative financial instruments	C7	27 991	27 991	
Amounts owed to depositors	D1	904 382	32 470	212
Provisions and other liabilities	K1.1	23 297	4 521	
Current taxation liabilities		161		
Non-current liabilities held for sale	H2	598		
Deferred taxation liabilities	B8.3	939		
Long-term employee benefit liabilities	H1.1	2 533		
Investment contract liabilities	D3	24 571		24 571
Insurance contract liabilities	D4	715		
Long-term debt instruments	D2	59 713		
Total liabilities		1 044 900	64 982	24 783
Total equity and liabilities		1 143 349	64 982	24 783

¹ Refer to note I4 in respect of financial instruments designated as FVTPL.

FVOCI

	Debt instruments Rm	Equity instruments Rm	Financial instruments at amortised cost Rm	Non-financial assets, liabilities and equity Rm
			14 149	
	19 046		9 778	
	254		92 344	
	15 872		743 064	
			10 457	1 304
				281
	124	841		28
				735
				3 917
				389
				56
				11 977
				5 602
			23 486	
				13 366
	35 296	841	893 278	37 655
				481
				18 096
	355	226		68 439
	355	226	-	87 016
				3 222
				6 850
				780
	355	226	-	97 868
			871 700	
			5 277	13 499
				161
				598
				939
				2 533
				715
			59 713	
	-	-	936 690	18 445
	355	226	936 690	116 313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

I Financial Instruments continued

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

	Notes	At FVTPL		
		Total Rm	Mandatorily at fair value Rm	Designated ¹ Rm
2018				
Assets				
Cash and cash equivalents	C6	13 162		
Other short-term securities	C4	79 362	37 332	
Derivative financial instruments	C7	22 692	22 692	
Government and other securities	C3	96 791	28 495	240
Loans and advances	C1.1	736 305	18 288	5 467
Other assets	H3	19 836	6 195	
Current taxation assets		186		
Investment securities	F1	22 404	21 462	
Non-current assets held for sale	H2	305		
Investments in associate companies	F2	4 041		
Deferred taxation assets	B8.3	254		
Property and equipment	G1	9 371		
Long-term employee benefit assets	H1.1	4 966		
Mandatory reserve deposits with central banks	C6	21 629		
Intangible assets	G2	12 608		
Total assets		1 043 912	134 464	5 707
Equity and liabilities				
Ordinary share capital	B4.1	477		
Ordinary share premium		17 315		
Reserves		65 986		
Total equity attributable to ordinary equity holders		83 778	–	–
Holders of preference shares	B4.2	3 222		
Holders of additional tier 1 capital instruments	B5	3 397		
Non-controlling interest attributable to ordinary shareholders		874		
Total equity		91 271	–	–
Derivative financial instruments	C7	20 003	20 003	
Amounts owed to depositors	D1	825 804	21 579	79
Provisions and other liabilities	K1.1	25 602	11 863	
Current taxation liabilities		363		
Deferred taxation liabilities	B8.3	669		
Long-term employee benefit liabilities	H1.1	2 749		
Investment contract liabilities	D3	20 035		20 035
Insurance contract liabilities	D4	1 829		
Long-term debt instruments	D2	55 587		
Total liabilities		952 641	53 445	20 114
Total equity and liabilities		1 043 912	53 445	20 114

¹ Refer to note 14 in respect of financial instruments designated as FVTPL.

FVOCI			
Debt Instruments Rm	Equity Instruments Rm	Financial instruments at amortised cost Rm	Non-financial assets, liabilities and equity Rm
		13 162	
17 748		24 282	
232		67 824	
18 426		694 124	
		12 312	1 329
			186
	942		305
			4 041
			254
			9 371
			4 966
		21 629	
			12 608
36 406	942	833 333	33 060
			477
			17 315
			65 986
-	-	-	83 778
			3 222
			3 397
			874
-	-	-	91 271
		804 146	
		6 614	7 125
			363
			669
			2 749
			1 829
		55 587	
-	-	866 347	12 735
-	-	866 347	104 006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments

12.1 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 12.7.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.1 Valuation of financial instruments continued

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.
- 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.
- **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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.1 Valuation of financial instruments continued

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 Group 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.

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.

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:

Assets	Valuation technique	Key Inputs
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
Government and other securities	Discounted-cashflow model	Discount rates
Loans and advances	Discounted-cashflow model	Interest rate curves
Investment securities	Discounted-cashflow models	Money market rates and interest rates
	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
		Underlying price of market-traded instruments
Investment contract liabilities	Adjusted net asset value	Underlying price of market-traded instruments
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 12.7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.2 Fair-value hierarchy

12.2.1 Financial assets

		At FVTPL					
Rm	Notes	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		1 105 694	893 278	212 416	37 295	121 658	7 554
Cash and cash equivalents	C6	37 635	37 635	-			
Other short-term securities	C4	64 451	9 778	54 673		35 627	
Derivative financial instruments	C7	35 243		35 243	61	35 182	
Government and other securities	C3	128 510	92 344	36 166	32 745	2 718	
Loans and advances	CI	796 833	743 064	53 769	186	28 388	
Other assets	H3	14 089	10 457	3 632	3 632		
Investment securities	FI	28 933		28 933	671	19 743	7 554

		At FVTPL					
Rm	Notes	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
2018		1 010 852	833 333	177 519	31 913	96 573	5 978
Cash and cash equivalents	C6	34 791	34 791	-			
Other short-term securities	C4	79 362	24 282	55 080		37 332	
Derivative financial instruments	C7	22 692		22 692	38	22 654	
Government and other securities	C3	96 791	67 824	28 967	25 505	2 990	
Loans and advances	CI	736 305	694 124	42 181	159	18 129	
Other assets	H3	18 507	12 312	6 195	6 195		
Investment securities	FI	22 404		22 404	16	15 468	5 978

At FVTPL

At FVOCI

Designated			Debt instruments			Equity instruments		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
-	9 772	-	-	35 296	-	20	346	475
				19 046				
	449			254				
	9 323			15 872				
				124		20	346	475

At FVTPL

At FVOCI

Designated			Debt instruments			Equity instruments		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
-	5 707	-	-	36 406	-	2	462	478
				17 748				
	240			232				
	5 467			18 426				
						2	462	478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.2 Fair-value hierarchy continued

12.2.1 Financial assets continued

Summary of fair-value hierarchies	Total financial assets recognised at fair value		Total financial assets classified as level 1	
	2019	2018	2019	2018
Rm				
Other short-term securities	54 673	55 080		
Derivative financial instruments	35 243	22 692	61	38
Government and other securities	36 166	28 967	32 745	25 505
Loans and advances	53 769	42 181	186	159
Other assets	3 632	6 195	3 632	6 195
Investment securities	28 933	22 404	691	18
	212 416	177 519	37 315	31 915

Reconciliation to categorised statement of financial position	Mandatorily at fair value		Designated as FVTPL	
	2019	2018	2019	2018
Rm				
Level 1	37 295	31 913		
Level 2	121 658	96 573	9 772	5 707
Level 3	7 554	5 978		
	166 507	134 464	9 772	5 707

Reconciliation to statement of financial position

Rm	Notes	2019	2018
Total financial assets	II	1 105 694	1 010 852
Total non-financial assets	II	37 655	33 060
Total assets		1 143 349	1 043 912

12.2.2 Financial liabilities

Rm	Notes	Total financial liabilities		
		Total financial liabilities	recognised at amortised cost	recognised at fair value
2019		1 026 455	936 690	89 765
Derivative financial instruments	C7	27 991		27 991
Amounts owed to depositors	D1	904 382	871 700	32 682
Provisions and other liabilities	K11	9 798	5 277	4 521
Investment contract liabilities	D3/D4	24 571		24 571
Long-term debt instruments	D2	59 713	59 713	-

Total financial assets classified as level 2		Total financial assets classified as level 3	
2019	2018	2019	2018
54 673	55 080		
35 182	22 654		
3 421	3 462		
53 583	42 022		
20 213	15 930	8 029	6 456
167 072	139 148	8 029	6 456
FVOCI: Debt instruments		FVOCI: Equity instruments	
2019	2018	2019	2018
		20	2
35 296	36 406	346	462
		475	478
35 296	36 406	841	942

At FVTPL						
Mandatorily at fair value			Designated			
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
3 966	60 445	571	-	24 783	-	
16	27 975					
	32 470			212		
3 950		571		24 571		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.2 Fair-value hierarchy continued

12.2.2 Financial liabilities continued

Rm	Notes	Total financial liabilities	Total financial liabilities recognised at amortised cost	Total financial liabilities recognised at fair value
2018		939 906	866 347	73 559
Derivative financial instruments	C7	20 003		20 003
Amounts owed to depositors	D1	825 804	804 146	21 658
Provisions and other liabilities	K11	18 477	6 614	11 863
Investment contract liabilities	D3/D4	20 035		20 035
Long-term debt instruments	D2	55 587	55 587	–

Summary of fair-value hierarchies	Total financial liabilities recognised at fair value		Total financial liabilities classified as level 1	
	2019	2018	2019	2018
Rm				
Derivative financial instruments	27 991	20 003	16	8
Amounts owed to depositors	32 682	21 658		
Provisions and other liabilities	4 521	11 863	3 950	11 432
Investment contract liabilities	24 571	20 035		
	89 765	73 559	3 966	11 440

Reconciliation to categorised statement of financial position	Mandatorily at fair value		Designated as FVTPL	
	2019	2018	2019	2018
Rm				
Level 1	3 966	11 440		
Level 2	60 445	41 574	24 783	20 114
Level 3	571	431		
	64 982	53 445	24 783	20 114

Reconciliation to statement of financial position

Rm	Note	2019	2018
Total financial liabilities	11	1 026 455	939 906
Total equity and non-financial liabilities	11	116 894	104 006
Total equity and liabilities		1 143 349	1 043 912

The tables presented above analyse the financial assets and financial liabilities that are measured at fair value by level of fair-value hierarchy as required by IFRS 13: Fair Value Measurement. The levels of the hierarchy are defined as follows:

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.

