Absa Group Limited

Annual consolidated and separate financial statements for the reporting period ended 31 December 2021

Contents

Absa Group Limited
(1986/003934/06)

Annual consolidated and separate financial statements for the reporting period ended 31 December 2021

These audited annual consolidated and separate financial statements ('financial statements') were prepared by Absa Group Financial Reporting under the direction and supervision of the Interim Financial Director, P Modise CA(SA).

Directors' approval

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' responsibility statement set out on page 12, is made to distinguish, for the benefit of shareholders, the respective responsibilities of the directors and of the auditors in relation to the consolidated and separate financial statements of Absa Group Limited and its subsidiaries (the Group).

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

To enable the directors to meet these responsibilities:

- All directors and senior management develop an environment whereby all directors and employees endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.
- The Board sets standards and management implements systems of internal control and accounting as well as information systems aimed at providing reasonable assurance that both on- and off-statements of financial position are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems, and discipline are applied and managed within predetermined procedures and constraints.
- The Group's Internal Audit and Compliance functions, which operate unimpeded and independently from operational management and have unrestricted access to the GACC, appraise, evaluate and, when necessary, recommend improvements to the systems of internal control, accounting and compliance practices, based on plans that, combined with the efforts of the Group's risk functions, take cognisance of the relative degrees of risk of each function or aspect of the business.
- The GACC, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure. The GACC is satisfied that the external auditors (EY and KPMG) are independent.
- The Board approves the Enterprise Risk Management Framework (ERMF) through recommendation by the Group Risk Capital Management Committee (GRCMC).
- The Board, through the GACC which is assisted by the GRCMC in respect of risk matters, reviewed the compliance practices and procedures to enable the Board to discharge their regulatory responsibilities, by overseeing the plan and progress management makes in improving compliance in respect of Know Your Customer, Anti-Money Laundering and Sanctions requirements; and by considering that the Group's systems and processes appropriately reflect the current legal and regulatory environment, refer to note 51.
- The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

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

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

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

It is the responsibility of the independent external auditors to report on the financial statements. Their report to the shareholders of the Group and the Company is set out on page 12 to 16 of this report.

The Directors' Report on pages 8 to 11 and the annual financial statements of the Group and the Company were approved by the Board of directors and are signed on their behalf by:

W E Lucas-Bull
Group Chairman

J P Quinn
Interim Group Chief Executive

Johannesburg
13 March 2022

Chief Executive Officer and Chief Financial Officer responsibility statement

for the year ended 31 December 2021

The directors, whose names are stated below, hereby confirm that:

(a) the annual financial statements set out on pages 17 to 236, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;

(b) no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;

(c) internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and

(d) the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the Audit Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

J P Quinn
Interim Group Chief Executive

P Modise
Interim Group Financial Director

Johannesburg
13 March 2022

Group Audit and Compliance Committee report

Introduction

The Group Audit and Compliance Committee (GACC) is pleased to present its report for the 2021 financial year. The report has been prepared based on the requirements of the Companies Act, No 71 of 2008 (as amended) (the Companies Act), the King IV Report on Corporate Governance for South Africa 2016 (King IV), the JSE Listings Requirements and other applicable regulatory requirements.

This report is intended to provide details on how the Committee satisfied its various statutory obligations, as well as on the key audit matters considered during the reporting period.

Composition and governance

The Committee is composed of independent Non-Executive Directors. The members of the Committee have a breadth of banking, financial, risk and governance expertise as well as commercial acumen that the Committee needs to fulfil its responsibilities. Further information on the membership and composition of the Committee is set out in the Committee's mandate on the Group's website.

The composition of the Committee and the attendance of meetings by its members for the 2021 financial year are set out below:

Member	Meeting attendance
Alex Darko	6/6
Daisy Naidoo	6/6
René van Wyk (appointed as a member on 1 September 2021)	2/2
Swithin Munyantwali	6/6
Tasneem Abdool-Samad *(Chairman)*	6/6

The Committee keeps the Board informed and advises on matters concerning the Group's financial reporting requirements to ensure that the Board is able to exercise oversight of the work carried out by Finance, Risk, Compliance, Internal audit and the external auditors. The Chairman held regular meetings with management (including from Finance, Risk and Compliance), the Chief Internal Auditor (CIA), the Chief Compliance Officer and external auditors to discuss specific issues arising during the year. The CIA and the external auditors have direct access to the Committee, including closed sessions without management being present, on any matter that they regard as relevant to the fulfilment of the Committee's responsibilities. The Committee Secretary regularly met with the Chairman to ensure the Committee fulfilled its governance responsibilities, and to consider input from stakeholders when finalising meeting agendas, tracking progress on actions and Committee priorities.

Role of the Committee

The responsibilities of the Committee include, but are not limited to:

- Monitoring and assessing the integrity of the financial statements, formal announcements, and regulatory information in relation to the Group's financial performance, as well as significant accounting judgements.
- Reviewing the effectiveness of and ensuring that management has appropriate internal controls over financial reporting.
- Reviewing and monitoring the relationship with the external auditors overseeing the firms' and designated audit partners' appointments, tenure, rotation quality and independence.
- Overseeing external audits, including the review and consideration of external audit scope and plans.
- Overseeing the work of Internal Audit and monitoring and assessing the effectiveness, performance, resourcing, independence and standing of the function.
- Ensuring that a combined assurance model is applied to provide a coordinated approach to assurance activities.
- Reviewing significant audit findings and monitoring progress reports on corrective actions required to rectify reported internal control shortcomings.
- Overseeing the Banks Act regulatory audit process.
- Receiving reports on operational, fraud and IT risks as these relate to financial reporting.
- Satisfying itself as to the expertise, resources, and experience of the Financial Director and finance function; the CIA and the Group Head of Compliance.

Control environment and management control approach

The Committee monitored the Group's Control Environment and Management Control Approach (MCA). Management evidenced resilience through its MCA in managing the Group's heightened risk profile in the 'new normal' brought about by the COVID-19 pandemic. The Group's control environment strengthened over the course of the year, with additional and/or enhanced control measures put in place.

- Noteworthy matters for 2021 relate to: Implementation of enhanced controls and continued focus applied for the managing of COVID-19 heightened risks, including Credit, Cyber and Information Security, Financial Crime, Fraud, Model, Payments, People, Supplier and Third-party, and Technology Risks.
- Satisfactory internal audit outcome regarding the prior year delivery of the Risk Data Aggregation and Risk Reporting Programme.
- Embedment of changes to the Risk Target Operating Model and filling of all key Risk roles.
- Embedment of cyclical risk and control assessments of critical processes towards the management of non-critical processes.
- Engagement by the GACC with Absa Regional Operations subsidiary audit committee chairs and related reviews of the Control Environment and MCA on two of the subsidiaries as part of a cyclical review process.
- In conjunction with the Group Risk and Capital Management Committee and/or the Information Technology Committee, monitoring by the GACC of the Group's heightened inherent risk profile in the context of the ongoing impact of COVID-19 and ensured relevant assurance of the most critical risks.
- In conjunction with the Models Committee, monitoring by the GACC of the control and governance process over new credit model development, including changes of the definition of default, the use of macroeconomic variables and the incorporation of the ongoing impact of COVID-19 on forecasts.
- Monitoring of assurance coverage across the three lines of defence over regulatory compliance with the Financial Sector Conduct Authority Conduct Standards for Banks and Financial Advisory and Intermediary Services. This was in conjunction with the Social, Sustainability and Ethics Committee, which oversees conduct risk management and principles relating to Treating Customers Fairly.
- Receiving confirmation from Internal Audit that the Board and Board Committees apply the King IV principles on the roles and responsibilities of the Group's governance forums.
- Confirmation by the GACC that the Finance Function meets the King IV requirements to fulfil financial reporting and control functions.

Group Audit and Compliance Committee report

Combined assurance

The Group promotes the embedment of a consistent and comprehensive Combined Assurance approach that optimises effort, reduces duplication, and drives effective assurance of high-risk areas through the aggregated efforts of assurance providers. The Committee ensures that the Group's combined assurance model adequately addresses the Group's risks and material matters and the Committee:

- Reviewed the Group's continued implementation of its Combined Assurance approach across the three Lines of Defence.
- Approved the Group's Combined Assurance Plan for 2021 and more recently for 2022 and is satisfied that the 2022 plan adequately addresses coverage across the Group's risks, business units, functions, countries, and international representative offices.
- Reviewed the progress of the remediation of overdue issues raised by Second Line of Defence (Group Risk, Group Compliance) and Third Line of Defence (Internal Audit, External Audit) on a quarterly basis.
- Reviewed the Combined Assurance report on the assessments across the three Lines of Defence of the Group's Control Environment and MCA at half-year and year-end.
- Considered the Combined Assurance approach adopted by the Combined Assurance Steering Committee, to address the Internal Financial Controls related attestation and assurance requirements outlined in the Banks Act Regulation 40(4), King IV (requirement on internal financial controls) and the JSE Listings Requirements.
- Accordingly reviewed the control functions' assessment of Banks Act Regulation 40(4) and the Chief Executive Officer/Chief Finance Officer attestations as required by the JSE Listings Requirements, as well as the Internal Audit's Statement on Internal Financial Controls over Financial Reporting, and Internal Audit's Statement on Governance Risk Management and Control Processes.

Technology, cyber and information security

Technology, Cyber and Information Security risks have increased across global industries throughout 2021 and this trend is expected to continue in 2022. During the year the Committee received reports on controls in respect of cyber security, IT systems and controls impacting financial reporting. It has also considered updates on key internal and external audit findings in relation to the IT control environment and IT intangible assets.

External auditors

Following an audit tender in 2020, KPMG Inc was appointed as one of the Group's joint statutory auditors with effect from the 2021 financial year. During the year, the Committee, through regular feedback and enhanced monitoring was comfortable that KPMG's transition was managed effectively as the joint statutory auditor.

The Committee is responsible for assessing the effectiveness, objectivity and independence of the Group's auditors, which were KPMG and EY for the 2021 year. This responsibility was discharged by the Committee during the year at formal meetings, during private meetings with both audit firms and through discussions with Group executives. In addition to the matters noted above, the Committee:

- Ensured that the appointment and the independence of the external auditors were in compliance with the Companies Act, JSE Listings Requirements, and all other regulatory and legal requirements. This included receiving submissions from the external auditors, as part of the suitability assessments of the firm and the designated audit partner. As part of this process, we continued to assess potential regulatory and reputational matters impacting the firms.
- Approved the terms of the audit engagement letter and associated fees, on behalf of the Board.
- Considered the external audit plan to address significant focus areas, which similarly received focus by the Committee and specifically considered the external auditors' findings in this regard.
- Discussed external audit feedback on the Group's critical accounting estimates and judgements, as well as the involvement of specialists from the audit firms in the more complex matters, in particular on expected credit loss (ECL), valuation of complex financial instruments, and assessment of insurance reserves in the current year.
- Updated the non-audit services policy, approved proposed contracts with the external auditors for the provision of non-audit services, and monitored that the non-audit services fees for the year ended 31 December 2021 were permissible and within the thresholds set by the Committee for such engagements.

The Committee considered if any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No 26 of 2005, and determined that there were no such reportable irregularities.

Transition of PwC for 2022

Following an audit tender in 2020, PwC was recommended by the GACC for appointment as joint statutory auditor with effect from the 2022 financial year. This recommendation was supported by the Board in November 2021, subject to regulatory and shareholder approvals. In anticipation of the appointment at the AGM, the Committee monitored PwC's independence specifically with regards to projects undertaken in the Group in the 2021 financial year. As part of its responsibilities, the Committee confirmed the audit firm and designated auditor suitability assessment and accreditation, having regard to submissions provided by the firm and the designated auditor in terms of the JSE Listings Requirements. We continue to assess the potential reputation and regulatory matters impacting the firm.

Internal audit

The Group's Internal Audit (IA) function is a key component in supporting the Committee's work. The GACC monitors the performance of the function throughout the year, with respect to scoping, performing, and reporting the outcomes of its work both to management and the Committee. The Committee held regular meetings with the CIA and members of her senior management team to ensure that the Committee is aware of the current programme of work and any emerging issues. The IA exhibits high levels of professional objectivity in gathering, evaluating, and communicating information, as well as high levels of professional ethics in the conduct of its work.

The Committee reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter.

Group Audit and Compliance Committee report

Significant matters

The Committee has considered the appropriateness of the key audit matters reported in the external audit opinion and considered the significant accounting judgements and estimates relating to the annual financial statements as follows:

Significant matter	How the Committee addressed the matter
Expected credit losses on loans and advances to customers	The measurement of ECL involves significant judgements, particularly under current economic conditions. Despite a general recovery in economic conditions in 2021, there remains an elevated degree of uncertainty over ECL estimation under current conditions, due to macroeconomic, political and epidemiological uncertainties. As part of its monitoring, the Committee considered several reports from management on: • the economic impact of the ongoing COVID-19 pandemic; • the impact of the ongoing uncertain macroeconomic environment; • model changes and model validation; • refresh of the macroeconomic variables and associated weighting; • adjustments made to the modelled output to reflect updated data and known model deficiencies; and • comparisons between actual experience and forecast losses. Having considered and scrutinised the reports, the Committee agreed with management's conclusion that the impairment provision was appropriate. The Committee reviewed closely the refreshed macroeconomic scenarios and the judgement exercised by management in determining post-model adjustments, in particular at the end of the year, the emerging risks associated with the Omicron variant of COVID-19 and the related ongoing economic uncertainty.
Valuation of complex financial instruments	Due to the ongoing volatile market conditions in 2021, management continuously assessed its assumptions in valuing the Group's investment portfolio. As losses were incurred management considered whether fair value adjustments were required under the fair value framework. Management's analysis provided evidence to support the introduction of these adjustments in line with International Financial Reporting Standards (IFRSs). The Committee considered the key valuation metrics and judgements involved in the determination of the fair value of financial instruments. The Committee considered the valuation control framework, valuation metrics, significant year-end judgements and emerging valuation matters and agrees with the judgements applied by management.

Financial, legal, compliance and regulatory reporting requirements

- The Committee received regular reports from the compliance function and reviewed the adequacy of the scope and the effectiveness of the regulatory compliance processes applied. This included the evaluation of the quality of regulatory reporting, the regulatory compliance universe, the scope and the integrity of the regulatory compliance process, the adequacy of internal regulatory compliance systems and processes, and the consideration and remediation of any findings of the internal and external auditors.
- The Committee noted that the Group will continue the protection and responsible use of its customer and employee data, including those held by suppliers and other third parties and was also satisfied that the Group successfully concluded on the authenticated collections project to further reduce debit order abuse.

Annual financial statements and integrated reporting process

The Committee is responsible for reviewing all formal announcements relating to the Group's performance. As part of its review the Committee:

- Evaluated management's application of critical accounting policies and material areas in which significant accounting judgements were applied.
- Focused on compliance with disclosure requirements to ensure these were consistent, appropriate, and acceptable under the relevant financial and governance reporting requirements.
- Recommended to the Board that the financial statements should be prepared on a going concern basis and that there were no material uncertainties that would impact the going concern statement which required disclosure. The Committee notes that forecast capital ratios remained above minimum mandatory requirements and within the Board's target ranges.
- Met with senior management to gain assurance that the processes underlying the compilation of the annual financial statements were appropriate.
- Conducted an in-depth critical review of the annual financial statements and, where necessary, requested amendments to disclosure.
- Confirmed that management had reported on and evidenced the basis on which representations to the external auditors were made.
- Obtained input and assurance from the external auditors and considered the level of and conclusion on the summary of audit differences.
- Reviewed and discussed the integrated report process, and governance and financial information proposed to be included in the integrated report after considering recommendations from the Social, Sustainability and Ethics Committee, the Group Remuneration Committee, the Group Risk and Capital Management Committee and the Directors' Affairs Committee.
- The Committee considered the circumstances that have led to the restatement contained in note 1.21.1 of the consolidated financial statements and has communicated the restatement notification, which is required in accordance with paragraph 3.1 of the JSE Listings Requirements, to the JSE.

The Committee concluded that the processes underlying the preparation of the annual financial statements and the financial information included in the integrated report for the financial year ended 31 December 2021 were appropriate in ensuring that those statements were fair, balanced, and understandable, and recommended these reports to the Board for approval. The Board subsequently approved the annual financial statements.

Group Audit and Compliance Committee report

Internal financial control attestation

In terms of paragraph 3.84(k) of the JSE Listings requirements, the Chief Executive Officer and the Financial Director must make positive statements under their names and signatures in the annual report that:

- The annual financial statements fairly present in all material respects the financial position, financial performance, and cash flows of the issuer in terms of the IFRSs.
- No facts have been omitted or untrue statements made that would make the annual financial statements false or misleading.
- Internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to prepare the financial statements of the issuer effectively.
- The internal financial controls are adequate and effective and can be relied on in compiling the annual financial statements, having fulfilled the role and function within the combined assurance model pursuant to principle 15 of King IV.
- Where the Chief Executive Officer and the Financial Director are not satisfied, they have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal controls and any fraud that involves directors and have taken the necessary action.

The identified deficiencies in design and operating effectiveness of internal financial controls identified via the Group's three lines of defence were reported to the Committee. The Committee considered the identified deficiencies as well as the appropriateness of management's response including remediation, reliance on compensating controls and additional review procedures. The Committee noted the significant assurance process to support the CEO and CFO attestations.

Looking ahead

The Committee will continue to strongly focus on:

- The progress made by management on the various initiatives recommended by the lines of defence and the various commitments given to regulators on issues that they have raised.
- Intensifying its review of the Group's regulatory reporting processes, which is an area of increasing focus for the industry as a whole.
- Ensuring the effective functioning of the Group's financial systems, processes and controls, monitored by an effective combined assurance model.
- Management's response in respect of IFRS and other regulation, which includes, but are not limited to IFRS 17 *Insurance Contracts* and the Basel III reforms.
- Audit quality and independence, with specific emphasis on the transition of PwC as a joint auditor of the Group for the 2022 financial year.

Conclusion

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

The Committee is satisfied that the financial and internal controls are adequate and that no material breakdowns occurred that resulted in material loss to the Group.

The Committee reviewed the Group and separate Company financial statements for the year ended 31 December 2021 and recommended them to the Board for approval on 9 March 2022.

On behalf of the GACC

T Abdool-Samad
Chairman of the GACC

Johannesburg
13 March 2022

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

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 December 2021, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

N R Drutman
Company Secretary

Johannesburg
13 March 2022

Directors' report

General information and nature of activities

The Group, which has a primary listing on the JSE, is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, insurance, financial services and wealth management products and services. The Group operates in 12 African countries and employs 35 267 people. The address of the registered office of the Group is the 7th Floor, Absa Towers West, 15 Troye Street, Johannesburg, 2001.

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

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

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

The consolidated and separate financial statements were approved for issue by the Board Finance Committee, a committee of the Board, on 13 March 2022.

The financial statements present the financial positions, results of operations and cash flows of the Group and the Company for the reporting period ended 31 December 2021.

Group Audit and Compliance Committee (GACC) report

Refer to pages 3 to 6.

Group results

Main business and operations

The Group recorded an increase of 195% in headline earnings to R17 825m (2020: R6 038m) for the reporting period. Headline earnings per share (HEPS) increased by 189% to 2 147.1 cents (2020: 730.9 cents) and diluted HEPS by 189% to 2 143.5 cents (2020: 730.5 cents). Refer to note 41 for the breakdown of headline earnings note per segment.

Some comparative segmental information contained in this set of financial statements has been restated due to business portfolio changes, refer to note 1.21.2 and 55 for further details.

Headline earnings were derived from the following activities:

	Group	
	2021 Rm	2020[1] Rm
Retail and Business Banking	**10 209**	4 239
Corporate and Investment Banking	**7 760**	5 054
Head Office, Treasury and other operations	**622**	(1 328)
Barclays separation	**(766)**	(1 927)
Headline earnings (refer to note 41)	**17 825**	6 038

[1] Numbers have been restated, refer to note 1.21.2.

Directors' report

Details of the members of the Board:

Name	Position as director	Current reporting period appointments and resignations
W E Lucas-Bull	Independent non-executive director, Chairman	
S Moloko	Independent director and chairman designate	Appointed 01 December 2021
T Abdool-Samad	Independent non-executive director	
N S Mjoli-Mncube	Independent non-executive director	
J J Cummins	Independent non-executive director	
F Tonelli	Non-executive director	
A B Darko (Ghanaian/British)	Independent non-executive director	
C Beggs	Independent non-executive director	Retired 04 June 2021
R A Keanly	Independent non-executive director	
D Mminele	Group Chief Executive	Resigned 20 April 2021
P B Matlare	Deputy Group Chief Executive	Passed away 7 March 2021
M S Merson (British)	Independent non-executive director	Resigned 31 January 2022
S J Munyantwali (Ugandan/British)	Independent non-executive director	
D Naidoo	Independent non-executive director	
F Okomo-Okello (Kenyan)	Independent non-executive director	
S M Pityana	Independent non-executive director	Removed 24 November 2021
J P Quinn[1]	Interim Group Chief Executive	Appointed 20 April 2021
P E Modise	Interim Group Chief Financial Director	Appointed 23 April 2021
I Rensburg	Independent non-executive director	
R van Wyk	Independent non-executive director	

Shareholder information

	2021			2020		
	Number of shareholders/ note holders	Number of shares/notes	% holding	Number of shareholders/ note holders	Number of shares/notes	% holding
Public and non-public shareholders						
Ordinary shares						
Public						
Public Investment Corporation (SA)	**1**	**45 863 312**	**5.41**	1	52 865 228	6.24
Other	**30 196**	**657 800 044**	**77.6**	28 577	649 296 953	76.59
Non-public		**144 087 323**	**16.99**		145 588 498	17.17
Barclays Bank PLC (UK)		**126 145 301**	**14.88**		126 145 303	14.88
Treasury shares[2]		**17 465 332**	**2.06**		18 961 880	2.24
Directors and prescribed officers (refer to note 23.3)		**476 690**	**0.05**		481 315	0.05
Total		**847 750 679**	**100**		847 750 679	100

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the issuer) subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority (PA) and shall be instituted at the earlier of (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the Additional Tier 1 notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments. The total number of issued notes at the end of the reporting period was 7 004 000 000 (2020: 7 004 000 000). During the reporting period, the Group issued USD500m Additional Tier 1 capital notes which are classified as Borrowed Funds. Refer to note 22.

[1] Jason Quinn was the Group Financial Director since 1 September 2016 and was appointed as Interim Group Chief Executive Officer on 20 April 2021.

[2] The Absa Group Limited Share Incentive Trust, Absa Life Limited and Absa Capital Securities Proprietary Limited holds treasury shares of **1 485 177** (2020: 2 981 725). In addition, Absa Empowerment Trust holds treasury shares of **15 980 155** (2020: 15 980 155) which is an independent empowerment trust whose subsidiary owns Absa Group Limited shares to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure.

Directors' report

Directors' and officers' personal financial interests in contracts

Transactions with directors are entered into in the normal course of business under terms that are no more favourable than those arranged with third parties.

Executive directors are entitled to Absa Group ordinary shares awards, the details of which are included in the directors' and prescribed officers' remuneration note 63.

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

Directors' and prescribed officers' emoluments

The emoluments and services of directors and prescribed officers are determined by the Group Remuneration Committee (Remco) as disclosed in the directors' and prescribed officers' remuneration note 63.

Subsidiaries, associates and joint ventures

The interests in subsidiaries, associates and joint ventures are set out in note 48 to the consolidated financial statements.

Acquisitions and disposals

Absa and Sanlam have agreed a transaction that will see Absa's investment unit becoming part of one of the largest black-owned asset management companies in South Africa. The transaction will see Absa exchange its investment management businesses for a stake of up to 17.5% in Sanlam Investment Holdings Proprietary Limited (SIH), which is a larger asset management business and with African Rainbow Capital Financial Services as its empowerment partner. The enlarged SIH business, which will continue to operate under the Sanlam brand, will have assets under management, administration and advice in excess of R1 trillion. Total assets of R4 196m and total liabilities of R3 465m were reclassified into the non-current assets and liabilities held for sale category relating to the sale targeted for conclusion before the end of 2022. The assets and liabilities transferred into non-current asset and liabilities for sale comprised mainly investments linked to investment contracts, cash and bank balances, investment securities, trade receivables, goodwill and intangible assets and liabilities linked to investment contracts.

Refer to notes 6, 10 and 54 for additional information on the acquisitions and disposals of businesses and other significant assets.

Acquisitions during the current reporting period

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

Acquisitions during the prior reporting period

Effective 1 March 2020, the Group acquired a 100% interest in the assets and liabilities of Societe Generale's South African custody and trustee business. The acquisition was accounted for under IFRS 3 *Business Combinations*. The Group undertook the acquisition in order to be able to offer customers custody and trustee capabilities. The fair value of the net assets acquired exceeded the fair value of the consideration payable to Societe Generale of Rnil, and consequently, following the requirements of IFRS 3, a gain was recognised in connection with the transaction.

In accordance with the Group's accounting policy on Structured Entities, the extent of its holdings in unit trust funds are assessed on a continuous basis. The effective holding in the Absa Balanced Fund, a unit trust managed by the Group, increased to the extent that the Group has a right to a significant component of the variable returns from the fund; therefore warranting consolidation. The Group's investment in the Absa Balanced Fund was previously disclosed as part of 'Investments linked to investment contracts'. At the time of consolidation of the fund, the assets and liabilities of the fund (before eliminating assets already owned by the Group) amounted to R1 593m each; with a net asset value of Rnil. After eliminating assets already owned by the Group, the attributable fair value of the net assets acquired is R530m, fair value of investment at point of consolidation is R530m, and following the requirements of IFRS 3, no gain nor goodwill was recognised in connection with the increased holding acquired.

Disposals during the current reporting period

Total assets of R1 020m and total liabilities of R289m were reclassified into the non-current assets and liabilities held for sale category relating to the sale of a component of the business, targeted for conclusion in the first half of 2022. The assets and liabilities transferred into non-current asset and liabilities for sale comprised mainly cash and bank balances, trade receivables and intangible assets. In addition, the Group disposed of Card Issuing and Personal loan books on 30 June 2021. The Group received a cash consideration of R94m on disposal.

Disposals during the prior reporting period

The Group fully disposed of the Edcon loan book in South Africa and Namibia on 1 February 2020. The Group received a cash consideration of R3 740m on disposal.

The Group fully disposed of First Assurance Tanzania on 30 November 2020 for a cash consideration of Rnil.

COVID-19 response

The Board continues to monitor the impact of the COVID-19 pandemic on our customers, clients and stakeholders and employees as well as ensuring that the Group remains financially and operationally secure. The impact of COVID-19 on the financial results of the Group has been included in the 'Impact of COVID-19' section.

Dividends

- On 16 August 2021, an interim dividend of 310 cents per ordinary share was declared. The dividend was announced on 16 August 2021 to ordinary shareholders registered on Friday, 17 September 2021. The dividend was paid on Monday, 20 September 2021.
- On 13 March 2022, a final dividend of 475 cents per ordinary share was approved. The dividend was announced on 14 March 2022 to ordinary shareholders registered on Friday, 22 April 2022. This dividend is payable on Monday, 25 April 2022.
- Refer to note 44 for Common Equity Tier 1 distribution.

Special resolutions

The following special resolutions were passed by the Company's ordinary shareholders at the AGM held on 04 June 2021, in accordance with the Companies Act:

- **Special resolution number 1 – Remuneration of non-executive directors**

  Resolved to approve the proposed remuneration to be payable to non-executive directors from 1 June 2021 to and including the last day of the month preceding the date of the next AGM thereafter.

- **Special resolution number 2 – General authority to repurchase the Company's securities**

  Resolved that the Company or any subsidiary of the Company may, subject to the Company's MOI, section 48 of the Companies Act, the JSE Listings Requirements and any other stock exchange upon which the securities in the capital of the Company may be quoted or listed from time to time, repurchase ordinary shares issued by the Company, provided that this authority shall be valid only until the date of the next AGM of the Company or for 15 months from the date of the resolution, whichever is the earlier, and may be varied by a special resolution at any general meeting of the Company at any time prior to the AGM.

- **Special resolution number 3 – Financial assistance to a related or inter-related company/corporation**

  Resolved to enable the Company, in terms of a general authority contemplated in section 45(3)(a)(ii) of the Companies Act, for a period of two years from the date of this resolution, to provide direct or indirect financial assistance as regulated by section 45 of the Companies Act to a related or inter-related company/corporation and/or to a member of a related or inter-related company/corporation.

Company Secretary

N R Drutman is the Company Secretary. Her contact details are as follows:

7th Floor, Absa Towers West
15 Troye Street
Johannesburg, 2001

Telephone: (+27 11) 350 5347

Email: groupsec@absa.africa

Auditors

Ernst & Young Inc and KPMG were appointed as joint auditors of the Group for the 2021 reporting period, effective 1 January 2021. Ranesh Hariparsad and Heather Berrange are the designated audit partners. EY's appointment will be terminated upon conclusion of the audit of the 2021 financial year in anticipation of the mandatory audit firm rotation requirements of the Independent Regulatory Board for Auditors (IRBA) and in order to ensure a smooth handover process to the new joint auditors. PricewaterhouseCoopers will replace EY for the 2022 reporting period, effective 1 January 2022.

Authorised and issued share capital

Authorised

The authorised share capital of the Company of **R1 783 548 108** (2020: R1 783 548 108) consists of **891 774 054** (2020: 891 774 054) ordinary shares of R2.00 each.

Issued

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

847 750 679 (2020: 847 750 679) ordinary shares of R2.00 each.

No preference shares are currently in issue by the Company.

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

Independent auditor's report

To the shareholders of Absa Group Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Absa Group Limited (the Group and Company), set out on pages 18 to 236 which comprise:

- the consolidated and company statements of financial position as at 31 December 2021;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended;
- the accounting policies, and
- the notes to the consolidated and company financial statements excluding the sections marked as unaudited in note 50, 60.5.2, 60.7 (concentration risk and solvency position) and Annexure A: Embedded value report for Life Insurance entities.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Absa Group Limited as at 31 December 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 *Auditors' 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 Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Level	Key audit matter	How our audit addressed the key audit matter
Absa Group Limited (consolidated)	**Expected credit losses on loans and advances** The disclosure associated with expected credit losses on loans and advances is set out in the financial statements in the following notes: • Note 1.2.1 – Approach to credit risk and impairment of loans and advances (page 32 – 37) • Note 7 – Loans and advances (page 66) • Note 60.2 – Credit risk (page 158 – 173) • Impact of COVID-19 note (page 17 – 22)	

Level	Key audit matter	How our audit addressed the key audit matter
	We identified the audit of expected credit losses (ECL) on loans and advances to customers as a key audit matter which required significant audit effort and the support of our specialists when considering the following: • The Group's loans and advances to customers are material to the consolidated financial statements; • There is a high degree of estimation uncertainty and significant judgements and assumptions are applied in estimating modelled ECL on loans and advances to customers; • Economic scenario forecasts used to estimate the ECL on loans and advances to customers require subjective management judgement and post-model/management adjustments to reflect the current macroeconomic environment accurately; • Impairments determined on an individual basis for stage 3 loans and advances to customers are material and require significant management judgement in estimating future recoveries; and • The credit risk disclosures incorporate multiple data inputs and management judgement impacting the completeness and accuracy of the disclosures. In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists:	Our audit effort included the following procedures in addressing the key audit matter: We have updated our understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes.
	1. Modelled ECL impairment losses • A significant portion of ECL is calculated on a modelled basis which incorporates observable data, assumptions and estimations. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. • Retail have redeveloped and enhanced their ECL models in the current year. • Significant increase in credit risk (SICR) is assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment, and the determination of credit impaired loans and advances to customers, incorporates judgement and estimation by management.	**1. Modelled ECL impairment losses** • With the assistance of our quantitative specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9 *Financial Instruments* and have tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models. • With the assistance of our quantitative specialists we have reperformed the model calculations using assumptions as per the model documentation, and independently reperformed the PD, EAD and LGD parameters, to test the accuracy of the ECL calculations. • We assessed the appropriateness of the Group's significant increase in credit risk (SICR) methodologies and model calibrations and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECL impairments were compared to the Group's ECL impairments per stage and per portfolio. • We tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to information sourced by management from internal systems and external data providers.

Level	Key audit matter	How our audit addressed the key audit matter
	2. Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation • These scenario forecasts are developed by the Group's economics unit and require management judgement, given the uncertain macroeconomic environment, including the ongoing impacts of the COVID-19 pandemic, and the complexity of incorporating these scenario forecasts and probability weightings into the estimation of ECL.	**2. Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation** • We tested the design and implementation and operating effectiveness of controls over the approval of updated macroeconomic forecasts used within the models. • With assistance from our economics specialists, we have assessed the appropriateness of the macroeconomic scenario forecasts and probability weightings by benchmarking these against external evidence and economic data. • With the assistance of our quantitative and economics specialists, we have assessed the appropriateness of economic modelling and the incorporation of macroeconomic forecasts into the models. • We performed independent ECL quantification analyses on economic forecasts and industry stresses, which incorporated independently estimated economic impacts as a result of the COVID-19 pandemic, to assess the reasonability of the macroeconomic management adjustments.
	3. Post-model management adjustments • Where the Group's ECL models are not fully calibrated to cater for the impact of the current levels of economic volatility and complexity, including the impact of COVID-19, management adjustments are applied. • Management adjustments were used within Retail and Relationship Banking on model outputs not catering for residual portfolio risk. • Within CIB, modelled ECL was adjusted for the impacts of COVID-19 by applying out of model adjustments catering for increased risk of default and reduced collateral values across all stage 1 and stage 2 loans. Further adjustments reflecting increased risk of loss were applied to those industries most impacted by the economic effects of COVID-19. • These adjustments are subject to a high degree of subjective management judgement and bias.	**3. Post-model management adjustments** • We reperformed a sample of management adjustments to test their accuracy and assessed the appropriateness of the assumptions and inputs used where models are not fully calibrated for current market volatility. • We have assessed management's governance processes over the management adjustments. • Using our understanding of the elements in the macroeconomic information adjustments and applying our own independent data, we assessed management's rationale for the macroeconomic information adjustments. • Where there was a range of uncertain potential outcomes, we performed independent ECL quantifications over the range of possible outcomes, and compared these results against management's estimates.
	4. Stage 3 ECL impairments assessed on an individual basis • A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Relationship Banking and CIB portfolios. Significant judgements, estimates and assumptions are applied by management to: ◦ Determine if the loans and advances are credit impaired; ◦ Evaluate the valuation and recoverability of collateral; ◦ Determine the expected future cash flows to be collected; and ◦ Estimate the timing of the future cash flows.	**4. Stage 3 ECL impairments assessed on an individual basis** • We tested management's processes and key controls over judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments. • Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We have performed the following for a sample of stage 3 exposures: ◦ Where exposures are collateralised, we tested the Group's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. ◦ Where future cash flows are estimated based on the loan counterparty's enterprise value, we have tested these valuations with reference to available market information and counterparty specific information.
	5. Disclosures related to credit risk • Credit risk disclosures are significant as they rely on material data inputs and explain the management judgement, estimates and assumptions used in determining the ECL, including management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the economic conditions, it required significant audit effort to assess the reasonability thereof.	**5. Disclosures related to credit risk** • We tested the design and implementation and operating effectiveness of controls over the credit risk financial reporting process over note 60.2 presented in the financial statements. • We evaluated whether the credit risk disclosures are consistent with the ECL information tested which included the ECL data, models, estimates, management adjustments and macroeconomic forecasts.

Level	Key audit matter	How our audit addressed the key audit matter
Absa Group Limited (consolidated)	**Valuation of complex financial instruments** The disclosure associated with the valuation of complex financial instruments is set out in the consolidated financial statements in the following notes: • Note 1.2.3 – Fair value measurement (page 38 – 41) • Note 58 – Fair value disclosures (page 146 – 154)	
	Complex financial instruments include unlisted equity investments, loans and advances at fair value, investment securities, trading portfolio assets and liabilities, including relevant valuation adjustments. We have identified the valuation of complex financial instruments as a key audit matter which required significant audit effort and the support of our valuation specialists as it requires significant management judgement relating to the application of sophisticated valuation methodologies and models, key assumptions and inputs to estimate the payoff profile and fair value of the respective financial instruments, including the related fair value disclosures. Significant judgement is required concerning unobservable inputs, specifically for level 3 financial instruments measured at fair value for which there are no quoted market prices, and proxy inputs are also illiquid and volatile in nature. These judgements relate to the counterparty valuation adjustments and funding valuation adjustments. These inputs depend on various sources of external and internal data and the use of sophisticated modelling techniques. Valuation disclosures are significant as they rely on material inputs, valuation techniques, assumptions and management judgement.	Our audit procedures included the following procedures, which were performed with the assistance of our valuation specialists: • We obtained an understanding, evaluated the design and implementation, and tested the operating effectiveness of key controls identified in the valuation process, such as model governance and validation, oversight of valuation inputs and assumptions applied throughout the independent price verification process and market risk monitoring. • We tested the IT general controls, including change management controls, and application controls relating to the IT systems that support the valuation of complex instruments. • We assessed the appropriateness of valuation methodologies and the reasonableness of valuation models applied with the assistance of our valuation specialists. This was done by reperforming the valuation for a sample of complex financial instruments using independent models. • For both observable and unobservable valuation inputs, we used our valuation specialists to assess the reasonability of the valuation inputs to independent market data. In cases where independent market data was not available, we used proxy data to evaluate the reasonableness of inputs and assumptions used. • For unlisted equity instruments, we engaged our valuation specialists to perform independent calculations and assessed against management assumptions and judgements used. • Where management used external independent appraisers to value unobservable inputs in the unlisted equity portfolios, we evaluated their competence, independence and experience with reference to their qualifications and industry experience. • We assessed the appropriateness of the level 3 fair value disclosures with reference to the requirements of IFRS 13 *Fair Value Measurement* by considering the judgement in the key valuation inputs and assumptions.