At FVTPL

Mandatorily at fair value			Designated		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
11 440	41 574	431	–	20 114	–
8	19 995			79	
	21 579				
11 432		431		20 035	

Total financial liabilities classified as level 2		Total financial liabilities classified as level 3	
2019	2018	2019	2018
27 975	19 995		
32 682	21 658		
		571	431
24 571	20 035		
85 228	61 688	571	431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.3 Details of changes in valuation techniques

There have been no significant changes to valuation techniques.

12.4 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.

12.5 Level 3 reconciliation

Assets

Rm	Opening balance at 1 January	Losses in non-interest revenue in profit for the year
2019		
At FVTPL – Mandatorily at fair value	5 978	(9)
Investment securities	5 978	(9)
At FVOCI – Equity instruments	478	(12)
Investment securities	478	(12)
Total financial assets classified as level 3	6 456	(21)

Rm	Opening balance at 1 January	Gains in non-interest revenue in profit for the year
2018		
At FVTPL – Mandatorily at fair value	4 607	240
Investment securities	4 607	240
At FVOCI – Equity instruments	410	–
Investment securities	410	–
Total financial assets classified as level 3	5 017	240

Gains relating to investments in equity instruments at FVOCI and debt instruments at FVOCI in OCI for the year	Purchases	Issues	Sales	Settlements	Transfers from level 2	Closing balance at 31 December
-	2 799	1 976	(915)	(2 275)	-	7 554
	2 799	1 976	(915)	(2 275)		7 554
9	-	-	-	-	-	475
9						475
9	2 799	1 976	(915)	(2 275)	-	8 029

Gains relating to investments in equity instruments at FVOCI and debt instruments at FVOCI in OCI for the year	Purchases	Issues	Sales	Settlements	Transfers from level 2	Closing balance at 31 December
-	-	2 086	(114)	(841)	-	5 978
		2 086	(114)	(841)		5 978
15	-	-	-	-	53	478
15					53	478
15	-	2 086	(114)	(841)	53	6 456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.5 Level 3 reconciliation continued

Liabilities

Rm	Opening balance at 1 January	Gains in non-interest revenue in profit for the year
2019		
Mandatorily at fair value	431	140
Provisions and other liabilities	431	140
Total financial liabilities classified as level 3	431	140

Gains and losses include, but are not limited to, fair-value gains or losses, translation gains or losses and trading gains or losses.

Rm	Opening balance at 1 January	Losses in non-interest revenue in profit for the year	Closing balance at 31 December
2018			
Mandatorily at fair value	435	(4)	431
Provisions and other liabilities	435	(4)	431
Total financial liabilities classified as level 3	435	(4)	431

Gains and losses include, but are not limited to, fair-value gains or losses, translation gains or losses and trading gains or losses.

12.6 Unrealised gains

The unrealised gains arising on instruments classified as level 3 include the following:

	2019 Rm	2018 Rm
Private-equity gains	(21)	240
	(21)	240

Gains/ (Losses) relating to investments in equity instruments at FVOCI and debt instruments at FVOCI in OCI for the year	Purchases	Issues	Sales	Settlements	Transfers from level 2	Closing balance at 31 December
-	-	-	-	-	-	571
						571
-	-	-	-	-	-	571

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

12 Fair-value measurement – financial instruments continued

12.7 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 reasonable possible alternative assumptions:

	Valuation technique	Significant unobservable input
2019		
Assets		
Investment securities	Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations, dividend yields	Valuation multiples, correlations, volatilities and credit spreads
Total financial assets classified as level 3		
Liabilities		
Provisions and other liabilities	Discounted cashflow, earnings multiples	Discount rates, forecasts
Total financial liabilities classified as level 3		

	Valuation technique	Significant unobservable input
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
Total financial assets classified as level 3		
Liabilities		
Provisions and other liabilities	Discounted cashflow, earnings multiples	Discount rates, forecasts
Total financial liabilities classified as level 3		

Variance in fair value	Amounts recognised in the statement of financial position	Favourable change in fair value	Unfavourable change in fair value
%	Rm	Rm	Rm
Between (17) and 21	8 029	1 688	(1 336)
	8 029	1 688	(1 336)
Between (10) and 10	571	57	(57)
	571	57	(57)

Variance in fair value	Amounts recognised in the statement of financial position	Favourable change in fair value	Unfavourable change in fair value
%	Rm	Rm	Rm
Between (10) and 13	6 456	851	(670)
	6 456	851	(670)
Between (10) and 10	431	43	(43)
	431	43	(43)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

13 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	845 186	820 754	63 219	27 366	730 169
Other short-term securities	9 778	9 770		9 770	
Government and other securities	92 344	90 990	63 219	17 596	10 175
Loans and advances	743 064	719 994			719 994
Financial liabilities	59 713	62 216	37 957	24 259	-
Long-term debt instruments	59 713	62 216	37 957	24 259	-
2018					
Financial assets	786 230	773 670	44 554	24 241	704 875
Other short-term securities	24 282	24 241		24 241	
Government and other securities	67 824	67 036	44 554		22 482
Loans and advances	694 124	682 393			682 393
Financial liabilities	55 587	56 404	27 944	28 460	-
Long-term debt instruments	55 587	56 404	27 944	28 460	-

Loans and advances

Loans and advances, recognised in note C11, 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 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.

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.

14 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.

14.1 Financial assets designated as FVTPL

Rm	Maximum exposure to credit risk	
	2019	2018
Government guaranteed	427	217
Other dated securities	22	23
Mortgage loans	3 785	2 188
Loans and advances (secured and unsecured)	5 535	3 278
Other loans	3	1
	9 772	5 707

Nedbank Group 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 II. A detailed explanation of how each financial asset is valued can be found in note I2.1.

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14 Financial instruments designated as fair value through profit or loss continued

14.2 Financial liabilities designated as FVTPL

Financial liabilities required to present the effects of change in credit risk in OCI:

2019		Financial liabilities where change in credit risk is recognised in OCI ²			
		Fair value	Contractually payable at maturity	Current period	Cumulative
Rm					
Promissory notes and other liabilities	212	212	1	1	1
Investment contract liabilities ³	24 571				
	24 783	212	-	-	-

2018		Financial liabilities where change in credit risk is recognised in OC ²			
		Fair value	Contractually payable at maturity	Current period	Cumulative
Rm					
Promissory notes and other liabilities	79	79	1	1	1
Investment contract liabilities ³	20 035				
	20 114	79	1	1	1

¹ Represents amounts less than R1m.

² Positive amounts represent losses.

³ The value of investment contract liabilities changes according to changes in the value of the unit-linked assets. Unit-linking asset features contain specific asset performance risk rather than credit risk.

15 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 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	34 162	(1 445)	32 717	(21 631)	11 086	2 526	35 243
Loans and advances	71 418	(60 475)	10 943		10 943	785 890	796 833
Cash and cash equivalents	3 347	(1 650)	1 697		1 697	12 452	14 149
Total financial assets	108 927	(63 570)	45 357	(21 631)	23 726	800 868	846 225
Financial liabilities							
Derivative financial liabilities	(34 081)	6 816	(27 265)	21 631	(5 634)	(726)	(27 991)
Amounts owed to depositors	(95 699)	56 754	(38 945)		(38 945)	(865 437)	(904 382)
Total financial liabilities	(129 780)	63 570	(66 210)	21 631	(44 579)	(866 163)	(932 373)

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	22 744	(1 123)	21 621	(16 049)	5 572	1 071	22 692
Loans and advances	52 532	(42 285)	10 247		10 247	726 058	736 305
Cash and cash equivalents	1 914	(1 553)	361		361	12 801	13 162
Total financial assets	77 190	(44 961)	32 229	(16 049)	16 180	739 930	772 159
Financial liabilities							
Derivative financial liabilities	(23 236)	4 311	(18 925)	16 049	(2 876)	(1 078)	(20 003)
Amounts owed to depositors	(99 019)	40 650	(58 369)		(58 369)	(767 435)	(825 804)
Total financial liabilities	(122 255)	44 961	(77 294)	16 049	(61 245)	(768 513)	(845 807)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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16 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.

16.1 Collateral pledged

The group has pledged government and other securities (note C3) and negotiable certificates of deposit (note C4) amounting to R27 001m (2018: R24 079m) 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 644m (2018: R21 877m), 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.

16.2 Collateral held to mitigate credit risk

Credit risk mitigation refers to the actions that can be taken by the group to manage its exposure with credit risk so as to align such exposure to 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.

Furthermore, physical valuations are performed six-monthly on the defaulted book. At 31 December 2019 management considered R302 075m (2018: R275 910m) 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.