Other matter

The consolidated and company financial statements of Absa Group Limited for the year ended 31 December 2021 were audited by the incumbent auditor who is one of the joint auditors in the current year. The sole auditor for the prior year expressed an unmodified audit opinion on those financial statements on 13 March 2022.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled '*Absa Group Limited, Annual consolidated and separate financial statements for the reporting period ended 31 December 2021*' which includes the Company Secretary's certificate to the shareholders of Absa Group Limited, Group Audit and Compliance Committee report and the Directors' report as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report 2021 which is expected to be made available to us after that date. The other information also includes the sections marked as unaudited in the annual consolidated and separate financial statements and described in our Opinion paragraph above. 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 and will 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 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.

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

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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's 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 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 or 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, actions taken to eliminate threats or safeguards applied.

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 Ernst & Young Inc. and KPMG Inc. have been the joint auditors of Absa Group Limited for 1 year. Ernst & Young have been the auditors of Absa Group Limited for 27 years and the sole auditor for 3 years. KPMG Inc was previously the joint auditor for the year ended 31 December 2017.

Ernst & Young Inc.

Director:
Ranesh Hariparsad CA(SA)

Registered Auditor

102 Rivonia Road, Sandton

13 March 2022

KPMG Inc.

Director:
Heather Berrange CA(SA)

Registered Auditor

85 Empire Road, Parktown

13 March 2022

Impact of COVID-19

Impact of COVID-19 on the financial statements

The COVID-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government policies and actions, economic and financial market conditions as well as consumer behaviour. Accounting for the following items on the face of the statement of financial position has been significantly impacted due to the advent of the pandemic, with further information provided below and in the individual notes to the financial statements:

- Loans and advances (refer to note 7)
- Impairment losses (refer to note 35)
- Other impairments (refer to note 37)
- Credit risk (refer to note 60.2)
- Insurance risk (refer to note 60.7)

Impact on the use of estimates, judgements and assumptions

The pandemic has, in turn, had a material impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has necessitated the reassessment of assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results, specifically ECL allowances and the Group's insurance liabilities. Furthermore, the temporary payment relief provided to eligible customers as part of the Group's response created added complexity and there is a risk that actual loss experienced may differ from those suggested by the judgements and assumptions used.

As multiple outbreaks continue to progress and evolve, it is challenging to predict the full extent and duration of their business and economic impact. Refer to the 'Forward-looking assumption, model parameter refreshes and macro-overlays' below for further information on the management adjustments and model outputs.

Other areas of estimates, judgements and assumptions that have been affected by the COVID-19 pandemic include determination of fair values and determination of long-term and short-term insurance liabilities. Further detail on the application of the Group's estimates and judgements is included in note 1.2 and within the 'Other estimates and judgements' section below.

Effect on risk management

The role of risk management is to evaluate, respond and monitor risks in the execution of our strategy. It is essential that business growth plans are supported by an effective Enterprise Risk Management Framework (ERMF). Risk culture is closely aligned to that of the business. The Risk Function retains independence in analysis and decision-making. Please refer to the credit risk note 60.2.

Forward-looking assumptions, model parameter refreshes and macro-overlays

As IFRS 9 models are not calibrated for events such as the COVID-19 pandemic, a revised approach to the estimation of probability of default (PD), loss given default (LGD), identification of a significant increase in credit risk (stage 2 impairment), forward-looking information and the resultant impact thereof on estimated expected credit losses (ECL) was employed and incorporated through the use of management adjustments. The Group formed a multi-dimensional IFRS 9 COVID-19 work stream, with oversight from the Group Credit Impairment Committee, in order to robustly estimate and govern impairments arising during this period.

The outcome of the amended approach resulted in a material macro-overlay being raised in 2020 that reflected the deterioration of forward-looking assumptions and accounted for risks not yet reflected in the data and impairment models.

In the second half of 2021, data used in the calibration of ECL parameter models were refreshed for the first time since the onset of the COVID-19 pandemic. Therefore, some risks previously accounted for through the macro-overlay are now recognised via modelled ECL. Accordingly, a portion of the macro-overlay has been released to the extent that the COVID-19 loss experience is now captured in the models. In addition, the latest macroeconomic forecasts were incorporated directly into the ECL parameter models within the South African retail portfolios resulting in a larger portion of ECL estimation being driven by modelled output.

The table below provides a statement of comprehensive income impact assessment of the aforementioned factors. The macro impact column reflects how changes in forward-looking assumptions impact the Group's impairment charge. In 2021, this is a combination of modelled ECL and movements in the macro-overlay. The model parameter refresh column reflects the impairment impact of refreshing model parameters with current data.

Forward-looking assumptions, model parameter refreshes and macro-overlays (continued)

	2021			2020[1]
	Macro impact Rm	Model parameter refresh Rm	Total increase/ (decrease) in impairment charge Rm	Macro impact Rm
RBB	(2 464)	1 533	(931)	4 094
Home Loans	(271)	154	(117)	950
Vehicle and Asset Finance	(435)	198	(237)	926
Everyday Banking	(1 285)	1 078	(207)	1 177
Card	(643)	569	(74)	628
Personal Loans	(544)	475	(69)	466
Transactions and Deposits	(98)	34	(64)	83
Relationship Banking	(254)	31	(223)	471
RBB ARO	(219)	72	(147)	570
RBB Other	—	—	—	—
CIB	(297)	—	(297)	1 217
CIB South Africa	(201)		(201)	776
CIB ARO	(96)	—	(96)	441
Head Office, Treasury and other operations	(12)	—	(12)	46
Total	(2 773)	1 533	(1 240)	5 357

The macro impact charge of R5 357m in 2020 was driven by the macro-overlay raised in terms of IFRS 9 for the deterioration of forward-looking macroeconomic variables. The net impact on impairment losses that resulted in a release of **R1 240m** in 2021 across all market segments and is due to the improvement in forward-looking assumptions relative to the initial expectations had in 2020 and the consumption of the macro-overlay as anticipated risks have either materialised or dissipated over time.

The Group remains well provisioned with performing book coverage well above pre-COVID-19 levels.

	2021 %	2020 %	2019 %
Home Loans	**0.56**	0.53	0.24
Vehicle and Asset Finance	**2.16**	2.49	1.51
Everyday Banking	**7.51**	9.41	6.38
Relationship Banking	**1.30**	1.69	1.13
RBB ARO	**3.50**	3.89	2.41
CIB South Africa	**0.55**	0.69	0.36
CIB ARO	**1.36**	1.71	0.86
Total	**1.46**	1.72	1.07

Payment relief measures

In 2020, the Group implemented various payment relief programmes across market segments. Directive 3 of 2020 (D3/2020) was issued by the South African Reserve Bank to provide temporary relief on the minimum capital requirements for banks relating to credit risk, specifically the treatment of restructured credit exposures related to COVID-19. During the current year, the Group discontinued the application of D3/2020 and applied the Group's existing credit policies to customers and clients that remained with COVID-19-related concessions and where new relief requests were received.

However, in order to ensure heightened credit monitoring, customers who previously received payment relief remain classified as being in relief until settlement or derecognition of the loans. The table below provides more detail on loans and advances where payment relief was historically provided to customers:

[1] These numbers have been restated, refer to 1.21.1.

Payment relief measures (continued)

	2021						
	Gross loans and advances to customers Rm	Gross carrying amount of payment relief Rm	Percentage of portfolio %	In arrears[1] %	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm
RBB	654 712	137 371	20.98	13.00	106 275	17 184	13 912
Home Loans	277 414	74 251	26.77	8.42	61 808	7 096	5 347
Vehicle and Asset Finance	104 093	18 100	17.39	17.71	12 210	3 346	2 544
Everyday Banking	72 953	13 410	18.38	26.81	8 034	1 888	3 488
Card	46 779	9 425	20.15	23.55	5 998	1 158	2 269
Personal Loans	22 571	3 958	17.54	34.44	2 026	721	1 211
Transactions and Deposits	3 603	27	0.75	44.53	10	9	8
Relationship Banking	130 948	21 949	16.76	6.41	18 695	2 407	847
RBB ARO	69 251	9 661	13.95	35.23	5 528	2 447	1 686
RBB Other	53	—	—	—	—	—	—
CIB	403 616	49 293	12.21	9.17	35 826	10 217	3 250
CIB South Africa	341 008	43 453	12.74	3.02	33 946	8 194	1 313
CIB ARO	62 608	5 840	9.33	54.90	1 880	2 023	1 937
Head Office, Treasury and other operations	416	—	—	—	—	—	—
Total	1 058 744	186 664	17.63	11.99	142 101	27 401	17 162

	2020						
	Gross loans and advances to customers Rm	Gross carrying amount of payment relief Rm	Percentage of portfolio %	In arrears[1] %	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm
RBB[2]	610 761	164 145	26.88	8.70	130 645	26 123	7 377
Home Loans	255 130	84 492	33.12	5.54	71 484	10 305	2 703
Vehicle and Asset Finance	94 876	25 892	27.29	11.99	17 922	5 907	2 063
Everyday Banking	73 731	16 492	22.37	20.68	10 215	4 482	1 795
Card	45 874	9 832	21.43	16.50	6 132	2 833	867
Personal Loans	23 785	6 607	27.78	26.70	4 070	1 629	908
Transactions and Deposits	4 072	53	1.30	45.28	13	20	20
Relationship Banking[2]	127 051	24 782	19.51	6.42	21 101	3 166	515
RBB ARO	59 920	12 487	20.84	11.96	9 923	2 263	301
RBB Other	53	—	—	—	—	—	—
CIB[2,3]	374 186	54 436	14.55	4.70	41 762	11 021	1 653
CIB South Africa[2,3]	319 041	39 793	12.47	2.60	29 460	9 300	1 033
CIB ARO	55 145	14 643	26.55	10.43	12 302	1 721	620
Head Office, Treasury and other operations	612	—	—	—	—	—	—
Total[2,3]	985 559	218 581	22.18	7.70	172 407	37 144	9 030

- The relief population, 'Gross carrying amount of payment relief' above, is a finite list of accounts which continue to amortise. Distressed customer accounts amortise at a slower pace than the performing population, and therefore a negative selection of accounts remain.
- The increase in stage 3 distribution across the Retail portfolios is driven by increased delinquencies and higher defaults following the expiry of payment relief.
- Within CIB requests for moratorium extensions, mainly emanating from the Tourism sector, triggered distressed restructures in terms of the Group's Distressed Assets Policy.

[1] This relates to accounts that are 30 days past due as a percentage of the gross carrying amount of payment relief.
[2] These numbers have been restated, refer to note 1.21.2.
[3] These numbers have been restated, refer to note 1.21.1.

Impact of COVID-19

Government Guaranteed Loan Scheme

In addition to the above, National Treasury, the South African Reserve Bank (SARB) and commercial banks created a R100bn guaranteed loan scheme to assist businesses. The scheme specifies client eligibility requirements, restrictions on the use of loan proceeds and standardised loan terms. Loans have a repayment holiday of up to 12 months and thereafter interest and capital are required to be paid over 60 months. The SARB provides the Group with a special-purpose funding facility and partial credit guarantee. A portion of the interest levied on client loans is paid to the SARB. This interest accumulates in reserve accounts and will be used to offset losses on client loans. Once the reserve accounts are exhausted, the Group will incur losses of up to 6% of the total notional lent under the scheme. The SARB guarantees all losses in excess of the 6% threshold. When the scheme ends, the SARB will be entitled to withdraw the balances, if any, then remaining in the reserve accounts. As at 31 December 2021, the Group granted **R2 602m** (2020: R2 331m) of loans under the scheme, with an outstanding balance of **R2 248m** (2020: R2 179m).

Sensitivity of expected credit losses

For the purposes of the Group's actual weighting of its economic scenarios, a 40% probability weighting is applied to the baseline scenario; with a 30% probability weighting applied to both the upside and downside scenarios. However, given the level of uncertainty required in the determination of ECL, the Group has conducted a sensitivity analysis in order to indicate the impact on the ECL when assigning a probability weighting of 100% to each macroeconomic variable scenario. The analysis only reflects the impact of changing the probability assigned to each scenario to 100% and does not include management adjustments required to provide a more appropriate assessment of risk.

	2021	
	Rm	**% change**
ECL allowance on stage 1 and stage 2 loans and advances	**13 996**	—
Baseline	**13 752**	**(2)**
Upside	**13 722**	**(2)**
Downside	**14 444**	**3**

	2020	
	Rm	% change
ECL allowance on stage 1 and stage 2 loans and advances	15 451	—
Baseline	15 268	(1)
Upside	14 050	(9)
Downside	17 085	11

In addition, as at 31 December 2021, the Group assessed what the impact on expected credit losses would be, if 5% of the gross carrying amount of loans and advances to customers in stage 1 experience a SICR and move to stage 2. The ECL changes below include the effect on undrawn committed facilities and guarantees which are reflected as 'provisions' in the statement of financial position. This impact has been presented below:

	2021	
	Stage 2	
	Increase in gross carrying amount Rm	**Increase in expected credit loss Rm**
RBB	**27 154**	**2 628**
CIB	**13 234**	**180**

	2020	
	Stage 2	
	Increase in gross carrying amount Rm	Increase in expected credit loss Rm
RBB	24 424	2 591
CIB[1]	12 367	134

[1] These numbers have been restated, refer to 1.21.1

Impact of COVID-19

Single name impairments

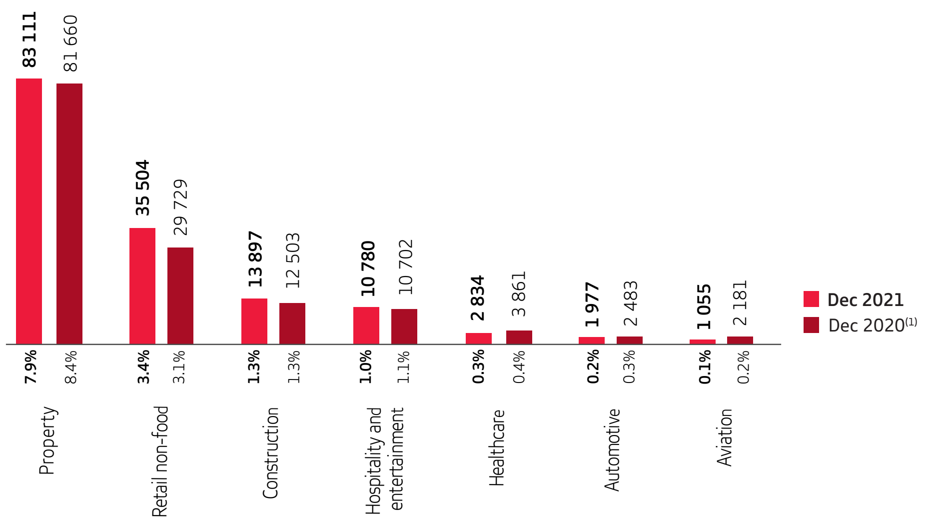
Impairment losses have been adversely impacted by increased level of risk for single name wholesale exposures that are currently categorised as stage 3. The Group continuously monitors these exposures through the Group Distressed Assets Committee to ensure any potential risk is appropriately identified, mitigated, and/or adequately provided for. As at 31 December 2021 the following impairment losses were raised for single name exposures:

	2021 Rm	2020 Rm
RBB	**1 165**	617
Relationship Banking	**732**	287
Business Bank ARO	**433**	330
CIB	**1 206**	2 117
CIB South Africa	**1 005**	1 040
CIB ARO	**201**	1 077
	2 371	2 734

Wholesale lending in key COVID-19 impacted industries

The graph below provides a view of the Group's wholesale exposure (across CIB, Relationship Banking and ARO Business Banking), to industries that have been significantly impacted by the COVID-19 pandemic:

Concentration risk exposures (Rm and % of total loans)



Insurance risk

A significant amount of uncertainty remains with the COVID-19 pandemic with regards to the duration and impact of further waves, its long-term effects on mortality and morbidity, the emergence of new variants and the pace and effectiveness of the vaccine rollout programme. In response, a measured approach has been taken in the setting of assumptions used in the determination of policyholder liabilities. This approach is supported by continuous monitoring of actual claims experience, national statistics on infections, deaths and vaccinations, relevant research and guidance from external actuarial advisors, reinsurers, and external auditors. This has resulted in a more comprehensive understanding of the risk drivers associated with the spread of the virus and its associated impact on mortality and morbidity rates and refinements being made to the approach to setting provisions.

COVID-19 short-term provisions were increased as at 30 June 2021 to R846m, with R836m in South Africa and R10m in ARO, to allow for the impact of the third and a fourth wave of the pandemic on our mortality experience. Claims experience driven by the third wave peaked in August 2021 with excess claims reported remaining significantly above pre-COVID-19 levels whilst tracking marginally below the assumptions underlying the provisions. Provision releases amounting to R701m were made in the second half of the year based on how claims experience emerged relative to our assumptions and forward-looking expectations of further waves.

The fourth wave of COVID-19 infections in South Africa started towards the end of the last quarter of 2021 driven by the emergence of the Omicron variant with a progression in daily average infections that was significantly faster than the previous three waves at similar durations. Despite the accelerated trajectory in average daily infections, the fourth wave has had the lowest incidence of hospitalisations and deaths with the level of excess deaths being lower than previous waves to date. Current views on the lower severity of the fourth wave point to a progressively higher level of population immunity in the country compared to the earlier waves driven by prior infections as well as the rate of vaccination.

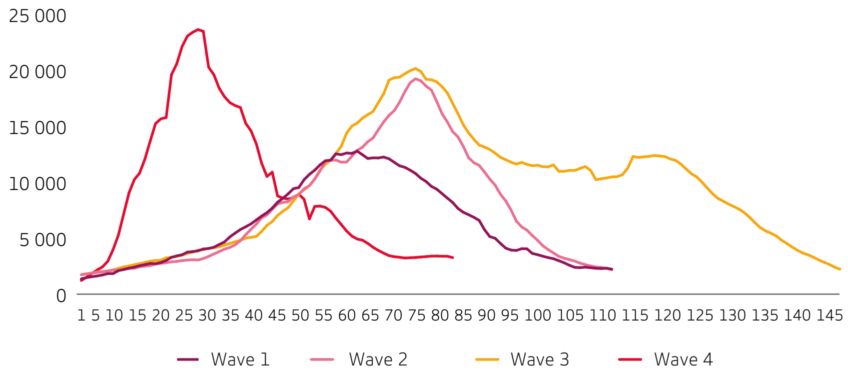
1 The manufacturing and oil and gas sectors have been removed from the industries significantly impacted by the COVID-19 pandemic and the December 2020 figures for construction have been updated to reflect a more accurate attribution for this sector.

Impact of COVID-19

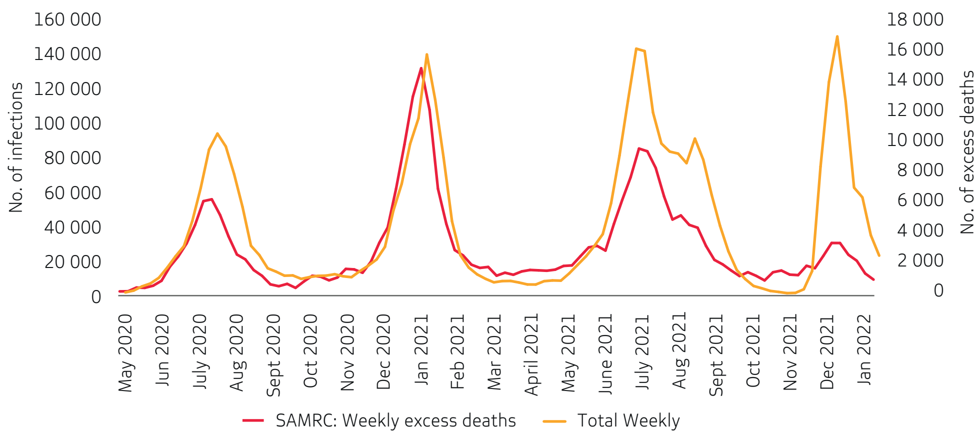
Insurance risk (continued)

National progression

SA daily cases (rolling 7-day average)



Infections vs excess deaths



The short-term COVID-19 provision was reassessed as at 31 December 2021. It took into account the distribution of the actual excess claims paid in respect of wave 3, the difference in the South African Medical Research Council (SAMRC) excess deaths reported for wave 4 relative to excess deaths reported in wave 3 at similar durations, the progression of the vaccine programme and the assumption that a large proportion of the high risk insured population has been vaccinated. Based on these factors, the remaining short-term COVID-19 provisions of R146m were increased by R330m to allow for the impact of a fourth and fifth wave resulting in a provision of R476m as at 31 December 2021, with R423m in the South African entity and R53m in the Absa Regional Operations subsidiaries.

There have been no material COVID-19-related changes in the setting of estimates and assumptions for short-term insurance reserving purposes due to the limited exposure to business interruption claims and the most significant impact of the pandemic being on customer affordability in this business.

Other estimates and judgements

Other estimates and judgements utilised in preparing the Group's financial results have been impacted by the advent of the pandemic. The below provides detail of key estimates and judgements.

Hedge accounting

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from the Group's exposure to interest rate and foreign currency risk. The Group's structural interest rate hedge in South Africa represents its most significant cash flow hedge. An assessment of the Group's hedge accounting position and the applied risk management strategy showed no significant changes to the way the Group manages its risk. At 31 December 2021, the Group recognised a net decrease (after tax) of **R4 051m** (2020: R3 997m net increase) in other comprehensive income relating to its cash flow hedging activities following a reduction in the benchmark interest rates. The net decrease is after a release of **R4 163m** (2020: R3 488m) into the statement of comprehensive income. Furthermore, there has been minimal impact of COVID-19 effects on hedge ineffectiveness recognised during the period ended 31 December 2021.

Consolidated statement of financial position

as at 31 December

	Note	Group December 2021 Rm	Restated December 2020 Rm	Restated 1 January 2020 Rm
Assets				
Cash, cash balances and balances with central banks	2	**66 041**	60 682	52 532
Investment securities	3	**188 898**	153 504	116 747
Trading portfolio assets	4	**203 079**	213 521	158 348
Hedging portfolio assets	4	**5 159**	11 000	3 358
Other assets	5	**24 156**	20 417	30 343
Current tax assets		**665**	865	1 682
Non-current assets held for sale	6	**4 259**	144	3 992
Loans and advances[1]	7	**1 092 257**	1 014 507	976 723
Reinsurance assets	8	**732**	680	886
Investments linked to investment contracts	9	**19 803**	21 273	20 042
Investments in associates and joint ventures	10	**1 593**	1 601	1 648
Investment properties	11	**421**	496	513
Property and equipment	12	**15 970**	17 094	18 620
Goodwill and intangible assets	13	**11 903**	11 050	10 300
Deferred tax assets	14	**5 897**	4 286	3 441
Total assets		**1 640 833**	1 531 120	1 399 175
Liabilities				
Trading portfolio liabilities	15	**72 819**	108 976	59 224
Hedging portfolio liabilities	15	**3 659**	4 868	1 379
Other liabilities	16	**48 409**	33 905	46 355
Provisions	17	**5 396**	3 959	4 064
Current tax liabilities		**1 091**	290	172
Non-current liabilities held for sale	6	**3 465**	—	112
Deposits[1]	18	**1 173 766**	1 048 000	943 716
Debt securities in issue	19	**131 076**	145 740	159 794
Liabilities under investment contracts	20	**21 126**	27 533	29 700
Policyholder liabilities under insurance contracts	21	**5 731**	4 198	4 331
Borrowed funds	22	**26 600**	20 761	21 418
Deferred tax liabilities	14	**386**	587	227
Total liabilities		**1 493 524**	1 398 817	1 270 492
Equity				
Capital and reserves				
Attributable to ordinary equity holders:				
Share capital	23	**1 660**	1 657	1 657
Share premium	23	**10 644**	10 561	10 428
Retained earnings		**110 859**	95 345	95 386
Other reserves	24	**6 700**	8 108	5 807
		129 863	115 671	113 278
Non-controlling interest – ordinary shares		**5 798**	4 984	4 966
Non-controlling interest – preference shares	25.1	**4 644**	4 644	4 644
Other equity – Additional Tier 1 capital[2]	25.2	**7 004**	7 004	5 795
Total equity		**147 309**	132 303	128 683
Total liabilities and equity		**1 640 833**	1 531 120	1 399 175

[1] These numbers have been restated, refer to note 1.21.1.

[2] The Additional Tier 1 instruments were issued on the back of Additional Tier 1 instruments issued by Absa Bank Limited, as subsidiary of the Group and were previously presented as 'Non-controlling interest'. The reference to 'Non-controlling interest' has however been removed and changed to 'Other equity' as these instruments do not meet the definition of 'Non-controlling interest'. The change had no impact on the profit or loss, or net equity position of the Group.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

		Group	
	Note	2021 Rm	2020 Rm
Net interest income		**53 322**	48 857
Interest and similar income	26	**89 495**	93 051
Effective interest income		**87 844**	91 264
Other interest income		**1 651**	1 787
Interest expense and similar charges	27	**(36 173)**	(44 194)
Non-interest income		**32 584**	32 736
Net fee and commission income		**22 074**	21 597
Fee and commission income	28	**25 549**	25 120
Fee and commission expense	28	**(3 475)**	(3 523)
Net insurance premium income	29	**8 778**	8 286
Net claims and benefits incurred on insurance contracts	30	**(5 514)**	(4 205)
Changes in investment and insurance contract liabilities	31	**(2 799)**	(2 262)
Gains and losses from banking and trading activities	32	**6 606**	6 379
Gains and losses from investment activities	33	**2 704**	2 199
Other operating income	34	**735**	742
Total income		**85 906**	81 593
Impairment losses	35	**(8 499)**	(20 569)
Operating income before operating expenditure		**77 407**	61 024
Operating expenses	36	**(48 610)**	(48 111)
Other expenses		**(2 205)**	(2 508)
Other impairments	37	**(420)**	(464)
Indirect taxation	38	**(1 785)**	(2 044)
Share of post-tax results of associates and joint ventures	10.1	**132**	(36)
Operating profit before income tax		**26 724**	10 369
Taxation expense	39	**(7 299)**	(3 156)
Profit for the reporting period		**19 425**	7 213
Profit attributable to:			
Ordinary equity holders		**17 763**	5 880
Non-controlling interest – ordinary shares		**835**	437
Non-controlling interest – preference shares		**242**	307
Other equity – Additional Tier 1 capital[1]		**585**	589
		19 425	7 213
Earnings per share:			
Basic earnings per share (cents)	40.1	**2 139.6**	711.8
Diluted earnings per share (cents)	40.2	**2 136.0**	711.3

[1] The Additional Tier 1 instruments were issued on the back of Additional Tier 1 instruments issued by Absa Bank Limited, as subsidiary of the Group and were previously presented as 'Non-controlling interest'. The reference to 'Non-controlling interest' has however been removed and changed to 'Other equity' as these instruments do not meet the definition of 'Non-controlling interest'. The change had no impact on the profit or loss, or net equity position of the Group.

Consolidated statement of comprehensive income

for the reporting period ended 31 December

	Note	Group 2021 Rm	Group 2020 Rm
Profit for the reporting period		**19 425**	7 213
Other comprehensive income			
Items that will not be reclassified to profit or loss		**83**	(578)
Movement on equity instruments designated at fair value through other comprehensive income (FVOCI)		**(133)**	(5)
Fair value gains		**(172)**	(7)
Deferred tax		**39**	2
Movement on liabilities designated at FVTPL due to changes in own credit risk		**(26)**	(82)
Fair value losses		**(36)**	(116)
Deferred tax		**10**	34
Movement in retirement benefit fund assets and liabilities		**242**	(491)
Increase/(decrease) in retirement benefit surplus	43	**108**	(100)
Decrease/(increase) in retirement benefit deficit	43	**169**	(433)
Deferred tax	14	**(35)**	42
Items that are or may be subsequently reclassified to profit or loss		**(1 298)**	2 646
Movement in foreign currency translation reserve		**2 414**	(808)
Differences in translation of foreign operations		**2 510**	(690)
Release to profit or loss		**(96)**	(118)
Movement in cash flow hedging reserve		**(4 051)**	3 997
Fair value (losses)/gains		**(1 469)**	9 034
Amounts transferred within other comprehensive income		**6**	5
Amount removed from other comprehensive income and recognised in profit or loss	56.7.2	**(4 163)**	(3 488)
Deferred tax	14	**1 575**	(1 554)
Movement in fair value of debt instruments measured at FVOCI		**339**	(543)
Fair value gains/(losses)		**691**	(773)
Release to profit or loss	32	**(120)**	(32)
Deferred tax	14	**(232)**	262
Total comprehensive income for the reporting period		**18 210**	9 281
Total comprehensive income attributable to:			
Ordinary equity holders		**16 376**	7 877
Non-controlling interest – ordinary shares		**1 007**	508
Non-controlling interest – preference shares		**242**	307
Other equity – Additional Tier 1 capital[1]		**585**	589
		18 210	9 281

[1] The Additional Tier 1 instruments were issued on the back of Additional Tier 1 instruments issued by Absa Bank Limited, as subsidiary of the Group and were previously presented as 'Non-controlling interest'. The reference to 'Non-controlling interest' has however been removed and changed to 'Other equity' as these instruments do not meet the definition of 'Non-controlling interest'. The change had no impact on the profit or loss, or net equity position of the Group.

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the end of the previous reporting period	828 789	1 657	10 561	95 345	8 108	1 181
Total comprehensive income	—	—	—	17 858	(1 482)	—
Profit for the period	—	—	—	17 763	—	—
Other comprehensive income	—	—	—	95	(1 482)	—
Dividends paid during the reporting period	—	—	—	(2 573)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(280)	7	—	—
Elimination of the movement in treasury shares held by Group entities	1 496	3	83	—	—	—
Movement in share-based payment reserve	—	—	280	—	296	—
Transfer from share-based payment reserve	—	—	280	—	(280)	—
Value of employee services	—	—	—	—	506	—
Deferred tax	—	—	—	—	70	—
Movement in general credit risk reserve	—	—	—	356	(356)	(356)
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(17)	17	—
Share of post-tax results of associates and joint ventures	—	—	—	(132)	132	—
Disposal of associates and joint ventures[2]	—	—	—	15	(15)	—
Balance at the end of the reporting period	830 285	1 660	10 644	110 859	6 700	825
Note	23	23	23			24

[1] The Additional tier 1 instruments were issued on the back of Additional tier 1 instruments issued by Absa Bank Limited, a subsidiary of the Group. These were previously presented as 'Non-controlling interests'. As they do not meet the definition of non-controlling interests, the description thereof has been adjusted to refer to the instruments as 'Other equity instruments'. This had no impact on the profit and loss, or net equity position of the Group.

[2] On 30 September 2021, the board of directors disposed of integrated Processing Solutions, refer to note 54.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2021

Fair value through other compre-hensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Other equity – Tier 1 capital[1] Rm	Total equity Rm
(1 225)	5 313	934	40	383	1 482	115 671	4 984	4 644	7 004	132 303
380	(4 051)	2 189	—	—	—	16 376	1 007	242	585	18 210
—	—	—	—	—	—	17 763	835	242	585	19 425
380	(4 051)	2 189	—	—	—	(1 387)	172	—	—	(1 215)
—	—	—	—	—	—	(2 573)	(193)	(242)	—	(3 008)
—	—	—	—	—	—	—	—	—	(585)	(585)
—	—	—	—	—	—	(273)	—	—	—	(273)
—	—	—	—	—	—	86	—	—	—	86
—	—	—	—	296	—	576	—	—	—	576
—	—	—	—	(280)	—	—	—	—	—	—
—	—	—	—	506	—	506	—	—	—	506
—	—	—	—	70	—	70	—	—	—	70
—	—	—	—	—	—	—	—	—	—	—
—	—	—	17	—	—	—	—	—	—	—
—	—	—	—	—	132	—	—	—	—	—
—	—	—	—	—	(15)	—	—	—	—	—
(845)	1 262	3 123	57	679	1 599	129 863	5 798	4 644	7 004	147 309
24	24	24	24	24	24			25.1	25.2	

Consolidated statement of changes in equity

for the reporting period ended 31 December

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm
Balance at the end of the previous reporting period	828 628	1 657	10 428	95 386	5 807	912
Total comprehensive income	—	—	—	5 293	2 584	—
Profit for the period	—	—	—	5 880	—	—
Other comprehensive income	—	—	—	(587)	2 584	—
Dividends paid during the reporting period	—	—	—	(5 115)	—	—
Distributions paid during the reporting period	—	—	—	—	—	—
Issuance of Additional Tier 1 capital	—	—	—	—	—	—
Purchase of Group shares in respect of equity-settled share-based payment arrangements	—	—	(965)	92	—	—
Elimination of the movement in treasury shares held by Group entities	161	0	133	—	—	—
Movement in share-based payment reserve	—	—	965	—	(543)	—
Transfer from share-based payment reserve	—	—	965	—	(965)	—
Value of employee services	—	—	—	—	409	—
Deferred tax	—	—	—	—	13	—
Movement in general credit risk reserve	—	—	—	(269)	269	269
Movement in foreign insurance subsidiary regulatory reserve	—	—	—	(27)	27	—
Share of post-tax results of associates and joint ventures	—	—	—	36	(36)	—
Disposal of non-controlling interest[2]	—	—	—	—	—	—
Acquisition of non-controlling interest[3]	—	—	—	(51)	—	—
Balance at the end of the reporting period	828 789	1 657	10 561	95 345	8 108	1 181
Note	23	23	23			24

[1] The Additional tier 1 instruments were issued on the back of Additional tier 1 instruments issued by Absa Bank Limited, a subsidiary of the Group. These were previously presented as 'Non-controlling interests'. As they do not meet the definition of non-controlling interests, the description thereof has been adjusted to refer to the instruments as 'Other equity instruments'. This had no impact on the profit and loss, or net equity position of the Group.

[2] On 27 November 2020, Absa Group Limited disposed of First Assurance Tanzania Limited, which was housed in Head Office, Treasury and other operations in South Africa.

[3] On 15 December 2020, Absa Group acquired the minority interest in Instant Life Proprietary Limited, increasing its shareholding to 100%.

Consolidated statement of changes in equity

for the reporting period ended 31 December

Group

2020

Fair value through other comprehensive income reserve Rm	Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share-based payment reserve Rm	Associates and joint ventures reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non-controlling interest – ordinary shares Rm	Non-controlling interest – preference shares Rm	Other equity – Additional Tier 1 capital[1] Rm	Total equity Rm
(628)	1 316	1 750	13	926	1 518	113 278	4 966	4 644	5 795	128 683
(597)	3 997	(816)	—	—	—	7 877	508	307	589	9 281
—	—	—	—	—	—	5 880	437	307	589	7 213
(597)	3 997	(816)	—	—	—	1 997	71	—	—	2 068
—	—	—	—	—	—	(5 115)	(452)	(307)	—	(5 874)
—	—	—	—	—	—	—	—	—	(589)	(589)
—	—	—	—	—	—	—	—	—	1 209	1 209
—	—	—	—	—	—	(873)	—	—	—	(873)
—	—	—	—	—	—	133	—	—	—	133
—	—	—	—	(543)	—	422	—	—	—	422
—	—	—	—	(965)	—	—	—	—	—	—
—	—	—	—	409	—	409	—	—	—	409
—	—	—	—	13	—	13	—	—	—	13
—	—	—	—	—	—	—	—	—	—	—
—	—	—	27	—	—	—	—	—	—	—
—	—	—	—	—	(36)	—	—	—	—	—
—	—	—	—	—	—	—	(14)	—	—	(14)
—	—	—	—	—	—	(51)	(24)	—	—	(75)
(1225)	5 313	934	40	383	1 482	115 671	4 984	4 644	7 004	132 303
24	24	24	24	24	24			25.1	25.2	

Consolidated statement of cash flows

for the reporting period ended 31 December

	Note	Group 2021 Rm	Group 2020 Rm
Cash flow from operating activities			
Profit before tax		26 724	10 368
Adjustments of non-cash items			
Depreciation and amortisation	36	6 025	5 959
Other impairments	37	420	431
Share of post-tax results of associates and joint ventures		(132)	36
Other non-cash items included in profit and before tax		(503)	104
Dividends received from investing activities		(352)	(290)
Cash flow from operating activities before changes in operating assets and liabilities		32 182	16 608
Net decrease/(increase) in trading and hedging portfolio assets		12 653	(58 427)
Net increase in loans and advances		(64 279)	(43 835)
Net (increase)/decrease in other assets		(2 694)	1 033
Net increase in investment securities		(29 209)	(40 286)
Net (decrease)/increase in trading and hedging portfolio liabilities		(37 494)	53 237
Net decrease in insurance and investment contracts		(3 406)	(3 615)
Net increase in deposits		109 107	110 289
Net increase/(decrease) in other liabilities[1]		(2 693)	(25 083)
Income taxes paid		(7 692)	(2 954)
Net cash generated from operating activities		6 475	6 967
Cash flow from investing activities			
Proceeds from disposal of non-current assets held for sale		113	3 742
Dividends received from investing activities		472	290
Proceeds from disposal of investment properties		52	1
Purchase of property and equipment	12	(1 475)	(1 913)
Proceeds from disposal of properties and equipment		243	138
Purchase of intangible assets	13	(2 975)	(2 976)
Proceeds from disposal of intangible assets		39	—
Proceeds from disposal of investment in associate	54.2	12	—
Net cash utilised in investing activities		(3 519)	(718)
Cash flow from financing activities			
Sale of own shares		86	133
Acquisition of non-controlling interest		—	(75)
Purchase of Group shares in respect of equity-settled share-based payment schemes		(273)	(873)
Issue of Additional Tier 1 capital		—	1 209
Proceeds from borrowed funds		6 866	2 676
Repayment of borrowed funds		(2 381)	(3 733)
Repayment of lease liability		(1 221)	(1 133)
Distributions paid to Additional Tier 1 capital holders		(585)	(589)
Dividends paid		(3 007)	(5 874)
Net cash utilised in financing activities		(515)	(8 259)
Net increase/(decrease) in cash and cash equivalents		2 441	(2 010)
Cash and cash equivalents at the beginning of the reporting period		16 796	18 288
Effect of foreign exchange rate movements on cash and cash equivalents		1 081	518
Cash and cash equivalents at the end of the reporting period	52	20 318	16 796

As part of operating activities, interest income amounting to **R88 301m** (2020: 90 661m); and interest expense amounting to **R37 474m** (2020: R44 617m) were in received and paid in cash respectively.