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 R238 082m (2018: R249 459m) 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 amounts to R18 734m (2018: R9 513m), of which R12m (2018: R7m) have been sold or repledged.

16.3 Collateral taken possession of and recognised in the statement of financial position

Included in properties in possession (note C11) is an amount of R58m (2018: R91m) related to retail assets and an amount of R84m (2018: R47m) related to wholesale assets the group has acquired during the year by taking possession of collateral held as security.

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SECTION J: 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.

Cash-settled share-based payment transactions with employees

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.

J1 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	<p>Restricted shares, granted as part of the long-term incentive (LTI) scheme are awarded with the joint aim of aligning the interests of stakeholders and retaining key employees . Restricted shares are granted to key personnel who meet the following eligibility criteria:</p> <ul style="list-style-type: none"> • Individuals key to driving the business strategy. • Talent management and succession planning. • Retention of key talent and scarce skills. • Transformation objectives. • Potential and performance. • Leadership. <p>All LTIs are discretionary and motivated by the Group Exco and approved by Group Remco members in their capacity as trustees of the Nedbank (2005) Employee Share Scheme Trust. Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.</p>	<p>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 initiative component in connection with benefits from the target operating model and a strategic initiative component in connection with growing the transactional banking franchise applicable to group and cluster executives only. Where the performance targets are not met in full a minimum of 50% will vest, where applicable, for staff other than group and cluster executives, 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.</p>	3 years
Nedbank Group (2005) Matched-share Scheme	Nedbank Group (2005) Share Scheme Trust	<p>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.</p>	<p>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.</p>	3 years
Nedbank UK Long-term Incentive Plan (LTIP)	n/a	<p>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.</p>	<p>Completion of three years' service, from grant date, subject to corporate performance targets being met.</p>	3 years

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J1 Description of arrangements continued

Scheme	Trust/Special-purpose vehicle (SPV)	Description	Vesting requirements	Maximum term
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
Nedbank Wealth Management International Long-term Incentive Plan (LTIP)	n/a	<p>Restricted shares, granted as part of the long-term incentive (LTI) scheme are awarded with the joint aim of aligning the interests of stakeholders and retaining key employees .</p> <p>Restricted shares are granted to key personnel who meet the following eligibility criteria:</p> <ul style="list-style-type: none"> • Individuals key to driving the business strategy. • Talent management and succession planning. • Retention of key talent and scarce skills. • Transformation objectives. • Potential and performance. • Leadership. <p>Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.</p>	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

Scheme	Trust/Special-purpose vehicle (SPV)	Description	Vesting requirements	Maximum term
Nedbank Africa Restricted-share Scheme	n/a	<p>Restricted shares, granted as part of the long-term incentive (LTI) scheme are awarded with the joint aim of aligning the interests of stakeholders and retaining key employees. Restricted shares are granted to key personnel who meet the following eligibility criteria:</p> <ul style="list-style-type: none"> • Individuals key to driving the business strategy. • Talent management and succession planning. • Retention of key talent and scarce skills. • Transformation objectives. • Potential and performance. • Leadership. <p>Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.</p>	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
Nedbank Eyethu BEE schemes - Clients and business partners				
Community trust	Nedbank Eyethu Community Trust	The trust has been formed with the specific purpose of providing previously disadvantaged communities and charitable organisations with the opportunity to receive dividends in respect of the scheme shares and thereby contributing to Nedbank Group Limited's BEE compliance.	Shares are not allocated to specific beneficiaries. At the end of the 10 years, the net assets of the trust will be allocated to participants as determined by the trustees.	10 years subsequent to December 2013 the termination date of the trust was extended from 2015 to 2030, so as to provide an ongoing flexible vehicle for deploying the residual assets of the trust and continued support of community affairs in line with the group's BEE and Fair Share 2030 initiatives.

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J2 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	124	131
Community Scheme			124	124
Black Executive Scheme ²		2		7
Black Management Scheme ²		1		
	570	741	1 554	1 552

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.

J3 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	
Prior year adjustment				
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)		-		-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

J3 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 (GBP)		-		-
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)		-		-

J3 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	161,88
Weighted-average share price for share instruments exercised (R)		251,24		279,76
Community scheme				
Outstanding at the beginning of the year	1 689 648		1 689 648	
Outstanding at the end of the year	1 689 648		1 689 648	
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (R)		-		-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
 FOR THE YEAR ENDED 31 DECEMBER

J4 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

J4 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
Community scheme				
0,00	1 689 648	11,0	1 689 648	12,0
	1 689 648	11,0	1 689 648	12,0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

J5 Instruments granted during the year

	Nedbank Group (2005) Share Option and Restricted-share Scheme¹	Nedbank Group (2005) Matched-share Scheme²
2019		
Number of instruments granted	3 446 610	974 666
Weighted-average fair value per instrument granted (R)	256,20	213,12
Weighted-average share price (R)	256,20	251,24
Weighted-average life (years)	3	3
Number of participants	1 493	2 245
Weighted-average vesting period (years)	3	3
2018		
Number of instruments granted	2 983 119	711 361
Weighted-average fair value per instrument granted (R) ³	293,21	198,87
Weighted-average share price (R)	293,21	285,54
Weighted-average life (years)	3	3
Number of participants	1 464	2 047
Weighted-average vesting period (years)	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.

Nedbank UK Long-term Incentive Plan¹	Nedbank UK Matched Scheme¹	Nedbank Wealth Management International Long-term Incentive Plan¹	Nedbank Wealth Management International Matched Scheme¹	Nedbank Africa Restricted- share Scheme¹	Nedbank Africa Matched- share Scheme¹
33 095	3 982	59 079	12 681	45 727	3 028
245,62	251,24	258,03	251,24	254,05	251,24
245,62	251,24	258,03	251,24	254,05	251,24
3	3	3	3	3	3
11	6	19	28	8	1
3	3	3	3	3	3
18 179	3 294	50 826	7 024	35 764	1 142
295,80	285,00	292,56	285,00	295,79	285,00
295,80	285,00	292,56	285,00	295,79	285,00
3	3	3	3	3	3
10	4	17	20	55	2
3	3	3	3	3	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION K: OTHER LIABILITIES

K1 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

K1 Provisions and other liabilities continued

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 G1 for accounting policies applied for right-of-use assets.

K1.1 Analysis of carrying amount

	2019 Rm	2018 Rm
Creditors and other accounts ¹	12 144	9 675
Client loyalty programmes liability	347	462
Insurance contracts provision	296	307
Short-trading securities and spot positions	3 950	11 432
Provision for the impairment of off-balance-sheet items	271	210
Provision for bonuses (note K1.2)	1 967	2 609
Leave pay accrual (note K1.3)	943	907
Lease liabilities (note K1.5)	3 379	
	23 297	25 602

¹ Includes the effect of hyperinflation, which was less than R1m.

K1.2 Provision for bonuses

	2019 Rm	2018 Rm
Balance at the beginning of the year	2 609	2 338
Recognised in profit or loss	1 980	2 625
Utilised during the year	(2 611)	(2 362)
Foreign currency translation and other movements	(11)	8
Balance at the end of the year	1 967	2 609

K1.3 Leave pay accrual

Balance at the beginning of the year	907	885
Recognised in profit or loss	385	576
Utilised during the year	(349)	(554)
Balance at the end of the year	943	907

K1.4 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

K1.5 Lease liabilities

	2019 Rm	2018 Rm
Lease liabilities reconciliation		
Balance at the beginning of the year	3 751	
Interest expense	293	
Additions	215	
Lease modifications	383	
Lease payments	(1 241)	
Derecognition ¹	(20)	
Effect of movements in foreign exchange rates and other movements	(2)	
Balance at the end of the year	3 379	

¹ Included in derecognition are lease liabilities of R15m attributable to Nedbank Malawi reclassified to IFRS 5: Held for Sale.

Current and non-current lease liabilities

	2019 Rm
Current lease liabilities	1 105
Non-current lease liabilities	2 274
Total lease liabilities	3 379

K2 Contingent liabilities and undrawn facilities

	2019 Rm	2018 Rm
Guarantees on behalf of clients	25 018	29 802
Letters of credit and discounting transactions	7 148	9 654
Irrevocable unutilised facilities and other	148 099	136 381
	180 265	175 837

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 K1). 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 Group Limited and its subsidiary companies, the outcome of which cannot currently be foreseen. None of these matters are material in nature.

K3 Commitments

K3.1 Capital expenditure approved by directors

	2019 Rm	2018 Rm
Contracted	615	530
Not yet contracted	1 838	2 811
	2 453	3 341

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.

K3.2 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

SECTION L: RISK AND BALANCE SHEET MANAGEMENT

L1 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.

L2 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 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: Basel III Public Disclosure Report, which is unaudited unless stated otherwise.

L3 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.

Rm	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Non-deter - mined	Total
2019							
Cash and cash equivalents (including mandatory reserve deposits with central banks)	37 056	360	33		186		37 635
Other short-term securities	29 126	15 313	12 809	6 644	559		64 451
Derivative financial instruments	8 561	2 811	3 583	7 147	13 141		35 243
Government and other securities	5 917	717	865	47 278	73 733		128 510
Loans and advances	151 712	33 665	65 661	326 967	204 979	13 849	796 833
Other assets			281			80 396	80 677
	232 372	52 866	83 232	388 036	292 598	94 245	1 143 349
Total equity						98 449	98 449
Derivative financial instruments	6 983	2 121	3 037	5 639	10 211		27 991
Amounts owed to depositors	612 919	79 112	112 344	89 221	10 786		904 382
Provisions and other liabilities	24 892	264	645	1 971	351	24 691	52 814
Long-term debt instruments	1 021	463	4 511	31 125	22 593		59 713
	645 815	81 960	120 537	127 956	43 941	123 140	1 143 349
Net liquidity gap	(413 443)	(29 094)	(37 305)	260 080	248 657	(28 895)	-
2018							
Cash and cash equivalents (including mandatory reserve deposits with central banks)	34 236	282	54	50	169		34 791
Other short-term securities	30 393	17 602	22 958	8 308	101		79 362
Derivative financial instruments	3 218	1 920	1 993	5 256	10 305		22 692
Government and other securities	792	587	1 305	42 984	51 123		96 791
Loans and advances	116 856	41 698	61 812	313 401	202 538		736 305
Other assets						73 971	73 971
	185 495	62 089	88 122	369 999	264 236	73 971	1 043 912
Total equity						91 271	91 271
Derivative financial instruments	2 779	1 570	1 694	5 635	8 325		20 003
Amounts owed to depositors	592 462	72 911	83 973	66 356	10 102		825 804
Provisions and other liabilities	20 035		363			30 849	51 247
Long-term debt instruments	1 468	5 070	2 293	27 531	19 225		55 587
	616 744	79 551	88 323	99 522	37 652	122 120	1 043 912
Net liquidity gap	(431 249)	(17 462)	(201)	270 477	226 584	(48 149)	-

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

L4 Interest rate risk in the banking book

	2019 Rm	2018 Rm
Net interest income sensitivity		
One percent instantaneous decline in interest rates ¹	(1 346)	(1 466)

¹ Nedbank London and Nedbank Private Wealth: 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 346m before tax (2018: R1 466m), 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.

L5 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 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 historical VaR assumes the past is a good representation of the future, which may not always be the case.
- That 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.

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	34,7	20,1	45,8	35,4	30,7	16,0	45,8	31,3
Equity	3,9	1,0	13,4	4,6	3,9	0,8	17,2	1,9
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	<0,1	2,1	0,2
Diversification	(15,8)			(16,0)	(17,7)			(15,8)
Total VAR exposure	34,9	19,0	49,2	31,4	29,4	14,6	49,2	29,3

SECTION M: CASHFLOW INFORMATION

M1 Reconciliation of profit from operations to cash generated by operations

	2019 Rm	2018 Rm
Profit from operations	15 813	18 369
Adjusted for:		
– Depreciation (note B7)	1 562	1 512
– Depreciation of right-of-use assets (note B7)	892	
– Amortisation: computer software and intangible assets (note B7)	1 167	958
– Amortisation: other intangible assets (note B7)	65	75
– Zimbabwe hyperinflation (note NI)	296	
– Movement in impairments on financial instruments	7 376	4 959
– Long-term-asset sales (note B6.2)	(22)	(5)
– Unrealised losses (note B6.2) ¹	461	
– Non-trading and capital items (note B9)	651	164
– Indirect taxation (note B8.1)	1 096	942
Cash generated by operations	29 357	26 974

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.

M2 Cash received from clients

	2019 Rm	2018 Rm
Interest and similar income (note B6.1.1)	83 680	75 941
Commission and fees income (note B6.2)	18 739	18 279
Net trading income (note B6.2)	4 524	4 429
Net insurance income (note B6.2.2)	1 837	1 859
Private-equity income	217	367
Other non-interest income	898	683
	109 895	101 558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

M3 Cash paid to clients, employees and suppliers

	2019 Rm	2018 Rm
Interest expense and similar charges (note B6.1.2)	(53 513)	(47 122)
Staff costs (note B7)	(17 322)	(17 450)
Computer processing	(2 886)	(2 630)
Communication and travel (note B8)	(838)	(833)
Occupation and accommodation	(1 010)	(1 993)
Marketing and public relations (note B7)	(1 455)	(1 532)
Fees and assurances (note B7)	(4 152)	(3 989)
Furniture, office equipment and consumables	(325)	(316)
Other operating expenses	(505)	(344)
	(82 006)	(76 209)
M4 Dividends received		
Dividends received on investments	221	354
	221	354
M5 Increase in operating assets		
Other short-term securities	14 515	13 413
Government and other securities	(31 719)	(47 550)
Loans and advances and other operating assets	(76 559)	(31 423)
	(93 763)	(65 560)
M6 Increase in operating liabilities		
Current and savings accounts	1 076	6 211
Other deposits, loan accounts and foreign currency liabilities	44 224	38 663
Negotiable certificates of deposit	29 065	12 394
Deposits received under repurchase agreements	3 767	(2 928)
Creditors and other liabilities	5 778	(1 149)
	83 910	53 191
M7 Taxation paid		
Amounts receivable at the beginning of the year	(177)	(48)
Statement of comprehensive income charge (excluding deferred taxation)	(3 480)	(4 726)
Current taxation recognised in equity	147	855
Amounts receivable at the end of the year	(120)	177
	(3 630)	(3 742)
Total indirect taxation (note B8.1)	(1 096)	(942)
Taxation paid	(4 726)	(4 684)

SECTION N: ADDITIONAL INFORMATION

N1 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.

Hyperinflation accounting

During the second half of the year the group classified Zimbabwe as a hyperinflationary economy. The assessment as to when an economy is hyperinflationary is based on the guidelines of IAS 29: Financial Reporting in Hyperinflationary Economies (IAS 29), which considers qualitative as well as quantitative factors, including whether the accumulated inflation over a three-year period is in excess of 100%. The group's conclusion is based on Zimbabwe's inflation rate increasing significantly throughout the year.

The group's conclusion is consistent with the assessment by the Public Accountants and Auditors Board of Zimbabwe, which classified the Zimbabwean economy as hyperinflationary as of 1 July 2019. Consequently, the results of the group's activities in Nedbank Zimbabwe Limited have been prepared in accordance with IAS 29 (this is prior to the translation of those results to the group's presentation currency). The group has applied IAS 29 from 1 October 2018 as this is the date on which the Reserve Bank of Zimbabwe directed Zimbabwean banks to create NOSTRO accounts for foreign currency transactions, which are to be maintained separately from existing bank accounts, limited to real-time gross settlement (RTGS). This effectively de-dollarised the economy. The date 1 October 2018 is also the one on which the group concluded that the functional currency of Nedbank Zimbabwe Limited changed from the USD to RTGS (which subsequently became the new Zimbabwean dollar).

General price index

IAS 29 requires transactions and balances to be stated in terms of the measuring unit current at the end of the reporting period, using a general price index, to account for the effect of loss of purchasing power during the period. The group has elected to use the Zimbabwe CPI, provided by the Zimbabwe Reserve Bank, as the general price index as this provides an observable published indicator of changes in the general purchasing power of the country.

The group applied a general price escalation factor of 6,2 based on the CPI index for December 2019 of 551,6 and the CPI index for December 2018 of 88,8.

Impact on the statement of financial position

The group has not restated the comparative amounts relating to Nedbank Zimbabwe for changes in price levels in the current year as the functional currency of the group is that of a non-hyperinflationary economy. At the beginning of the first period of applying IAS 29, the components of equity, excluding retained earnings, are restated by applying a general price escalation factor from 1 October 2018 to the end of the reporting period. Differences are recognised directly in equity (foreign currency translation reserve). Any revaluation surplus arising in previous periods is eliminated against retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

NI Foreign currency conversion continued

The carrying amounts of non-monetary assets and liabilities carried at historical cost have been adjusted to reflect the change in the general price index from 1 October 2018 (or from recognition date if acquired or assumed later) to the end of the reporting period. Where non-monetary items are restated above their recoverable amount, an impairment loss is recognised directly in profit and loss. Non-monetary items that are held at fair value, net realisable value or using a revaluation model are not restated as these assets are recognised based on current price levels. Monetary items are already expressed in the measurement unit current as the end of the reporting period and do not require an adjustment for the general price index.

In addition, under hyperinflation, assets, liabilities and the income statement are translated from the functional currency of Nedbank Zimbabwe to the functional currency of the group at the spot exchange rate at the reporting date rather than the spot exchange rate ruling at the transaction date.

Impact on the statement of comprehensive income

All items recognised in the statement of comprehensive income are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred to the end of the reporting period. The gains and losses on the net monetary position is included in profit and loss.

Impact on the statement of cashflows

All items in the statement of cashflows are expressed in terms of the general price index at the end of the reporting period. The resultant statement of cashflows is prepared to reflect cashflows during the year measured at the current purchasing power at the end of the reporting period and as such is not reflecting actual cashflows during the year.

Deferred taxation

At the end of the reporting period, following the indexation of non-monetary items under hyperinflation accounting, deferred tax is accounted for using IAS 12 principles. The deferred taxation relating to opening statement of financial position has been determined using a two-step approach of:

- 1) remeasuring the deferred taxation items in accordance IAS 12 after restating the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date; and
- 2) thereafter, the deferred taxation items remeasured in step 1 have been restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of the reporting period.