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

1. Summary of significant accounting policies

1.1 Basis of preparation

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with IFRS, interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

1.1.1 Standards, amendments to standards and circulars adopted for the first time in the current reporting period

Amendment to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (IBOR) (Phase II)

The amendments, which are applicable for financial periods beginning on or after 1 January 2021, address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are as follows:

- Modifications to financial instruments and lease liabilities which arise as a direct consequence of IBOR reform are accounted for by updating the effective interest rate;
- Hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships must be amended to reflect modifications, and amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- Additional disclosure requirements.

1.1.2 Changes to the use of estimates, assumptions and judgements – RBB expected credit loss model enhancements

During the current reporting period, RBB South Africa refined its capital and IFRS 9 models of its retail portfolios to reflect a revised application of the definition of default and other model enhancements to better align with the industry and regulatory definitions.

The changes to the definition of default are as follows:

- **Change in criteria to cure out of default:** Previously, the cure period was defined as 12 timeous and full consecutive payments made by the customer. The curing period is now a 12-month observation period. An account will therefore cure if not in default (i.e., 90 days past due or other default criteria) for 12 months after the default date.
- **Change in the treatment of performing restructured accounts:** Previously all exposures that were restructured for credit reasons were treated as defaulted. Now, in the absence of other indicators of default (i.e., 90 days past due), a restructure will be accounted as a default only if economic value has been lost.

The following other model enhancements were made to refine certain assumptions and reduce complex methodologies in accordance with experience and new information available:

- Home Loans refined its mortgages loss given default model to reflect empirical workout behaviour;
- Everyday Banking revised its lifetime assessment, as well as the estimation of conversion rates of unused limit changes on revolving products;
- All retail portfolios:
  - Revised the application of the significant increase in credit risk criteria following the new application of the definition of default;
  - Revised customer risk elements through refined behavioural scorecards;
  - Enhancements to more accurately reflect the effect of modification losses on the historical portfolios; and
  - Enhanced modelling techniques and refinement of assumptions or risk calibration of the portfolios.

The effect of macroeconomic variables (MEV) is calculated as a separate model from the PD and LGD models and now caters for a more efficient update of MEV changes.

The aforementioned changes have been accounted as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The impact on the impairment charge recognised in the statement of comprehensive income for the current period are as follows:

	31 December 2021		
Product	Definition of default change Rm	Other model enhancements Rm	Total increase/ decrease in impairment charge Rm
Home Loans	5	(624)	(619)
Vehicle and Asset Finance	(5)	(191)	(196)
Everyday Banking	(166)	(101)	(267)
Card	(112)	(607)	(719)
Personal Loans	(43)	372	329
Transactions and Deposits	(11)	134	123
Total	(166)	(916)	(1 082)

Future impacts of the model enhancements are not disclosed as it is impracticable to do so.

1. Summary of significant accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.3 Basis of presentation

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

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

Impact of COVID-19

Consideration of the financial statements and further disclosures

The Group has carefully considered the impact of COVID-19 in preparing its financial statements for the year ended 31 December 2021. The key impacts on the financial statements, including the application of critical estimates and judgements, are as follows:

- Impact of COVID-19 (page 17);
- Approach to credit risk and impairment of loans and advances (note 1.2.1);
- Assessment of impairment of non-financial assets (note 1.2.2); and
- Credit risk disclosures (note 60.2)

1.2.1 Approach to credit risk and impairment of loans and advances

The Group has established a framework, and related processes, which govern its approach to credit risk management and any resultant impairment of financial assets. Where models are used in quantifying the impairments, the governance process is focused around the Absa Group Limited Models Committee (MC) (a board committee) and Business Unit level model approval forums whose remit includes:

- oversight of the development, implementation and evaluation of risk and impairment models;
- oversight of the inception and periodic independent model validations (the frequency of the periodic validation being dependent on model type, materiality and model risk rating);
- the approval of new models, changes to existing models or continued use of models, in line with the Group Model Risk Policy and supporting Standards; and
- approval of overlays to mitigate model deficiencies (post-model adjustments).

Retail impairment allowances are subject to quarterly impairment adequacy reviews and approval by the Retail Impairment Adequacy Forum. Wholesale impairment allowances are subject to monthly impairment adequacy reviews and approval by the Wholesale Impairment Governance Forum.

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under IFRS 9.

1.2.1.1 Approach to credit modelling/internal ratings

The key objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which the Group is exposed. Integral to this is the calculation of parameters which are used for credit risk management purposes and in the calculation of regulatory capital, economic capital and the determination of impairment in terms of IFRS.

The key credit parameters used in this process are:

- probability of default (PD): the likelihood of a customer defaulting on its obligations within the appropriate outcome period;
- exposure at default (EAD): an estimate of the level of credit exposure should the customer default during the appropriate outcome period; and
- loss given default (LGD): an estimate of the percentage of EAD that will not be recovered on a particular credit facility should the customer default during the outcome period. LGD recognises credit risk mitigation, such as collateral or credit derivatives, unless this mitigation has been recognised at fair value.

Whilst there is a close interaction and clear overlaps between the regulatory expected loss methodology and the accounting credit models, there are key departures which impact how the key risk parameters are modelled and applied. These are discussed further in sections 1.2.1.4 and 1.2.1.5.

Internal and vendor-supplied credit models are used to estimate the key credit parameters of PD, LGD and EAD. The Group uses different modelling methodologies, ranging from pure statistical models and cash flow models to expert-based models, taking into account quantitative and qualitative risk drivers. PD, LGD and EAD estimates can be calculated to represent different views of the credit cycle, which are used in different applications.

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

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

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

1. Summary of significant accounting policies (continued)

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

1.2.1.2 Validation of models

Models undergo independent validation when new models have been developed (initial validation) and on a periodic basis (ongoing validation). Models are approved by the respective Chief Risk Officers supported by the Business Unit level model approval forums. Where a model is expected to have a material impact on the financial results, this is approved by the Group's Models Committee (MC).

1.2.1.3 Default grades

The Group uses two types of PDs, namely:

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

Both types of PDs are used extensively in the Group's decision-making processes. For communication and comparison purposes, the Group's 21 default grades (DGs), were mapped to external agency rating equivalents as well as the South African Reserve Bank's (SARB) 26 grade PD scale used for regulatory reporting purposes. DG grading represents a TTC view of the distribution of the book at a specific point in time. The indicative mapping of the DG buckets to the equivalent international rating agency and regulatory PD bands are described below:

- DG 1 – 9: assets falling within these DG buckets are regarded as 'investment grade' and, when converted to a rating agency equivalent, correspond to a BBB- rating or better.
- DG 10 – 19: financial assets in these grades typically require more detailed management attention where clear evidence of financial deterioration or weakness exists. Although credit protection may exist, assets in this category are considered to have greater credit risk. These assets contain some credit deficiencies. When converted to a rating agency equivalent, these ratings correspond to a BB+ to B- rating.
- DG 20 – 21: the PD of financial assets in these grades have deteriorated to such an extent that they are included for regular review. Assets so classified must have well defined weaknesses that exacerbate the PD. These ratings correspond to a CCC/C rating.
- Default: assets that are classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Group will sustain some loss when default occurs.

1.2.1.4 Approach to impairment of credit exposures

The accounting policy for the impairment of financial assets held at amortised cost or fair value through other comprehensive income applied by the Group is described in note 1.7.4.

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probabilities of default, LGD, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of EAD and assessing significant increases in credit risk.

The purpose of estimating ECL is neither to estimate a worst-case scenario nor to estimate the best-case scenario. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

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

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

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

1. Summary of significant accounting policies (continued)

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

1.2.1.4 Approach to impairment of credit exposures (continued)

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

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

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

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

Retail portfolio

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

- Internal risk estimates of PD, EAD and LGD are based on historical experience and are reliant on historical data.
- PDs are assigned at account level, and consist of three elements namely:
  - a term structure, capturing typical default behaviour by the months since observation;
  - a behavioural model which incorporates client level risk characteristics; and
  - a macroeconomic model that incorporates forward-looking macroeconomic scenarios.
- EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The Wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The Wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

- PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information as well as quality assessments on strength of support. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:
  - a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven-year historical average to a PD reflective of the macroeconomic environment at the reporting date; and
  - an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

1. Summary of significant accounting policies (continued)

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

Wholesale portfolio (continued)

- LGD estimates depend on the key drivers of recovery such as collateral value, seniority of claim and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario as well as the exclusion of forecast recoveries expected beyond the point of write off. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.
- EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

COVID-19 considerations

- Please refer to the detail under the 'Impairment losses pre- and post-management adjustments' section included in the Impact of COVID-19 section on page 17.

1.2.1.5 Critical areas of judgement with regards to IFRS 9

Definition of a significant increase in credit risk:

The Group uses various quantitative, qualitative and backstop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio are reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average probability of default (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition. The Group considers the impact of changes in the quality of credit enhancements (e.g. guarantees) it holds on the borrower's probability of default if a shareholder or parent has provided a guarantee, and has an incentive and the financial ability to prevent default by capital or cash infusion.
- Adverse changes in payment status, and where accounts are more than 30 days in arrears at reporting date. In the ARO retail portfolio, a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. one day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

The impact of COVID-19 on PDs and LGDs, as well as the provision of payment relief, are considered to determine whether a SICR event, which would result in a shift in the exposure from stage 1 (12-month expected losses) to stage 2 (full lifetime expected losses), has taken place. Where payment relief has been provided, deferred or reduced payments could not be considered in determining whether a SICR has occurred. All available information is considered, including, whether a client is experiencing a short-term liquidity constraint, the respective industry and the anticipated arrears in a COVID-19 environment.

Definition of credit impaired

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

Wholesale and Retail assets are classified as defaulted when:

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

In addition, within the Retail portfolios:

- The Group requires an exposure to reflect a non-credit impaired status after 12 months of being placed into credit impaired, before being considered to have cured from stage 3. This probation period applies to all exposures, including those that have been classified as credit impaired for reasons other than forbearance with a diminished financial obligation and debt review (e.g. owing to the fact that they become more than 90 days due).
- The application of the policy of credit impaired in the Retail portfolio has changed in the 2021 financial year. Please refer to note 1.1.2 for an explanation of the change.

Determination of the lifetime of a credit exposure

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

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

- the period over which the entity was exposed to credit risk on similar financial instruments;

1. Summary of significant accounting policies (continued)

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

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

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

- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that the entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life. For Wholesale portfolios, a sufficiently long period to cover expected life is modelled and an attrition rate is applied to cater for early settlement.

Incorporation of forward-looking information into the IFRS 9 modelling

The Group's IFRS 9 impairment models consume macroeconomic information to enable the models to provide an output that is based on forward-looking information. The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses. This is determined by evaluating a range of possible macroeconomic outcomes. While economic activity across South Africa and various ARO presence countries had started to recover due to the easing of lockdown restrictions, economic concerns remain due to higher levels of unemployment and the resurgence of the COVID-19 virus. Accordingly, these risks have been incorporated in the scenarios used to calculate the Group's ECL charge as at 31 December 2021.

Several factors are considered in developing macroeconomic scenarios, including economic growth or contraction and anticipated recovery, expected inflation, sector-specific impacts, business confidence, property prices, household spending, exchange rate fluctuations, unemployment rates, key fiscal responses initiated by governments, and regulatory authorities.

The following table shows the key forecast assumptions used for South Africa to calculate the Group's ECL allowance for the reporting period ended 31 December 2021:

	Baseline					Mild upside					Mild downside				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Real GDP (%)	5.2	1.7	2.0	2.0	2.0	5.5	2.2	2.5	2.3	2.3	4.9	0.8	1.1	1.0	1.0
CPI (%)	4.4	4.4	4.2	4.3	4.4	4.4	4.4	4.4	4.4	4.6	4.5	5.2	5.2	5.3	5.3
Average repo rate (%)	3.5	3.9	4.7	6.1	6.5	3.5	4.3	5.2	6.4	7.3	3.5	4.1	5.9	7.0	7.8

The following table shows the key forecast assumptions used for South Africa to calculate the Group's ECL allowance for the reporting period ended 31 December 2020:

	Baseline					Mild upside					Mild downside				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP (%)	(9.4)	3.2	1.9	1.5	1.5	(8.0)	3.2	2.6	2.6	2.5	(10.8)	3.0	1.2	1.2	1.1
CPI (%)	3.2	3.9	4.2	4.3	4.5	3.3	4.1	4.4	4.6	4.8	3.2	3.6	3.9	4.0	4.2
Average repo rate (%)	4.3	3.3	3.9	4.6	4.8	4.3	2.9	3.3	4.0	4.3	4.3	3.9	5.0	5.5	5.8

The following table shows the key forecast assumptions for the three economic scenarios for four of our largest ARO markets at 31 December 2021:

	Baseline					Mild upside					Mild downside				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Botswana															
Real GDP (%)	8.3	4.9	4.0	3.8	3.8	9.8	6.6	5.6	5.3	5.3	7.2	3.1	3.0	1.9	1.9
CPI (%)	6.5	5.0	3.7	3.8	3.4	6.2	4.0	2.4	2.4	2.0	7.0	6.5	5.2	5.4	5.2
Average policy rate (%)	3.8	4.0	4.4	4.9	5.0	3.7	3.7	3.8	4.2	4.4	3.8	4.4	5.0	5.3	6.3
Ghana															
Real GDP (%)	3.7	5.7	5.4	5.5	5.5	4.3	8.6	7.2	6.6	6.3	2.3	3.5	3.4	3.1	3.0
CPI (%)	9.4	9.3	9.5	10.5	10.7	9.1	8.0	7.7	8.5	8.5	9.7	11.0	11.4	12.8	13.0
Average policy rate (%)	13.8	14.1	15.4	16.1	16.5	13.8	13.6	14.1	14.6	15.5	14.0	15.1	16.4	17.8	18.9
Kenya															
Real GDP (%)	3.7	5.7	5.4	5.5	5.5	4.3	8.6	7.2	6.6	6.3	2.3	3.5	3.4	3.1	3.0
CPI (%)	9.4	9.3	9.5	10.5	10.7	9.1	8.0	7.7	8.5	8.5	9.7	11.0	11.4	12.8	13.0
Average policy rate (%)	13.8	14.1	15.4	16.1	16.5	13.8	13.6	14.1	14.6	15.5	14.0	15.1	16.4	17.8	18.9
Mauritius															
Real GDP (%)	4.0	9.2	5.8	5.0	4.0	5.5	11.2	7.0	5.6	5.4	2.0	8.0	4.0	3.0	2.5
CPI (%)	3.9	4.0	3.2	3.0	3.0	3.9	3.2	2.2	2.0	2.0	3.9	5.0	4.8	4.5	4.5
Average policy rate (%)	1.9	2.2	2.7	3.4	3.9	1.9	1.9	2.3	3.0	3.2	1.9	2.5	3.2	4.1	4.8

1. Summary of significant accounting policies (continued)

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

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

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

The following table shows the key forecast assumptions for the three economic scenarios for four of our largest ARO markets at 31 December 2020:

	Baseline					Mild upside					Mild downside				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Botswana															
Real GDP (%)	(10.8)	7.3	5.5	4.3	4.2	(7.9)	5.9	4.8	4.7	4.6	(13.0)	7.3	3.6	2.6	2.5
CPI (%)	1.8	3.3	4.1	2.8	2.6	1.5	2.4	3.4	2.6	2.6	2.1	4.7	4.5	4.5	4.4
Average policy rate (%)	4.4	4.2	4.8	4.8	4.8	4.9	3.9	4.4	4.5	4.5	4.4	4.7	5.1	5.1	5.0
Ghana															
Real GDP (%)	1.5	4.1	4.9	5.3	5.2	2.6	5.0	5.5	5.8	5.6	(0.4)	3.6	4.8	3.9	4.0
CPI (%)	10.5	9.8	8.3	8.2	8.0	10.1	8.6	8.0	8.2	8.3	11.1	13.6	9.6	9.7	9.8
Average policy rate (%)	14.7	15.4	15.5	15.5	15.5	14.9	14.6	14.8	14.5	14.5	14.9	16.3	17.8	17.3	16.8
Kenya															
Real GDP (%)	1.6	3.9	5.0	5.4	5.5	2.7	5.1	5.9	6.0	6.1	(0.4)	3.5	3.3	2.8	2.7
CPI (%)	5.2	5.1	5.3	4.5	4.3	4.9	3.0	4.1	2.9	2.8	5.4	7.3	6.1	5.2	5.1
Average policy rate (%)	7.3	7.0	7.3	7.5	7.5	7.2	6.5	6.8	7.0	7.0	7.3	7.8	8.8	8.3	8.0
Mauritius															
Real GDP (%)	(9.6)	7.3	5.6	4.2	4.0	(5.6)	5.5	5.3	5.3	5.2	(11.6)	6.7	3.7	3.2	3.2
CPI (%)	2.1	2.2	2.4	3.4	3.6	2.0	0.8	1.7	2.8	2.9	2.8	4.6	4.4	4.1	4.1
Average policy rate (%)	2.3	2.2	2.9	3.1	3.3	2.3	1.8	2.2	2.4	2.8	2.3	3.3	4.9	5.3	5.1

Baseline scenarios as at 31 December 2021

South Africa

The evolution of the COVID-19 pandemic, its impact on the economy, policymakers' responses, and the reaction of markets remain the most significant factors in our current macro modelling, with commodity prices and early estimates of the impact of the recent civil unrest also considered. Regarding COVID-19, the working assumption is that waves of infection will continue but that social-distancing restrictions in each wave will likely become less prohibitive, leading to a diminishing economic impact over time.

Despite the third wave and July's civil unrest, the 2021 recovery was forecast to be more robust under our revised baseline, as early 2021 data generally topped expectations. At the time of modelling, the Group forecasted GDP growth of 5.2% for 2021 and 1.7% for 2022, with trimmed growth forecasts in the outer years. In the proposed baseline, real GDP is expected to recover to end-2019 levels by the third quarter of 2022 and settle at a post-pandemic trend rate of approximately 2% in the outer years. In addition, the baseline included the assumption that load shedding would diminish significantly from 2022.

For households, the 2021 job recovery was weak but will improve slightly faster in the outer years of the forecast than in the mid-year forecast. Wage restraint is longer lasting in the private sector than previously projected, slowing the recovery in household incomes. Household debt to income rose slightly into 2022 but is expected to flatline thereafter, while household debt service is impacted in 2022 and 2023 on expected SARB action. We anticipate house prices to continue to rise modestly on a comfortable interest rate outlook, although our projections have curtailed slightly since the last forecast round.

Private sector investment is expected to remain constrained, while investment by the state sector (primarily public corporations) has been revised in the historical data, rising significantly higher in the near years of the forecast. Early 2021 data was robust, and signals from major state-owned companies (SOCs) suggest that substantial spending will continue even in the face of more difficult financing conditions. More broadly, public finances remain under significant pressure as extra spending commitments offset the windfall tax collections from mining. In the baseline, we project that Moody's are likely to downgrade South Africa's sovereign rating by one further notch in the first half of 2022.

When the economic modelling work was finalised, policy rates were not forecast to move in 2021, with the baseline projecting 75 bps in tightening during 2022 and a further 100 bps in 2023. However, the market is currently pricing in more aggressive rate hikes. The South African Reserve Bank raised rates by 25 bps in the November 2021 and January 2022 Monetary Policy Committee (MPC) meetings, somewhat ahead of our baseline expectation.

ARO

The economic impact of the global pandemic has varied widely across our ARO presence countries. The economies of East Africa have generally been impacted less, as restrictions to economic activity were largely more modest, and their economies are more diversified. Broadly, those economies with less diversification, particularly those where tourism and/or commodity exports are a focus, were hardest hit in 2020 and in the first quarters of 2021. Against an estimated economic contraction of 0.4% in 2020 on a GDP-weighted basis, the baseline macroeconomic forecast for ARO for 2021 was for expected growth of 4.0% during the year and 5.3% in 2022.

Large fiscal deficits and weak fiscal buffers raise the risk of unsustainable public debt trajectories for some ARO countries, while several economies have already received assistance from multilaterals for the balance of payments and budget support, and many ARO countries are in talks with the International Monetary Fund (IMF) for formal programmes. Central banks reduced policy rates in response to the pandemic, but rates are assumed to have bottomed out. However, as inflation gradually moves higher and country risk premia are generally expected to rise, monetary policy tightening is anticipated for the bulk of ARO into 2022.

1. Summary of significant accounting policies (continued)

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

1.2.2 Capitalisation, amortisation and impairment of internally generated intangible assets, and impairment of goodwill

Capitalisation

The determination of which expenditures can be capitalised in the development phase may involve judgement, as it may be necessary to determine whether an inefficiency has been identified, as the cost thereof may not be capitalised. Management considers scope changes, complexity of the project, as well as the effect of any delays in the delivery of a project, in order to ascertain the appropriateness of capitalisation of development costs. This includes the determination as to whether, and by how much, cost incurred on a project is considered inefficient and needs to be expensed rather than capitalised.

Amortisation

For intangible assets with a finite useful life, the depreciable amount of the asset is required to be allocated on a systematic basis over its useful life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Management applies judgement in determining when the intangible asset is considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation of an asset commences once the asset group as a whole is ready to commence operations, and determination of this stage in the project delivery involves management judgement.

Impairment

The recoverable amount for intangible assets and goodwill is determined to be the higher of the asset's fair value less costs to sell and its value-in-use of the cash-generating unit to which it belongs.

The value-in-use calculation incorporates a number of variables which are determined and/or validated through the exercise of management judgement. These include, inter alia, an estimate of the amount and timing of future cash flows that the entity expects to derive, the time value of money represented by an appropriate discount rate, as well as other factors that market participants would reflect in pricing the future cash flows that the entity expects to derive.

The Group uses approved projected cash flow forecasts for a period of three to five years, with a terminal value thereafter. The long-term growth rate assumptions used in the impairment calculations were revised from 0.0% to 8.1% as at 31 December 2020 to 5% to 8% at 31 December 2021. The discount rates used have been adjusted from 10.7% to 30% as at 31 December 2020 to 12.5% to 22% at 31 December 2021. A sensitivity analysis was performed on the assumptions and even if the estimated discount rate and/or growth rate was changed by 100 and 200 basis points respectively, no additional impairment loss would be recognised.

Note 13 includes details of the amount recognised by the Group as goodwill.

1.2.3 Fair value measurements

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs.

Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 *Fair Value Measurement* (IFRS 13) does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximised. Where management is required to place greater reliance on unobservable inputs, the fair values may be more sensitive to assumption changes and different valuation methodologies that may be applied. For this reason, there is a direct correlation between the extent of disclosures required by IFRS 13 and the degree to which data applied in the valuation is unobservable.

Valuation inputs

IFRS 13 requires an entity to classify fair values according to a hierarchy that reflects the significance of observable market inputs. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input which is considered to be significant to the entire measurement. The three levels of the fair value hierarchy are specifically defined as follows:

- **Quoted market prices – Level 1**

Fair values are classified as Level 1 if they have been determined using unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date. The quoted prices are required to represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

- **Valuation technique using observable inputs – Level 2**

Inputs classified as Level 2 are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices), but do not constitute quoted prices that are included within Level 1. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

- **Valuation technique using significant unobservable inputs – Level 3**

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

Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuation Committee and an Independent Valuation Control team (IVC), which is independent from the front office. The Traded Risk and Valuation Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the GACC. The Traded Risk and Valuation Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

1. Summary of significant accounting policies (continued)

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

1.2.3 Fair value measurements (continued)

Financial assets and financial liabilities (continued)

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

Investment properties

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

Judgemental inputs on valuation of principal instruments

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

- ***Debt securities and treasury and other eligible bills***

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

- ***Equity instruments***

Equity instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined with reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs. Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, depending on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price to earnings comparisons. The relevant methodology for each investment is applied consistently over time.

- ***Derivatives***

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

- ***Loans and advances***

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

- ***Deposits, debt securities in issue and borrowed funds***

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

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

Fair value adjustments

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

- ***Bid-offer valuation adjustments***

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

- ***Uncollateralised derivative adjustments***

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

- ***Model valuation adjustments***

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

1. Summary of significant accounting policies (continued)

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

1.2.3 Fair value measurements (continued)

Measurement of assets and liabilities at Level 2

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

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Cash, cash balances and balances with central banks	Discounted cash flow models	Underlying price of market traded instruments and/or interest rates
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Derivative assets		
Commodity derivatives	Discounted cash flow techniques, option pricing models such as the Black Scholes model, futures pricing models and/or Exchange Traded Fund (ETF) models	Spot price of physical or futures, market interest rates and/or volatilities
Credit derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate, recovery rate, credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow models, option pricing models and/or futures pricing models	Spot share prices, market interest rates, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate curves, repurchase agreements, money market curves and/or volatilities
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Money market assets	Discounted cash flow models	Money market curves and/or interest rates
Loans and advances	Discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves
Investment securities and investments linked to investment contracts	Listed equities: market bid price	Underlying price of market traded instruments and/or interest rate curves
Deposits	Discounted cash flow models	Interest rates and/or money market curves
Debt securities in issue, liabilities under investment contracts and other liabilities	Discounted cash flow models	Underlying price of market traded instruments and/or interest rate curves

1. Summary of significant accounting policies (continued)

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

1.2.3 Fair value adjustments (continued)

Measurement of assets and liabilities at Level 3

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

			2021	2020
Category of asset/liability	**Valuation techniques applied**	**Significant unobservable inputs**	**Range of unobservable inputs applied**	
Loans and advances	Discounted cash flow and/or yield for debt instruments	Credit spreads	**0.4% to 3.7%**	0.07% to 3.21%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or competitor multiples	**8.5%**	7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	**0.04% to 4.55%**	0.2% to 13%
Derivative assets				
Credit derivatives	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	**0.035% to 4.502%** **15% to 93.2%** **54% to 100%**	0.03% to 26.5%, 15% to 93%, 60% to 90%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	**17.77% to 68.49%**	16.9% to 58.3%
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	African basis curves (greater than 1 year)	**0.88% to 20%**	0.56% to 26.5%
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	**0.052% to 7.3%**	0.25% to 4.15%
Deposits	Discounted cash flow models	Absa Group Limited's funding spreads (greater than 5 years)	**1.15% to 1.6%**	1.075% to 1.550%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	**1.13% to 1.7%**	1.3% to 1.8%
Investment properties	Discounted cash flow models	Estimates of the periods in which rental units will be disposed Annual selling price escalations Income capitalisation rates Risk adjusted discount rates	**1 to 6 years** **6% to 8%** **8.5%** **10% to 15%**	1 to 6 years 6% to 8% 7.75% to 8% 10% to 15%

For assets or liabilities held at amortised cost and disclosed in Levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is applied. Interest rates and money market curves are considered unobservable inputs for items which mature after five years. Where instruments mature in less than five years, these inputs may be considered to be observable, depending on other facts and circumstances.

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument, refer to note 60.7.

The sensitivity of a fair value measurement is correlated with the extent of reliance which is required to be placed on unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values. A majority of the items included in the non-current assets held for sale balance consists of financial instruments which are measured in terms of their respective standards (IFRS 9).

1. Summary of significant accounting policies (continued)

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

1.2.4 Consolidation of structured or sponsored entities

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

Definition of a structured entity (SE)

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

Assessment of agent versus principal

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

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

Assessment of sponsored entities

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

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

Refer to notes 48 and 49.

1.2.5 Post-retirement benefits

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

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

Exposure to actuarial risks

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

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

Investment risk

The actuarial funding valuations make assumptions about the returns that may be available on invested assets. If the return on pension plan assets is below this rate, it may lead to a strain on the fund, which over time, may result in a pension plan deficit. Typically the funds have a relatively balanced investment in equity securities, debt securities, cash and real estate to mitigate any concentration risk. Due to the long-term nature of the pension plan liabilities, the boards of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to improve the return generated by the fund. This may in turn result in improved discretionary benefits to members or reduced costs for the sponsoring entity.

Inflation/pension increase risk

Benefits in these plans are to some extent tied to inflation, so increased inflation levels represent a risk that could increase the costs of paying the funds' promised benefits. However, the risk is mitigated by ceilings on mandatory benefit increases in most cases and subject to affordability in cases where the mandatory ceiling does not apply.

Longevity risk

If pensioners live longer than expected then that will, all else equal, increase the funds' liabilities as benefits are paid for a longer term.

Salary risk

An increase in the salary of the plan participants will increase the plan's liability. This risk has been limited with the closure of a number of the defined benefit plans and the introduction of defined contribution plans. There are now a limited number of active defined benefit members.

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

1. Summary of significant accounting policies (continued)

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

1.2.5 Post-retirement benefits (continued)

Measurement risk

The IAS 19 *Employee Benefits* (IAS 19) liabilities are determined using various assumptions about future experience.

One of the most important assumptions is the discount rate derived from prevailing bond yields where these are available (where these are not available, the inflation rate plus a reasonable risk free real return is used as a proxy). A decrease in the discount rate will, with all else equal, increase the plan liability; this may be partially offset by an increase in the value of assets, to the extent that the funds' investments are matched against its liabilities. Other important assumptions are the inflation assumption, pension increase assumption and the longevity assumption and changes in those could affect the measured value of liabilities significantly. Changes in other assumptions used could also affect the measured liabilities.

Regulatory risk

The funds' benefits are governed by the rules of those funds, operating within the regulatory framework within each country. To the extent that governments can change that regulatory framework, the subsidiaries are exposed to a risk. In particular, regulations introducing issues like minimum benefits or minimum pension increases may result in higher benefits to members and a higher associated cost.

Refer to note 43 for the specific assumptions used and carrying amounts of post-retirement benefits.

1.2.6 Provisions

In terms of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37), a provision is recognised when the Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation. Further, a reliable estimate of the amount of the obligation is required to be made. Various judgements and assumptions are therefore required in order to determine if a provision is required to be recognised, and further, the carrying amount thereof. With regards to the assessment of matters of a significant nature, including potential litigation and claims, management relies on the advice of the Group's legal counsel.

Refer to note 17 for details of provisions recognised and refer to note 51 for details of contingencies disclosed.

1.2.7 Income taxes

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

The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes tax liabilities, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The carrying amount of any resulting liabilities will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

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

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

1.2.8 Share-based payments

The initial fair value of awards is determined at grant date, and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero strike price. In this case the Group may consider the share price on the grant date to be the best indication of the grant date fair value. Where management determines this valuation approach to be less appropriate, based on the specific terms and conditions, then a Black Scholes option pricing model is applied. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

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

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

Note 53 includes details of the Group's share awards. Refer to note 16 for the carrying amount of liabilities arising from cash-settled arrangements.

1. Summary of significant accounting policies (continued)

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

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

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

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

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

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group makes estimates and assumptions to provide appropriate levels of claims provision and provision for unexpired risks. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. For more details on the liability arising from claims made under short-term insurance contracts, refer to note 21.

1.2.10 Liabilities arising from claims made under life insurance contracts

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

The value of the insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, guaranteed benefits and expenses which all equal the best estimate assumptions used in determining the liabilities. These assumptions are based on recent experience investigations and retrenchments. The discount rate used to discount future profits includes a margin over assumed investment returns to allow for the risk that experience in future years may differ from that assumed. For more details on the life insurance contract liability, refer to note 21.

The Group provides short-term and long-term insurance in South Africa and in Absa Regional Operations. The Group has assessed the carrying value of these insurance liabilities as at 31 December 2021 which were reviewed by independent actuaries.

Establishing short-term insurance liabilities is an inherently uncertain process and, therefore, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. Estimates and judgements are regularly adjusted as changes in facts and experience are identified. No material changes in these estimates and assumptions have been noted at 31 December 2021 when compared to 31 December 2020.

Similarly, the value of the life insurance liability is determined using assumptions regarding future mortality, morbidity, discontinuance rates, policyholders' reasonable benefit expectations, and guaranteed benefits and expenses. Reserves were strengthened by R34m in response to the pandemic as a result of an increase in the expected retrenchment incidence rate. No other material assumption changes were noted at 31 December 2021 when compared to 31 December 2020.

1.2.11 Offsetting financial assets and financial liabilities

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

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

The above are considered to ensure the Group's financial assets and liabilities are presented accurately in accordance with the characteristics of the items in question as resources or obligations of the entity. Refer to note 47.

1. Summary of significant accounting policies (continued)

1.3 Consolidated financial statements of the Group

1.3.1 Subsidiaries

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

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

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control included above.

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

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

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

1.3.2 Investments in associates and joint ventures

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

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

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

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

1.3.3 Structured entities

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

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

1. Summary of significant accounting policies (continued)

1.3 Consolidated financial statements of the Group (continued)

1.3.4 Common control

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

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

Common control transactions are scoped out of the requirements of IFRS 3 *Business Combinations* (IFRS 3). The Group has therefore made a policy election to apply predecessor accounting methodology when accounting for common control transactions. The assets and liabilities of the combining entities are not adjusted to fair value (as would be required under IFRS 3), but are reflected at their carrying amounts at the date of the transaction. The acquiring entity accounts for any difference between the consideration paid/transferred and the net asset value acquired as an adjustment to equity. No goodwill will be recognised as a result of the common control transaction.

The comparative statement of financial position and statement of comprehensive income are restated as if the entities had always been combined, regardless of the date of the transaction.

1.4 Segment reporting

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments* (IFRS 8). Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Operating Decision Maker (CODM). Income and expenses directly associated with each segment are included in determining business segment performance.

1.5 Foreign currencies

1.5.1 Foreign currency translations

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

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

1.5.2 Foreign currency transactions

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

At each subsequent reporting date:

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

1.6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the number of basic weighted average number of ordinary shares excluding treasury shares held. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

1.7 Financial instruments

1.7.1 Initial recognition

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date. All financial instruments are measured initially at fair value plus/minus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, where transaction costs are expensed upfront.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.2 Day one profits or losses

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets, then the instrument is recognised at the fair value derived from such observable market data. Any difference between the transaction price and a market observable fair value is recognised immediately in profit or loss.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price ('Day One profit') is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

1.7.3 Classification and measurement of financial instruments

On initial recognition, the Group classifies its financial assets into the following measurement categories:

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

The classification and subsequent measurement of financial assets depends on:

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

Business model assessment

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing of past sales, sales expectations in future periods, and the reasons for such sales.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

1.7.3.1 Debt instruments

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

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.3 Classification and measurement of financial instruments (continued)

1.7.3.2 Equity instruments

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

1.7.3.3 Financial liabilities

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. The fair value designation is voluntary, but may only be applied at initial recognition and once applied cannot be reversed. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income, unless doing so would create or enlarge an accounting mismatch in profit or loss. In this case, own credit gains or losses are recognised in profit or loss. Amounts recognised in other comprehensive income are not subsequently recognised in profit or loss.

Where a financial liability has not been classified as held for trading or designated at fair value through profit or loss, it is held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the EIR of the liability. Interest expense is recognised as 'Interest expense and similar charges.' Terms included in a financial liability contract (the host) which, had it been a standalone contract, would have met the definition of a derivative are either separated from the host and accounted for in the same way as a derivative, or the entire contract is designated at fair value through profit or loss.

1.7.3.4 Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, net trading income, and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the statement of financial position. Derivatives are subsequently measured at fair value through profit or loss, with changes in their fair values recognised as 'Gains and losses from banking and trading activities' in profit or loss, except for changes in the fair value of derivatives used to economically hedge the Group's interest rate risk which are recognised as 'Other interest income', or 'Interest expense and similar charges' in profit or loss.

1.7.4 Expected credit losses on financial assets

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

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

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

Three-stage approach to ECL

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

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the impairment losses).

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.4 Expected credit losses on financial assets (continued)

The stage allocation is required to be performed as follows:

- **Stage 1:** This stage comprises exposures which are performing in line with the Group's credit expectations as at the date of origination. That is to say, the credit exposures which are assigned to stage 1 have not experienced a significant increase in credit risk since the date of initial recognition. Financial assets that are not purchased or originated with a credit impaired status are required to be classified on initial recognition within stage 1. Exposures which were previously classified within stage 2 or stage 3, may also cure back to stage 1 in line with the Group's credit risk management cure criteria. Whilst the standard does permit an accounting policy election to classify low credit risk assets within stage 1, such election has not been made by the Group.
- **Stage 2:** Exposures are required to be classified within stage 2 when a significant increase in credit risk is observed, although the exposure is not yet credit impaired. The assessment of whether an exposure should be transferred from stage 1 to stage 2, is a relative measure, where the credit risk at the reporting date is compared to the risk that existed at initial recognition. The factors which trigger a reclassification from stage 1 to stage 2 have been defined so as to meet the specific requirements of IFRS 9, and in order to align with the Group's credit risk management practices. These factors have been set out in section 1.2.1.4. Stage 2 assets are considered to be cured (i.e. reclassified back into stage 1), when there is no longer evidence of a significant increase in credit risk, and in accordance with the Group's credit risk management cure criteria. The definition of high risk is, from a credit management perspective, central to controlling the flow of exposures back to stage 1 and gives effect to any cure periods deemed necessary.
- **Stage 3:** Credit exposures are classified within stage 3 when they are credit impaired, which is defined in alignment to the bank's regulatory definition of default. An instrument is credit impaired when there is objective evidence of impairment at the reporting date. Purchased or originated credit impaired lending facilities are classified on origination within stage 3. Defaulted assets are considered to be cured once the original event triggering default no longer applies, and the defined probation period (that is, the required consecutive months of performance) have been met. In the Retail portfolio, the cure definition applied is quite stringent, and assets will typically only cure from stage 3 to stage 2, but won't move directly from stage 3 to stage 1. In the Wholesale portfolio assets can move from stage 3 directly to stage 1.

Expected credit loss calculation

The measurement of ECL must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the EIR); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

As noted, ECL comprises the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECL is calculated (for both 12 month ECL and lifetime losses ECL) as a function of the EAD; PD and LGD. These terms are interpreted as follows per the requirements of IFRS 9:

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

Lifetime of financial instruments

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

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

Forward-looking information

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

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.4 Expected credit losses on financial assets (continued)

Write-off

The gross carrying amount of a financial asset is directly reduced (that is, written off)) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a derecognition event for accounting purposes. Depending on the nature of the account, balances are written off when:

- There has been less than one qualifying payment received within the last 12 months; or
- It is no longer economically viable to keep the debt on the statement of financial position.

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

Indicators which suggest that an account is not economically viable to retain on the statement of financial position include (but do not represent an exhaustive list):

- The exposure is unsecured, i.e., there is no tangible security the Group can claim against (excluding suretyships);
- The debt has prescribed;
- The exposure would attract reputational risk should the Group pursue further legal action due to the valuation/exposure ratio, for example where the exposure is low and the valuation is very high in relation to the low exposure;
- Where the cost to recover is high in relation to the valuation of the asset, for example legal, realisation and safe-guarding costs as well as rates and taxes.

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

1.7.5 Derecognition of financial assets and financial liabilities

1.7.5.1 Derecognition of financial assets

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

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

1.7.5.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.7.6 Modification of financial assets and financial liabilities

1.7.6.1 Modification of financial assets

Modifications to financial assets are assessed as follows:

- A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.
- Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.
- When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognised unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

1.7.6.2 Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.7 Offsetting of financial assets and financial liabilities

In accordance with IAS 32, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7.8 Hedge accounting

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

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

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

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

Fair value hedge accounting

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

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

Cash flow hedge accounting

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

Hedges of a net investment in a foreign operation

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

1.7.9 Equity instruments

Equity instruments are instruments that represent a residual interest in the Group's net assets. The key feature which distinguishes an equity instrument from a financial liability is whether there is a contractual obligation of the issuer to deliver cash or another financial asset to the holder of the instrument.

1.7.10 Compound financial instruments

The Group applies IAS 32 to determine whether funding is either a financial liability (debt) or equity.

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

1.7.11 Subordinated debt

The majority of subordinated debt is measured at amortised cost using the EIR method except where hedge accounting is applied as per 1.7.8.

1. Summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

1.7.12 Repurchase and reverse repurchase agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

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

1.7.13 Loan commitments

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

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

1.7.14 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Financial guarantees are initially recognised at fair value on the date that the guarantee was given. Other than where the fair value option is applied subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party.

1.8 Share capital

1.8.1 Ordinary share capital

Proceeds received upon the issuance of shares are included in equity, net of directly attributable transaction costs. Dividends and other distributions made to equity holders are recognised as a reduction in equity when they are appropriately authorised and are no longer at the discretion of the entity.

1.8.2 Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the entity's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends which are therefore paid on these instruments are included in the cash flows applied in determining the EIR of the instrument. The accrual of dividends is presented as an interest expense in profit or loss.

1.9 Revenue recognition

1.9.1 Net interest income

Interest revenue which is calculated using the effective interest rate method is separately presented on the face of the statement of comprehensive income. Effective interest is calculated on loans and advances and debt instruments which are classified at amortised cost and debt instruments at fair value through other comprehensive income. Further, an effective interest expense is calculated on financial liabilities held at amortised cost. Application of the EIR methodology results in the recognition of interest, together with direct and incremental fees and costs, on a time portion basis over the expected lives of the assets and liabilities. The expected life of an instrument or a portfolio of instruments may be modelled as being shorter than the contractual tenor where historical experience suggests that customer prepayment behaviour impacts the forecasted cash flow profile.

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

Impact of IFRS 9 ECL on interest recognition

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

1. Summary of significant accounting policies (continued)

1.9 Revenue recognition (continued)

1.9.2 Net trading income

In accordance with IFRS 9 trading positions are measured at fair value, with fair value gains and losses being recognised within profit or loss as part of 'gains and losses from banking and trading activities'. Interest and dividends which are received or paid as a consequence of issuing or holding instruments that are managed as part of the Group's trading activities are presented together with the fair value gains and losses on such instruments. Fair value gains or losses may be caused by movements in interest and exchange rates, equity prices and other market variables.

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

1.9.3 Net fee and commission income

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

Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered, which is either over the period over which the performance obligation is discharged; or at a point in time, should the performance obligation be discharged at a point in time. For example, fees earned on the execution of a significant act are recognised when the significant act has been completed.

Fee and commission expenses are expenses which are direct and incremental to the generation of fee and commission income.

1.10 Classification of insurance and investment contracts

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

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

1.10.1 Insurance contracts

1.10.1.1 Short-term insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

Liability adequacy test

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

If these estimates show that the carrying amount of its insurance liabilities (less related acquisition costs) exceeds the estimated future cash flows, the deficiency is recognised in profit or loss by setting up a provision in the statement of financial position. Refer to note 60.

Deferred policy acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with the acquisition or renewal of short-term insurance contracts.

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

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

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

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

Deferred reinsurance acquisition revenue

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

1. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts (continued)

1.10.1 Insurance contracts (continued)

1.10.1.1 Short-term insurance contracts (continued)

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

Salvage and subrogation reimbursements

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

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

1.10.1.2 Life insurance contracts

Revenue recognition and measurement

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

Claims and loss adjustment

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

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

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

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

Benefits are recorded as an expense when they are incurred.

Valuation methodology

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

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

Liability adequacy test

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

1.10.1.3 Reinsurance contracts held

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

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

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

Receivables and payables related to insurance and investment contracts

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

1. Summary of significant accounting policies (continued)

1.10 Classification of insurance and investment contracts (continued)

1.10.1 Insurance contracts (continued)

1.10.1.3 Reinsurance contracts held (continued)

Policy on release of profits on the valuation basis

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

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

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

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

1.10.1.4 Value of business acquired

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

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

1.10.2 Investment contracts

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

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

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

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

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

1.11 Commodities

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

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

1. Summary of significant accounting policies (continued)

1.12 Intangible assets

1.12.1 Goodwill

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

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

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

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

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

1.12.2 Intangible assets other than goodwill

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

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

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

Intangible assets are reviewed for impairment when there are indicators that impairment may have occurred. Should such an indicator exist, or in the instance that an intangible asset is not yet available for use, the asset is tested for impairment by comparing its carrying value with its recoverable amount. Any impairment loss identified is recognised immediately in profit or loss.

	Customer lists and relationships	Computer software development costs	Other
Useful lives	**Finite**	**Finite**	**Finite**
Amortisation method used	Amortised over the period of the expected use on a straight-line basis	Amortised over the period of the expected use from the related project on a straight-line basis	Amortised over the period of the expected use on a straight-line basis
Internally generated or acquired	Acquired	Internally generated	Acquired
Annual amortisation rate (%)	8 – 20	10 – 33	10

1.13 Property and equipment

1.13.1 Property and equipment not subject to lease agreements

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

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

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

1. Summary of significant accounting policies (continued)

1.13 Property and equipment (continued)

1.13.2 Property and equipment subject to lease agreements (continued)

1.13.2.1 Property and equipment subject to lease agreements

As lessee

Where the Group is a lessee, a right-of-use asset and corresponding lease liability are recognised at the lease commencement date. The right-of-use asset is initially and subsequently measured at cost with depreciation recognised on a straight-line basis over the lease term. The right-of-use asset is included within 'property and equipment' in the statement of financial position. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease, if readily determinable, or the lessee's incremental borrowing rate. After the commencement date, a lessee shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability determined and reducing the carrying amount to reflect the lease payments made. Any revisions to in-substance fixed lease payments, reassessment or lease modifications will be reflected by re-measuring the carrying amount of the lease liability. Interest is recognised within net interest income and the lease liability is included within 'other liabilities' in the statement of financial position.

The lease payments in relation to short-term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term.

As lessor

Finance leases

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

Operating leases

An operating lease is a lease in which substantially all of the risks and rewards of the leased assets remain with the lessor. Where the Bank is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group recognises leased assets relating to excess space within branches. As such items do not meet the definition of investment property per IAS 40, they are recognised on the statement of financial position within property and equipment.

1.13.3 Investment properties

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

1.14 Repossessed properties

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

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

1.15 Non-current assets held for sale

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

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

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

1.16 Cash and cash equivalents

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

1. Summary of significant accounting policies (continued)

1.17 Provisions, contingent liabilities and commitments

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

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

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

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

1.18 Employee benefits

1.18.1 Post-retirement benefits

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

Defined contribution schemes

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

Defined benefit schemes

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

Costs arising from current service cost, interest on net defined benefit liability or asset, past service cost settlements are recognised in profit or loss.

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

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

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

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

Post-employment medical aid plans

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

1.18.2 Staff costs

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

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

1.18.3 Share-based payments

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

Employee services settled in equity instruments

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

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

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

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

Employee services settled in cash

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

1. Summary of significant accounting policies (continued)

1.19 Tax

1.19.1 Current tax

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

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

1.19.2 Deferred tax

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

1.19.3 Dividends withholding tax

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

1.19.4 Value added tax (VAT)

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

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

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

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

1.20 Treasury shares

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

1.21 Reporting changes overview

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

1.21.1 Correction of prior period error and reclassifications

The Group has identified a statement of financial position misclassification between 'Loans and advances to banks' and 'Loans and advances to customers' as well as 'Deposits from banks' and 'Deposits from customers' as clients were incorrectly classified as a bank as opposed to a customer. This has resulted in R14.6bn (2019: R7.5bn) being reported as 'Loans and advances to banks', which should have been disclosed as 'Loans and advances to customers' and R6.5bn (R1.3bn) included in 'Deposits from banks', which should have been reported as 'Deposits from customers' for the 2020 reporting period.

In accordance with IAS 8 requirements, the Group has restated the statement of financial position for the 2019 and 2020 reporting periods. This has no impact on the statement of comprehensive income, statement of changes in equity and statement of cash flows.

1. Summary of significant accounting policies (continued)

1.21 Reporting changes overview (continued)

1.21.1 Correction of prior period error and reclassifications (continued)

The restatement presents the Group with the opportunity to align the statement of financial position presentation of loans and advances and deposits to that of peer banks, i.e., combining 'Loans and advances to banks' and 'Loans and advances to customers' to be reported in one line as 'Loans and advances', and similarly combining 'Deposits due to customers' and 'Deposits due to banks' to be reported in one line as 'Deposits'. The change will enhance the Group's comparability and relevance to its peers in the market. The impact of the restatement and combining the aforementioned items are disclosed below. The loans and advances and deposits split between customers and banks is still disclosed in the notes. Refer to notes 7 and 18.

	31 December 2020			
	As previously reported Rm	Correction of error Rm	Aggregation of banks and customers Rm	Restated Rm
Assets				
Loans and advances to banks	84 538	(14 612)	(69 926)	—
Loans and advances to customers	929 969	14 612	(944 581)	—
Loans and advances	—	—	1 014 507	1 014 507
Liabilities				
Deposits from banks	96 106	(6 536)	(89 570)	—
Deposits due to customers	951 894	6 536	(958 430)	—
Deposits	—	—	1 048 000	1 048 000

	1 January 2020			
	As previously reported Rm	Correction of error Rm	Aggregation of banks and customers Rm	Restated Rm
Assets				
Loans and advances to banks	59 745	(7 484)	(52 261)	—
Loans and advances to customers	916 978	7 484	(924 462)	—
Loans and advances	—	—	976 723	976 723
Liabilities				
Deposits from banks	117 423	(1 278)	(116 145)	—
Deposits due to customers	826 293	1 278	(827 571)	—
Deposits	—	—	943 716	943 716

1.21.2 Changes to reportable segments and business portfolios

- In line with the vision to become a truly Pan-African bank, Retail and Business Banking (RBB) and Corporate and Investment Bank (CIB) will be managed on a Pan-Africa basis. The Absa Regional Operations (ARO) centre, which had largely been providing support to the in-country RBB teams, has been merged into RBB SA with RBB ARO now run as a business alongside the existing RBB SA businesses. CIB was already set up as a Pan-African business with support provided by the centre. The Group's operating segments have subsequently been updated to reflect the aforementioned change in operating model.
- The Group continued refining its cost allocation methodology, resulting in the below restatement of operating expenses between and within segments.
- RBB changed to **R34 545m** (previously reported: R34 571m).
- CIB changed to **R10 114m** (previously reported: R10 239m).
- Head Office and Treasury operations changed to **R917m** (previously reported: R586m).

These numbers are inclusive of previously reported ARO segment.

- A portion of the Commercial Property Finance portfolio, previously reported in RBB SA, has been moved to CIB in line with portfolio segmentation criteria. The CIB net carrying amount changed to **R121 603m** (previously reported: R122 421m). Additionally, this resulted in a reclassification from wholesale overdrafts to mortgages to align to the product offering of the respective segments.
- The Group restructured some of the business units within RBBSA, which had a resultant impact on the consolidation stripe reported within Head Office and Other operations. This resulted in a change in other assets and other liabilities, specifically loans to and from Group companies between these two segments, with no change at a Group level. The inter-segment impact was an **R885m** reduction in other assets and an **R885m** increase in other liabilities within the segment.

The aforementioned segment and business changes have resulted in the restatement of financial results for the respective segments but have not impacted the overall position or net earnings of the Group. Refer to note 55.

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

1. Summary of significant accounting policies (continued)

1.22 New standards and interpretations not yet adopted

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

1.22.1 IFRS 17 *Insurance Contracts*

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

IFRS 17 introduces a general measurement model that measures groups of insurance contracts based on fulfilment cash flows (comprising probability-weighted current estimates of future cash flows, an explicit entity specific adjustment for non-financial risk and the use of an appropriate discount rate) and a contractual service margin (effectively representing the unearned profit). As a result, no profit may be recognised at inception of an insurance contract, and profit is rather recognised over the coverage period. Losses are however immediately recognised on initial recognition for contracts where fulfilment cash flows are a net outflow. The use of this measurement model involves a significant degree of estimates and judgements in measuring a group of insurance contracts; such as methods used to determine the risk adjustment and discount rate. The general measurement model is expected to be applied mainly to the Group's long-term insurance products.

The premium allocation approach is a simplified measurement model that may be applied when certain conditions are fulfilled:

- The coverage period of each contract in the group is one year or less; or
- The use of this method would produce a measurement that would not differ materially from the measurement if the general measurement model had been applied.

Under the premium allocation approach, the amount relating to remaining service is measured by allocating the premium over the coverage period. Not only is this measurement model more simplified, it also provides for a more cost effective option as opposed to the general measurement model. This approach will be applied mainly to the Group's short-term businesses.

The general measurement model has specific modifications applicable to accounting for reinsurance contracts, direct participating contracts and investment contracts with discretionary participation features.

IFRS 17 is effective for the first annual reporting period beginning on or after 1 January 2023 and should be applied retrospectively. As the Group has chosen not to early adopt the standard; the transition period for the Group commences from 1 January 2022.

IFRS 17 sets out the following transition methods available that will need to be applied for each group of insurance contracts. These methods include:

- **The full retrospective approach** – This approach is compulsory if the entity can practically source all the information required to account for the in-force book at transition as if IFRS 17 has always applied.
- **The modified retrospective approach** – An entity has the option to use the modified retrospective approach to the extent that it does not have reasonable and supportable information to apply the full retrospective approach. The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available at the transition date without undue cost or effort.
- **The fair value approach** – Permitted as an alternative to the modified retrospective approach for a group of contracts when full retrospective application of that group of contracts is impracticable, or required when full retrospective application of a group of contracts is impracticable and an entity cannot obtain reasonable and supportable information for that group of contracts to use the modified retrospective approach. To apply the fair value approach, an entity should determine the contractual service margin or loss at the transition date as the difference between the fair value of a group of insurance contracts and the IFRS 17 fulfilment cash flows measured at that date. In determining the fair value, an entity must apply the requirements of IFRS 13 *Fair Value Measurement*.

The full retrospective approach is expected to be applied to the Group's short-term business and most of its life insurance products whilst the fair value approach is expected to be applied for most products incepted pre-2016.

Unpacking of the new concepts within the accounting standard have largely been concluded to support the base case methodologies and interpretations which are being used in the transition and impact assessments. In 2022, the new finance process will be established with parallel runs commencing from Q1, 2022 to ensure the end to end solution inclusive of the transition and impact assessment is fully understood, quantified and implemented ahead of the compliance date of 1 January 2023.

The IFRS 17 programme is currently on track to deliver an integrated actuarial and finance solution.

1.22.2 Amendment to IAS 16 *Property, Plant and Equipment* for proceeds received before intended use

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It further clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted.

1.22.3 Amendment to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted.

1. Summary of significant accounting policies (continued)

1.22 New standards and interpretations not yet adopted (continued)

1.22.4 Amendments to IFRS 3 *Business Combinations*

The amendments to IFRS 3 intends to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework). The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

1.22.5 Amendments resulting from annual improvements 2018-2020 Cycle for the following standards

The following changes are effective for annual reporting periods beginning on or after 01 January 2022:

- IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

1.22.6 Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendment is effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted.

1.22.7 Amendments to IAS 1 *Classification of liabilities as current or non-current*

The amendments aim to help companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

1.22.8 Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Error*

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, whilst changes in accounting policies are generally applied retrospectively to past transactions and other past events. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

1.22.9 Amendments to IAS 1 and IFRS *Practice Statement 2 Disclosure of Accounting Policies*

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

1.22.10 Amendments to IAS 12 Deferred Tax related to *Assets and Liabilities arising from a Single Transaction*

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

	Group 2021 Rm	Group 2020 Rm
2. Cash, cash balances and balances with central banks		
Balances with other central banks	**17 543**	13 450
Balances with the SARB	**27 684**	25 460
Coins and bank notes	**14 577**	14 403
Money market assets	**6 259**	7 371
Gross cash, cash balances and balances with central banks	**66 063**	60 684
Impairment losses	**(22)**	(2)
	66 041	60 682

Included above are money market assets of **R1 077m** (2020: R1 085m) which are linked to investment contracts (refer to note 20.1).

The minimum reserve balance to be held in cash with the SARB is calculated under the provision of Regulation 27 and cannot be utilised in the normal course of business. The balance is 2.5% of the adjusted liabilities as set out in Regulation 27. The required average daily minimum reserve balance must be held with the SARB from the fifteenth business day of the month, up to and including the fourteenth business day of the following month based on the latest BA 310 return submitted to the SARB.

	Group 2021 Rm	Group 2020 Rm
3. Investment securities		
Government bonds[1]	**121 653**	105 523
Listed equity instruments	**3 315**	2 406
Other debt securities[1]	**13 487**	18 760
Treasury bills	**47 255**	23 949
Unlisted equity and hybrid instruments	**3 202**	2 873
Gross investment securities	**188 912**	153 511
Impairment losses	**(14)**	(7)
	188 898	153 504

Government bonds of **R8 281m** (2020: R4 074m) which relate to repurchase agreements have been pledged with the SARB and other central banks.

Impairment losses relate to expected credit losses raised on investment securities held at amortised cost. Expected credit losses of **R399m** (2020: R221m) has been recognised on investment securities at FVOCI.

[1] In December 2020, the Group inadvertently disclosed some government bonds in other debt securities. As a result, government bonds have been restated from R65 985m to R105 523m and other debt securities have been restated from R58 298m to R18 760m.

	Group 2021 Rm	Group 2020 Rm
4. Trading and hedging portfolio assets		
Commodities	**642**	1 082
Debt instruments	**79 395**	67 217
Derivative assets (refer to note 56.3 and 56.4)	**55 728**	98 852
Commodity derivatives	**920**	627
Credit derivatives	**142**	159
Equity derivatives	**8 581**	4 997
Foreign exchange derivatives	**11 579**	23 244
Interest rate derivatives	**34 506**	69 825
Equity instruments	**47 283**	35 243
Money market assets	**20 031**	11 127
Total trading portfolio assets	**203 079**	213 521
Hedging portfolio assets (refer to note 56.3)	**5 159**	11 000
	208 238	224 521

Trading portfolio assets with carrying values of **R37 907m** (2020: R13 407m) and **R2 810m** (2020: R1 837m) were pledged as security for repurchase and scrip lending agreements respectively. These assets are pledged for the duration of the respective agreements.

Included within debt instruments are financial assets traded in the debt capital market with an original maturity of more than one year such as government and corporate bonds.

Included within money market assets are highly liquid financial assets with an original maturity of one year or less, such as floating rate notes, negotiable certificates of deposit, treasury bills, promissory notes, commercial paper and bankers' acceptance notes.

	Group 2021 Rm	Group 2020 Rm
5. Other assets		
Accounts receivable and prepayments	**14 510**	11 795
Deferred costs	**238**	238
Deferred acquisition costs (refer to note 5.1)	**57**	50
Other deferred costs	**181**	188
Inventories	**250**	248
Cost	**392**	387
Write-down	**(142)**	(139)
Retirement benefit fund surplus (refer to note 43)	**475**	405
Settlement accounts	**8 782**	7 800
Gross other assets	**24 255**	20 486
Impairment losses	**(99)**	(69)
	24 156	20 417
5.1 Deferred acquisition costs		
Balance at the beginning of the reporting period	**50**	49
Additions	**272**	262
Disposals/releases/amortisation charge	**(266)**	(259)
Foreign exchange movement	**1**	(2)
Balance at the end of the reporting period	**57**	50

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

	Group 2021 Rm	Group 2020 Rm
6. Non-current assets and non-current liabilities held for sale		
Non-current assets held for sale		
Balance at the beginning of the reporting period	**144**	3 992
Disposals	**(93)**	(3 831)
Impairment of an NCAHFS (refer to note 37)	**(1)**	(33)
Transfer from cash, cash balances and balances with central banks	**454**	16
Transfer from property and equipment (refer to note 12)	**15**	132
Transfer from loans and advances to banks	**114**	—
Transfer from investments linked to investment contracts	**3 176**	—
Transfer from goodwill and intangible assets (refer to note 13)	**55**	—
Transfer from other assets	**99**	—
Transfer from investment securities	**274**	—
Transfer from deferred tax assets	**24**	—
Movement in loans and advances to banks	**—**	(30)
Movement in other assets	**—**	(26)
Movement in investment securities	**—**	(9)
Movement in reinsurance assets	**—**	(61)
Movement in property and equipment	**—**	(2)
Movement in deferred tax assets	**—**	(13)
Movement in foreign exchange rates	**(2)**	9
Balance at the end of the reporting period	**4 259**	144
Non-current liabilities held for sale		
Balance at the beginning of the reporting period	**—**	112
Transfer from deferred tax liabilities	**1**	—
Transfer from other liabilities	**250**	—
Transfer from provisions (refer to note 17)	**38**	—
Transfer from liabilities linked to investment contracts (refer to note 20)	**3 176**	
Movement in policyholder liabilities under insurance contracts	**—**	(85)
Movement in other liabilities	**—**	(33)
Movement in foreign exchange rates	**—**	6
Balance at the end of the reporting period	**3 465**	—

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

- Head Office, Treasury and other operations disposed of property and equipment with a carrying amount of **R93m**.
- Following a strategic review of the business, Absa have agreed a transaction to sell the Absa Investment Cluster (comprising Absa Asset Management (Pty) Ltd, Absa Alternative Asset Management (Pty) Ltd, Absa Fund Managers Ltd (excluding the Absa Prudential Money Market Fund), Absa Multi-Managers (a division of Absa Investment Management (Pty) Ltd) and Absa's NewFunds (RF) Proprietary Limited (excluding the commodity ETF business). While the transaction does not directly include the disposal of investment funds held by the Group in a number of related unit trust investment funds, it will result in the de-consolidation of these funds linked to the transaction. Consequently, these funds were also reclassified as non-current assets and liabilities held for sale. Total assets of **R4 196m** and total liabilities of **R3 465m** were reclassified into the non-current assets and liabilities held for sale category relating to the sale targeted for conclusion before the end of 2022. The assets and liabilities transferred into non-current asset and liabilities for sale comprised mainly investments linked to investment contracts, cash and bank balances, investment securities, trade receivables, goodwill and intangible assets and liabilities linked to investment contracts.
- Head Office, Treasury and other operations transferred property and equipment with a carrying amount of **R15m** to non-current assets held for sale and a **R1m** impairment was recognised on remaining assets previously classified as held for sale.
- Foreign exchange movements resulted in a **R2m** decrease in assets.

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

- RBB disposed of the Edcon loan book with a carrying amount of R3 829m and property and equipment with a carrying amount of R2m.
- Head Office, Treasury and other operations transferred property and equipment with a carrying amount of R132m to non-current assets held for sale and a R17m impairment was recognised on remaining assets previously classified as held for sale.
- First Assurance Tanzania was disposed of in the prior year (refer note 54.3). The movements in Head Office, Treasury and other operations that relate to the disposal are: loans and advances to banks (decrease of R30m), other assets (decrease of R26m), investment securities (decrease of R9m), reinsurance assets (decrease of R61m), property and equipment (decrease of R2m), deferred tax assets (decrease of R13m), policyholder liabilities under insurance contracts (decrease of R85m) and other liabilities (decrease of R33m). A R16m impairment was recognised arising from the disposal of First Assurance for Rnil consideration.
- Foreign exchange movements resulted in a R9m and R6m increase in assets and liabilities, respectively.

	Group 2021 Rm	Group 2020 Rm
7. Loans and advances to customers		
Corporate overdrafts and specialised finance loans	**20 479**	13 778
Credit cards	**46 223**	44 759
Foreign currency loans	**39 260**	40 168
Instalment credit agreements	**113 312**	101 452
Finance lease receivables (refer to note 7.1)	**3 529**	3 892
Loans to associates and joint ventures (refer to note 48.4)	**25 909**	26 869
Micro loans	**3 448**	4 241
Mortgages[1]	**377 777**	334 401
Other advances	**17 989**	17 164
Overdrafts	**56 431**	52 234
Overnight finance[2]	**26 702**	29 803
Personal and term loans	**144 416**	150 139
Preference shares	**27 439**	25 089
Reverse repurchase agreements (Carries)[2]	**60 208**	43 247
Wholesale overdrafts[1]	**95 622**	100 978
Gross loans and advances to customers[2]	**1 058 744**	988 214
Gross loans and advances to banks[2]	**74 953**	69 989
Gross loans and advances	**1 133 697**	1 058 203
Impairment losses	**(41 440)**	(43 696)
Impairment losses for loans and advances to customers	**(41 358)**	(43 633)
Impairment losses for loans and advances to banks	**(82)**	(63)
Net loans and advances	**1 092 257**	1 014 507

The Group has securitised certain loans and advances to customers, the total value of these securitised assets is **R6 933m** (2020: R6 545m). Included in the above are collateralised loans of **R1 673m** (2020: R1 376m) relating to securities borrowed.

The amount pledged is the required threshold of cash collateral based on specific arrangements with different counterparties. Exposures are reviewed on a periodic basis, whereby these thresholds are adjusted accordingly. The financial assets pledged are under terms that are usual and customary to such arrangements.

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

Included in both gross loans and advances to customers, and in the total allowance for impairment losses, is accrued interest in suspense of **R5 362m** (2020: R5 622m).

Included above in gross loans and advances to banks are reverse repurchase agreements of **R25 784m** (2020: R27 323m[1]) and other collateralised loans of **R24m** (2020: R59m) relating to securities borrowed.

	Group 2021 Gross advances Rm	Group 2021 Unearned finance charges Rm	Group 2021 Net advances Rm	Group 2020 Gross advances Rm	Group 2020 Unearned finance charges Rm	Group 2020 Net advances Rm
7.1 Finance lease receivables						
Maturity analysis						
Less than one year	**169**	**(15)**	**154**	1 007	(15)	992
Between one and five years	**2 876**	**(176)**	**2 700**	3 153	(312)	2 841
More than five years	**817**	**(142)**	**675**	86	(27)	59
Gross carrying amount	**3 862**	**(333)**	**3 529**	4 246	(354)	3 892

The Group enters into finance lease contracts in respect of motor vehicles, equipment and medical equipment.

The majority of these agreements are denominated in South African Rand and the average term entered into is five years.

Under the terms of the agreements, no contingent rentals are payable.

Unguaranteed residual values of finance leases are **R1 781m** (2020: R1 972m).

[1] Prior period numbers have been restated, refer to note 1.21.2.

[2] Prior period numbers have been restated, refer to note 1.21.1.

8. Reinsurance assets

	Group 2021 Rm	Group 2020 Rm
Insurance contracts (refer to note 21)		
Life insurance contracts	175	141
Short-term insurance contracts	557	539
	732	680

Reinsurance assets relate to the portion of the insurance contract liability for which a claim event has not yet occurred, and for which the Group is entitled to recover an amount under its reinsurance arrangements when such a claim event occurs. An amount of **R7m** (2020: R2.5m) is included as part of the 'Accounts receivables and prepayments line' in 'Other assets' (refer to note 5) which relates to the amount receivable from reinsurers for claims made against them.

9. Investments linked to investment contracts

	Group 2021 Rm	Group 2020 Rm
Debt instruments	1 978	1 705
Derivative instruments (refer to note 56.3)	—	2
Listed equity instruments	17 765	17 642
Money market instruments	60	1 306
Unlisted equity and hybrid instruments	—	618
	19 803	21 273

10. Investments in associates and joint ventures

	Group 2021 Rm	Group 2020 Rm
Unlisted investments	1 593	1 601

10.1 Movement in carrying value of associates and joint ventures accounted for under the equity method

	Group 2021 Rm	Group 2020 Rm
Balance at the beginning of the reporting period	1 601	1 648
Share of current reporting period post-tax results	132	(36)
Share of current reporting period results before taxation	183	(44)
Taxation on reporting period results	(51)	8
Disposal of investment	(11)	—
Dividends received	(140)	—
Reversal/(impairment) of investments (refer to note 37)	11	(11)
Balance at the end of the reporting period	1 593	1 601

10.2 Associates and joint ventures

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

	Associates		Joint ventures	
Group share	2021 Rm	2020 Rm	2021 Rm	2020 Rm
Post-tax profit/(losses) from continuing operations	21	25	111	(61)
Total comprehensive income	21	25	111	(61)

	Group 2021 Rm	Group 2020 Rm
10. Investments in associates and joint ventures (continued)		
10.3 Analysis of carrying value of associates and joint ventures accounted for under the equity method		
Unlisted investments		
Shares at cost less impairments	**89**	89
Share of post-acquisition reserves	**1 387**	1 395
Additional capital contribution	**117**	117
	1 593	1 601

	Group 2021 Associates Rm	2021 Joint ventures Rm	2021 Total Rm	2020 Associates Rm	2020 Joint ventures Rm	2020 Total Rm
10.4 Carrying value of associates and joint ventures						
Equity accounted	**422**	**1 171**	**1 593**	402	1 199	1 601
Designated at fair value through profit or loss	**—**	**209**	**209**	—	275	275
	422	**1 380**	**1 802**	402	1 474	1 876

The investment in associates and joint ventures designated at fair value through profit or loss are presented within unlisted equity instruments in 'Investment securities' (refer to note 3).

Refer to note 48.4 for additional disclosure of the Group's investments in associates and joint ventures.

	Group 2021 Rm	Group 2020 Rm
11. Investment properties		
Balance at the beginning of the reporting period	**496**	513
Change in fair value (refer to note 34)	**(31)**	(5)
Disposals/Transfers	**(63)**	(1)
Foreign exchange movements	**19**	(11)
Balance at the end of the reporting period	**421**	496

Investment properties comprise a number of properties leased to third parties for either commercial or residential use. Each of the leases contain an initial rental period ranging from six months to 10 years, depending on the use of the building being leased. Subsequent renewals are negotiated with the lessee. No contingent rentals are charged.

	Group					
	2021			2020		
	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying amount Rm	Cost Rm	Accumulated depreciation and/or impairments Rm	Carrying amount Rm
12. Property and equipment						
Computer equipment	**8 270**	**(6 292)**	**1 978**	8 763	(6 176)	2 587
Freehold property	**6 944**	**(1 032)**	**5 912**	6 674	(945)	5 729
Furniture and other equipment	**12 108**	**(7 284)**	**4 824**	12 367	(6 996)	5 371
Leasehold property	**5**	**—**	**5**	431	(310)	121
Motor vehicles	**110**	**(67)**	**43**	83	(59)	24
Right-of-use assets (refer to note 42)	**6 568**	**(3 360)**	**3 208**	5 449	(2 187)	3 262
	34 005	**(18 035)**	**15 970**	33 767	(16 673)	17 094

	Group										
	2021										
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfer (to)/from investment properties Rm	Transfers[1] Rm	Transfer (to)/from intangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairments charge Rm	Closing balance Rm
Computer equipment	**2 587**	**519**	**(40)**	**—**	**70**	**—**	**—**	**25**	**(1 128)**	**(55)**	**1 978**
Freehold property	**5 729**	**628**	**(80)**	**11**	**(433)**	**(64)**	**(15)**	**218**	**(82)**	**—**	**5 912**
Furniture and other equipment	**5 371**	**271**	**(3)**	**—**	**494**	**—**	**—**	**91**	**(1 264)**	**(136)**	**4 824**
Leasehold property	**121**	**24**	**(15)**	**—**	**(131)**	**—**	**—**	**7**	**(1)**	**—**	**5**
Motor vehicles	**24**	**33**	**(2)**	**—**	**—**	**—**	**—**	**—**	**(12)**	**—**	**43**
Right-of-use assets	**3 262**	**1 048**	**(9)**	**—**	**—**	**—**	**—**	**29**	**(1 121)**	**(1)**	**3 208**
	17 094	**2 523**	**(149)**	**11**	**—**	**(64)**	**(15)**	**370**	**(3 608)**	**(192)**	**15 970**
Note		42		11		13	6		36	37	

	2020										
Reconciliation of property and equipment	Opening balance Rm	Additions Rm	Disposals Rm	Transfer (to)/from investment properties Rm	Transfers[1] Rm	Transfer (to)/from intangible assets Rm	Transfer to non-current assets held for sale Rm	Foreign exchange movements Rm	Depreciation Rm	Impairments charge Rm	Closing balance Rm
Computer equipment	3 501	621	(8)	—	29	33	—	(11)	(1 422)	(156)	2 587
Freehold property	6 242	719	(121)	—	(746)	—	(124)	(148)	(72)	(21)	5 729
Furniture and other equipment	5 487	565	(12)	—	717	—	(8)	(64)	(1 268)	(46)	5 371
Leasehold property	136	3	(1)	—	—	8	—	(3)	(22)	—	121
Motor vehicles	33	5	(1)	—	—	—	—	—	(13)	—	24
Right-of-use assets	3 221	1 277	(60)	—	—	—	—	(31)	(1 145)	—	3 262
	18 620	3 190	(203)	—	—	41	(132)	(257)	(3 942)	(223)	17 094
Note		42		11		13	6		36	37	

Included in the above additions is **R554m** (2020: R679m) that relates to expenditure capitalised to the cost of property and equipment during the course of its construction.

R433m (2020: R746m) of assets under construction was brought in to use during the reporting period (2020: R2m). There were no assets under construction relating to freehold property that was brought in to use during the reporting period.

R15m (2020: R132m) was transferred to non-current assets held for sale due to a change in the use of the assets.

[1] An amount of **R433m** (2020: R746m) of assets under construction, previously classified as 'Freehold property' has been reclassified to 'Computer equipment' **R70m** (2020: R29m), and 'Furniture and other equipment' **R494m** (2020: R717m) whilst the remaining transfers of **R131m** have been reclassified from 'Leasehold property' (2020: R0m) to 'Furniture and other equipment'.