Exchange rate used at 31 December 2019

The results, cashflows and financial position of Nedbank Zimbabwe, which is accounted for as an entity operating in hyperinflationary economy and has a functional currency different from the presentation currency of the group, have translated into the presentation currency of the group, at the spot rate of exchange ruling at the reporting date. For 31 December 2018 reporting period the group estimated the RTGS dollar to USD exchange rate using a combination of the Old Mutual share price implied rate and the fuel price implied rate. On 22 February 2019 the Zimbabwean Reserve Bank announced the Zimbabwe dollar as the official currency in Zimbabwe. The group has elected to translate the results of Nedbank Zimbabwe Limited at the interbank exchange rate as this rate is publicly available. This change does not alter the assessment of the functional currency of Zimbabwe as the Zimbabwe dollar had the same exchange rate as the RTGS on inception.

Impact of hyperinflation on group's results

The most material inflation-accounting adjustments to the group's recognition and measurement criteria are as follows (except for headlines earnings, the impact below is pre-non-controlling interest):

Financial statement item	Amount Rm	Description
Opening equity		
Opening equity (foreign currency translation reserve)	246	On the initial application of IAS 29 an indexation to all items in the opening statement of financial position is recognised directly in equity (foreign currency translation reserve). This is achieved by applying the general CPI escalation factor calculated from 1 October 2018 to 31 December 2019. This results in the starting point of all prior-year balances being reflected as if they had preserved purchasing power. Any subsequent loss in purchasing power on the opening net monetary items is reflected in profit and loss as part of the net monetary loss.
Statement of financial position		
Non-monetary assets	30	Property, equipment and intangible assets were restated by applying the change in general price indices from acquisition date to 31 December 2019. Depreciation and amortisation relating to the property, equipment and intangible assets are based on the restated carrying amounts after adjusting for the effects of hyperinflation. The increase reflects purchasing power preservation of non-monetary items during hyperinflationary periods. The majority of property and equipment items were revalued during the year, therefore negating the need for impairment recognition.
Statement of comprehensive income		
Zimbabwe hyperinflation	(296)	The impact of applying IAS 29 in the current year resulted in a net monetary loss relating to profit and loss items of R80m and statement of financial position items of R216m. The net monetary loss of R296m altered the initial unindexed in-country profit after tax (before IAS 29) of R118m to a loss after tax (after IAS 29) of R97m.
Net interest income	58	Net interest income increased as it was restated by applying the change in the general price indices from the transaction recognition dates to 31 December 2019.
Non-interest revenue	181	Non-interest revenue increased as it was restated by applying the change in the general price indices from the transaction recognition dates to 31 December 2019.
Total operating expenses	(173)	The restatement of property and equipment items (including on right-of-use assets) and intangible assets from historical cost to the hyperinflationary currency at 31 December 2019 resulted in an increase (or a recalculated adjustment surge) in depreciation and amortisation recorded for the year. Operating expenses increased following a restatement for changes in the general price indices from transaction recognition dates to 31 December 2019 (this includes recalculated depreciation and amortisation based on hyperinflation adjusted balances).
Deferred taxation	14	Deferred taxation decreased due to changes in temporary differences arising between the restated closing carrying amounts of non-monetary assets and liabilities, and their respective tax basis.
All balance-sheet items	(216)	This relates to the opening net monetary position that was indexed as part of the current-year opening balances and that would have lost purchasing power during the current year, and the restatement of non-monetary assets using the change general price indices from the acquisition date of transactions to 31 December 2019.
Key business indicators		
Headline earnings (after tax)	(142)	Headline earnings decreased due to the recognition of a net monetary loss recognised in profit and loss reflecting the loss of purchasing power on income and expenses and statement of financial position items.
Statement of cashflows		
Statement of cashflows	(350)	The inflation effect on net cash movements for the year has been derived as the difference between the closing balances of cash and cash equivalents less the sum of restated opening balance plus unindexed movements in cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

N1 Foreign currency conversion continued

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
US dollar to naira	361,64	361,50	364,47	363,50
Rand to naira	25,05	27,31	26,05	25,08
US dollar to Zimbabwean dollar (RTGS dollar)			16,77	3,88
Zimbabwean dollar (RTGS dollar) to rand			0,84	3,71

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.

N2 Events after the reporting period

On 14 February 2020 Nedbank Group disposed of its 100% interest in Nedbank Malawi Limited for R37.8m when the suspensive conditions on the sale agreement were met. Nedbank Group and Nedgroup Investments Africa have agreed to dispose of, and MyBucks Banking Corporation Limited has agreed to acquire, in one composite, indivisible transaction, 100% of the issued shares of Nedbank Malawi Limited and the cession and delegation of a term loan from Nedbank Limited to Nedbank Malawi Limited. The disposal follows a strategic review by Nedbank Group.

N3 Directors' emoluments

The following disclosures are those required by the Companies Act, 71 of 2008, in respect of remuneration of directors and prescribed officers:

N3.1 Total remuneration of executive directors and prescribed officers

R'000	Mike Brown		Mfundo Nkuhlu		Raisibe Morathi	
	2 019	2 018	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

R'000	Iolanda Ruggiero		Ciko Thomas		Brian Kennedy	
	2 019	2 018	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

N3 Directors' emoluments continued

N3.2 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 Makalima		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 chair 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 1 from 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 a 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.

N3 Directors' emoluments continued

N3.2 Non-executive directors' remuneration continued

Number of shares	Beneficial direct 2019	Beneficial direct 2018	Beneficial indirect 2019	Beneficial direct 2018
Directors				
Hubert Brody	2 556	2 556		
Mike Brown ³	412 897	311 408	214 611	259 775
Brian Dames	64	64		
Mantsika Matookane	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 Listing 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

N3 Directors' emoluments continued

N3.3 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

N3 Directors' emoluments continued

N3.3 Share-based payments to executive directors and prescribed officers continued

Executive directors	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
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			

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	1535	261,85	9 904 738	(401 940)		32 109	31 December 2019	16 March 2020
						29 192	31 December 2020	15 March 2021
						35 191	31 December 2021	15 March 2022
21 792 ³		251,24	5 475 022			7 717	31 December 2019	1 April 2020
						6 842	31 December 2020	1 April 2021
						8 806	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
					1 998 288			
62 730	1 535		16 161 619	(401 940)	1 998 288	123 136		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

N3 Directors' emoluments continued

N3.3 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								
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 Schemel	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			
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			

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
15 744 ²		261,29	4 113 750					
23 122	495	261,85	6 054 496	(129 616)				
						13 646	31 December 2019	17 March 2020
						20 469	31 December 2019	16 March 2020
						11 343	31 December 2020	16 March 2021
						17 015	31 December 2020	15 March 2021
						33 339	31 December 2021	15 March 2022
47 460 ³		251,24	11 923 850					
						17 713	31 December 2019	1 April 2020
						14 865	31 December 2020	1 April 2021
						19 460	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
					2 408 875			
89 438	495		22 873 955	(129 616)	2 408 875	151 129		
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
2280		235,99	538 057			5 726	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		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

N3 Directors' emoluments continued

N3.3 Share-based payments to executive directors and prescribed officers continued

Prescribed officers	Opening balance at 1 January 2019				Awards made during 2019			
	Number of restricted shares/options	Date of issue/inception	Issue price	Vesting date	Number of restricted shares/options	Date of issue/inception	Issue price (R)	Final vesting/exercise date
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
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		

AUDITED SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Dividends from subsidiary companies		6 602	7 436
Interest and similar income ¹		1 323	726
Interest expense and similar charges		(1 103)	(721)
Preference dividend from subsidiary company		32	32
Non-interest revenue		2	
Fair-value adjustments		(119)	(130)
Operating income		6 737	7 343
Total operating expenses	1	27	3
Profit from operations		6 710	7 340
Impairment of subsidiaries		462	
Share of gains from associate company		668	609
Profit before direct taxation		6 916	7 949
Direct taxation	2	25	23
Profit for the year		6 891	7 926
OCI net of taxation		(1 240)	96
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		(70)	429
Share of other comprehensive losses of investments accounted for using the equity method		(1 025)	(318)
Items that may not subsequently be reclassified to profit or loss			
Share of other comprehensive losses of investments accounted for using the equity method		(145)	(15)
Total comprehensive income for the year		5 651	8 022

¹ Includes notional discounting of interest-free loans of R219m.

SEPARATE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Assets			
Government and other securities		11 615	9 065
Current taxation assets			3
Investment securities		12	9
Investments in associate companies	3	2 673	3 245
Investments in subsidiary companies		32 531	29 458
Investment in ordinary shares		26 416	26 638
Investment in preference shares		346	899
Investment in additional tier 1 capital instruments		4 850	1 350
Owing by subsidiaries		919	571
Deferred taxation assets			10
Total assets		46 831	41 790
Equity and liabilities			
Ordinary share capital	4	497	493
Ordinary share premium		21 974	20 947
Holders of additional tier 1 capital instruments		4 850	1 386
Reserves		1 357	3 103
Equity attributable to ordinary equity holders		28 678	25 929
Long-term debt instruments	5	11 615	9 065
Other liabilities	6	566	205
Amounts owing to subsidiaries		5 972	6 591
Total liabilities		18 153	15 861
Total equity and liabilities		46 831	41 790

SEPARATE STATEMENT OF CHANGES IN EQUITY continued

FOR THE YEAR ENDED 31 DECEMBER

	Number of ordinary shares	Ordinary share capital Rm	Ordinary share premium Rm	Holders of additional tier 1 capital instruments
Balance at 1 January 2018	498 108 914	498	22 293	600
Shares issued in terms of employee incentive schemes	2 130 389	2	626	
Shares delisted	(7 056 639)	(7)	(1 972)	
Additional tier 1 capital instruments issued				786
Total comprehensive income for the year	-	-	-	-
Profit for the year				
Exchange differences on translating foreign operations				
Share of OCI of investments accounted for using the equity method				
Dividends to shareholders				
Additional tier 1 capital instruments interest paid				
Balance at 31 December 2018	493 182 664	493	20 947	1 386
Shares issued in terms of employee incentive schemes	3 870 872	4	1 027	
Additional tier 1 capital instruments issued				3 464
Total comprehensive (losses)/income for the year	-	-	-	-
Profit for the year				
Exchange differences on translating foreign operations				
Share of OCI of investments accounted for using the equity method				
Dividends to shareholders				
Additional tier 1 capital instruments interest paid				
Balance at 31 December 2019	497 053 536	497	21 974	4 850

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

² All 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.

³ Represents other non distributable revaluation surplus on capital items.

⁴ 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.

⁵ Represents the accumulated profits after distributions to shareholders and appropriation of retained earnings to other non-distributable earnings.

Foreign currency translation reserve ¹ Rm	Share-based payments reserve ² Rm	Other non- distributable reserves ³ Rm	FVOCI reserve ⁴ Rm	Distributable reserves ⁵ Rm	Total ordinary shareholders' equity Rm
(2 521)	125	41	254	4 117	25 407
					628
					(1 979)
					786
31	-	-	80	7 911	8 022
				7 926	7 926
429					429
(398)			80	(15)	(333)
				(6 854)	(6 854)
				(81)	(81)
(2 490)	125	41	334	5 093	25 929
					1 031
					3 464
(857)	-	-	(238)	6 746	5 651
				6 891	6 891
(70)					(70)
(787)			(238)	(145)	(1 170)
				(7 157)	(7 157)
				(240)	(240)
(3 347)	125	41	96	4 442	28 678

SEPARATE STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2019 Rm	2018 Rm
Cash generated by operations	7	6 609	7 470
Cash received (paid to)/from clients, employees and suppliers		(25)	2
Dividends received on investments		6 634	7 468
Change in funds for operating activities		(748)	851
(Increase)/Decrease in operating assets		(348)	848
(Decrease)/Increase in operating liabilities		(400)	3
Net cash from operating activities before taxation		5 861	8 321
Taxation received/(paid)	8	22	(8)
Cashflows from operating activities		5 839	8 329
Cashflows utilised by investing activities		(5 496)	(5 345)
Investments in additional tier 1 capital and long-term debt instruments		(6 050)	(5 295)
Disposal/(Acquisition) of investments in subsidiaries and associate companies		554	(50)
Cashflows utilised by financing activities		(343)	(2 984)
Proceeds from issue of ordinary shares		1 030	628
Shares delisted			(1 979)
Long-term debt instruments issued		6 014	5 333
Dividends paid to ordinary shareholders		(7 157)	(6 854)
Additional tier 1 capital instruments interest paid		(230)	(112)
Net increase/(decrease) in cash and cash equivalents for the year		-	-
Cash and cash equivalents at the beginning of year			
Cash and cash equivalents at the end of the year		-	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER

	2019 Rm	2018 Rm
1 Operating expenses		
Audit fees	16	(3)
Directors' fees	2	2
Other	9	4
	27	3
2 Direct taxation		
2.1 Charge for the year		
Statement of comprehensive income charge – SA normal taxation		19
Dividend withholding tax paid	25	4
	25	23
2.2 Taxation rate reconciliation		
	2019 %	2018 %
Standard rate of SA normal taxation	28	28
Non-taxable income	(28)	(28)
Effective taxation rate	–	–
3 Investment in associate company		
	2019 Rm	2018 Rm
3.1 Movement in carrying amount		
Carrying amount at the beginning of the year	3 245	3 320
Impact of adopting IFRS 9, net of taxation		(780)
Share of associate companies' profit after taxation for the year	668	609
Share of associate companies' OCI for the year	(1 170)	(333)
Foreign currency translation and other movements	(70)	429
Carrying amount at the end of the year	2 673	3 245
3.2 Analysis of carrying amount		
Associate investments – on acquisition: net asset value	6 265	6 265
Impact of adopting IFRS 9, net of taxation	(780)	(780)
Share of retained earnings since acquisition	1 423	755
Share of OCI since acquisition	(4 244)	(3 074)
Dividends received from equity-accounted associate companies	(159)	(159)
Impairment provision for investments in associate companies	(1 000)	(1 000)
Foreign currency translation and other movements ¹	1 168	1 238
	2 673	3 245

¹ Of this amount R17m (2018: R45m) relates to foreign currency movements on the R1,0bn impairment recorded in 2016.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

4 Share capital

4.1 Ordinary share capital

	2019 Rm	2018 Rm
<i>Authorised</i>		
600 000 000 (2018: 600 000 000) ordinary shares of R1 each	600	600
<i>Issued ordinary share capital</i>		
497 053 536 (2018: 493 182 664) fully paid ordinary shares of R1 each	497	493
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 AGM.		

4.2 Preference share capital and premium

<i>Authorised</i>		
1 000 000 (2018: 1 000 000) cumulative redeemable non-participating preference shares of R10 000 each	10 000	10 000

5 Long-term debt instruments

Instrument type	Maturity date	Interest rate	2019 Rm	2018 Rm
Subordinated debt				
Callable notes (rand-denominated – floating)	22 September 2026	JIBAR + 4,0%	2 005	2 004
Callable notes (rand-denominated – floating)	15 March 2027	JIBAR + 3,80%	2 008	2 008
Callable notes (rand-denominated – floating)	26 May 2027	JIBAR + 3,75%	505	505
Callable notes (rand-denominated – floating)	20 March 2028	JIBAR + 3,05%	2 006	2 006
Callable notes (rand-denominated – floating)	26 July 2028	JIBAR + 2,58%	1 532	1 533
Callable notes (rand-denominated – floating)	1 December 2028	JIBAR + 2,45%	1 007	1 009
Callable notes (rand-denominated – floating)	9 April 2029	JIBAR + 2,4%	2 552	2 552
			11 615	9 065

6 Other liabilities

Derivative liability	297	176
Creditors and other accounts	269	29
	566	205

7 Cash generated by operations

Reconciliation of profit before taxation to cash generated by operations

Profit before taxation	6 491	7 340
Adjusted for:		
– Foreign exchange gains	(1)	
– Fair-value adjustments	119	130
Cash generated by operations	6 609	7 470

8 Taxation paid

Amounts payable at the beginning of the year	(3)	(12)
Statement of comprehensive income charge – SA normal taxation		(3)
Statement of comprehensive income charge – dividend withholding tax	25	4
Amounts payable at the end of the year		3
	22	(8)

9 Share-based payments

Equity instruments are granted to business partners and non-executive directors as an incentive to retain business and develop growth within the group. The share-based payment expenses and reserve balances in respect of the Black Business Partner Scheme and the Non-executive Directors' Scheme, implemented in 2005, were accounted for in the Nedbank Group Limited consolidated financial statements and in the Nedbank Group Limited standalone financial statements. Both of these schemes will be equity-settled.

As the company cannot reliably estimate the fair value of services received nor the value of additional business received, the company rebuts the presumption that such services and business can be measured reliably. The company therefore measures their fair value by reference to the fair value of the 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, as well as the dividends over the vesting period to which the participant has a right.

9.1 Description of arrangements

Scheme	Trust/SPV	Description	Vesting requirements	Maximum term
Nedbank Eyethu BEE schemes				
Community trust	Nedbank Eyethu Community Trust	The trust has been formed with the specific purpose of providing previously disadvantaged communities and charitable organisations with the opportunity to receive dividends in respect of the scheme shares and thereby contributing to Nedbank Group Limited's BEE compliance.	Shares are not allocated to specific beneficiaries. At the end of the 10 years, the net assets of the trust will be allocated to participants as determined by the trustees.	10 years subsequent to December 2013 the termination date of the trust was extended from 2015 to 2030, so as to provide an ongoing flexible vehicle for deploying the residual assets of the trust and continued support of community affairs in line with the group's BEE and Fair Share 2030 initiatives.

9.2 Effect on profit and financial position

	Share-based payments expense		Share-based payments reserve	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Community scheme	-	-	124	124
	-	-	124	124

9.3 Movements in number of instruments

	2019		2018	
	Number of instruments	Weighted-average remaining contractual life (years)	Number of instruments	Weighted-average remaining contractual life (years)
Community scheme				
Outstanding at the beginning of the year	1 689 648	12,00	1 689 648	13,00
Outstanding at the end of the year	1 689 648	11,00	1 689 648	12,00
Exercisable at the end of the year	-	-	-	-
Weighted-average share price for share instruments exercised (R)	-	-	-	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

10 Related parties

10.1 Relationship with significant investors

Following Old Mutual plc's managed-separation process, the group no longer has a parent (controlling shareholder) as Old Mutual Limited unbundled its direct shareholding in the group 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 the group.