	Group					
	2021			2020		
	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying amount Rm	Cost Rm	Accumulated amortisation and/or impairments Rm	Carrying amount Rm
13. Goodwill and intangible assets						
Computer software development costs	17 259	(6 195)	11 064	15 181	(5 106)	10 075
Customer lists and relationships	255	(231)	24	255	(225)	30
Goodwill	1 049	(295)	754	1 053	(197)	856
Other	155	(94)	61	195	(106)	89
	18 718	(6 815)	11 903	16 684	(5 634)	11 050

	Group									
	2021									
Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Foreign exchange movements Rm	Amor-tisation Rm	Impairment charge Rm	Transfer to non-current assets held for sale Rm	Transfers to/from PPE Rm	Closing balance Rm
Computer software development costs	10 075	3 503	—	(28)	13	(2 394)	(144)	(25)	64	11 064
Customer lists and relationships	30	—	—	—	—	(6)	—	—	—	24
Goodwill	856	—	—	—	22	—	(94)	(30)	—	754
Other	89	—	—	(11)	—	(17)	—	—	—	61
	11 050	3 503	—	(39)	35	(2 417)	(238)	(55)	64	11 903
Note			54.1			36	37	6	12	

	2020									
Reconciliation of goodwill and intangible assets	Opening balance Rm	Additions Rm	Additions through business combi-nations Rm	Disposals Rm	Foreign exchange movements Rm	Amor-tisation Rm	Impairment charge Rm	Transfer to non-current assets held for sale Rm	Transfers to/from PPE Rm	Closing balance Rm
Computer software development costs	9 305	2 976	35	(12)	2	(1 992)	(195)	—	(44)	10 075
Customer lists and relationships	36	—	—	—	—	(6)	—	—	—	30
Goodwill	855	—	—	—	3	—	(2)	—	—	856
Other	104	—	—	—	1	(19)	—	—	3	89
	10 300	2 976	35	(12)	6	(2 017)	(197)	—	(41)	11 050
Note			54.2			36	37	6	12	

The majority of computer software development costs were internally generated with the remainder externally acquired of **R177m**. Included in computer software development costs is **R4 135m** (2020: R3 171m) relating to assets under construction.

R1 531m (2020: R3 788m) of assets under construction relating to computer software was brought into use during the reporting period.

Included in 'Other' intangible assets is brands and licences.

13. Goodwill and intangible assets (continued)

	Group 2021 Rm	2020 Rm
Composition of goodwill		
Absa Asset Management Proprietary Limited	—	30
Absa Bank Ghana Limited	63	63
Absa Bank Mauritius Limited	47	43
Absa Bank Uganda Limited	118	106
Absa Instant Life Proprietary Limited	20	20
Absa Vehicle and Management Solutions Proprietary Limited	112	112
First Assurance Company Limited	71	94
Global Alliance Seguros S.A.	24	24
Woolworths Financial Services Proprietary Limited	299	364
	754	856

14. Deferred tax

14.1 Reconciliation of net deferred tax (asset)/liability

	Group 2021 Rm	2020 Rm
Balance at the beginning of the reporting period	(3 699)	(3 214)
Deferred tax on amounts charged directly to other comprehensive income and equity	(1 427)	1 201
Credit to profit or loss (refer to note 39)	(226)	(1 806)
Tax effect of translation and other differences	(159)	120
Balance at the end of the reporting period	(5 511)	(3 699)

14.2 Deferred tax (asset)/liability

Tax effects of temporary differences between tax and book value for:

	Group 2021 Rm	2020 Rm
Deferred tax liability	386	587
Prepayments, accruals and other provisions	413	613
Cash flow hedge and financial assets at fair value through other comprehensive income	(27)	(21)
Impairment of loans and advances	—	(5)
Deferred tax asset	(5 897)	(4 286)
Assessed losses	(193)	(189)
Fair value adjustments on financial instruments	(64)	(223)
Cash flow hedge and financial assets at fair value through other comprehensive income	199	1 497
Impairment of loans and advances	(4 666)	(4 172)
Lease and rental debtor allowances	(151)	(111)
Prepayments, accruals and other provisions	(1 803)	(1 815)
Own credit risk	(122)	(112)
Capital allowances	1 042	939
Property allowances	257	234
Retirement benefit assets	(45)	(70)
Share-based payments	(351)	(264)
Net deferred tax (asset)/liability	(5 511)	(3 699)

14.3 Future tax relief

The Group has estimated tax losses of **R1 395m** (2020: R752m) which are available for set-off against future taxable income. Deferred tax assets of **R193m** (2020: R189m[1]) relating to tax losses carried forward were recognised. The assessed losses in Absa Bank Mozambique expire after five years of origination. The Group has actual losses that have not been recognised of **R789m** (2020: R563m).

[1] In December 2020, the Group inadvertently disclosed deferred tax assets of R53m relating to tax losses carried forward. As a result, deferred tax assets relating to tax losses have been restated to R189m.

	Group 2021 Rm	Group 2020 Rm
15. Trading and hedging portfolio liabilities		
Derivative liabilities (refer to note 56.3 and 56.4)	48 169	87 928
Commodity derivatives	824	765
Credit derivatives	842	324
Equity derivatives	2 682	3 152
Foreign exchange derivatives	12 687	20 895
Interest rate derivatives	31 134	62 792
Short positions	24 650	21 048
Total trading portfolio liabilities	72 819	108 976
Hedging portfolio liabilities (refer to note 56.3)	3 659	4 868
	76 478	113 844

	Group 2021 Rm	Group 2020 Rm
16. Other liabilities		
Accruals	3 307	3 339
Audit fee accrual	197	185
Cash-settled share-based payment liability (refer to note 53)	133	184
Creditors	15 793	14 709
Deferred income	222	242
Lease liabilities	3 755	3 905
Retirement benefit funds and post-retirement medical plan obligations (refer to note 43)	715	852
Settlement balances	24 287	10 489
	48 409	33 905

	Group 2021 Staff bonuses and incentive provisions Rm	Sundry provisions Rm	Undrawn contractually committed and guarantees provision Rm	Total Rm
17. Provisions				
Balance at the beginning of the reporting period	1 202	1 840	917	3 959
Additions	2 459	965	—	3 424
Amounts used	(803)	(1 065)	—	(1 868)
Reversals	(60)	(184)	—	(244)
Transfer to non-current liabilities held for sale (refer to note 6)	(38)	—	—	(38)
Movement in provisions for financial guarantees, undrawn committed facilities and letters of credit (refer to note 60.2)	—	—	163	163
Balance at the end of the reporting period	2 760	1 556	1 080	5 396

Provisions have been raised on financial guarantees, letters of credit and undrawn committed facilities, which is in line with the requirement of IFRS 9 (refer to note 60.2 for detailed reconciliations of the expected credit losses).

Provisions expected to be recovered or settled within 12 months after the reporting date amount to **R3 188m** (2020: R2 149m). Sundry provisions include amounts with respect to fraud and litigation, claims and card incentive schemes.

	Group 2021 Rm	Group 2020 Rm
18. Deposits		
Customers		
Call deposits[1]	**136 443**	114 789
Cheque account deposits	**301 371**	268 826
Credit card deposits	**2 137**	2 033
Fixed deposits	**238 730**	230 300
Foreign currency deposits[1]	**54 075**	46 814
Notice deposits	**70 148**	74 139
Other deposits	**1 901**	1 834
Repurchase agreements[1]	**21 863**	11 007
Savings and transmission deposits	**249 068**	208 689
Total deposits due to customers	**1 075 736**	958 431
Banks		
Call deposits[1]	**9 488**	16 544
Fixed deposits	**12 667**	7 877
Foreign currency deposits[1]	**12 441**	17 676
Other deposits	**10 393**	8 662
Repurchase agreements[1]	**52 541**	38 811
Savings and transmission deposits	**500**	—
Total deposits due to banks	**98 030**	89 570
Total deposits	**1 173 766**	1 048 001

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

	Group 2021 Rm	Group 2020 Rm
19. Debt securities in issue		
Commercial paper	**1 913**	4 504
Credit linked notes	**15 165**	11 151
Floating rate notes	**34 693**	48 723
Negotiable certificates of deposit	**38 978**	42 670
Other	**2 124**	1 394
Promissory notes	**2**	49
Senior notes	**38 100**	37 149
Structured notes and bonds	**101**	100
	131 076	145 740

	Group 2021 Rm	Group 2020 Rm
20. Liabilities under investment contracts		
Net balance at the beginning of the reporting period	**27 533**	29 700
Change in investment contracts (refer to note 31)	**2 011**	2 158
Cash inflows on investment contracts	**4 308**	5 638
Policyholder benefits paid on investment contracts	**(9 666)**	(10 057)
Other	**116**	94
Transfer to non-current liabilities held for sale (refer to note 6)	**(3 176)**	—
Net balance at the end of the reporting period	**21 126**	27 533
Intercompany eliminations[2]	**57**	41
Gross balance at the end of the reporting period	**21 183**	27 574

[1] These numbers have been restated, refer to note 1.21.1.
[2] Intercompany eliminations relate to investments held in products of the Group.

20. Liabilities under investment contracts (continued)

	Group 2021 Total assets/ (liabilities) backing the investment contracts Rm	Group 2021 Intercompany eliminations[1] Rm	Group 2021 Net assets/ (liabilities) attributable to external policyholders Rm
20.1 Assets and liabilities backing the investment contracts			
Deferred taxation (refer to note 14.2)[2]	(14)	—	(14)
Money market assets (refer to note 2)	1 189	(112)	1 077
Investments linked to investment contracts (refer to note 9)	20 094	(291)	19 803
Other assets	39	(27)	12
Other liabilities	(132)	88	(44)
Reinsurance asset (refer to note 8)	7	(7)	—
	21 183	(349)	20 834

	2020 Total assets/ (liabilities) backing the investment contracts Rm	2020 Intercompany eliminations[1] Rm	2020 Net assets/ (liabilities) attributable to external policyholders Rm
Deferred taxation (refer to note 14.2)[2]	(17)	—	(17)
Money market assets (refer to note 2)	1 204	(119)	1 085
Investments linked to investment contracts (refer to note 9)	26 464	(5 191)	21 273
Other assets	64	(35)	29
Other liabilities	(146)	113	(33)
Reinsurance asset (refer to note 8)	5	(5)	—
	27 574	(5 237)	22 337

	Group 2021 Gross Rm	Group 2021 Reinsurance Rm	Group 2021 Net Rm
21. Policyholder liabilities under insurance contracts			
Short-term insurance contracts:			
Claims outstanding (refer to note 21.1)	1 004	(363)	641
Claims reported and loss adjustment expense	765	(275)	490
Claims incurred but not reported	239	(88)	151
Unearned premiums at the end of the reporting period	1 090	(194)	896
Balance at the beginning of the reporting period	996	(219)	777
Foreign exchange movement	24	(10)	14
Increase during the reporting period	1 448	(124)	1 324
Release during the reporting period	(1 378)	159	(1 219)
	2 094	(557)	1 537
Long-term insurance contracts (refer to note 21.2)	3 637	(175)	3 462
	5 731	(732)	4 999

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

[2] This amount relates to the deferred tax asset recognised on investment contracts. This amount of **R14m** (2020: R17m) is included as part of the overall deferred tax asset balance per note 14.2.

21. Policyholder liabilities under insurance contracts (continued)

	2020 Gross Rm	2020 Reinsurance Rm	2020 Net Rm
Short-term insurance contracts:			
Claims outstanding (refer to note 21.1)	868	(320)	548
Claims reported and loss adjustment expense	656	(227)	429
Claims incurred but not reported	212	(93)	119
Unearned premiums at the end of the reporting period	996	(219)	777
Balance at the beginning of the reporting period	983	(209)	774
Foreign exchange movement	(9)	(1)	(10)
Increase during the reporting period	1 494	(94)	1 400
Release during the reporting period	(1 472)	85	(1 387)
	1 864	(539)	1 325
Long-term insurance contracts (refer to note 21.2)	2 334	(141)	2 193
	4 198	(680)	3 518

	Group 2021 Rm	Group 2020 Rm
Comprising:		
Unit-linked insurance contracts	**2 541**	1 334
Gross	**2 796**	1 445
Reinsurance (refer to note 8)	**(255)**	(111)
Non-unit-linked insurance contracts	**2 458**	2 184
Gross	**2 935**	2 753
Reinsurance (refer to note 8)	**(477)**	(569)
	4 999	3 518

21. Policyholder liabilities under insurance contracts (continued)

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

	Group		
	2021		
	Gross Rm	Reinsurance Rm	Net Rm
Balance at the beginning of the reporting period	868	(320)	548
Foreign exchange movements	65	(28)	37
Cash paid for claims settled during the reporting period	(1 977)	63	(1 914)
Increase in claims arising from the current reporting period's claims outstanding	2 061	(78)	1 983
Decrease in claims arising from the previous reporting period's claims outstanding	(13)	—	(13)
Balance at the end of the reporting period (refer to note 21)	1 004	(363)	641

	2020		
	Gross Rm	Reinsurance Rm	Net Rm
Balance at the beginning of the reporting period	1 143	(515)	628
Foreign exchange movements	(13)	(3)	(16)
Cash paid for claims settled during the reporting period	(1 876)	200	(1 676)
Increase in claims arising from the current reporting period's claims outstanding	1 474	(2)	1 472
Increase in claims arising from the previous reporting period's claims outstanding	140	—	140
Balance at the end of the reporting period (refer to note 21)	868	(320)	548

21.2 Reconciliation of gross long-term insurance contracts

	Group	
	2021 Rm	2020 Rm
Balance at the beginning of the reporting period	2 334	2 205
Change in insurance contract liabilities (refer to note 31)	788	104
Insurance premium income (refer to note 29)	5 854	5 456
Claims and benefits incurred (refer to note 30)	(3 777)	(2 484)
Experience variances and change in assumptions	(1 289)	(2 868)
Foreign exchange movements[1]	73	(58)
Other[1]	442	83
Balance at the end of the reporting period (refer to note 21)	3 637	2 334
Recoverable from reinsurers (refer to note 8)	175	141
Net liabilities	3 462	2 193
Unit-linked liabilities	1 275	1 202
Non-linked liabilities	2 187	991
	3 637	2 334

[1] In 2020, the Group inadvertently disclosed the incorrect 'foreign exchange movement' and the 'Other' balances. This has led to a restatement of 'foreign exchange movement' from R83 to (R58) and the 'Other' balance from (R58) to R83.

22. Borrowed funds

			Group 2021 Rm	Group 2020 Rm
Subordinated callable notes issued by Absa Bank Limited				
Interest rate	**Final maturity date**	**Note**		
Consumer Price Index linked notes fixed at 5.50%	7 December 2028	i	**1 500**	1 500
Subordinated callable notes issued by Absa Group Limited				
11.74%	20 August 2026	ii	**—**	140
11.81%	3 September 2027	iii	**737**	737
12.43%	5 May 2026	iv	**—**	200
Three-month JIBAR + 2.13%	17 May 2030	v	**2 676**	2 676
Three-month JIBAR + 2.40%	11 April 2029	vi	**1 580**	1 580
Three-month JIBAR + 2.45%	29 November 2028	vii	**1 500**	1 500
Three-month JIBAR + 3.60%	3 September 2027	viii	**30**	30
Three-month JIBAR + 4.00%	5 May 2026	ix	**—**	31
Three-month JIBAR + 4.00%	20 August 2026	x	**—**	1 510
Three-month JIBAR + 4.00%	3 November 2026	xi	**—**	500
Three-month JIBAR + 3.78%	17 March 2027	xii	**642**	642
Three-month JIBAR + 3.85%	25 May 2027	xiii	**500**	500
Three-month JIBAR + 3.85%	14 August 2029	xiv	**390**	390
Three-month JIBAR + 3.15%	30 September 2027	xv	**295**	295
Three-month JIBAR + 3.45%	29 September 2029	xvi	**1 014**	1 014
USD 6.25%	25 April 2028	xvii	**4 952**	4 952
USD 6.375%	n/a	xviii	**6 866**	—
Subordinated callable notes issued by other subsidiaries				
Absa Bank of Botswana Limited, Bank rate + 2.25%	14 November 2028	xix	**136**	136
Other				
Accrued interest			**1 196**	1 108
Fair value adjustments			**60**	418
Foreign exchange movement			**2 526**	902
			26 600	20 761

i. The 5.50% CPI linked notes may be redeemed in full at the option of Absa Bank Limited on 7 December 2023. Interest is paid semi-annually in arrears on 7 June and 7 December of each year, provided that the last day of payment shall be 7 December 2028. If Absa Bank Limited does not exercise the redemption option, a coupon step-up of 150 basis points (bps) shall apply.

ii. The 11.74% fixed rate notes were redeemed in full on 20 August 2021.

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

iv. The 12.43% fixed rate notes were redeemed in full on 5 May 2021.

v. The three-month JIBAR plus 2.13% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 May 2025. Interest is paid quarterly in arrears on 17 February, 17 May, 17 August and 17 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 May 2025. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

vi. The three-month JIBAR plus 2.40% floating rate notes may be redeemed in full at the option of Absa Group Limited on 11 April 2024. Interest is paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October. Absa Group Limited has the option to exercise the redemption on any interest payment date after 11 April 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

vii. The three-month JIBAR plus 2.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 November 2023. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

22. Borrowed funds (continued)

viii. The three-month JIBAR plus 3.60% floating rate notes may be redeemed in full at the option of Absa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

ix. The three-month JIBAR plus 4.00% floating rate notes were redeemed in full on 5 May 2021.

x. The three-month JIBAR plus 4.00% floating rate notes were redeemed in full on 20 August 2021.

xi. The three-month JIBAR plus 4.00% floating rate notes were redeemed in full on 3 November 2021.

xii. The three-month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xiii. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xiv. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

xvi. The three-month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xvii. The 6.25% fixed rate reset callable USD notes with a nominal amount of USD400m may be redeemed in full at the option of Absa Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on 27 April 2023. The reset margin is 3.523% per annum.

xviii. The 6.375% fixed rate reset unsecured and perpetual notes with a nominal amount of USD500m have no fixed redemption date. The notes qualify as Additional Tier 1 capital for the Group. The Group is obliged to pay interest on each interest payment date unless: (a) it elects not to pay the relevant interest amount on such interest payment date in whole or in part and for any reason; (b) it is in breach of either (i) the Capital Regulations or (ii) the Solvency Condition on the business day prior to such interest payment date or would be in breach of the Capital Regulations or the Solvency Condition if the relevant interest amount were paid on such interest payment date; or (c) at any time the Prudential Authority imposes a mandatory prohibition on the payment by the Issuer of such interest amount. The interest is payable semi-annually in arrears on 27 May and 27 November each year, commencing on 27 November 2021. The reset dates are every 5 years. The interest rate is 6.375% from the issue date to (but excluding) the first reset date, 27 November 2026. Thereafter, the interest rate will be reset to an interest applicable to the relevant reset period.

xix. The Botswana Bank repo rate + 2.25% floating rate notes issued by Absa Bank of Botswana Limited, with a nominal amount of BWP103m, may be redeemed in full on 14 November 2023. The interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Bank of Botswana Limited has the option to exercise the redemption on any interest payment date after 14 November 2023. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

Note xvii to xviii are listed on the London Stock Exchange.

Note xix is listed on the Botswana Stock Exchange.

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

	Group 2021 Rm	Group 2020 Rm

23. Share capital, premium and other equity

23.1 Ordinary share capital

	2021 Rm	2020 Rm
Authorised		
891 774 054 (2020: 891 774 054) ordinary shares of R2.00 each	**1 784**	1 784
Issued		
847 750 679 (2020: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696
17 465 332 (2020: 18 961 880) treasury shares held by Group entities	**(36)**	(39)
	1 660	1 657
Total issued capital		
Share capital	**1 660**	1 657
Share premium	**10 644**	10 561
	12 304	12 218

Authorised shares
During the current reporting period, the authorised share capital remained unchanged with a par value of R2 each.

Unissued shares
The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Group.

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

23.2 Treasury shares

The Absa Group Limited Share Incentive Trust, Absa Life Limited and Absa Capital Securities Proprietary Limited hold treasury shares of **1 485 177** (2020: 2 981 725) which is utilised by the Group as a vehicle from which share incentive awards are granted and held in the entities' share portfolios.

The Absa Empowerment Trust holds treasury shares of **15 980 155** (2020: 15 980 155) which is an independent empowerment trust whose subsidiary owns Absa Group Limited shares to be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment structure.

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

23.3 Directors' interests in the Group's ordinary shares

	Direct number of shares		Indirect number of shares		Total direct and indirect number of shares	
	Beneficial		Beneficial		Beneficial	
	2021	2020	2021	2020	2021	2020
Present directors						
C Beggs[1]	**2 000**	2 000	**—**	—	**2 000**	2 000
W E Lucas-Bull	**1 000**	1 000	**4 625**	4 625	**5 625**	5 625
PB Matlare[2]	**92 709**	92 709	**—**	—	**92 709**	92 709
J P Quinn	**122 662**	104 033	**—**	—	**122 662**	104 033
D Mminele[3]	**—**	—	**—**	—	**—**	—
P E Modise[4]	**24 786**	—	**—**	—	**24 786**	—
Prescribed officers						
A Rautenbach	**188 347**	163 536	**—**	—	**188 347**	163 536
C Russon	**130 364**	113 412	**—**	—	**130 364**	113 412
	561 868	476 690	**4 625**	4 625	**566 493**	481 315

There was no movement in shareholding between the reporting date and the date of approval of the financial statements.
No directors hold any non-beneficial interests in the Group's ordinary shares.

[1] Retired 4 June 2021.
[2] Passed away on 7 March 2021.
[3] Resigned 20 April 2021.
[4] Appointed 23 April 2021.

24. Other reserves

24.1 General credit risk reserve

The general credit risk reserve consists of the following:

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

24.2 Fair value through other comprehensive income reserve

The fair value reserve comprises only the cumulative net change in the fair value of debt instruments measured at FVOCI, until such time as they are derecognised. Upon derecognition of debt instruments measured at FVOCI, the cumulative amount recognised in other comprehensive income is released to profit or loss. Since the cumulative net change in the fair value of equity instruments designated as at FVOCI is not recycled to profit or loss upon derecognition, the Group recognises the cumulative net change in fair value of these instruments in retained earnings.

24.3 Cash flow hedging reserve

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

24.4 Foreign currency translation reserve

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

24.5 Foreign insurance subsidiary regulatory reserve

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

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

24.6 Share-based payment reserve

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

24.7 Associates' and joint ventures' reserve

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

24.8 Retained earnings

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

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

	Group 2021 Rm	Group 2020 Rm
25. Non-controlling interest and other equity		
25.1 Preference shares		
Authorised		
30 000 000 (2020: 30 000 000) non-cumulative, non-redeemable listed preference shares of R0.01 each	**1**	1
Issued		
4 944 839 (2020: 4 944 839) non-cumulative, non-redeemable listed preference shares of R0.01 each	**1**	1
Total issued capital		
Share capital	**1**	1
Share premium	**4 643**	4 643
	4 644	4 644

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

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

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

		Group 2021 Rm	Group 2020 Rm
25.2 Other equity: Additional Tier 1 capital			
Subordinated callable notes issued by Absa Group Limited			
Interest rate	**Date of issue**		
Three-month JIBAR + 5.65%	11 September 2017	**1 500**	1 500
Three-month JIBAR + 4.75%	9 October 2018	**1 241**	1 241
Three-month JIBAR + 4.50%	28 May 2019	**1 678**	1 678
Three-month JIBAR + 4.25%	5 December 2019	**1 376**	1 376
Three-month JIBAR + 4.55%	26 October 2020	**1 209**	1 209
		7 004	7 004

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the Issuer) on 12 September 2022, 10 October 2023, 28 November 2024, 5 June 2025 and 27 October 2025 subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the Additional Tier 1 Notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments.

	Group 2021 Rm	Group 2020 Rm
26. Interest and similar income		
Interest and similar income is earned from:		
Cash, cash balances and balances with central banks	24	22
Interest on hedging instruments	2 270	1 557
Investment securities	12 710	11 498
Loans and advances[1]	74 491	79 974
Corporate overdrafts and specialised finance loans	961	767
Credit cards	5 927	6 158
Foreign currency loans	1 096	805
Instalment credit agreements and finance lease receivables	9 092	9 025
Loans to associates and joint ventures	1 376	1 662
Microloans	432	726
Mortgages	22 010	23 268
Other advances	925	1 285
Overdrafts	4 298	5 511
Overnight finance	964	1 180
Personal and term loans	17 102	16 481
Preference shares	1 608	1 453
Reverse repurchase agreements	8	—
Wholesale overdrafts	6 169	8 509
Banking	2 523	3 144
	89 495	93 051
Classification of interest and similar income		
Interest on hedging instruments	2 270	1 557
Cash flow hedges (refer to note 56.7)	3 985	—
Fair value hedging instruments	(1 715)	1 557
Interest on financial assets held at amortised cost	79 807	82 701
Interest on financial assets measured at FVOCI	5 766	7 006
Interest on financial assets measured at fair value through profit or loss	1 652	1 787
Cash, cash balances and balances with central banks	1	15
Investment securities	153	42
Loans and advances to customers	1 498	1 730
	89 495	93 051

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

[1] These numbers have been restated, refer to note 1.21.1.

27. Interest expense and similar charges

Interest expense and similar charges are paid on:

	Group 2021 Rm	Group 2020 Rm
Borrowed funds	2 164	2 153
Debt securities in issue	8 128	11 900
Deposits	27 190	30 462
Deposits due to customers	26 298	29 385
Call deposits	5 262	4 086
Cheque account deposits	3 692	3 716
Credit card deposits	4	3
Fixed deposits	6 839	8 596
Foreign currency deposits	182	249
Notice deposits	3 118	3 485
Other deposits due to customers	757	993
Savings and transmission deposits	6 444	8 257
Deposits from banks	892	1 077
Call deposits	350	378
Fixed deposits	333	482
Foreign currency deposits	110	178
Other	99	39
Interest on hedging instruments	(1 739)	(738)
Interest incurred on lease liabilities (refer to note 42)	361	417
Other	69	—
	36 173	44 194

Classification of interest expense and similar charges

	Group 2021 Rm	Group 2020 Rm
Interest on hedging instruments	(1 739)	(738)
Cash flow hedges (refer to note 56.7)	(321)	(471)
Fair value hedging instruments	(1 418)	(267)
Interest on financial liabilities measured at amortised cost	37 912	44 932
	36 173	44 194

	Group 2021 Rm	Group 2020 Rm
28. Net fee and commission income		
Consulting and administration fees	483	575
Insurance commission received	973	766
Investment, markets execution and investment banking fees	394	390
Merchant income	2 439	2 209
Other fee and commission income	556	488
Transactional fees and commissions	19 447	19 301
Cheque accounts	4 715	5 112
Credit cards	2 518	2 340
Electronic banking	5 808	5 333
Other	4 884	4 864
Savings accounts	1 522	1 652
Trust and other fiduciary services	1 257	1 391
Portfolio and other management fees	952	1 092
Trust and estate income	305	299
Fee and commission income	25 549	25 120
Fee and commission expense	(3 475)	(3 523)
Brokerage fees	(95)	(100)
Cheque processing fees	(16)	(99)
Clearing and settlement charges	(1 000)	(1 000)
Insurance commission paid	(1 128)	(1 091)
Notification fees	(235)	(250)
Other	(881)	(897)
Valuation fees	(120)	(86)
	22 074	21 597

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

	Group 2021 Rm	Group 2020 Rm
28.1 Included above are net fees and commissions linked to financial instruments not at fair value		
Cheque accounts	4 715	5 112
Credit cards	2 518	2 340
Electronic banking	5 808	5 333
Other	4 884	4 864
Savings accounts	1 522	1 652
Fee and commission income	19 447	19 301
Fee and commission expense	(2 047)	(2 000)
	17 400	17 301

Credit cards include acquiring and issuing fees.

Other transactional fees and commissions income include service and credit-related fees of **R1 766m** (2020: R1 587m), exchange commission **R680m** (2020: R603m) and guarantees **R325m** (2020: R359m).

29. Net insurance premium income

	Group 2021 Rm	Group 2020 Rm
Gross insurance premiums	9 932	9 441
Life insurance contracts	5 854	5 456
Short-term insurance contracts	4 078	3 985
Premiums ceded to reinsurers	(1 154)	(1 155)
Reinsurance on life insurance contracts	(642)	(601)
Reinsurance on short-term insurance contracts	(512)	(554)
	8 778	8 286
Comprising (net of reinsurance)		
Life	5 212	4 855
Bank embedded cover	5	6
Credit life	2 039	1 851
Funeral business	1 220	1 177
Group life	263	228
Home mortgage protection	614	611
Other	1 071	982
Short-term	3 566	3 431
Commercial business	54	(7)
Personal business	3 512	3 438
	8 778	8 286

30. Net claims and benefits incurred on insurance contracts

	Group 2021 Rm	Group 2020 Rm
Gross claims and benefits incurred on insurance contracts	6 539	4 753
Life insurance claims and benefits	3 777	2 484
Short-term insurance claims and benefits	2 762	2 269
Reinsurance recoveries	(1 025)	(548)
Reinsurance recoveries on life insurance contracts	(697)	(363)
Reinsurance recoveries on short-term insurance contracts	(328)	(185)
	5 514	4 205
Comprising (net of reinsurance)		
Life	3 080	2 121
Bank embedded cover	3	2
Credit life	1 037	702
Funeral business	601	445
Group life	248	212
Home mortgage protection	679	434
Other	512	326
Short-term	2 434	2 084
Commercial business	60	45
Personal business	2 374	2 039
	5 514	4 205

Notes to the consolidated financial statements

for the reporting period ended 31 December

	Group 2021 Rm	Group 2020 Rm
31. Changes in investment and insurance contract liabilities		
Change in insurance contract liabilities (refer to note 21.2)	788	104
Change in investment contract liabilities (refer to note 20)[1]	2 011	2 158
	2 799	2 262

	Group 2021 Rm	Group 2020 Rm
32. Gains and losses from banking and trading activities		
Net gains/(losses) on investments	55	(77)
Debt instruments designated at FVTPL	(2)	179
Equity instruments mandatorily measured at FVTPL	(63)	(288)
Unwind from reserves for debt instruments measured at FVOCI	120	32
Net trading result	6 561	6 593
Net trading income excluding the impact of hedge accounting	7 066	6 016
Ineffective portion of hedges	(505)	577
Cash flow hedges	(539)	566
Fair value hedges	34	11
Other (losses)	(10)	(137)
	6 606	6 379
Net trading result and other gains on financial instruments		
Net trading income excluding the impact of hedge accounting	7 066	6 016
(Losses)/Gains on financial instruments designated at FVTPL	(2 451)	10 190
Net (losses)/gains on financial assets designated at FVTPL	(835)	3 543
Net (losses)/gains on financial liabilities designated at FVTPL	(1 616)	6 647
Gains/(losses) on financial instruments mandatorily measured at FVTPL	9 517	(4 174)
Other (losses)	(10)	(137)
(Losses)/gains on financial instruments designated at FVTPL	(769)	841
Gains/(losses) on financial instruments mandatorily measured at FVTPL	759	(978)

	Group 2021 Rm	Group 2020 Rm
33. Gains and losses from investment activities		
Net gains/(losses) on investment activities	2 681	2 216
Policyholder insurance contracts	472	231
Policyholder investment contracts[1]	1 997	1 701
Shareholder funds	212	284
Other gains/(losses)	23	(17)
	2 704	2 199
Classification of gains/(losses) from investment activities		
Gains on financial instruments designated at fair value through profit and loss	2 684	2 217
Other	(3)	(1)
	2 681	2 216

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

	Group 2021 Rm	Group 2020 Rm
34. Other operating income		
Foreign exchange differences, including amounts recycled from other comprehensive income	169	143
Income from investment properties	(28)	—
Change in fair value (refer to note 11)	(31)	(5)
Rentals	3	5
Revenue arising from contracts with customers	137	112
Income from maintenance contracts	37	36
Loss on disposal of intangible assets	(1)	—
Profit on sale of property and equipment	90	65
Profit on disposal of developed properties	7	7
Gross sales	17	13
Cost of sales	(10)	(6)
Profit on sale of repossessed properties	4	4
Gross sales	18	22
Cost of sales	(14)	(18)
Insurance proceeds received related to property and equipment[1]	96	—
Rental income	21	31
Sundry income[2]	340	456
	735	742

	Group 2020 Rm	Group 2020 Rm
35. Impairment losses		
Impairment losses raised during the reporting period	8 883	21 193
Stage 1 expected losses	(2 044)	2 391
Stage 2 expected losses	(400)	5 452
Stage 3 expected losses	11 327	13 350
Losses on modifications	391	33
Recoveries of loans and advances previously written off	(775)	(657)
	8 499	20 569

Refer to COVID-19 section for further detail on impairments.

[1] Insurance proceeds received related to property and equipment amounted to R121m of which R96m is reflected in other operating income and R25m was recovered against the impairment raised (refer to note 37).

[2] Sundry income includes profit on disposal of non-core assets and non-interest income.

	Group 2021 Rm	2020 Rm
36. Operating expenses		
Administration fees	79	529
Amortisation of intangible assets (refer to note 13)	2 417	2 017
Auditors' remuneration	450	414
Audit fees – current reporting period	384	381
Audit fees – underprovision	4	3
Audit-related fees	28	20
Other services	34	10
Cash transportation	1 135	1 181
Depreciation (refer to note 12)	3 608	3 942
Equipment costs	333	353
Maintenance	207	243
Rentals	126	110
Information technology	4 980	4 247
Marketing costs	1 287	1 624
Other	2 299	1 951
Printing and stationery	288	342
Professional fees	2 362	2 717
Property costs	1 882	1 970
Staff costs	26 133	25 407
Bonuses	2 695	1 308
Deferred cash and share-based payments (refer to note 53)	616	468
Other	878	1 316
Salaries and current service costs on post-retirement benefit funds	21 564	21 910
Training costs	380	405
Straight-line lease expenses on short-term leases and low value assets	204	183
Telephone and postage	1 153	1 121
TSA direct costs	—	113
	48 610	48 111

Audit-related fees include fees paid for assurance reports performed on behalf of various regulatory bodies. Professional fees include research and development costs totalling **R193m** (2020: R250m). Other staff costs include recruitment costs, membership fees to professional bodies, staff parking, restructuring costs, study assistance, staff relocation and refreshment costs. Transitional Services Agreements (TSA) costs relate to costs incurred to Barclays PLC as a result of separation activities.

'Other' includes fraud losses, travel and entertainment costs.

	Group 2021 Rm	2020 Rm
37. Other impairments		
Goodwill (refer to note 13)[1]	94	2
Intangible assets (refer to note 13)[2]	144	195
Investments in associates and joint ventures (refer to note 10)[3]	(11)	11
Non-current assets held for sale[4]	1	33
Property and equipment (refer to note 12)[5]	192	223
	420	464

1 The Group has adjusted goodwill relating to Woolworths Financial Services totalling **R65m** as a result of an acquisition adjustment which was incorrectly accounted for in 2008. This has been corrected in the current financial year, as it is considered immaterial. In addition, goodwill relating to First Assurance Kenya Limited amounting to **R29m** was impaired.

2 The Group has impaired certain software assets totalling **R144m** (2020: R195m) for which the value in use is determined to be zero.

3 Integrated Processing Solutions' board of directors approved the dissolution of IPS in the prior year. An impairment loss of **R11m** (2020: R11m) recognised in the previous financial year was reversed in the current year due to the increase in the recoverable amount of the investment.

4 The Group has impaired certain assets totalling **R1m** (2020: R33m) which have been classified as held for sale under IFRS 5.

5 The Group has decided to dispose of certain property and equipment classified as held for sale under IFRS 5 resulting in an impairment of **Rnil** (2020: R19m). As the property and equipment will be disposed of, the impairment was calculated based on fair value less costs to sell prior to transferring the assets to non-current assets held for sale. In addition, property and equipment amounting to **R192m** (2020: R204m) was impaired without a related transfer to non-current assets held for sale. Included in the R192m, is a R25m relating to property and equipment damaged during the riots, as well as a **R25m** insurance recovery against these damages that occurred in the current reporting period.

	Group 2021 Rm	Group 2020 Rm
38. Indirect taxation		
Training levy	209	177
VAT net of input credits	1 576	1 867
	1 785	2 044

	Group 2021 Rm	Group 2020 Rm
39. Taxation expense		
Current		
Foreign and other taxation	349	337
Current tax	7 327	4 313
Current tax – previous reporting period	(151)	312
	7 525	4 962
Deferred		
Deferred tax (refer to note 14)	(226)	(1 806)
Capital allowances	130	123
Impairment gains/(losses)	(457)	(1 040)
Provisions	(123)	(207)
Movements in prepayments, accruals and other provisions	(180)	(745)
Fair value and similar adjustments through profit and loss	491	(57)
Fair value and similar adjustments in relation to prior year	(30)	(74)
Share-based payments	(57)	194
	7 299	3 156
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	26 724	10 369
Share of post-tax results of associates and joint ventures (refer to note 10)	(132)	36
	26 592	10 405
Tax calculated at a tax rate of 28%	7 446	2 913
Effect of different tax rates in other countries	291	(23)
Expenses not deductible for tax purposes[1]	735	484
Recognition of previously unrecognised deferred tax assets	—	9
Assessed losses[2]	124	—
Dividend Income	(856)	(519)
Non-taxable interest[3]	(526)	(344)
Other income not subject to tax	(15)	(33)
Other	48	557
Effect of tax rate changes[4]	33	—
Items of capital in nature	19	112
	7 299	3 156

[1] This includes additional tax levies and general non-deductible expenses due to the application of in-country tax legislation.