Material subsidiaries of the company are identified in note F3.1 and associate companies of the company are identified in note F2.3.

10.2 Key management personnel compensation

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

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	personnel	
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
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.

10.3 Related-party transactions

The following significant transactions were entered into between Nedbank Group Limited and the following related parties. All of these transactions were entered into in the normal course of business.

Outstanding balances (Rm)	Due from/(owing to)	
	2019	2018
Subsidiaries		
Loan from Nedbank Nominees Proprietary Limited – interest-free	(4)	(4)
Advance to Ned Settle Services Proprietary Limited – interest-free	71	71
Advance to the Board of Executors I838		22
Advance to Nedbank Group Insurance Holdings Limited	260	260
Bank account with Nedbank Limited – interest-free	576	207
Loan from Nedbank Limited – interest-free	(5 968)	(6 587)
Tier 2 long-term debt – Nedbank Limited (NED0IU)	11 615	9 065
Advance to Banco Único, SA – interest-free	12	11
Key management personnel		
– Community trust – share-based payments reserve	(125)	(125)

Transactions (Rm)	Income/(expense)	
	2019	2018
Interest income from subsidiaries		
Nedbank Limited – interest received	1 323	726
Nedbank Limited – interest paid	1 103	721
Dividends from subsidiaries		
Nedbank Limited	5 049	6 158
Nedeurope Limited	303	338
Nedbank Swaziland Limited	22	22
Nedbank Lesotho Limited	25	
NedNamibia Holdings Proprietary Limited	400	
Nedbank Group Insurance Holdings Limited	650	650
Nedgroup Investments Proprietary Limited	185	230
Nedcapital investment Holdings Proprietary Limited		35
NIB Blue Capital Proprietary Limited		35
Dividends declared by subsidiaries	6 634	7 468

11 Liquidity, credit risk and market risk information

Assets and liabilities consist primarily of non-financial assets and liabilities. These are not subject to liquidity, credit and market risk for disclosure purposes.

12 Offsetting financial assets and financial liabilities

Assets and liabilities consist primarily of non-financial assets and liabilities. These are not subject to offsetting disclosures as envisaged in IFRS 7.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER

13 Shareholder analysis

Register date: 27 December 2019

Authorised share capital: 600 000 000 shares

Issued share capital: 497 053 536 shares

Shareholder spread	Number of shareholdings	%	Number of shares	%
1-1 000 shares	40 625	89,14	7 411 352	1,49
1 001-10 000 shares	3 531	7,75	9 580 219	1,93
10 001-100 000 shares	1 020	2,24	35 432 887	7,13
100 001-1 000 000 shares	335	0,73	96 675 045	19,45
1 000 001 shares and over	62	0,14	347 954 033	70,00
Total	45 573	100,00	497 053 536	100,00

Distribution of shareholders	Number of shareholdings	%	Number of shares	%
Banks/Brokers	388	0,85	133 974 525	26,95
Close corporations	175	0,39	180 685	0,04
Empowerment	30	0,07	6 651 928	1,34
Endowment funds	137	0,30	2 108 768	0,42
Government	8	0,02	285 812	0,06
Individuals	39 163	85,93	14 653 292	2,95
Insurance companies	116	0,25	123 126 370	24,77
Investment companies	8	0,02	4 021 540	0,81
Medical aid schemes	51	0,11	1 308 847	0,26
Mutual funds	638	1,40	85 619 176	17,22
Other corporations	179	0,39	184 419	0,04
Private companies	637	1,40	1 982 906	0,40
Public companies	15	0,03	52 653	0,01
Retirement funds	604	1,33	95 544 814	19,22
Share trusts ¹	14	0,03	12 668 176	2,55
Sovereign wealth funds	9	0,02	7 057 894	1,42
Trusts	3 345	7,34	3 708 787	0,75
UK nominee accounts	56	0,12	3 922 944	0,79
Total	45 573	100,00	497 053 536	100,00

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	122	0,26	142 187 802	28,61
Directors and associates of the company ²	9	0,02	1 257 151	0,25
Old Mutual Life Assurance Company (SA) Limited and associates	58	0,13	119 908 542	24,12
Nedbank/Nedbank Group pension funds	5	0,01	135 725	0,03
Nedbank Group Limited and associates (share trusts and foundation) ¹	10	0,02	11 135 674	2,25
Nedbank Group and Associates (foundation)	1		1 200	
Nedbank Group Limited and associates (mutual funds)	15	0,03	2 721 712	0,55
Nedbank Group BEE trusts – SA ¹	5	0,01	6 662 509	1,34
Nedbank Group BEE trusts – Namibia	19	0,04	365 289	0,07
Public shareholders	45 451	99,74	354 865 734	71,39
Total	45 573	100,00	497 053 536	100,00

¹ Excludes shares held by directors in share trusts (executive directors only) and Eyethu schemes.

² Includes shares held by directors in share trusts (executive directors only) and Eyethu schemes.

Subsequent to the publication of the group's consolidated and separate financial statements on 3 March 2020, management became aware of classification-related errors in a report supplied by an external service provider that was used to compile the public/non-public shareholders table. The table above has been updated with the appropriate classification.

Major shareholders/managers	Number of shares	2019 holding %	2018 holding %
Old Mutual Life Assurance Company (SA) Limited and associates ¹	119 908 542	24,12	24,54
Nedbank Group treasury shares	15 879 157	3,19	3,26
BEE trusts:	6 619 088	1,33	1,32
– Eyethu scheme – Nedbank SA	6 466 786	1,30	1,29
– Omufima scheme – Nedbank Namibia	152 302	0,03	0,03
Nedbank Group (2005) Share Option, Matched-share and Restricted-share Scheme	9 212 557	1,85	1,93
Nedbank Namibia Limited	47 512	0,01	0,01
Public Investment Corporation (SA)	53 464 674	10,76	9,38
Coronation Fund Managers (SA)	37 407 848	7,53	7,31
Allan Gray Investment Council (SA)	27 048 653	5,44	5,14
BlackRock Incorporated (International)	17 839 104	3,59	3,71
The Vanguard Group Incorporated (international)	14 888 988	3,00	2,91
Sanlam Investment Management Proprietary Limited (SA)	11 741 655	2,36	1,88
Dimensional Fund Advisors (US, UK and AU)	10 597 596	2,13	1,62
Lazard Asset Management (International)	10 590 138	2,13	2,96
GIC Asset Management Proprietary Limited (international)	10 437 041	2,10	2,65

¹ Old Mutual Limited retains a strategic minority shareholding of 19,9% in Nedbank Group, held through its shareholder funds, under the terms of the relationship agreement. The above shareholding is inclusive of funds held on behalf other beneficial owners.

Beneficial shareholders holding of 5% or more	Number of shares	2019 holding %	2018 holding %
Old Mutual Life Assurance Company (SA) Limited and associates (SA)	119 764 615	24,09	24,51
Government Employees Pension Fund (SA)	54 095 899	10,88	9,66
	173 860 514	34,97	34,17

Geographical distribution of shareholders	Number of shares	2019 holding %	2018 holding %
Domestic	366 809 012	73,79	70,69
SA	351 196 730	70,65	67,38
Namibia	9 095 314	1,83	1,47
Unclassified	6 516 968	1,31	1,84
Foreign	130 244 524	26,21	29,31
United States	65 892 178	13,26	14,89
Asia	22 306 373	4,49	5,06
Europe	22 173 199	4,46	4,78
United Kingdom and Ireland	10 181 196	2,05	2,96
Other countries	9 691 578	1,95	1,62
	497 053 536	100,00	100,00

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	Earnings per share	IAS 33
B3	Dividends	IAS 1, IAS 10 and IAS 32
B4	Share capital	IAS 1 and IAS 32
B5	Holders of additional tier 1 capital instruments	IAS 32, IFRS 7, IFRS 9 and IFRS 13
B6.1	Net interest income	IAS 32, IFRS 7, IFRS 9, IFRS 13 and IFRS 15
B6.2	Non-interest revenue	IAS 20, IAS 32, IFRS 4, IFRS 7, IFRS 8, IFRS 9, IFRS 13 and IFRS 15
B7	Total operating expenses	IAS 1, IAS 19, IFRS 2 and IFRS 8
B8.1	Indirect taxation	IAS 1
B8.2	Direct taxation	IAS 12
B8.3	Deferred taxation	IAS 12
B9	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	Investment contract liabilities	IAS 1, IFRS 4, IFRS 7, IFRS 9 and IFRS 13
D4	Insurance contract liabilities	IAS 1 and IFRS 4
D5	Contractual maturity analysis for financial liabilities	IFRS 7
E1	Managed funds	IAS 1, IFRS 7 and IFRS 13
F1	Investment securities	IAS 32, IFRS 7, IFRS 9 and IFRS 13
F2	Investments in associate companies	IAS 28, IFRS 11, IFRS 12 and IFRS 13
F3	Investments in subsidiary companies and related disclosure	IAS 27, IFRS 10 and IFRS 12
F4	Interests in structured consolidated and unconsolidated structured entities	IFRS 12
F5	Securitisations	IFRS 7, IFRS 9, IFRS 12 and IFRS 13
F6	Related parties	IAS 24
G1	Property and equipment	IAS 16, IAS 36, IFRS 13 and IFRS 16
G2	Intangible assets	IAS 38 and IAS 36
H1	Long-term employee benefits	IAS 19 and IFRIC 14
H2	Non-current assets and liabilities held for sale	IFRS 5 and IFRS 13
H3	Other assets	IAS 1, IFRS 7, IFRS 9 and IFRS 13