[2] Assessed losses include reversals of previously recognised tax assets, utilisation of previously unrecognised losses and additional losses incurred where no deferred tax assets were recognised.

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

[4] This relates to tax rate changes in Zambia and Mauritius.

	Group 2021 Rm	Group 2020 Rm
40. Earnings per share		
40.1 Basic earnings per share		
Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders, by the weighted average number of ordinary shares in issue during the reporting period.		
Basic earnings attributable to ordinary equity holders	**17 763**	5 880
Weighted average number of ordinary shares in issue (million)	**830.2**	826.1
Issued shares at the beginning and end of the reporting period (million)	**847.8**	847.8
Treasury shares held by Group entities (million)	**(17.6)**	(21.7)
Basic earnings per share (cents)	**2 139.6**	711.8
40.2 Diluted earnings per share		
Diluted earnings are determined by adjusting profit or loss attributable to the ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential shares.		
Diluted earnings attributable to ordinary equity holders	**17 763**	5 880
Diluted weighted average number of ordinary shares in issue (million)	**831.6**	826.6
Weighted average number of ordinary shares in issue (million)	**830.2**	826.1
Adjustments for share options issued at no value (million)	**1.4**	0.5
Diluted earnings per share (cents)	**2 136.0**	711.3

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

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

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

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

	Group			
	2021		2020	
	Gross Rm	Net Rm	Gross Rm	Net Rm
41. Headline earnings				
Headline earnings is determined as follows:				
Profit attributable to ordinary equity holders of the Group		17 763		5 880
Total headline earnings adjustment:		62		158
IFRS 3 – Goodwill impairment (refer to note 37)	29	29	2	2
IFRS 3 – Gain on bargain purchase (refer to note 54)	—	—	(86)	(86)
IFRS 5 – (Profit)/loss on disposal of non-current assets held for sale	(20)	(16)	(1)	1
IFRS 5 – Re–measurement of non-current assets held for sale	1	1	33	29
IAS 16 – Profit on disposal of property and equipment (refer to note 34)	(90)	(71)	(65)	(49)
IAS 16 & 36 – Insurance recovery of property and equipment damaged during riots (refer to note 34 and 37)	(121)	(87)	—	—
IAS 21 – Recycled foreign currency translation reserve	(96)	(74)	(118)	(92)
IAS 28 – (Reversal)/impairment of investments in associates and joint ventures (refer to note 37)	(11)	(11)	11	11
IAS 28 – Profit on disposal of associates and joint ventures	(1)	(1)	—	—
IAS 36 – Impairment of property and equipment (refer to note 37)	217	157	223	162
IAS 36 – Impairment of intangible assets (refer to note 37)	144	110	195	176
IAS 38 – Loss/(Profit) on disposal of intangible assets (refer to note 34)	1	1	(0)	(0)
IAS 40 – Change in fair value of investment properties (refer to note 34)	31	24	5	4
Headline earnings/diluted headline earnings		17 825		6 038
Headline earnings per ordinary share (cents)		2 147.1		730.9
Diluted headline earnings per ordinary share (cents)		2 143.5		730.5

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

	Group	
	2021 Rm	2020 Rm
42. Leases		
The following amounts have been recognised in the statement of comprehensive income in respect of leases for which the Group is the lessee:		
Depreciation charge for right-of-use assets (refer to note 12)	1 121	1 145
Property	1 101	1 129
Computer equipment	6	7
Motor vehicles	14	9
Interest expense on lease liabilities (refer to note 27)	361	417
Expense related to short-term leases	258	241
Expense related to low-value assets	30	25
Variable lease payments	36	28
Right-of-use assets recognised in the statement of financial position relate to the following classes of assets:		
Right-of-use assets (refer to note 12)	3 208	3 262
Property	3 181	3 219
Computer equipment	3	10
Motor vehicles	24	33
Total additions to right-of-use assets recognised during the year (refer to note 12)	1 048	1 277
Total cash outflow included in the statement of cash flows related to leases	1 582	1 550
Maturity analysis of lease liabilities – contractual undiscounted cash flows:		
Less than one year	1 153	1 118
Between one and five years	2 652	2 750
More than five years	616	833
Total undiscounted lease liabilities	4 421	4 701
Lease liabilities included in the statement of financial position (refer to note 16)	3 755	3 905

The Group's leases consist mostly of property leases including branches, head offices, ATM sites and other administrative buildings. None of these leases are considered individually significant to the Group. Leases are negotiated for an average term of three to five years, although this differs depending on the jurisdiction and type of property. Some leases will include renewal options but these are generally renewals at market rates to be negotiated at the time of renewing the contract. These rates will only be included in the lease liability once it is reasonably certain that the Group will exercise the extension option. Most leases in the Group have fixed escalations with a limited number of inflation linked leases in jurisdictions outside of South Africa.

	Group 2021 Rm	Group 2020 Rm
43. Retirement benefit obligations		
Surplus disclosed in 'Other assets'		
Absa Pension Fund defined benefit plan (refer to notes 5 and 43.1.1)	465	393
Other defined benefit plans of subsidiaries (refer to notes 5 and 43.2.1)	10	12
	475	405
Obligations disclosed in 'Other liabilities'		
Subsidiaries' post-retirement medical aid plans (refer to notes 16 and 43.3)	303	264
Other defined benefit plans of subsidiaries (refer to notes 16 and 43.2.1)	412	588
	715	852
Statement of comprehensive income charge included in staff costs		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 43.1.6)	25	(30)
Other defined benefit plans of subsidiaries in a deficit position (refer to note 43.2.6)	50	91
Other defined benefit plans of subsidiaries in a surplus position (refer to note 43.2.6)	10	11
Subsidiaries' post-retirement medical aid plans	61	60
	146	132
Recognised in other comprehensive income		
Absa Pension Fund defined benefit plan in a surplus position (refer to note 43.1.6)	(98)	104
Other defined benefit plans of subsidiaries in a deficit position (refer to note 43.2.6)	(151)	438
Other defined benefit plans of subsidiaries in a surplus position (refer to note 43.2.6)	(10)	(4)
Subsidiaries' post-retirement medical aid plans	(18)	(5)
	(277)	533

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

43.1 The Absa Pension Fund

The Absa Pension Fund (the Fund) is governed by the Pension Funds Act of 1956, which requires that an actuarial valuation of the Fund be carried out at least once every three years. The most recent statutory valuation of the Fund was effected on 31 March 2021 and confirmed that the Fund was in a sound financial position. This valuation was in accordance with the Pension Funds Second Amendment Act of 2001 (the PF Act).

The valuation has been performed using the projected unit credit method in respect of the defined benefit portion. The asset ceiling of the Fund is limited to the Employer Surplus Account (ESA). According to the Fund rules and the PF Act, the ESA can be used for a number of purposes including funding a deficit in the Fund, enhancing benefits of the Fund or enabling a contribution holiday.

Refer to the 'Impact of COVID-19' section of the financial statements for a discussion of the effect of COVID-19 on the retirement benefit fund obligations of the Group.

In terms of section 7 of the PF Act, notwithstanding the rules of a fund, every fund must have a board of trustees consisting of at least four Board members, at least 50% of whom the members of the Fund have the right to elect. The objective of the Board is to direct, control and oversee the operations of a fund in accordance with the applicable laws and the rules of the Fund. In carrying out this objective, the Board must take all reasonable steps to ensure that the interests of members in terms of the rules of the Fund and the provisions of this Act are protected at all times that they act with due care, diligence and good faith; and avoid conflicts of interest. The Board must act independently and with impartiality in respect of all members and beneficiaries. The members of the board have a fiduciary duty to members and beneficiaries in respect of accrued benefits or any amount accrued to provide a benefit, as well as a fiduciary duty to the Fund, to ensure that the Fund is financially sound and is responsibly managed and governed in accordance with the rules and the PF Act.

The rules of the Fund were amended in July 2015 to allow a retiring member who had joined the Fund before 1 July 2015 the choice to receive either a conventional annuity or a living annuity from the Fund (as was previously the case) or to purchase a pension from a registered insurer (new option). Members joining the Fund on or after 1 July 2015 have the choice to receive a living annuity from the Fund or to purchase a pension from a registered insurer.

Should a retiree elect a conventional annuity, the Bank is thereafter exposed to longevity and other actuarial risk. The conventional annuity is calculated based on the defined contribution plan assets at the retirement date. The Bank is therefore not exposed to any asset return risk prior to the election of this option, i.e. the retirement date. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan. The valuation of the option is included in the defined benefit obligation. The assets and liabilities of the defined contribution active members are separately presented. Pensioners who have elected to receive a living annuity as well as members who joined the Fund on/after 1 July 2015 have been excluded from the IAS 19 disclosures as the employer is not exposed to any longevity or other actuarial risk in respect of these members. Net defined benefit plan assets relating to these pensioners that have elected to receive a living annuity amount to **R4 180m** (2020: R3 541m).

	Group Absa Pension Fund 2021	Group Absa Pension Fund 2020
43. Retirement benefit fund obligations (continued)		
43.1 Absa Pension Fund (continued)		
Categories of the Fund		
Defined benefit active members	**13**	14
Defined benefit deferred pensioners	**1**	2
Defined benefit pensioners	**8 084**	8 225
Defined contribution active members	**18 405**	19 544
Defined contribution pensioners	**2 963**	2 942
Duration of the scheme – defined benefit (years)	**8.3**	9.0
Duration of the scheme – defined contribution (years)	**18.9**	19.6
Duration of the scheme – defined contribution option (years)	**—**	15.2
Expected contributions to the Fund for the next 12 months (Rm)	**1 121.6**	1 162.0

The benefits provided by the defined benefit portion of the Fund are based on a formula, taking into account years of membership and remuneration levels. The benefits provided by the defined contribution portion of the Fund are determined by accumulated contributions and return on investments.

While the Fund as a whole has been classified as a defined benefit fund for IAS 19 purposes, the defined contribution portion provides its members with an asset-based return. The Bank has measured the liability for the defined contribution portion of the Fund at the fair value of the assets upon which the benefits are based.

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

Over the year, the investment strategy of the Trustee Portfolio moved to a fully matching strategy with the objective of matching the investment strategy for these assets to the nature, term and cash flows of the current pensions in payment, together with the future targeted pension increases (as a percentage of inflation).

The abovementioned strategy is known as a Liability Driven Investment (LDI) strategy. The portion of the assets in the Trustee Portfolio not invested in the liability matching strategy or reserve accounts are invested in growth assets to create some possible upside for funding increases above the policy increase. The assets in the liability matching strategy will mainly be invested in South African nominal and inflation-linked government bonds. This strategy aims to fully match the reasonable benefit expectations of the pensioners to receive annual pension increases in line with the inflation target chosen by a pensioner at retirement.

	Group 2021 Rm	Group 2020 Rm
43.1.1 Reconciliation of the net defined benefit plan surplus		
Reconciliation of the net surplus		
Present value of funded obligations	**(30 870)**	(26 100)
Defined benefit portion	**(7 648)**	(7 319)
Defined contribution portion	**(23 222)**	(18 781)
Fair value of the plan assets	**33 155**	27 124
Defined benefit portion	**9 933**	8 343
Defined contribution portion	**23 222**	18 781
Funded status	**2 285**	1 024
Irrecoverable surplus (effect of asset ceiling)	**(1 820)**	(631)
Net surplus arising from the defined benefit obligation	**465**	393

	Group 2021 Rm	Group 2020 Rm
43. Retirement benefit fund obligations (continued)		
43.1 Absa Pension Fund (continued)		
43.1.2 Reconciliation of movement in the funded obligation		
Balance at the beginning of the reporting period	**(26 100)**	(26 710)
Defined benefit portion	**(7 319)**	(7 149)
Defined contribution portion	**(18 781)**	(19 561)
Reconciling items – defined benefit portion	**(329)**	(170)
Actuarial (losses)/gains – financial	**(11)**	22
Actuarial gains – experience adjustments	**233**	137
Benefits paid	**748**	794
Current service costs	**(13)**	(13)
Past service costs	**(54)**	—
Interest expense	**(755)**	(667)
Defined contribution member transfers	**(477)**	(443)
Reconciling items – defined contribution portion	**(4 441)**	780
(Increase)/decrease in obligation linked to plan assets return	**(6 562)**	(1 213)
Employer contributions	**(657)**	(692)
Employee contributions	**(524)**	(546)
Disbursements and member transfers	**3 302**	3 231
Balance at the end of the reporting period	**(30 870)**	(26 100)
43.1.3 Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**27 124**	28 832
Defined benefit portion	**8 343**	9 271
Defined contribution portion	**18 781**	19 561
Reconciling items – defined benefit portion	**1 590**	(928)
Benefits paid	**(748)**	(794)
Employer contributions	**1**	1
Interest income	**862**	867
Return on plan assets in excess of interest	**998**	(1 445)
Defined contribution member transfers	**477**	443
Reconciling items – defined contribution portion	**4 441**	(780)
Return on plan assets	**6 562**	1 213
Employer contributions	**657**	692
Employee contributions	**524**	546
Disbursements and member transfers	**(3 302)**	(3 231)
Balance at the end of the reporting period	**33 155**	27 124
43.1.4 Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(631)**	(1 656)
Interest on irrecoverable surplus	**(67)**	(157)
Changes in the irrecoverable surplus in excess of interest	**(1 122)**	1 182
Balance at the end of the reporting period	**(1 820)**	(631)

43. Retirement benefit fund obligations (continued)

43.1 Absa Pension Fund (continued)

43.1.5 Nature of the pension fund assets

Plan assets relating to the defined benefit plan

	Group 2021 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	8 230	1 293	410	9 933
Quoted fair value	7 762	1 272	89	9 123
Unquoted fair value	367	5	272	644
Own transferable financial instruments	101	16	2	119
Investments in listed property entities/funds	—	—	47	47
Defined contribution portion	6 807	15 277	1 138	23 222
Quoted fair value	6 091	15 099	401	21 591
Unquoted fair value	577	4	300	881
Own transferable financial instruments	139	174	—	313
Investments in listed property entities/funds	—	—	437	437
	15 037	16 570	1 548	33 155

	Group 2020 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Defined benefit portion	3 014	4 993	336	8 343
Quoted fair value	2 771	4 982	71	7 824
Unquoted fair value	174	7	151	332
Own transferable financial instruments	69	4	39	112
Investments in listed property entities/funds	—	—	75	75
Defined contribution portion	5 583	11 777	1 421	18 781
Quoted fair value	5 006	11 679	105	16 790
Unquoted fair value	314	8	903	1 225
Own transferable financial instruments	263	90	117	470
Investments in listed property entities/funds	—	—	296	296
	8 597	16 770	1 757	27 124

	Group 2021 Rm	2020 Rm
43. Retirement benefit fund obligations (continued)		
43.1 Absa Pension Fund (continued)		
43.1.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest income	(42)	(43)
Current service cost	13	13
Past service cost	54	—
	25	(30)
Recognised in other comprehensive income:		
Actuarial losses/(gains) – financial	11	(22)
Actuarial adjustments gains – experience	(233)	(137)
Return on plan assets in excess of interest	(998)	1 445
Changes in the irrecoverable surplus in excess of interest	1 122	(1 182)
	(98)	104
43.1.7 Actuarial assumptions used:		
Discount rate (%) p.a.	10.7	10.5
Inflation rate (%) p.a.	6.0	5.2
Expected rate on the plan assets (%) p.a.	10.0	9.2
Future salary increases (%) p.a.	7.0	6.2
Average life expectancy in years of pensioner retiring at 60 – Male	21.9	21.8
Average life expectancy in years of pensioner retiring at 60 – Female	26.8	26.7

	Group 2021	
	Reasonable possible change Rm	Increase/(decrease) on defined benefit obligation Rm
43.1.8 Sensitivity analysis of the significant actuarial assumptions		
Increase in discount rate (%)	0.5	(296)
Increase in inflation (%)	0.5	276
Increase in life expectancy (years)	1	219

	2020	
	Reasonable possible change Rm	Increase/(decrease) on defined benefit obligation Rm
Increase in discount rate (%)	0.5	(278)
Increase in inflation (%)	0.5	305
Increase in life expectancy (years)	1	209

43.1.9 Sensitivity analysis of the significant assumptions

Sensitivity analysis

The aforementioned sensitivity analysis indicates how changes in significant actuarial assumptions would affect the defined benefit portion of **R7 648m** (2020: R7 319m).

The sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. For the purpose of the sensitivity analysis, it is assumed that any change in inflation impacts other inflation-dependent assumptions, i.e. certain pension increases and salary growth. In presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period. The defined contribution obligation of **R23 222m** (2020: R18 781m) does not give rise to any actuarial risks as the measurement is derived from the defined contribution plan assets. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

43. Retirement benefit fund obligations

(continued)

43.2 Other subsidiaries plans

Defined benefit structure

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

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

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

Defined contribution structure

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

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

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

The funds are governed by legislation applicable in the various countries in which the funds are based. The funds are operated on a pre-funded basis. That is, assets are accumulated on a monthly basis with the aim that sufficient funding exists to meet the benefits payable under all modes of exit. Actuarial funding valuations are performed every three years regardless whether or not these are required by legislation. The most recent actuarial valuations of the funds were carried out as at 31 March 2021.

Contributions are generally determined by the employer in consultation with the actuary following the funding valuation to ensure the sustainability and financial soundness of the funds. The staff costs expense for the defined contribution plans is **R182m** (2020: R184m). Surpluses and deficits are dealt with in a manner which is consistent with the funds' rules and applicable legislation. Minimum funding requirements are limited to the deficits of the funds.

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

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

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

43. Retirement benefit fund obligations (continued)

43.2 Other subsidiaries plans (continued)

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

	Group						
	2021						
	Absa Bank of Botswana	Absa Bank of Kenya	Kenya First Assurance	Absa Bank of Zambia	Absa Bank of Seychelles	Absa Bank of Mauritius	Absa Bank of Mozambique
Membership							
Defined benefit active members	—	2	56	—	7	174	847
Defined benefit deferred pensioners	—	797	48	14	8	84	—
Defined benefit pensioners	178	1 436	16	395	2	299	1 063
Defined contribution active members	1 063	1 949	1 949	721	250	560	1 267
Duration of the scheme (years)	8	6	10	3	14	17	8
Expected contribution to the plan for the next 12 months (Rm)	2.7	40.3	—	4.7	2.9	25.5	—

	2020						
	Absa Bank of Botswana	Absa Bank of Kenya	Kenya First Assurance	Absa Bank of Zambia	Absa Bank of Seychelles	Absa Bank of Mauritius	Absa Bank of Mozambique
Membership							
Defined benefit active members	—	3	85	—	7	206	564
Defined benefit deferred pensioners	—	812	43	14	8	74	—
Defined benefit pensioners	187	1 469	9	402	2	281	1 053
Defined contribution active members	1 103	2 100	2 100	771	250	396	1 290
Duration of the scheme (years)	10	7	12	3	15	20	8
Expected contributions to the plan for the next 12 months (Rm)	—	4.5	—	6.5	1.7	11.7	0.8

	Group	
	2021 Rm	2020 Rm
43.2.1 Defined benefit plan reconciliations		
Present value of funded defined benefit obligations	(2 640)	(2 643)
Fair value of the defined benefit plan assets	2 485	2 271
Funded defined benefit plan status	(155)	(372)
Irrecoverable surplus (effect of asset ceiling)	(247)	(204)
Net deficit arising from defined benefit obligation	(402)	(576)
43.2.2 Reconciliation of movement in the defined benefit obligation		
Balance at the beginning of the reporting period	(2 643)	(2 438)
Actuarial losses	266	(340)
Actuarial (losses)/gains – changes in financial assumptions	214	(414)
Actuarial gains/(losses) – experience adjustments	52	74
Benefits paid	201	178
Current service costs	(48)	(33)
Interest expense	(240)	(261)
Past service costs including curtailments	—	(22)
Foreign exchange differences	(176)	273
Balance at the end of the reporting period	(2 640)	(2 643)

	Group 2021 Rm	Group 2020 Rm
43. Retirement benefit fund obligations (continued)		
43.2 Other subsidiaries plans (continued)		
43.2.3 Reconciliation of movement in the plan assets		
Balance at the beginning of the reporting period	**2 271**	2 434
Benefits paid	**(201)**	(178)
Employer contributions	**32**	62
Interest income on the plan assets	**266**	280
Remeasurement – return on plan assets in excess of interest	**(125)**	(77)
Settlement gains/(losses)[1]	**—**	(38)
Foreign exchange differences	**242**	(212)
Balance at the end of the reporting period	**2 485**	2 271
43.2.4 Reconciliation of movement in the irrecoverable surplus		
Balance at the beginning of the reporting period	**(204)**	(184)
Interest on irrecoverable surplus	**(39)**	(28)
Changes in the irrecoverable surplus in excess of interest	**(20)**	(17)
Foreign exchange differences	**16**	25
Balance at the end of the reporting period	**(247)**	(204)

	Group 2021 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
43.2.5 Nature of the defined benefit plan assets				
Quoted fair value	**239**	**628**	**491**	**1 358**
Unquoted fair value	**935**	**49**	**35**	**1 019**
Own transferable financial instruments	**—**	**3**	**29**	**32**
Own occupied or used property	**—**	**—**	**76**	**76**
	1 174	**680**	**631**	**2 485**

	2020 Fair value of plan assets Debt instruments Rm	Equity instruments Rm	Other instruments Rm	Total Rm
Quoted fair value	329	436	361	1 126
Unquoted fair value	679	42	321	1 042
Own transferable financial instruments	8	2	17	27
Own occupied or used property	—	—	76	76
	1 016	480	775	2 271

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

	Group 2021 Rm	Group 2020 Rm
43. Retirement benefit fund obligations (continued)		
43.2 Other subsidiaries plans (continued)		
43.2.6 Movements in the defined benefit plan presented in the statement of comprehensive income		
Recognised in profit or loss:		
Net interest expense	12	9
Current service cost	48	33
Past service cost including curtailments	—	22
Settlements (gains)/losses	—	38
	60	102
Recognised in other comprehensive income:		
Actuarial (gains)/losses – changes in financial assumptions	(214)	414
Actuarial (gains)/losses – experience adjustments	(52)	(74)
Remeasurement – return on the plan assets in excess of interest	125	77
Changes in the irrecoverable surplus in excess of interest	(20)	17
	(161)	434
43.2.7 The actuarial assumptions (weighted averages) include:		
Discount rate (%)	10.5	8.2
Inflation (%)	6.6	4.5
Future pension increases (%)	5.1	4.1
Future salary increases (%)	3.7	3.4
Average life expectancy in years of pensioner retiring at 60 – Male	18.0	18.2
Average life expectancy in years of pensioner retiring at 60 – Female	21.7	22.0

	Group 2021 Reasonable possible change	Group 2021 Increase/ (decrease) on defined benefit obligation Rm
43.2.8 Sensitivity analysis of significant assumptions (weighted averages)		
Significant actuarial assumption		
Increase in discount rate (%)	0.5	(124)
Increase in inflation (%)	0.5	60
Increase in life expectancy (years)	1	80

	2020 Reasonable possible change	2020 Increase/ (decrease) on defined benefit obligation Rm
Significant actuarial assumption		
Increase in discount rate (%)	0.5	(146)
Increase in inflation (%)	0.5	63
Increase in life expectancy (years)	1	84

[1] This relates to the settlement of voluntary retirement obligation in Mauritius.

43. Retirement benefit fund obligations (continued)

43.2 Other subsidiaries plans (continued)

43.2.9 Sensitivity analysis

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

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

43.3 Post-retirement medical aid plans

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

The present value of the post-retirement medical aid plan liabilities is **R303m** (2020: R264m) and the fair value of related plan assets is **R0m** they are in a deficit (2020: R2m).

	Group	
	2021 Rm	2020 Rm
44. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(16 August 2021: 310 cps)** (2020: 0 cps)	2 628	—
Final dividend **(14 March 2022: 475 cps)** (15 March 2021: 0 cps)	4 027	—
	6 655	—
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend **(16 August 2021: 310 cps)** (2020: 0 cps)	2 573	—
Final dividend **(14 March 2022: 475 cps)** (15 March 2021: 0 cps)	3 944	—
	6 517	—
Dividends declared to non-controlling preference equity holders		
Interim dividend **(16 August 2021: 2 470.13699 cps)** (24 August 2020: 2 741.02740 cps)	122	135
Final dividend **(14 March 2022: 2 494.10959 cps)** (15 March 2021: 2 429.86301 cps))	123	120
	245	255
Distributions declared to Additional Tier 1 capital note holders		
Distribution		
11 January 2021: 20 214.47 Rands per note (rpn);10 January 2020: 29 049.32 Rands per note (rpn)	25	36
27 January 2021: 20 085.45 rpn	24	—
26 February 2021: 19 268.38 rpn; 28 February 2020: 28 502.36 rpn	32	47
05 March 2021: 18 786.19 rpn; 05 March 2020: 27 569.26 rpn	26	38
12 March 2021: 22 301.37 rpn; 14 March 2020: 31 039.73 rpn	33	47
12 April 2021: 20 922.52 rpn; 14 April 2020: 30 061.64 rpn	26	37
28 April 2021: 20 423.89 rpn	25	—
28 May 2021: 20 299.23 rpn; 28 May 2020: 27 143.01 rpn	34	46
07 June 2021: 20 326.60 rpn; 05 June 2020: 27 075.73 rpn	28	37
14 June 2021: 23 971.29 rpn; 12 June 2020: 30 392.77 rpn	36	46
12 July 2021: 20 984.85 rpn; 10 July 2020: 24 669.86 rpn	26	31
27 July 2021: 20 280.82 rpn	25	—
30 August 2021: 21 074.03 rpn; 28 August 2020: 21 487.67 rpn	36	36
06 September 2021: 19 778.16 rpn; 07 September 2020: 21 138.41 rpn	27	29
13 September 2021: 23 268.58 rpn; 14 September 2020: 24 702.68 rpn	35	37
11 October 2021: 21 047.18 rpn; 12 October 2020: 22 212.33 rpn	26	28
27 October 2021: 20 751.67 rpn	25	—
29 November 2021: 20 361.56 rpn; 30 November 2020: 20 453.37 rpn	34	34
06 December 2021: 19 738.27 rpn; 07 December 2020: 19 177.32 rpn	27	26
13 December 2021: 23 248.63 rpn; 14 December 2020: 22 500.68 rpn	35	34
	585	589

	Group 2021 Rm	Group 2020 Rm
44. Dividends per share (continued)		
Dividends paid to ordinary equity holders (net of treasury shares)		
Final dividend **(2021: 0 cps)** (20 April 2020: 620 cps)	—	5 115
Interim dividend **(20 September 2021: 310 cps)** (2020: 0 cps)	2 573	—
	2 573	5 115
Dividends paid to non-controlling preference equity holders		
Final dividend **(19 April 2021: 2 429.86301 cps)** (20 April 2020: 3 469.31507 cps)	120	172
Interim dividend **(20 September 2021: 2 470.13699 cps)** (21 September 2020: 2 741.0274 cps)	122	135
	242	307

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

45.1 Reverse repurchase agreements and securities borrowed

As part of the reverse repurchase agreements and securities borrowing agreements, the Group has received securities as collateral that are allowed to be sold or repledged. The fair value of these securities at the reporting date amounts to **R125 113m** (2020: R97 274m) of which **R47 016m** (2020: R55 577m) have been sold or repledged.

45.2 Repurchase agreements and securities lent

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

	Group 2021				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	47 106	(46 510)	47 106	(46 510)	596
Equity instruments	2 810	(1 553)	2 810	(1 553)	1 257

	2020				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Debt instruments	17 480	(17 412)	17 480	(17 412)	68
Equity instruments	1 837	(1 245)	1 837	(1 245)	592

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

46. Transfer of financial assets

46.1 Transfer of financial assets involving structured entities

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

46.2 Transfer of financial assets that does not result in derecognition

	Group				
	2021				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Investment securities	1 716	(1 195)	1 716	(1 195)	521
Loans and advances to customers	7 924	(4 514)	7 924	(4 514)	3 410
	2020				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
Investment securities	2 740	(1 923)	2 740	(1 923)	817
Loans and advances to customers	5 393	(3 786)	5 393	(3 786)	1 607

Balances included within loans and advances to customers represent instances where substantially all the risks and rewards (credit risk and prepayment risk) of the financial asset have been retained by the Group.

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

46.3 Transfer of financial assets that results in partial derecognition

The Group invests in notes of certain SEs. The interest on these notes represents a continuing exposure to the prepayment risk and credit risk of the underlying assets (the transferred assets) which comprise corporate loans. As at the year-end, the Group has not invested in SEs requiring a transfer of financial assets that result in partial derecognition (2020: None).

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

The instance may arise where the Group transfers a financial asset to an SE in its entirety but may have continuing involvement in it. Continuing involvement largely arises from providing financing to the SE in the form of retained notes, which do not bear first losses as they are not considered equity instruments of the SE. As at 31 December 2021, the Group had no continuing involvement where financial assets have been derecognised in their entirety (2020: None).

47. Offsetting financial assets and financial liabilities

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

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

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

Group

	2021							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	66 908	(8 285)	58 623	(37 139)	(2 504)	18 980	2 263	60 886
Reverse repurchase agreements and other similar secured lending	87 689	—	87 689	—	(87 689)	—	—	87 689
Total assets	154 597	(8 285)	146 312	(37 139)	(90 193)	18 980	2 263	148 575
Derivative financial liabilities	(54 043)	7 924	(46 119)	37 139	—	(8 980)	(5 709)	(51 828)
Repurchase agreements and other similar secured borrowings	(76 428)	—	(76 428)	—	76 428	—	—	(76 428)
Total liabilities	(130 471)	7 924	(122 547)	37 139	76 428	(8 980)	(5 709)	(128 256)

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

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

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

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

47. Offsetting financial assets and financial liabilities (continued)

	2020							
	Amounts subject to enforceable netting arrangements							
	Effects of netting on statement of financial position			Related amounts not set off				
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position[1] Rm	Offsetting financial instruments Rm	Financial collateral[2] Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments[3] Rm	Total per statement of financial position[4] Rm
Derivative financial assets	122 782	(24 368)	98 414	(74 288)	(3 169)	20 957	11 440	109 854
Reverse repurchase agreements and other similar secured lending	72 005		72 005	—	(72 005)	—		72 005
Total assets	194 787	(24 368)	170 419	(74 288)	(75 174)	20 957	11 440	181 859
Derivative financial liabilities	(115 091)	24 883	(90 208)	74 288	—	(15 920)	(2 587)	(92 795)
Repurchase agreements and other similar secured borrowings	(52 373)	—	(52 373)	—	52 373	—	—	(52 373)
Total liabilities	(167 464)	24 883	(142 581)	74 288	52 373	(15 920)	(2 587)	(145 168)

Offsetting and collateral arrangements

Derivative assets and liabilities

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

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

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

These offsetting and collateral arrangements and the credit risk mitigation strategies used by the Group are further explained in the Credit risk mitigation, collateral and other credit enhancements section of note 60.

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

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

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

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

48. Related parties

Daniel Mminele announced his resignation as the Group Chief Executive of Absa Group Limited from 30 April 2021. The Board appointed Jason Quinn as the Interim Group Chief Executive Officer and Punkie Modise as the Interim Financial Director with effect from 20 April 2021 and 23 April 2021, respectively.

48.1 Prior period related party events and transactions

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

48.2 Transactions with key management personnel

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

	Group	
	2021 Rm	2020 Rm
Key management personnel compensation		
Directors		
Deferred cash payments	1	2
Non-deferred cash payments	15	3
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	45	50
Share-based payments	16	14
	78	70
Other key management personnel		
Deferred cash payments	3	3
Non-deferred cash payments	31	—
Post-employment benefit contributions	1	1
Salaries and other short-term benefits	36	50
Share-based payments	30	27
	101	81

48. Related parties (continued)

48.1 Transactions with key management personnel (continued)

	Group			
	2021		2020	
	Transactions with key management Rm	Transactions with entities controlled by key management Rm	Transactions with key management Rm	Transactions with entities controlled by key management Rm
Loans				
Balance at the beginning of the reporting period	37	16	48	11
(Discontinuance)/inception of related-party relationships[1]	9	(1)	(11)	7
Loans issued and interest earned	44	1	37	3
Loans repaid	(42)	(11)	(37)	(5)
Balance at the end of the reporting period	48	5	37	16
Interest income	(9)	(3)	(3)	(1)
Deposits				
Balance at the beginning of the reporting period	23	—	3	—
(Discontinuance)/inception of related-party relationships[1]	3	—	—	—
Deposits received	152	4	158	9
Deposits repaid and interest paid	(153)	(4)	(138)	(9)
Balance at the end of the reporting period	25	—	23	—
Interest expense	3	—	1	—
Guarantees	92	20	92	24
Other investments				
Balance at the beginning of the reporting period	90	35	54	42
(Discontinuance)/inception of related-party relationships[1]	—	—	6	—
Value of new investments/contributions	3	—	1	1
Value of withdrawals/disinvestments	(7)	—	(3)	(8)
Fees and charges	—	—	—	—
Investment returns	28	8	32	—
Balance at the end of the reporting period	114	43	90	35

Insurance premiums paid and claims received

Key management personnel paid insurance premiums of **R0m** (2020: R1m) and received claims of **R0m** (2020: R0m).

48. Related parties (continued)

48.2 Subsidiaries and consolidated structured entities

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

			Group	
Name	Nature of business	Country of incorporation	2021 % holding	2020 % holding
Absa Group Limited and its subsidiaries				
Absa Capital Securities Proprietary Limited	Stockbrokers.	South Africa	**100**	100
Absa Development Company Holdings Proprietary Limited	Specialises in township development and sale of residential, commercial and industrial land.	South Africa	**100**	100
Absa Manx Insurance Company Limited	Captive insurance company for the Group and responsible for investment in insurances markets.	Isle of Man	**100**	100
Absa Stockbrokers and Portfolio Management Proprietary Limited	Enables customers to trade online or by telephone in shares, warrants and exchange-traded funds.	South Africa	**100**	100
Absa Securities U.S. Inc.	Broker-dealer trading in debt and equity securities.	United States of America	**100**	100
Absa Securities United Kingdom Limited	Solicitation, syndication, selling and arranging of equity and debt products.	United Kingdom	**100**	100
Absa Bank of Ghana Limited	Provides retail and corporate banking.	Ghana	**100**	100
Absa Bank of Kenya Limited	Provides retail and corporate banking.	Kenya	**69**	69
Absa Bank Mocambique S.A. (BBM)	Commercial bank that provides retail and limited corporate services from a network of outlets and ATMs.	Mozambique	**99**	99
Absa Bank of Botswana Limited	Provides retail and corporate banking.	Botswana	**68**	68
Absa Bank (Mauritius) Limited	Provides retail and corporate banking.	Mauritius	**100**	100
Absa Bank (Seychelles) Limited	Provides retail and corporate banking.	Seychelles	**100**	100
Absa Bank Tanzania Limited	Provides retail and corporate banking.	Tanzania	**100**	100
Absa Bank Uganda Limited	Provides retail and corporate banking.	Uganda	**100**	100
Absa Bank Zambia PLC	Provides retail and corporate banking.	Zambia	**100**	100
Absa Capital Markets Nigeria Limited	Issuing house and underwriter.	Nigeria	**100**	100
Absa Securities Nigeria Limited	Licence for issuing house and underwriter.	Nigeria	**100**	100
Absa Stockbrokers Nigeria Limited	Stockbroking, financial consulting, investment advisors and managers.	Nigeria	**100**	100
National Bank of Commerce Limited (NBC)	Commercial bank that provides retail and limited corporate services from a national network of outlets and ATMs.	Tanzania	**55**	55
Woolworths Financial Services Proprietary Limited	Provides credit cards, in-store cards and personal loans.	South Africa	**50**	50

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

[1] Includes balances relating to key management personnel who were appointed/resigned during the reporting period.