Note number	Note description	IFRS required
I1	Consolidated statement of financial position – categories of financial instruments	IFRS 7 and IFRS 9
I2	Fair-value measurement – financial instruments	IFRS 7, IFRS 9 and IFRS 13
I3	Assets and liabilities not measured at fair value for which fair value is disclosed	IFRS 7, IFRS 9 and IFRS 13
I4	Financial instruments designated as fair value through profit or loss	IAS 32, IFRS 7, IFRS 9 and IFRS 13
I5	Offsetting financial assets and financial liabilities	IFRS 7 and IAS 32
I6	Collateral	IFRS 7
J	Share-based payments	IFRS 2
K1	Provisions and other liabilities	IAS 37, IAS 32, IFRS 7, IFRS 9, IFRS 13 and IFRS 16
K2	Contingent liabilities and undrawn facilities	IAS 37 and IAS 10
K3	Commitments	IAS 10 and IFRS 7
L1	Financial risk management	IAS 1
L2	Capital management	IAS 1
L3	Liquidity gap	IFRS 7
L4	Interest rate risk in the banking book	IFRS 7
L5	Historical value at risk (99%, one-day) by risk type	IFRS 7
M	Cashflow information	IAS 7
N1	Foreign currency conversion	IAS 21 and IAS 29
N2	Events after the reporting period	IAS 10

EMBEDDED-VALUE REPORT OF NEDGROUP LIFE ASSURANCE COMPANY LIMITED (NEDGROUP LIFE)

Scope of the embedded-value report

This report deals with the embedded value of Nedgroup Life (the company) and the value of new business written during the financial year.

Embedded value

The embedded value (EV) and value of new business of the covered business at 31 December are:

	change %	2019 Rm	2018 Rm
Adjusted net worth		1 345	1 112
Required capital		823	754
Free surplus		522	358
Value of inforce business		1 843	1 674
Present value of future profits		2 042	1 858
Frictional costs		(78)	(75)
Cost of non-hedgeable risk		(121)	(109)
Total EV	14,4	3 188	2 786
Present value of future profits		467	416
Frictional cost of capital		(18)	(17)
Cost of non-hedgeable risk		(28)	(19)
Total value of new business	10,8	421	380
New business sales (APE ¹)	0,5	1 088	1 083
APE ¹ margin		38,7%	35,1%
PVNBP ²	(9,7)	2 342	2 593
PVNBP ² margin		18,0%	14,7%
Analysis of EV earnings:			
EV at the beginning of the year		2 786	2 745
Total EV earnings		952	691
Operating EV earnings		855	604
Value of new business		421	380
Expected return		140	128
Experience variances and once-off modelling changes		187	169
Extraordinary changes		313	
Non-economic assumption changes		(206)	(73)
Economic variances and assumption changes		10	25
Return on adjusted net worth		87	62
Adjustment: dividends paid		(550)	(650)
EV at the end of the year	14,4	3 188	2 786
Operating earnings return on opening EV (%)		30,7%	22,0%

¹ Annualised premium equivalent.

² Present value of new-business premiums.

Nedgroup Life paid dividends totalling R550m (2018: R650m) during the year.

Methodology

Covered business refers to all long-term life insurance business underwritten by the company.

Embedded value

The EV of the covered business is the discounted value of the projected future after-tax shareholder earnings arising from covered business in force at the valuation date, plus the adjusted net worth.

Adjusted net worth (ANW) represents the excess of the market value of assets over liabilities. The actuarial liabilities are determined in accordance with IFRS and the Actuarial Society of South Africa Standard of Actuarial Practice (SAP) 104.

Required capital

Required capital is the market value of assets that is required to support the covered business over and above that required to back the statutory liabilities, the distribution of which to shareholders is restricted. The following capital measures are considered acceptable when determining the required capital:

- Economic capital
- Regulatory capital

For the company the required capital has been set equal to the economic capital.

Economic capital for the covered business is based on the company's own internal assessment of risk inherent in the business, consistent with a 99,93% confidence interval over a one-year time horizon.

Free surplus

Free surplus is the excess of market value of assets over the statutory liabilities and the required capital. It is the assets that are available for distribution to shareholders.

Value of in-force business

The value of in-force business consists of:

- present value of future profits; less
- frictional costs of required capital; less
- cost of non-hedgeable risks.

Projected liabilities and cashflows are calculated net of outward reinsurance.

Present value of future profits

Present value of future profits (PVFP) is calculated as the discounted value of future distributable earnings (taking account of local statutory reserving requirements) that are expected to emerge from the in-force covered business, less internal charges to the group. Cashflows are determined on a best-estimate basis where assumed earned rates of return and discount rates are equal to risk-free rates. PVFP excludes future new business.

Frictional costs

Due to the requirement to hold capital in addition to statutory liabilities (ie required capital), there is a cost to shareholders since this capital is locked in the company. Frictional cost is the cost in respect of the taxation on the investment return and investment costs on the assets backing the required capital.

Cost of non-hedgeable risk

Non-hedgeable risks are those risks that cannot be hedged in deep and liquid markets (eg mortality, morbidity, persistency, expense, reinsurance and operational risk). These risks are managed by holding risk capital. Cost of non-hedgeable risk is calculated using a cost of capital approach, ie it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements until the liabilities have run off. A weighted-average cost of capital rate of 2,0% has been applied to residual symmetric and asymmetric non-hedgeable capital.

EMBEDDED-VALUE REPORT OF NEDGROUP LIFE ASSURANCE COMPANY LIMITED (NEDGROUP LIFE) continued

Value of new business

Value of new business (VNB) is a measure of the value added to a company as a result of writing new business in the current reporting period. VNB is calculated as the discounted value, at the point of sale, of projected after-tax shareholder profit from covered new business commenced during the reporting period net of frictional costs and the CNHR associated with writing new business, using assumptions at the end of the reporting period.

APE and PVNBP margins

APE is the annual premium for regular premium sales plus 10% of single-premium sales sold during the reporting period. The APE margin is defined as the ratio of VNB to APE.

PVNBP is the present value of future premium and is calculated using the same assumptions as those used to calculate the after-tax shareholder profits on new business, and is consistent with the calculation of VNB where both are net of reinsurance. The PVNBP margin is defined as the ratio of VNB to PVNBP.

Assumptions

Non-economic assumptions

The EV and VNB were determined using best-estimate assumptions regarding future mortality, morbidity, persistency rates and expenses. These best estimate assumptions are determined using past, current and expected future experience.

Economic assumptions

Economic assumptions for best-estimate cashflows are determined such that projected cashflows are valued in line with the prices of similar cashflows traded in the capital markets. Investment return and discounting assumptions are based on the SA swap yield curve. The swap curve is sourced from a third-party market-consistent asset model. Expense inflation assumptions are determined considering a spread to the swap yield curve.

The risk-free spot yields and expense inflation at various terms are provided in the tables below:

	2019	2018
	%	%
Risk-free yields		
Term (years)		
One	6,8	7,4
Five	7,2	8,9
10	8,1	9,8
	2019	2018
	%	%
Expense inflation		
Term (years)		
One	4,3	5,1
Five	4,5	6,0
10	5,2	6,4

The liabilities were discounted based on the BEASSA yield curve.

Sensitivities

The table below shows the sensitivities of VNB, PVFP and EV at 31 December to changes in key assumptions where both the reserving and EV assumptions were changed.

2019

Rm	PVFP	EV	VNB
Central assumptions	1 843	3 188	421
Economic assumptions increase by 1%	1 794	3 214	407
Economic assumptions decrease by 1%	1 893	3 164	433
Equity and property market value decrease by 10%	1 842	3 156	421
Voluntary discontinuance rates decrease by 10%	1 981	3 295	466
Mortality and morbidity rates decrease by 5%	1 887	3 256	431
Maintenance expenses decrease by 10%, with no corresponding change in expense charges	1 870	3 256	435
Acquisition expenses decrease by 10%	1 843	3 188	434

2018

Rm	PVFP	EV	VNB
Central assumptions	1 674	2 786	380
Economic assumptions increase by 1%	1 615	2 748	381
Economic assumptions decrease by 1%	1 670	2 758	399
Equity and property market value decrease by 10%	1 674	2 760	390
Voluntary discontinuance rates decrease by 10%	1 790	2 879	429
Mortality and morbidity rates decrease by 5%	1 724	2 854	402
Maintenance expenses decrease by 10%, with no corresponding change in expense charges	1 704	2 846	423
Acquisition expenses decrease by 10%	1 674	2 786	390

Review by independent actuaries

Independent consulting actuaries have reviewed the results, methodology and assumptions underlying the calculation of the EV and the VNB at 31 December 2019. Based on the information supplied to them by Nedgroup Life, they are satisfied that the methodology and assumptions have been determined in accordance with generally accepted actuarial principles. Disclosure requirements follow Advisory Practice Note APNI07 (version 8) – Embedded Value Reporting, except that the analysis of EV earnings is not split between ANW, PVFP and FC and CNHR. Disclosure of the above would provide more insight into the results.



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 2019 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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