48. Related parties (continued)

48.2 Subsidiaries and consolidated structured entities (continued)

			Group	
Name	Nature of business	Country of incorporation	2021 % holding	2020 % holding
Absa Bank Limited and its subsidiaries	Offers a comprehensive range of retail, commercial, corporate and investment banking services to a wide range of customers and clients.	South Africa	**100**	100
Absa Representative Office (Nigeria) Limited	Representative office to facilitate trade and obtain market share in Nigeria.	Nigeria		100
Absa Technology Prague s.r.o	Provides information technology services to Absa Group.	Czech Republic	**100**	100
Absa Vehicle Management Solutions Proprietary Limited	Operates as a fleet manager providing financial, leasing, maintenance and management services.	South Africa	**100**	100
Home Obligor Mortgages Enhanced Securities (RF) Limited	Securitisation vehicle for Absa Home Loans division.	South Africa	**100**	100
United Towers Proprietary Limited	Investment in and issuance of preference shares.	South Africa	**100**	100
Absa Financial Services and its subsidiaries	Holding company of financial service-related entities.	South Africa	**100**	100
Absa Financial Services Africa Holdings Proprietary Limited	Holding company of African financial service-related entities.	South Africa	**100**	100
Absa Fund Managers (RF) Proprietary Limited	Offers a variety of unit trust investment products, ranging from low-risk fixed-interest funds, such as the Absa Money Market Fund, to higher-risk specialist equity funds investing both domestically and internationally.	South Africa	**100**	100
Absa Alternative Asset Management Proprietary Limited	Asset management.	South Africa	**100**	100
Absa Insurance Company Limited	Short-term insurance provider to house and vehicle owners.	South Africa	**100**	100
Absa Insurance Risk Management Services Limited	Provides short-term insurance and other related insurance products.	South Africa	**100**	100
Absa Life Botswana Proprietary Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Botswana.	Botswana	**100**	100
Absa Life Limited	Provides life assurance products, focusing on risk and investment products, that complement the Group's offerings to various market segments.	South Africa	**100**	100
Absa Trust Limited	Trust administrative services.	South Africa	**100**	100
Absa Life Zambia Limited	Provides life assurance products focusing on risk and investment products that complement Absa's offerings to various market segments in Zambia.	Zambia	**100**	100
Global Alliance Seguros, S.A.	Provides non-life insurance in Mozambique.	Mozambique	**100**	100
First Assurance Holdings Limited	Provides short-term insurance and other related insurance products.		**100**	100
Instant Life Proprietary Limited	Provides life assurance products through cell arrangements.	South Africa	**100**	100

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

48. Related parties (continued)

48.2 Subsidiaries and consolidated structured entities (continued)

Name	Nature of business	Country of incorporation	Group 2021 % holding	Group 2020 % holding
Share trusts				
Absa Group Employee Incentive Trust	Share purchase and option scheme available to senior staff.	South Africa	**n/a**	n/a
Absa Empowerment Trust	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Newshelf 1405 (RF) Proprietary Limited	To be used in the furtherance of the Group's objective of establishing a Broad-Based Black Economic Empowerment scheme.	South Africa	**n/a**	n/a
Structured entities				
Absa Foundation Trust	Provides funding for community upliftment. It receives a percentage of the Group's dividends which it distributes to identified community-related projects.	South Africa	**n/a**	n/a
NewFunds Collective Investment Scheme	Collective investment scheme.	South Africa	**n/a**	n/a
iMpumelelo CP Note Programme 1 (RF) Limited	Special purpose, bankruptcy-remote company incorporated for the purpose of issuing Absa Bank guaranteed commercial paper and medium-term notes.	South Africa	**n/a**	n/a
AB Finco 1 (RF) Limited	Securitisation vehicle.	South Africa	**n/a**	n/a
Absa Home Loans 101 (RF) Limited	Securitisation vehicle.	South Africa	**n/a**	n/a
Commissioner Street No 10 (RF) Proprietary Limited	Securitisation vehicle.	South Africa	**n/a**	n/a

A full list of subsidiaries and consolidated structured entities (SEs) is available, on request, at the registered address of the Group.

	Group 2021 Rm	Group 2020 Rm
Subsidiaries' aggregate profits and losses after taxation	**(17 664)**	4 059

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

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

Regulatory requirements

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

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

The minimum amount of RC required to be maintained by the Group was **R113bn** (2020: R105.2bn).

Contractual requirements

Certain of the Group's securitisation and SEs hold assets or interests in assets that are only available to meet the liabilities of those entities and may have issued public debt securities. The Group has the ability to wind up these structures and repay the notes, but only on the occurrence of certain contingencies, such as changes in tax laws or regulatory requirements. The carrying amount of the assets and liabilities of the entities to which these restrictions apply as at 31 December 2021 was **R14bn** and **R12bn** respectively (2020: R10.5bn and R10.4bn respectively).

Protective rights of non-controlling interests

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

The particulars of these instruments are shown in note 25.

48. Related parties (continued)

48.4 Associates, joint ventures and retirement benefit fund

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

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

	Group		
	2021		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	713	713
Value of Absa defined contribution pension fund investments managed by the Group	—	—	—
Value of Absa Group Limited shares held by defined benefit pension fund	—	23	23
Value of other Absa Group Limited securities held by defined benefit pension fund	—	103	103
Statement of financial position			
Other assets	9	—	9
Loans and advances (refer to note 7)	25 918	—	25 918
Other liabilities	(9)	—	(9)
Deposits	(107)	—	—
Statement of comprehensive income			
Interest income from joint ventures and associates and on pension plan assets[1]	1 371	78	1 449
Interest expense on defined benefit obligation[1]	(5)	78	73
Fee and commission income	—	—	—
Fee and commission expense	(3)	—	(3)
Current service costs (refer to note 43)[1]	—	—	—
Operating expenses	(1 305)	—	(1 305)
Operating income	—	—	—

	2020		
	Associates and joint ventures Rm	Retirement benefit fund Rm	Total Rm
Value of defined benefit pension fund and post-retirement medical aid plan investments managed by the Group	—	581	581
Value of Absa defined contribution pension fund investments managed by the Group	—	—	—
Value of Absa Group Limited shares held by defined benefit pension fund	—	36	36
Value of other Absa Group Limited securities held by defined benefit pension fund	—	556	556
Statement of financial position			
Other assets	6	—	6
Loans and advances to customers (refer to note 7)	26 885	—	26 885
Other liabilities	(12)	—	(12)
Deposit due to customer	(211)	—	(211)
Statement of comprehensive income			
Interest income from joint ventures and associates and on pension plan assets[1]	1 614	99	1 713
Interest expense on defined benefit obligations[1]	(14)	(99)	(113)
Fee and commission income	73	—	73
Fee and commission expense	(3)	—	(3)
Current service costs (refer to note 43)[1]	—	—	—
Operating expenses	(1 182)	—	(1 182)
Operating income	1	—	1

[1] The amounts in relation to our retirement benefit fund are included as part of the staff expense cost in operating expenses note. Such amounts have no effect on the net interest income of the Group.

48. Related parties (continued)

48.4 Associates, joint ventures and retirement benefit fund (continued)

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

		Group	
Name	Nature of business	2021 Ownership %	2020 Ownership %
Equity-accounted associates			
SBV Services Proprietary Limited	Cash transportation services.	25	25
Document Exchange Association	Facilitates the electronic exchange of documents between the banks.	25	25
South African Bankers Services Company Proprietary Limited	Automatic clearing house.	23	23
Equity-accounted joint ventures			
FFS Finance South Africa (RF) Proprietary Limited	Provides financing solutions to Ford Motor Company customers.	50	50
Integrated Processing Solutions Proprietary Limited	Joint venture with Standard Bank Group Limited involved in cheque processing activities.	—	50
MAN Financial Services (SA) (RF) Proprietary Limited	Joint venture with MAN Financial Services GmbH for financing of trucks and buses.	50	50
Zeerust Joint Venture	Engaged in property investment.	55	55
John Deere Financial Proprietary Limited	Undertakes marketing activities for asset financing of John Deere products.	50	—
Associates and joint ventures designated at fair value through profit or loss	Various.	Various	Various

All associates and joint ventures are incorporated in South Africa.

A full list of associates and joint ventures is available, on request, at the registered address of the Group.

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

49. Structured entities

Exchange-traded funds

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

Securitisation vehicles

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

49. Structured entities (continued)

Fund management

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

Structured investment vehicles

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

Preference share funding vehicles

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

Funding vehicles

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

49.1 Consolidated structured entities

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

			Group	
Name	Nature of support	Reason for providing support	2021 Rm	2020 Rm
The Absa Foundation Trust	Donation	The Trust was constituted to fund community upliftment and social welfare programmes.	9	46
Various ETF portfolios	Expense subsidy	Subsidising the fixed cost incurred by the new ETF funds as the funds cannot yet cover their own costs due to low levels of market capitalisation..	0	3

The Group has consolidated The Absa Foundation Trust since 2006 and new ETFs since 2017.

The Group intends to provide financial support to the Absa Foundation Trust and any new ETFs in 2022.

49. Structured entities (continued)

49.2 Unconsolidated structured entities

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

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

	Group						
	2021						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Investment securities	—	173	234	—	4 225	—	4 632
Debt securities	—	—	234	—	—	—	234
Equity securities	—	173	—	—	4 225	—	4 398
Loans and advances to customers	26 632	—	—	593	—	15	27 240
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	240	—	—	240
	26 632	173	234	833	4 225	15	32 112
Liabilities							
Derivatives held for trading	—	—	—	—	—	—	—
Interest rate derivatives (carrying value)	—	—	—	—	—	—	—
Interest rate derivatives (notional value)[1]	—	—	—	—	—	—	—
Deposits due to customers	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
Maximum exposure to loss[2]	26 632	173	234	833	4 225	15	32 112
Total size of entities[3]	120 168	108 704	234	1 631	27 987	15	258 739

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

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

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

49. Structured entities (continued)

49.2 Unconsolidated structured entities (continued)

	Group						
	2020						
	Preference funding vehicles Rm	Fund management Rm	Structured investment vehicles Rm	Securitisation vehicles Rm	Exchange traded funds Rm	Funding vehicles Rm	Total Rm
Assets							
Investment securities	—	187	213	—	3 374	—	3 774
Debt securities	—	—	213	—	—	—	213
Equity securities	—	187	—	—	3 374	—	3 561
Loans and advances to customers	23 745	—	—	707	—	37	24 489
Undrawn liquidity facilities and financial guarantees (notional value)[1]	—	—	—	272	—	—	272
	23 745	187	213	979	3 374	37	28 535
Liabilities							
Derivatives held for trading	—	—	—	—	—	—	—
Interest rate derivatives (carrying value)	—	—	—	—	—	—	—
Interest rate derivatives (notional value)[1]	—	—	—	—	—	—	—
Deposits due to customers	—	—	—	—	—	—	—
Maximum exposure to loss[2]	23 745	187	213	979	3 374	37	28 535
Total size of entities[3]	117 510	165 624	213	1 840	31 214	37	316 438

The Group did not incur losses related to the Group's interests in unconsolidated structured entities in the current financial reporting period (2020: Rnil).

Financial support provided or to be provided to unconsolidated structured entities

The Group did not provide any financial support during the current financial reporting period (2020: Rnil) to unconsolidated structured entities.

49.3 Sponsored entities

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

Assets transferred to unconsolidated sponsored structured entities

The Group did not transfer assets during the current financial reporting year (2020: Rnil) to its unconsolidated sponsored structured entities.

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

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

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

	Group	
	(Unaudited) 2021 Rm	(Unaudited) 2020 Rm
50. Assets under management and administration		
Alternative asset management and exchange-traded funds	**64 647**	68 039
Deceased estates	**6 397**	3 234
Other	**315 616**	274 620
Portfolio management	**21 472**	18 765
Trusts	**5 638**	5 294
Unit trusts	**158 346**	211 059
	572 116	581 011

'Other' assets includes those for which custody and trustee services are provided. It includes assets managed on behalf of Absa Bank Limited and Absa Group Limited.

	Group	
	2021 Rm	2020 Rm
51. Contingencies, commitments and similar items		
Guarantees	**48 828**	45 405
Irrevocable debt facilities	**180 023**	176 264
Letters of credit	**17 782**	12 722
	246 633	234 391
Authorised capital expenditure		
Contracted but not provided for	**938**	758

Guarantees include performance guarantee contracts and financial guarantee contracts.

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

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice.

Irrevocable debt facilities do not include other lending facilities which are revocable but for which an impairment provision has been raised (i.e. revolving products). The value of exposure to these other lending facilities is included in the credit risk disclosure, whereas the above table presents only those gross loan commitments that are contractually committed and are legally irrevocable.

Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

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

51. Contingencies, commitments and similar items (continued)

Legal matters

The Group has been party to proceedings against it during the reporting period. As at reporting date the following material cases were considered:

- In previous years, Absa received a claim under a guarantee issued by it to secure the obligations of a subsidiary, for an amount of US$64m. In 2021, the matter has been withdrawn by the other party and is no longer considered a contingent liability.

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

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

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

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

Regulatory developments

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

The nature and impact of future changes in the legal framework, policies and regulatory action especially in the areas of financial crime, banking and insurance regulation, cannot currently be fully predicted and are beyond the Group's control. We are also awaiting policy positions to be taken by Regulators. Some of these are likely to have an impact on the Group's customers, business lines, systems and earnings.

The Group is continuously evaluating its programmes and controls in general relating to compliance with regulation and responding to the same. The Group undertakes monitoring, review and assurance activities, and has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and has made disclosures on material findings as and when appropriate. The Group continues to ensure we have a strengthened relationship with its Regulators and manage such engagements on a continuous basis.

During 2020, the PA instituted several regulatory relief reforms in specific response to the COVID-19 pandemic. The relief measures provided a temporary relaxation of both capital supply and short-term liquidity requirements, enabling banks to continue the provision of credit into the economy during this period of financial stress. This support has continued in 2021.

For details about these relief measures please refer to the risk management section.

Income taxes

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

The Group recognises provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years.

Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

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

	Group 2021 Rm	Group 2020 Rm
52. Cash and cash equivalents		
Cash, cash balances and balances with central banks[1]	14 577	14 403
Loans and advances to banks[2]	5 741	2 393
	20 318	16 796
53. Deferred cash and share-based payments		
Share-based payments expense	543	386
Equity-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	342	171
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	13	18
Absa Group Limited Share Incentive Plan Deferred Award (SIPD)	146	218
Absa Group Limited Share Incentive Plan Retention Award (SIPR)	11	0
Absa Group Limited Restricted Share Value Plan (RSVP)	—	5
Cash-settled arrangements:		
Absa Group Share Incentive Plan Performance Award (SIPP)	24	(18)
Absa Group Limited Share Incentive Plan Retention Buyout Award (SIPRB)	2	1
Absa Group Limited Phantom Joiners Share Award Plan (JSAP)	—	0
Absa Group Limited Share Incentive Plan Deferred Award (SIPD)	4	(4)
Absa Group Limited Share Incentive Plan Retention Award (SIPR)	1	—
Absa Group Limited Role Based Pay (RBP)	—	0
Absa Group Limited Restricted Share Value Plan (RSVP)	—	(5)
Deferred cash expense		
Absa Group Limited Cash Value Plan (CVP)	73	82
Total deferred cash and share-based payments (refer to note 36)	616	468
Total carrying amount of liabilities for cash-settled arrangements (refer to note 16)	133	184
Total carrying amount of the equity-settled share-based payment arrangements (refer to the statement of changes in equity)	679	383

Cash-settled share-based payment schemes are measured with reference to the statement of financial position date and the Absa Group Limited share price.

During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Incentive Plan and Share Value Plan rules, with awards from 2020 onwards made under the new scheme rules. The terms of awards granted prior to 2020 were not modified and as such there was no impact on the accounting treatment of such awards.

Absa Group Limited Share Incentive Plan Performance Award (previously Long-Term Incentive Plan – LTIP)

Qualifying participants of the Share Incentive Plan Performance Award (SIPP) will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The Group retains the obligation to settle in cash certain SIPP awards that are prohibited from being equity-settled. The award will be issued by Absa Group Limited. In order for the participant to be entitled to these awards, the participant needs to render three years or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends may accumulate and are reinvested over the vesting period.

Absa Group Limited Share Incentive Plan Retention Buyout Award (previously Joiners Share Value Plan – JSVP)

The Share Incentive Plan Retention Buyout Award (SIPRB) enables the Group to attract and motivate new employees by buying out the 'in the money' portion of a participant's shares or options under their previous employers' share scheme by offering the employees Absa Group Limited awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends may accumulate and are reinvested over the vesting period, which will align with the vesting period of the previous employer.

[1] Includes coins and bank notes.

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

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

Absa Group Limited Share Incentive Plan Deferred Award (previously Share Value Plan – SVP)

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

Absa Group Limited Share Incentive Plan Retention Award (previously Retention Share Value Plan – SVP Cliff)

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

Additional to the Share Incentive Plan Retention Award: Individual Performance Conditions

Award will vest on the Vesting Date(s), subject to achieving a performance rating in respect of the 2021, 2022 and 2023 performance years of 'Good or above' (or any other equivalent rating in force from time to time).

Absa Group Limited Restricted Share Value Plan

The Restricted Share Value Plan (RSVP) awards (and any associated notional dividends) are awarded at no cost to the participants. Vesting periods range from two to five years, with each tranche subject to its own independent non-market-related performance condition on vesting. The Group retains the obligation to settle in cash certain restricted SVP awards that are prohibited from being equity-settled. The amount that is paid to the cash-settled participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. On vesting, equity-settled participants are awarded Absa Group Limited ordinary shares in settlement of their awards. Dividends may accumulate and are reinvested over the vesting period.

Absa Group Limited Role Base Pay

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

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

Number of awards '000

	2021						2020				
	Opening balance	Effect of conversion	Granted	Forfeited	Exercised	Closing balance	Opening balance	Granted	Forfeited	Exercised	Closing balance
Equity-settled:											
SIPP	**14 392**	**(8)**	**3 563**	**(1 856)**	**(58)**	**16 033**	14 465	8 270	(3 693)	(4 650)	14 392
SIPRB	**214**	**—**	**156**	**(36)**	**(103)**	**231**	262	160	(30)	(178)	214
SIPD	**5 174**	**—**	**587**	**(402)**	**(2 165)**	**3 194**	2 758	4 010	(322)	(1 272)	5 174
SIPR	**—**	**—**	**1 049**	**(11)**	**—**	**1 038**	5	—	(1)	(4)	—
RSVP	**71**	**—**	**—**	**—**	**(19)**	**52**	364	—	—	(293)	71
Cash-settled:											
SIPP	**628**	**8**	**299**	**(8)**	**—**	**927**	921	314	(248)	(359)	628
SIPRB	**21**	**—**	**14**	**—**	**(16)**	**19**	25	9	—	(13)	21
SIPD	**54**	**—**	**18**	**—**	**(22)**	**50**	42	43	(18)	(13)	54
SIPR	**—**	**—**	**64**	**—**	**—**	**64**	—	—	—	—	—
RSVP	**—**	**—**	**—**	**—**	**—**	**—**	106	—	(35)	(71)	—
RBP	**—**	**—**	**—**	**—**	**—**	**—**	4	—	—	(4)	—

The terms and conditions of the above share-based payment arrangements dictate that awards be settled immediately on vesting and therefore there are no awards which have vested but have not yet been settled at any given time. Furthermore the awards outstanding in the aforementioned schemes have no exercise price.

	Weighted average share price at the exercise date (Rands)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (Rands)	
	2021	2020	2021	2020	2021	2020
Equity-settled:						
SIPP	**151.61**	144.69	**1.33**	2.02	**137.61**	75.00
SIPRB	**139.13**	157.44	**1.20**	0.93	**129.90**	119.42
SIPD	**117.42**	174.99	**0.77**	1.07	**124.17**	75.10
SIPR	**—**	145.37	**2.75**	—	**153.24**	—
RSVP	**138.43**	142.00	**0.09**	0.30	**—**	—
Cash-settled:						
SIPP	**—**	80.48	**1.44**	1.96	**138.14**	75.00
SIPRB	**144.67**	88.08	**1.06**	0.95	**111.52**	80.14
SIPD	**125.12**	119.62	**0.85**	1.10	**124.17**	75.00
SIPR	**—**	—	**2.75**	—	**153.24**	—
RSVP	**—**	102.10	**—**	—	**—**	—
RBP	**—**	105.12	**—**	—	**—**	—

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

Group

	2021			
	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	**245**	572	—	817

	2020			
	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Total Rm
Estimate of amount expected to be transferred to tax authorities	142	185	—	327

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

Deferred cash

Absa Group Limited Cash Value Plan

The Cash Value Plan (CVP) is a deferred cash-settled payment arrangement. The award will vest in equal tranches over a period of three and five years, subject to the rules which include a 10% service credit for the final anniversary of the CVP award date. The service credit for awards granted in 2021 is **0%** (2020: 10%) of the initial value of the award that vests.

54. Acquisitions and disposals of businesses and other similar transactions

54.1 Acquisitions of businesses during the current reporting period

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

54.2 Disposals of businesses and other similar transactions during the current reporting period

The Group disposed of Card Issuing and Personal loan books on 30 June 2021. The Group received a cash consideration of **R94m** on disposal.

The Group disposed of the Integrated Processing Solution investment on 30 September 2021. The Group received a cash consideration of **R12m** on disposal.

54.3 Acquisitions of businesses during the previous reporting period

Effective 1 March 2020, the Group acquired a 100% interest in the assets and liabilities of Societe Generale's South African custody and trustee business. The acquisition was accounted for under IFRS 3 *Business Combinations*. The Group undertook the acquisition in order to be able to offer customers custody and trustee capabilities. The fair value of the net assets acquired exceeded the fair value of the consideration payable to Societe Generale of Rnil, and consequently, following the requirements of IFRS 3, a gain was recognised in connection with the transaction.

In terms of IFRS 10 *Consolidated Financial Statements*, an entity should be consolidated once an investor has sufficient exposure to the variable returns of the entity, as well as the ability to effect the returns through its power over the investee. The Absa Balance Fund is a unit trust fund managed by the Group; and therefore has sufficient exposure to and the ability to effect its returns. In addition, policyholders invest in the fund through investment products; for which the Group does not achieve derecognition in terms of IFRS.

Consequently, the Group recognised the policyholders' investment in the fund (previously as 'investments linked to investment contracts'); together with an obligation to transfer all benefits to the policyholders as 'liabilities under investment contracts'. The effective holding in the Absa Balance Fund, a unit trust managed by the Group, increased to the extent that the Group has a right to a significant component of the variable returns from the fund; therefore warranting consolidation. At the time of consolidation of the fund, the assets and liabilities of the fund (before eliminating assets already owned by the Group) amounted to R1 593m each; with a net asset value of Rnil. After the effect of eliminating assets already owned by the Group, the attributable fair value of the net assets acquired is R530m, fair value of investment at point of consolidation is R530m, and following the requirements of IFRS 3, no gain nor goodwill was recognised in connection with the increased holdings acquired.

	Group		
	Societe Generale	Absa Balanced Fund	2020 Fair value recognised on acquisition
	Rm	Rm	Rm
Recognised amounts of identifiable assets acquired and liabilities assumed			
Cash and balances at central banks	220	7	227
Property and equipment	1	—	1
Investment securities	—	533	533
Loans and advances to customers	159	—	159
Other assets	—	3	3
Investments linked to investment contracts	—	1 050	1 050
Intangible assets	35	—	35
Deposits due to customers	(317)	—	(317)
Liabilities to customers under investment contracts	—	(1 044)	(1 044)
Other liabilities	—	(19)	(19)
Provisions	(12)	—	(12)
Total identifiable net assets	86	530	616
Fair value of investment at point of consolidation	—	(530)	(530)
Gain on bargain purchase	86	—	86

54.4 Disposals of businesses and similar transactions during the previous reporting period

The Group disposed of the Edcon loan book in South Africa and Namibia on 1 February 2020. The Group received a cash consideration of R3 740m on disposal.

The Group disposed of First Assurance Tanzania on 30 November 2020 for a cash consideration of Rnil.

Notes to the consolidated financial statements

for the reporting period ended 31 December

55. Segment report

55.1 Summary of segments

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

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

- **RBB:** offers retail, business banking and insurance products in South Africa and Absa Regional Operations.
- **CIB:** offers corporate and investment banking solutions in South Africa and Absa Regional Operations.
- **Head Office, Treasury and other operations:** consists of various non-banking activities and includes investment income earned by the Group, as well as income earned by Absa Manx Holdings and Corporate Real Estate Services.
- **Barclay's separation:** Barclays PLC contributed R12.1 billion to the Bank in June 2017, primarily in recognition of the investments required for the Bank to separate from Barclays PLC. This contribution was invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Bank over time. The Separation Programme was completed within agreed timelines.The separation process has had a significant impact on the Group's financial results over the past three years, most notably an increase in the capital base and internally generated intangible assets, together with generated endowment revenues, and amortisation of the aforementioned assets as they are brought into use. The aforementioned results show a disconnect between the underlying business performance and the IFRS financial results. Normalised results have therefore been disclosed to reflect the underlying business performance.

Reportable segments

- **RBB:**

  RBB offers a comprehensive suite of banking and insurance products and services to individual, enterprise and commercial customers. It caters for the full spectrum of customers, from those needing basic banking services to those requiring sophisticated financial solutions. The focus is on providing a consistently superior experience across each of the channels, matched closely to the needs and expectations of each customer segment. Customers are served through an extensive branch and self-service terminal network, digital channels, financial advisors, relationship bankers as well as dealerships, originators, alliances and joint ventures.

  Key business areas:

  - **Home Loans** – offers residential property-related finance solutions direct to customers through personalised services, a range of electronic channels, and intermediaries such as estate agents and mortgage originators.
  - **Vehicle and Asset Finance (VAF)** – offers funding solutions for passenger and light commercial vehicles to individual customers through the branch network, approved dealerships, and preferred suppliers. VAF's joint venture with Ford Financial Services is an extension of the business and reinforces the strategic intent of establishing and harnessing relationships with dealers and customers.
  - **Everyday Banking** – offers the day-to day banking services for the retail customer and includes:
    - **Card** – offers credit cards via a mix of Absa-branded and co-branded offerings including British Airways, Avios and Virgin Money. Included in this portfolio are partnerships with Woolworths Financial Services, which offers in-store cards, credit cards, personal loans and short-term insurance products.
    - **Personal Loans** – offers unsecured instalment loans through face-to-face engagements, call centre agents as well as electronic and mobile channels.
    - **Transactional and Deposits** – offers a full range of transactional banking, savings and investment products, rewards programme and services through a variety of channels. These include the branch and self-service terminal network, digital channels as well as through a third-party retailer.
    - **Relationship Banking** – consists of business units and associated products, where a name relationship exists and was formed to provide customers with a single 'warm-body' relationship manager rather than multiple touch points within the Bank. The businesses consolidated into Relationship Banking include Card Acquiring, Commercial Asset Finance (CAF), Business Banking (including associated lending, transactional and deposit products), Private Banking, Wealth and Financial Advisory. Relationship Banking also includes an Equity Portfolio which is being reduced in and orderly manner.

Insurance SA consists of:

- **Life Insurance** – offers life insurance, covering death, disability and retrenchment, as well as funeral and life wrapped investment products.
- **Short-term Insurance** – provides short-term insurance solutions to the retail and commercial market segments. Direct-to-client short-term solutions being iDirect and Activate, a recently launched digital offering, are also available to the retail market.
- **RBB Absa Regional Operations** – offers a comprehensive suite of retail and business banking products and insurance products and services to individual and commercial customers across the region. A range of solutions are provided to meet customers' transactional, borrowing, savings, protection and investment needs. This is facilitated through branch, self-service and digital channels, supported by a relationship-based model that includes a well-defined coverage structure built on specific customer value propositions.
- **Retail and Business Banking Other (RBB Other)** – includes investment spend, cost associated with the restructure, holding companies and related consolidation entries, as well as allocated shareholder overhead expenses.

55. Segment report (continued)

55.1 Summary of segments (continued)

- **CIB:** provides innovative solutions to meet clients' needs by delivering specialist investment banking, corporate and transactional banking, financing, risk management, advisory products and services. A variety of clients across various industry sectors such as corporates, financial institutions and public sector bodies are serviced by combining our in-depth product knowledge with regional expertise and an extensive, well-established local presence. CIB's goal is to build a sustainable, trustworthy business that helps clients achieve their ambitions in the right way and by executing on this we will create shared growth for clients, employees and communities.

  Key business areas:

  Client Engagement integrates client coverage across Africa to provide holistic solutions to clients through end-to-end relationship management and origination activities, leveraging the deep segment and sector specialisation within CIB across the business areas below. This includes the Growth Capital solutions team, which focuses on offering B-BBEE financing to clients with the aim of creating sustainable local and regional economies.

  - **Corporate**: provides corporate banking solutions spanning financing and transactional banking requirements, including trade and working capital solutions, as well as a full suite of cash management, payments and liquidity products and solutions. These services are provided across our African institutional, corporate and public sector client base. The new Absa Investor Services business provides a full suite of custody and trustee services, further building out our services and client value proposition.
  - **Investment Bank** comprising:
    - **Global Markets** – engages in trading, sales and research activities across all major asset classes and products in Africa, delivering pricing, hedging and risk management capabilities to both corporate and institutional clients;
    - **Investment Banking Division** – structures innovative solutions delivering to meet clients' strategic advisory, financing and risk management requirements across industry sectors;
    - **Commercial Property Finance (CPF)** – specialises in financing commercial, industrial, retail and residential development property across our African footprint as well as cross border financing in other jurisdictions; and
    - **Private Equity and Infrastructure Investments (PEII)** – Infrastructure Investments acted as a principal by investing in equity to entities focused on infrastructure development in sub-Saharan Africa. Private Equity traditionally acted as a principal by investing in unlisted equity exposures. This portfolio continues to be reduced in line with the Group's strategy to exit non-core businesses.

	Group		
	2021		
	South Africa and other international operations[1] Rm	Africa Regions Rm	Total Rm
55.2 Segment report per geographical segment			
Net interest income – external	39 806	13 516	53 322
Non-interest income – external	25 791	6 793	32 584
Total assets	1 355 517	285 316	1 640 833

	2020[1]		
	South Africa and other international operations[1] Rm	Africa Regions Rm	Total Rm
Segment report per geographical segment			
Net interest income – external	34 965	13 892	48 857
Non-interest income – external	25 939	6 797	32 736
Total assets	1 304 499	226 621	1 531 120

[1] 'Other International operations' include United Kingdom and United States.

55. Segment report (continued)

	RBB 2021 Rm	RBB 2020[1] Rm	CIB 2021 Rm	CIB 2020[1] Rm
Statement of comprehensive income				
Net interest income	36 856	36 048	13 808	13 423
Non-interest income	23 239	24 292	9 297	7 603
Total income	60 095	60 340	23 105	21 026
Impairment losses	(7 797)	(17 128)	(736)	(3 291)
Operating expenses	(35 110)	(34 545)	(11 138)	(10 114)
Depreciation and amortisation	(2 557)	(2 076)	(288)	(61)
Other operating expenses	(32 553)	(32 469)	(10 850)	(10 053)
Other expenses	(1 199)	(1 106)	(325)	(247)
Other impairments	(178)	(124)	(54)	—
Indirect taxation	(1 021)	(982)	(271)	(247)
Share of post-tax results of associates and joint ventures	111	(61)	9	(3)
Operating profit before income tax	16 100	7 500	10 915	7 371
Tax expenses	(4 885)	(2 447)	(2 471)	(1 604)
Profit for the reporting period	11 215	5 053	8 444	5 767
Profit attributable to:				
Ordinary equity holders	10 177	4 144	7 739	5 145
Non-controlling interest – ordinary shares	542	371	374	264
Non-controlling interest – preference shares	145	185	97	122
Non-controlling interest – Additional Tier 1 capital[1]	351	353	234	236
	11 215	5 053	8 444	5 767
Headline earnings	10 209	4 239	7 760	5 054
Statement of financial position (Rm)				
Loans and advances[1]	633 275	587 215	452 004	422 905
Loans and advances to customers	618 194	571 756	398 418	371 760
Loans and advances to banks	15 081	15 459	53 586	51 145
Investment securities	34 198	31 176	43 242	44 274
Other assets[1]	519 465	445 789	495 574	472 632
Total assets	1 186 938	1 064 180	990 820	939 811
Deposits[1]	570 110	500 368	482 385	421 898
Deposits due to customers	570 075	500 342	409 076	360 229
Deposits due to banks	35	26	73 309	61 669
Debt securities in issue	84	77	19 289	18 276
Other liabilities[1]	602 526	555 261	482 617	495 131
Total liabilities	1 172 720	1 055 706	984 291	935 305

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

Head Office, Treasury and other operations		Total before Barclays separation effects		Barclays separation effects		Group	
2021 Rm	2020[1] Rm	2021 Rm	2020 Rm	2021 Rm	2020 Rm	2021 Rm	2020 Rm
2 633	(681)	53 297	48 790	25	67	53 322	48 857
40	697	32 576	32 592	8	144	32 584	32 736
2 673	16	85 873	81 382	33	211	85 906	81 593
34	(150)	(8 499)	(20 569)	—	—	(8 499)	(20 569)
(1 164)	(917)	(47 412)	(45 576)	(1 198)	(2 535)	(48 610)	(48 111)
(2 065)	(2950)	(4 910)	(5 087)	(1 115)	(872)	(6 025)	(5 959)
901	2 033	(42 502)	(40 489)	(83)	(1 663)	(42 585)	(42 152)
(723)	(885)	(2 247)	(2 238)	42	(270)	(2 205)	(2 508)
(152)	(221)	(384)	(345)	(36)	(119)	(420)	(464)
(571)	(664)	(1 863)	(1 893)	78	(151)	(1 785)	(2 044)
12	28	132	(36)	—	—	132	(36)
832	(1 908)	27 847	12 963	(1 123)	(2 594)	26 724	10 369
(248)	445	(7 604)	(3 606)	305	450	(7 299)	(3 156)
584	(1 463)	20 243	9 357	(818)	(2 144)	19 425	7 213
649	(1 377)	18 565	7 912	(802)	(2 032)	17 763	5 880
(65)	(86)	851	549	(16)	(112)	835	437
—	—	242	307	—	—	242	307
—	—	585	589	—	—	585	589
584	(1 463)	20 243	9 357	(818)	(2 144)	19 425	7 213
622	(1 328)	18 591	7 965	(766)	(1 927)	17 825	6 038
6 978	4 387	1 092 257	1 014 507	—	—	1 092 257	1 014 507
774	1 065	1 017 386	944 581	—	—	1 017 386	944 581
6 204	3 322	74 871	69 926	—	—	74 871	69 926
111 458	78 054	188 898	153 504	—	—	188 898	153 504
(658 900)	(560 468)	356 139	357 953	3 539	5 156	359 678	363 109
(540 464)	(478 027)	1 637 294	1 525 964	3 539	5 156	1 640 833	1 531 120
121 271	125 734	1 173 766	1 048 000	—	—	1 173 766	1 048 000
96 585	97 859	1 075 736	958 430	—	—	1 075 736	958 430
24 686	27 875	98 030	89 570	—	—	98 030	89 570
111 703	127 387	131 076	145 740	—	—	131 076	145 740
(896 197)	(845 714)	188 946	204 678	(264)	399	188 682	205 077
(663 223)	(592 593)	1 493 788	1 398 418	(264)	399	1 493 524	1 398 817

55. Segment report (continued)

	RBB SA			
	Home Loans		Vehicle and Asset Finance	
	2021 Rm	2020[1] Rm	2021 Rm	2020[1] Rm
Statement of comprehensive income (Rm)				
Net interest income	4 999	4 478	3 047	2 603
Non-interest income	459	457	602	540
Total income	5 458	4 935	3 649	3 143
Impairment losses	134	(2 189)	(1 426)	(3 062)
Operating expenses	(1 882)	(1 827)	(1 402)	(1 244)
Other expenses	(76)	(46)	53	(48)
Operating profit before income tax	3 634	873	874	(1 211)
Tax expenses	(999)	(205)	(208)	346
Profit for the reporting period	2 635	668	666	(865)
Profit attributable to:				
Ordinary equity holders	2 506	534	604	(929)
Non-controlling interest – ordinary shares	—	—	—	—
Non-controlling interest – preference shares	38	46	18	22
Other equity – Additional Tier 1[2]	91	88	44	42
	2 635	668	666	(865)
Headline earnings	2 531	534	605	(927)
Statement of financial position (Rm)				
Loans and advances[1]	270 571	248 320	98 077	89 129
Loans and advances to customers	270 275	247 679	98 077	89 129
Loans and advances to banks	296	641	—	—
Investment securities	13 785	12 369	4 742	4 284
Other assets[1]	26 874	20 330	3 666	3 531
Total assets	311 230	281 019	106 485	96 944
Deposits[1]	1 915	1 833	—	—
Deposits due to customers	1 915	1 833	—	—
Deposits due to banks	—	—	—	—
Debt securities in issue	—	—	—	—
Other liabilities[1]	305 620	277 816	104 816	96 797
Total liabilities	307 535	279 649	104 816	96 797

[1] These numbers have been restated, refer to note 1.21.

[2] The Additional Tier 1 instruments were issued on the back of Additional Tier 1 instruments issued by Absa Bank Limited, a subsidiary of the Group. These were previously presented as 'non-controlling interests'. As they do not meet the definition of non-controlling interests, the description thereof has been adjusted to refer to the instruments as 'other equity' instruments. This had no impact on the profit and loss, or net equity position of the Group.

RBB SA					
Everyday Banking		Relationship Banking		Insurance	
2021 Rm	2020[1] Rm	2021 Rm	2020[1] Rm	2021 Rm	2020[1] Rm
12 418	12 610	8 318	8 032	(2)	(3)
10 897	11 278	5 811	5 616	1 284	2 375
23 315	23 888	14 129	13 648	1 282	2 372
(4 348)	(7 337)	(867)	(2 032)	—	—
(13 172)	(12 737)	(8 215)	(8 003)	(932)	(778)
(95)	(125)	(41)	(161)	(147)	(132)
5 700	3 689	5 006	3 452	203	1 462
(1 582)	(1 022)	(1 380)	(1 000)	(135)	(466)
4 118	2 667	3 626	2 452	68	996
3 930	2 391	3 440	2 247	68	993
79	152	—	—	—	3
32	43	55	71	—	—
77	81	131	134	—	—
4 118	2 667	3 626	2 452	68	996
3 930	2 405	3 459	2 317	68	993
72 856	70 742	126 451	122 005	580	797
60 404	58 022	125 712	121 604	—	—
12 452	12 720	739	401	580	797
3 383	3 395	6 148	6 201	4 910	3 891
279 052	247 910	117 562	90 966	22 692	26 376
355 291	322 047	250 161	219 172	28 182	31 064
278 323	247 328	188 394	167 241	—	—
278 323	247 328	188 390	167 223	—	—
—	—	4	18	—	—
—	—	—	—	—	—
71 625	71 029	57 653	48 302	26 258	28 575
349 948	318 357	246 047	215 543	26 258	28 575

55. Segment report (continued)

Disaggregation of non-interest income

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

	Group 2021 RBB[1] Rm	CIB[1] Rm	Head Office, Treasury and other operations[1] Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	21 791	3 621	137	—	25 549
Consulting and administration fees	378	97	8	—	483
Transactional fees and commissions	16 729	2 736	(18)	—	19 447
Cheque accounts	4 576	139	—	—	4 715
Credit cards	2 517	1	—	—	2 518
Electronic banking	4 691	1 117	—	—	5 808
Other[1]	3 423	1 479	(18)	—	4 884
Savings accounts	1 522	—	—	—	1 522
Merchant income	2 430	9	—	—	2 439
Trust and other fiduciary services fees	246	18	993	—	1 257
Other fees and commissions	273	403	(120)	—	556
Insurance commissions received	1 699	—	(726)	—	973
Investment banking fees	36	358	—	—	394
Other income from contracts with customers	226	25	(1)	(16)	234
Other non-interest income, net of expenses	1 221	5 651	(95)	24	6 801
Total non-interest income	**23 238**	**9 297**	**41**	**8**	**32 584**

[1] Other transactional fees and commissions income include service and credit-related fees of **R1 766m** (2020: R1 587m), exchange commission **R680m** (2020: R603m) and guarantees **R325m** (2020: R359m).

	2020 RBB[1] Rm	CIB[1] Rm	Head Office, Treasury and other operations[1] Rm	Barclays PLC separation effects Rm	Total Rm
Fee and commission income from contracts with customers	21 545	3 279	296	—	25 120
Consulting and administration fees	461	103	11	—	575
Transactional fees and commissions	16 914	2 393	(6)	—	19 301
Cheque accounts	4 972	140	—	—	5 112
Credit cards	2 336	4	—	—	2 340
Electronic banking	4 297	1 036	—	—	5 333
Other[2]	3 658	1212	(5)	—	4 865
Savings accounts	1 651	1	(1)	—	1 651
Merchant income	2 205	4	—	—	2 209
Trust and other fiduciary services fees	192	33	1 166	—	1 391
Other fees and commissions	251	373	(134)	—	490
Insurance commissions received	1 505	—	(740)	—	765
Investment banking fees	17	373	(1)	—	389
Other income from contracts with customers	70	8	35	—	113
Other non-interest income, net of expenses	2 677	4 315	367	144	7 503
Total non-interest income	24 292	7 602	698	144	32 736

[1] These numbers have been restated, refer to note 1.21.

[2] Other transactional fees and commissions income include service and credit-related fees of **R1 587m** (2019: R1 562m), exchange commission **R603m** (2019: R531m) and guarantees **R359m** (2019: R384m).

56. Derivatives

56.1 Derivative financial instruments

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

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

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

The Group trades the following derivative instruments:

Foreign exchange derivatives

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

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

Interest rate derivatives

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

Credit derivatives

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

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

Equity derivatives

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

Commodity derivatives

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

56.2 Notional amount

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

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

56. Derivatives (continued)

56.3 Derivative financial instruments

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

	Group					
	2021			2020		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Derivatives held for trading (refer to note 4 and note 15)	55 728	(48 169)	7 274 470	98 852	(87 928)	6 329 076
Derivatives designated as hedging instruments (refer to note 4 and note 15)	5 159	(3 659)	272 461	11 000	(4 868)	214 749
Other	—	—	—	2	—	2
Total derivatives	**60 887**	**(51 828)**	**7 546 931**	109 854	(92 796)	6 543 827

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

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

	Group					
	2021			2020		
	Assets Rm	Liabilities Rm	Notional contract amount Rm	Assets Rm	Liabilities Rm	Notional contract amount Rm
Foreign exchange derivatives	11 579	(12 687)	660 375	23 244	(20 895)	548 902
Forwards	3 267	(3 674)	116 569	3 210	(3 868)	78 513
Futures	—	—	14 099	0	—	7 065
Swaps	5 591	(8 721)	435 936	16 936	(15 924)	373 922
Options	2 721	(292)	93 771	3 098	(1 103)	89 402
Interest rate derivatives	34 506	(31 134)	6 454 765	69 825	(62 792)	5 592 085
Forwards	848	(1 201)	1 660 420	4 360	(4 905)	2 620 043
Futures	—	—	78 069	0	0	160 137
Swaps	33 624	(29 920)	4 713 496	65 362	(57 854)	2 808 935
Options	34	(13)	2 780	103	(33)	2 970
Equity derivatives	8 581	(2 682)	148 894	4 997	(3 152)	172 458
Forwards	177	(1 170)	23 275	1 630	(2 539)	27 604
Futures	—	—	22 408	—	0	74 432
Swaps	1 781	(1 320)	54 339	1 747	(525)	21 563
Options	6 623	(192)	36 083	1 620	(88)	34 791
Options – exchange traded	—	—	3 951	0	0	2 056
Other – OTC	—	—	8 838	0	0	12 012
Commodity derivatives	920	(824)	5 359	627	(765)	8 504
Forwards	85	(88)	4 792	319	(396)	8 342
Swaps	578	(540)	403	304	(367)	136
Options	257	(196)	164	4	(2)	26
Default swaps	142	(842)	5 077	159	(324)	7 127
Derivatives held for trading	**55 728**	**(48 169)**	**7 274 470**	98 852	(87 928)	6 329 076
Note	4	15		4	15	

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

56. Derivatives (continued)

56.5 Derivative held for investment purposes

Derivatives held for investment purposes for the 2021 period had a notional value of **R0m** (2020: R2m) and an asset value of **R0m** (2020: R2m).

56.6 Counterparty netting and collateral

Derivative assets subject to counterparty netting agreements amounted to **R58 623m** (2020: R98 414m). Additionally, the Group held **R2 504m** (2020: R3 169m) of collateral against the net derivative asset exposure.

OTC traded instruments are subject to counterparty credit risk as the related cash flows are not guaranteed by an independent third party. This risk is mitigated by means of netting agreements. The International Swaps and Derivatives Association ('ISDA') Master Agreement is used by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other.

56.7 Hedge accounting

Risk management strategy

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged. The assessment of the effectiveness of hedge relationships are performed on a cumulative life to date basis.

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

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

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

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

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

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

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

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

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

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

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

No other source of ineffectiveness has arisen during the period.

56. Derivatives (continued)

56.7 Hedge accounting (continued)

56.7.1 Fair value hedge accounting

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

	Group 2021						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Interest rate risk – interest rate swaps	6 161	7 066	827	4 129	27 588	26 925	72 696
Hedge of investment securities	2 700	817	239	2 967	18 403	24 892	50 018
Hedge of loans and advances	1 867	823	546	570	141	366	4 313
Hedge of debt securities in issue	1 229	125	42	592	2 178	1 667	5 833
Hedge of borrowed funds	365	5 301	—	—	6 866	—	12 532
Interest rate risk – cross currency swaps							
Hedge of investment securities at FVOCI	2 857	—	—	—	—	—	2 857
Inflation risk – interest rate swaps							
Hedge of investment securities at FVOCI	736	200	155	100	—	379	1 570

	2020						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Interest rate risk – interest rate swaps	1 519	3 225	6 903	646	3 595	42 743	58 631
Hedge of investment securities	199	—	67	220	2 580	38 451	41 517
Hedge of loans and advances	981	1 140	496	384	423	447	3 871
Hedge of debt securities in issue	—	1 720	125	42	592	3 845	6 324
Hedge of borrowed funds	339	365	6 215	—	—	—	6 919
Inflation risk – interest rate swaps							
Hedge of investment securities at FVOCI	60	736	200	155	100	379	1 630

	Group	
	2021 Average price or rate %	2020 Average price or rate %
Interest rate risk		
Interest rate swaps		
Average fixed interest rate	8%	8%
Inflation risk		
Average fixed interest rate	3%	3%

56. Derivatives (continued)

56.7 Hedge accounting (continued)

56.7.1 Fair value hedge accounting (continued)

If the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

The following amounts relate to items designated as hedging instruments in fair value hedge relationships:

	Group 2021				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2021 Rm	Ineffectiveness recognised in profit and loss Rm
Total	77 123	1 300	(2 746)	1 508	(34)
Interest rate risk	75 553	1 285	(2 358)	1 503	1
Interest rate swaps – hedge of investment securities	50 018	647	(1 841)	2 078	11
Cross currency swaps – hedge of investment securities at FVOCI	2 857	—	(71)	(2)	—
Interest rate swaps – hedge of loans and advances	4 313	—	(314)	183	1
Interest rate swaps – hedge of borrowed funds	12 532	242	(132)	(359)	1
Interest rate swaps – hedge of debt securities in issue	5 833	396	—	(397)	(12)
Inflation risk					
Inflation linked swaps – hedge of investment securities classified as FVOCI	1 570	15	(388)	5	(35)

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the statement of comprehensive income, and the hedging instruments of the Group are presented within and hedging portfolio assets on the statement of financial position.

	Group 2020				
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness for 2020 Rm	Ineffectiveness recognised in profit and loss Rm
Total	60 261	1 543	(4 505)	(1 963)	(11)
Interest rate risk	58 631	1 531	(4 101)	(1 756)	6
Interest rate swaps – hedge of investment securities	41 517	247	(3 639)	(2 299)	1
Interest rate swaps – hedge of loans and advances	3 871	—	(462)	(204)	12
Interest rate swaps – hedge of borrowed funds	6 919	463	—	177	(4)
Interest rate swaps – hedge of debt securities in issue	6 324	821	—	570	(3)
Inflation risk					
Inflation linked swaps – hedge of investment securities classified as FVOCI	1 630	12	(404)	(207)	(17)

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the statement of comprehensive income, and the hedging instruments of the Group are presented within hedging portfolio assets and liabilities on the statement of financial position.

56. Derivatives (continued)
56.7 Hedge accounting (continued)
56.7.1 Fair value hedge accounting (continued)

Hedged item statement of financial position classification and risk category	Group 2021 Carrying value Rm	Accumulated fair value adjustment included in the carrying amount of the hedged item: Total Rm	Portion related to items no longer in a hedge relationship Rm	Change in value used for calculating hedge ineffectiveness Rm
Financial assets				
Investment securities	56 363	728	(6)	(2 057)
Interest rate risk	52 901	783	(14)	(2 087)
Inflation risk	3 462	(55)	8	30
Loans and advances				
Interest rate risk	3 975	71	(7)	(195)
Financial liabilities				
Debt securities in issue				
Interest rate risk	(6 503)	(337)	0	409
Borrowed funds				
Interest rate risk	(15 170)	(60)	—	358

Hedged item statement of financial position classification and risk category	2020 Carrying value Rm	Accumulated fair value adjustment included in the carrying amount of the hedged item: Total Rm	Portion related to items no longer in a hedge relationship Rm	Change in value used for calculating hedge ineffectiveness Rm
Financial assets				
Investment securities	51 477	2 825	(13)	2 510
Interest rate risk	48 186	2 813	(13)	2 285
Inflation risk	3 291	12	0	225
Loans and advances				
Interest rate risk	3 327	246	(18)	200
Financial liabilities				
Debt securities in issue				
Interest rate risk	(7 024)	(773)	0	(567)
Borrowed funds				
Interest rate risk	(7 020)	(418)	—	(173)

56. Derivatives (continued)

56.7 Hedge accounting (continued)

56.7.2 Cash flow hedge accounting (continued)

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from the Group exposure to interest rate and foreign currency risk.

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

	Group						
	2021						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Interest rate risk – interest rate swaps							
Hedge of loans and advances	59 424	32 592	18 393	26 513	28 295	15 432	180 649
Foreign currency risk – cross currency swaps	—	6 887	50	—	5 420	128	12 485
Hedge of investment securities	—	—	—	—	—	128	128
Hedge of debt securities	—	—	50	—	—	—	50
Hedge of borrowed funds	—	6 887	—	—	5 420	—	12 307
Foreign currency risk – forwards							
Hedge of highly probable forecast expenditure	2 112	92	—	—	—	—	2 204

	2020						
	Less than 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	More than 5 years Rm	Total Rm
Interest rate risk – interest rate swaps							
Hedge of loans and advances	35 035	37 503	29 932	13 420	25 005	10 198	151 093
Foreign currency risk – forwards	1 880	1 381	—	27	—	109	3 397
Hedge of loans and advances[1]	10	149	—	27	—	109	295
Hedge of highly probable forecast expenditure[1]	1 870	1 232	—	—	—	—	3 102

The average rates or prices set out below relate to the hedging instruments designated in cash flow hedging relationships:

	Group	
	2021 Average price or rate %	2020 Average price or rate %
Interest rate risk		
Interest rate swaps		
Average fixed interest rate	7%	7%
Foreign currency risk		
Average ZAR – EUR exchange rates	11.99	19.27
Average ZAR – GBP exchange rates	14.34	21.37
Average ZAR – USD exchange rates	17.04	16.28
Average ZAR – CZK exchange rates	0.00	1.36

[1] These numbers have been restated to provide a split between hedge of loans and advances and hedge of highly probable forecast expenditure under foreign currency risk forwards.

56. Derivatives (continued)

56.7 Hedge accounting (continued)

56.7.2 Cash flow hedge accounting (continued)

If the hedge accounting objective changes, the relevant hedge accounting relationship is de-designated; in some cases a de-designated relationship is replaced with a different hedge accounting relationship.

The following amounts relate to items designated as hedging instruments in cash flow hedge relationships:

	Group					
	2021					
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances	180 649	3 454	(898)	(6 688)	(1 802)	(535)
Foreign currency risk – cross currency swaps	12 485	355	—	183	262	1
Foreign currency swaps – hedge of investment securities	128	142	—	(1)	66	1
Foreign currency swaps – hedge of debt securities	50	20	—	(2)	10	—
Foreign currency swaps – hedge of borrowed funds	12 307	193	—	186	186	—
Foreign currency risk – forwards						
Forwards – hedge of forecast expenditure	2 204	48	(15)	78	77	(5)

	2020					
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used for calculating hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffective-ness recognised in profit or loss Rm
Interest rate risk						
Interest rate swaps – hedge of loans and advances	151 093	9 300	(0)	6 231	8 860	(560)
Foreign currency risk – cross currency swaps						
Foreign currency swaps – hedge of loans and advances[1]	294	151	(164)	(9)	145	(0)
Foreign currency risk – forwards						
Forwards – hedge of forecast expenditure[1]	3 103	4	(199)	32	34	(6)

The hedging instruments of the Group are presented within hedging portfolio assets/liabilities, on the statement of financial position.

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

The hedge ineffectiveness in profit and loss is presented within gains and losses from banking and trading activities on the statement of comprehensive income.

[1] These numbers have been restated to provide a split between cross currency swaps and forwards under foreign currency risk.

56. Derivatives (continued)

56.7 Hedge accounting (continued)

56.7.2 Cash flow hedge accounting (continued)

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

	Group					
	2021			2020		
	Amount recycled from OCI to profit or loss due to continuing hedges Rm	Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm	Amount recycled from OCI to profit or loss due to continuing hedges Rm	Amount recycled from OCI to profit or loss due to discontinued hedges Rm	Total Rm
Cash flow hedge of interest rate risk	4 211	27	4 238	3 072	104	3 176
Recycled to interest income	3 902	15	3 917	2 652	53	2 705
Recycled to interest expense	309	12	321	420	51	471
Cash flow hedge of currency risk	(75)	—	(75)	312	1	313
Recycled to interest income	68	—	68	—	—	—
Recycled to operating expenses	(143)	—	(143)	312	1	313
Total	4 136	27	4 163	3 384	105	3 489

The following amounts relate to items designated as hedged items in cash flow hedges:

	Group					
	2021			2020		
	Change in value used for calculating hedge ineffectiveness Rm	Cash flow hedge reserve in respect of continued hedges Rm	Cash flow hedge reserve in respect of discontinued hedges Rm	Change in value used for calculating hedge ineffectiveness Rm	Cash flow hedge reserve in respect of continued hedges Rm	Cash flow hedge reserve in respect of discontinued hedges Rm
Loans and advances to customers						
Interest rate risk	5 960	1 546	(22)	(5 755)	7 538	25
Highly probable forecast transactions						
Foreign exchange risk	(78)	30	—	(23)	(185)	—
Investment securities						
Foreign exchange risk	1	11	—	—	—	—
Debt securities						
Foreign exchange risk	2	1	—	—	—	—
Borrowed funds						
Foreign exchange risk	(186)	186	—	—	—	—

56. Derivatives (continued)

56.7 Hedge accounting (continued)

56.7.3 Hedges of net investments in foreign operations

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

At 31 December 2021 the Group held the following foreign currency forward exchange contracts as hedging instruments in a net investment hedge.

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

	Group						
	2021						
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used to calculate hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffectiveness recognised in profit or loss Rm	Presentation of hedge ineffectiveness in profit or loss Rm
Foreign currency risk							
Forwards	—	—	—	(6)	(6)	—	—

	2020						
	Notional amount Rm	Assets Rm	Liabilities Rm	Change in fair value used to calculate hedge ineffectiveness Rm	Hedging gains or losses recognised in OCI Rm	Hedge ineffectiveness recognised in profit or loss Rm	Presentation of hedge ineffectiveness in profit or loss Rm
Foreign currency risk							
Forwards	—	—	—	(5)	(5)	—	—

The hedging instruments of the Group are presented within hedging portfolio assets/liabilities, on the statement of financial position.

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

56. Derivatives (continued)

56.7 Hedge accounting (2020) (continued)

56.7.4 Reconciliation of equity

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

	Group					
	2021			2020		
	Cash flow hedge reserve Rm	Net investment hedge reserve Rm	Foreign currency translation reserve Rm	Cash flow hedge reserve Rm	Net investment hedge reserve Rm	Foreign currency translation reserve Rm
Balance at the beginning of the year	**7 377**	**—**	**60**	1 826	—	65
Foreign currency translation movements	—	—	—	—	—	—
Hedging (losses)/gains for the reporting period	**(1 463)**	**(6)**		9 039	(5)	—
Interest rate risk	**(1 802)**	**—**	**—**	8 860	—	—
Foreign currency risk	**339**	**(6)**	**—**	179	(5)	—
Amounts reclassified to profit or loss:						
In relation to cash flows affecting profit or loss	**(4 163)**	**—**	**—**	(3 488)	—	—
Amounts transferred within OCI	**—**	**6**	**(6)**	—	5	(5)
Balance at the end of the year	**1 751**	**—**	**54**	7 377	—	60

56.8 Interest rate benchmark reform

Background

The Group executes a variety of transactions, including equity-linked offerings, debt issuances, lending activities as well as structured and derivative transactions.

The Group is materially exposed to JIBAR, with less exposure to EUR, GBP, USD and JPY LIBOR.

Fair value hedges are used by the Group to protect against changes in the fair value of financial instruments due to movements in interest rates and are therefore affected by the interest rate benchmark reform. The financial instruments hedged for interest rate risk include fixed rate investment securities, fixed rate loans and advances, fixed debt securities and borrowed funds. The hedging instruments typically utilised are interest rate swaps or cross currency swaps, which reference a floating rate, namely ZAR JIBAR, USD, EUR or JPY LIBOR.

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from exposure to interest rate and foreign currency risk and are therefore also affected by interest rate benchmark reform. The financial instruments designated as hedged items include variable rate loans and advances and the hedging instruments typically utilised are interest rate swaps or cross currency swaps which reference a floating rate, namely ZAR JIBAR, EUR, GBP, USD or JPY LIBOR.

In addition, the Group has derivative and non-derivative financial instruments linked to IBORs that are not in hedge accounting relationships.

The GBP, EUR and JPY LIBOR rates and the one-week and two-month USD LIBOR rates were discontinued at 31 December 2021. The remaining USD LIBOR rates is expected to be discontinued post 30 June 2023.

The Group's exposure to IBORs subject to change at 31 December 2021 is not significant compared to those expected to be changed post June 2023. The GBP Libor, EUR Libor, JYP Libor and US Libor have transitioned to the Sterling Overnight Index Average (SONIA), Euro Short-Term Rate (€STR), Tokyo Overnight Average Rate (TONAR) and Secured Overnight Financing Rate (SOFR) respectively as alternative reference rates.

The South African Reserve Bank (SARB) announced in 2020 that the Johannesburg Interbank Average Rate (JIBAR) would cease to exist in the near future as it did not comply with the IOSCO Principles for Financial Benchmarks. The SARB Market Practitioners Group (MPG), a joint public-private body has been mandated to facilitate decisions on the choice of alternative reference rates for financial contracts that should replace JIBAR.

The transition journey for JIBAR is still in its nascency and transition timelines are yet to be announced by the SARB. Absa participates in the SARB's MPG and has started its own preparations for the transition of JIBAR. Lessons learned during the Libor transition journey will pave the way for an efficient transition of JIBAR in due course.

The Group's IBOR transition steering committee which comprises a series of business and function workstreams with oversight and coordination provided by a central project team is currently managing the transition. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

The main risks to which the Group is exposed as result of IBOR reform are operational as detailed below:

Conduct risk: The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest.

56. Derivatives (continued)

56.8 Interest rate benchmark reform (continued)

Pricing and valuation considerations: International Securities and Derivatives Association ('ISDA') published the IBOR Fallbacks Supplement and ISDA 2020 IBOR Fallbacks Protocol on 23 October 2020. New fallbacks for derivatives linked to key IBORs came into effect on 25 January 2021, ensuring a viable safety net is in place in the event an IBOR becomes permanently unavailable while entities continue to have exposure to that rate. The supplement incorporates the fallbacks into all new non-cleared derivatives contracts from 25 January 2021 that reference the 2006 ISDA Definitions. Derivative participants can incorporate the fallback into legacy non-cleared derivatives contracts via use of an ISDA protocol or through bilateral negotiation. For cleared derivatives, central counterparties (CCPs) have incorporated the ISDA IBOR fallbacks in their rule books for both new and legacy contracts.

Accounting: If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments, this could lead to discontinuation of hedge accounting relationships, increased volatility in profit or loss if re-designated hedges are not fully effective and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g. arising from differing interpretation of existing fallback terms), there is a risk of litigation and prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working proactively with all counterparties to minimise this risk from occurring.

Operational risk: Our Group's IT systems are undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time resulting in additional manual procedures which give rise to operational risks.

These risks are being managed through either the Group's IBOR Steering Committee or where more appropriate the relevant function best placed to monitor and/or mitigate risk.

Developments made towards implementing alternative benchmark interest rates

For derivatives subject to interest rate reform, the Group and a significant portion of its counterparties have adhered to the ISDA IBOR Fallbacks Protocol (the 'Protocol') as well as the IBOR Fallbacks Supplement (the 'Supplement') published by the ISDA in October 2020. The protocol has become effective on 25 January 2021, and provides for the calculation of an economically equivalent rate to previous rates when IBORs are no longer available.

Absa has been systematically including fallback language in all new contracts as of January 2021 across all Libor currencies. For legacy contracts referencing Libor, particularly for non-USD currencies, Absa has either included fallback language into the contracts or actively transitioned these to new risk-free rates, i.e. re-contracted using the risk-free rates in preparation of the cessation of Libor. As at 31 December 2021 all active transactions referencing non-USD Libor, either contain fallback language, have been actively transitioned or will naturally roll-off as they do not have further reset dates. Absa is in the process of transiting contracts referencing USD Libor either through the use of fallbacks or the active transitions approach and will aim to complete this activity by 30 June 2023.

The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty on the timing and amount of cash flows arising from interest rate benchmark reform ends. It is expected that this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread. The Group has elected to apply the Phase 2 amendments prospectively from effective date with no restatement of comparatives.

The Group has certain designated hedging relationships where hedged items and/or hedging instruments reference an interest rate benchmark. These rates are in the process of being transitioned to risk-free rates (RFRs) as these rates will no longer exist once the interest rate benchmark reform is finalised.

For hedges of EUR and JPY IBOR risk, the Group does not consider there to be uncertainty in the timing or amount of cash flows arising from IBOR reform as at 31 December 2021. However, the Group's cash flow hedging relationships of JIBAR and US dollar LIBOR risks extend beyond the anticipated cessation dates for both IBORs. There is uncertainty over the timing and amount of the replacement rate cash flows which may impact the hedging relationship, i.e. its effectiveness assessment and highly probable assessment. For the purposes of these assessments, the Group assumes that the hedged benchmark interest rate, the cash flows of the hedged item and/or the hedging instrument will not be altered as a result of IBOR reform.

If a hedging relationship impacted by uncertainty about IBOR reform has not been highly effective throughout the financial reporting period, then the Group evaluates whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

Hedging relationships impacted by uncertainty about IBOR reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and the hedging instrument, which may lead to hedge ineffectiveness. The Group has measured its hedging instruments indexed to IBORs using available quoted market rates for IBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in IBOR on a similar basis.

56. Derivatives (continued)

56.8 Interest rate benchmark reform (continued)

The table below provides more information on the hedge accounting relationships that are impacted by interest rate benchmark reform:

	Group						
	Notional amount						
	ZAR JIBAR Rm	USD LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Total Rm	Notional not impacted by benchmark reform Rm	Total Notional Rm
Cash flow hedges	192 956	—	50	128	193 134	2 204	195 338
Interest rate swaps	180 649	—	—	—	180 649	—	180 649
Cross currency swaps	12 307	—	50	128	12 485	—	12 485
Forwards	—	—	—	—	—	2 204	2 204
Fair value hedges	61 052	15 943	—	128	77 123	—	77 123
Interest rate swaps	56 625	15 943	—	128	72 696	—	72 696
Cross currency swaps	2 857	—	—	—	2 857	—	2 857
Inflation rate swaps	1 570	—	—	—	1 570	—	1 570

The table below provides information on financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period:

	Carrying values of financial instruments impacted by benchmark reform and yet to transition					
	USD JIBAR Rm	GBP LIBOR Rm	EUR LIBOR Rm	JPY LIBOR Rm	Other Rm	Total Notional Rm
Non-derivative assets[1]	90 676	1 573	1 697	15	0	93 961
Non-derivative liabilities[1]	5 251	0	0	0	0	5 251
Derivative notionals[2]	972 088	4 001	2 212	63	0	978 364

Financial instrument modifications due to IBOR reforms

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform if the following conditions are met; the change is necessary as a direct consequence of the reform; and the new basis for determining the contractual cash flows is economically equivalent to the previous basis, i.e. the basis immediately before the change.

[1] Includes both on-balance sheet and off-balance sheet exposures. Carrying amounts for on-balance sheet and notional amounts for off-balance sheet have been included.

[2] Balances represent the notional amount of derivative assets and liabilities directly impacted by the IBOR reform.

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

	2021			
		Fair value through profit or loss		
	Mandatorily held at fair value Rm	Designated at fair value[4] Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	4 017	—	—	4 017
Investment securities	11 435	281	—	11 716
Trading portfolio assets	202 436	—	—	202 436
Hedging portfolio assets[2]	—	—	5 159	5 159
Other assets	13	—	—	13
Loans and advances	88 692	29 514	—	118 206
Investments linked to investment contracts	19 803	—	—	19 803
Non-current assets held for sale	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	326 396	29 795	5 159	361 350
Liabilities				
Trading portfolio liabilities	72 819	—	—	72 819
Hedging portfolio liabilities[3]	—	—	3 659	3 659
Other liabilities	—	59	—	59
Deposits	—	123 181	—	123 181
Debt securities in issue	—	24 737	—	24 737
Liabilities under investment contracts	—	21 126	—	21 126
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	72 819	169 103	3 659	245 581

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.
[2] Includes derivative assets to the amount of **R3 644m** (2020: R9 455m) and **R1 300m** (2020: R1 543m) that have been designated as cash flow and fair value hedging instruments respectively.
[3] Includes derivative liabilities to the amount of **R913m** (2020: R363m) and **R2 746m** (2020: R4 505m) that have been designated as cash flow and fair value hedging instruments respectively.
[4] Includes items designated as hedged items in fair value hedging relationships.
[5] Liabilities outside the scope of IFRS 9 includes **R1 080m** (2020: R917m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.
[6] These numbers have been restated, refer to note 1.21.1

2021								
Fair value through other comprehensive income				Amortised cost				
Debt instruments Rm	Equity instruments Rm	Hedged items[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
2 242	—	—	2 242	59 782	—	59 782	—	66 041
101 477	2 291	36 744	140 512	17 051	19 619	36 670	—	188 898
—	—	—	—	—	—	—	643	203 079
—	—	—	—	—	—	—	—	5 159
—	—	—	—	20 995	—	20 995	3 148	24 156
—	—	—	—	970 076	3 975	974 051	—	1 092 257
—	—	—	—	—	—	—	—	19 803
—	—	—	—	842	—	842	3 417	4 259
—	—	—	—	—	—	—	37 181	37 181
103 719	2 291	36 744	142 754	1 068 746	23 594	1 092 340	44 389	1 640 833
—	—	—	—	—	—	—	—	72 819
—	—	—	—	—	—	—	—	3 659
—	—	—	—	43 776	—	43 776	4 574	48 409
—	—	—	—	1 050 585	—	1 050 585	—	1 173 766
—	—	—	—	99 836	6 503	106 339	—	131 076
—	—	—	—	—	—	—	—	21 126
—	—	—	—	11 430	15 170	26 600	—	26 600
—	—	—	—	—	—	—	16 069	16 069
—	—	—	—	1 205 627	21 673	1 227 300	20 643	1 493 524

57. Consolidated statement of financial position summary – IFRS 9 classification (continued)

	2020			
		Fair value through profit or loss		
	Mandatorily held at fair value Rm	Designated at fair value[4] Rm	Hedging instruments Rm	Total Rm
Assets				
Cash, cash balances and balances with central banks	4 503	—	—	4 503
Investment securities	8 718	2 447	—	11 165
Trading portfolio assets	212 439	—	—	212 439
Hedging portfolio assets[2]	—	—	11 000	11 000
Other assets	19	—	—	19
Loans and advances[6]	69 598	26 133	—	95 731
Investments linked to investment contracts	21 273	—	—	21 273
Non-current assets held for sale	—	—	—	—
Loans to group companies	—	—	—	—
Assets outside the scope of IFRS 9	—	—	—	—
	316 550	28 580	11 000	356 130
Liabilities				
Trading portfolio liabilities	108 976	—	—	108 976
Hedging portfolio liabilities[3]	—	—	4 868	4 868
Other liabilities	—	34	—	34
Deposits[6]	—	86 933	—	86 933
Debt securities in issue	—	24 103	—	24 103
Liabilities under investment contracts	—	27 533	—	27 533
Borrowed funds	—	—	—	—
Liabilities outside the scope of IFRS 9[5]	—	—	—	—
	108 976	138 603	4 868	252 447

[1] Includes non-financial assets and liabilities and financial instruments outside the scope of IFRS 9.

[2] Includes derivative assets to the amount of **R3 644m** (2020: R9 455m) and **R1 300m** (2020: R1 543m) that have been designated as cash flow and fair value hedging instruments respectively.

[3] Includes derivative liabilities to the amount of **R913m** (2020: R363m) and **R2 746m** (2020: R4 505m) that have been designated as cash flow and fair value hedging instruments respectively.

[4] Includes items designated as hedged items in fair value hedging relationships.

[5] Liabilities outside the scope of IFRS 9 includes **R1 080m** (2020: R917m) that relates to expected credit losses from undrawn facilities, financial guarantees and letters of credit.

[6] These numbers have been restated, refer to note 1.21.1

2020

Fair value through other comprehensive income				Amortised cost				
Debt instruments Rm	Equity instruments Rm	Hedged items[4] Rm	Total Rm	Debt instruments Rm	Hedged items[4] Rm	Total Rm	Outside the scope of IFRS 9[1] Rm	Total assets and liabilities Rm
2 868	—	—	2 868	53 311	—	53 311	—	60 682
83 468	2 027	25 071	110 566	31 773	—	31 773	—	153 504
—	—	—	—	—	—	—	1 082	213 521
—	—	—	—	—	—	—	—	11 000
—	—	—	—	17 123	—	17 123	3 275	20 417
—	—	—	—	915 449	3 327	918 776	—	1 014 507
—	—	—	—	—	—	—	—	21 273
—	—	—	—	—	—	—	144	144
—	—	—	—	—	—	—	36 072	36 072
—	—	—	—	—	—	—	—	—
86 336	2 027	25 071	113 434	1 017 656	3 327	1 020 983	40 573	1 531 120
—	—	—	—	—	—	—	—	108 976
—	—	—	—	—	—	—	—	4 868
—	—	—	—	29 068	—	29 068	4 803	33 905
—	—	—	—	961 067	—	961 067	—	1 048 000
—	—	—	—	114 613	7 024	121 637	—	145 740
—	—	—	—	—	—	—	—	27 533
—	—	—	—	13 741	7 020	20 761	—	20 761
—	—	—	—	—	—	—	9 034	9 034
—	—	—	—	1 118 489	14 044	1 132 533	13 837	1 398 817

58. Fair value disclosures

58.1 Assets and liabilities held at fair value

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

	Group							
	2021				2020			
	Level 1 Rm	Level 2 Rm	Level 3[1] Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash, cash balances and balances with central banks	—	6 259	—	6 259	461	6 910	—	7 371
Investment securities	56 221	87 446	8 561	152 228	44 363	65 456	11 912	121 731
Trading and hedging portfolio assets	115 035	90 234	2 327	207 596	91 382	129 555	2 502	223 439
Debt instruments	66 659	12 614	122	79 395	55 577	11 545	95	67 217
Derivative assets	—	59 501	1 386	60 887	—	108 151	1 701	109 852
Commodity derivatives	—	907	13	920	—	622	5	627
Credit derivatives	—	2	140	142	—	—	159	159
Equity derivatives	—	7 349	1 232	8 581	—	3 510	1 487	4 997
Foreign exchange derivatives	—	11 578	1	11 579	—	23 244	—	23 244
Interest rate derivatives	—	39 665	—	39 665	—	80 775	50	80 825
Equity instruments	47 283	—	—	47 283	35 243	—	—	35 243
Money market assets	1 093	18 119	819	20 031	562	9 859	706	11 127
Other assets	—	13	—	13	—	19	—	19
Loans and advances[2]	—	101 477	16 729	118 206	—	82 134	13 597	95 731
Investment linked to investment contracts	17 804	1 999	—	19 803	15 412	5 243	618	21 273
Total financial assets	**189 060**	**287 428**	**27 617**	**504 105**	**151 618**	**289 317**	**28 629**	**469 564**
Financial liabilities								
Trading and hedging portfolio liabilities	24 650	51 555	273	76 478	21 048	92 623	173	113 844
Derivative liabilities	—	51 555	273	51 828	—	92 623	173	92 796
Commodity derivatives	—	823	1	824	—	764	1	765
Credit derivatives	—	749	93	842	—	183	141	324
Equity derivatives	—	2 513	169	2 682	—	3 135	17	3 152
Foreign exchange derivatives	—	12 687	—	12 687	—	20 894	1	20 895
Interest rate derivatives	—	34 783	10	34 793	—	67 647	13	67 660
Short positions	24 650	—	—	24 650	21 048	—	—	21 048
Other liabilities	—	59	—	59	—	34	—	34
Deposits[2]	156	119 828	3 197	123 181	128	82 123	4 682	86 933
Debt securities in issue	536	24 201	—	24 737	486	23 617	—	24 103
Liabilities under investment contracts	—	21 126	—	21 126	—	27 533	—	27 533
Total financial liabilities	**25 342**	**216 769**	**3 470**	**245 581**	**21 662**	**225 930**	**4 855**	**252 447**
Non-financial assets								
Commodities	642	—	—	642	1 082	—	—	1 082
Investment properties	—	—	421	421	—	—	496	496
Non-recurring fair value measurements								
Non-current assets held for sale[3]	—	—	3 417	3 417	—	—	144	144
Non-current liabilities held for sale[3]	—	—	3 465	3 465	—	—	—	—

[1] As a result of the uncertainties inherent in measuring the fair value of financial instruments, its measurement is estimated based on valuation assumptions and inputs derived from market expectations. Estimation involves judgements based on the latest available, reliable information. Resultantly, any changes in key assumptions relating to their valuation is treated as a change in accounting estimate and has been accounted for prospectively in the financial statements.

[2] Prior period numbers have been restated, refer to note 1.21.1 for further details.

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

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58. Fair value disclosures (continued)

58.2 Reconciliation of Level 3 assets and liabilities

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

	Group			
	2021			
	Trading and hedging portfolio assets Rm	Loans and advances Rm	Investment securities Rm	Investment properties Rm
Opening balance at the beginning of the reporting period	2 502	13 597	11 912	496
Net interest income	—	180	47	—
Other income	—	—	—	(7)
Gains and losses from banking and trading activities	906	(96)	(16)	(25)
Purchases	626	6 008	920	—
Sales	(42)	(4 136)	(2 892)	(51)
Movement in other comprehensive income	—	—	(157)	19
Issues	—	—	—	—
Settlements	—	—	(60)	—
Transferred to/(from) assets/liabilities	—	—	—	(11)
Transfer to Level 3	175	1 176	—	—
Transfer out of Level 3	(1 840)	—	(1 193)	—
Closing balance at the end of the reporting period	2 327	16 729	8 561	421

	2020			
	Trading and hedging portfolio assets Rm	Loans and advances Rm	Investment securities Rm	Investment properties Rm
Opening balance at the beginning of the reporting period	6 256	10 904	14 198	513
Net interest income	—	246	83	—
Gains and losses from banking and trading activities	(1 928)	523	(442)	(5)
Purchases	38	544	384	—
Sales	(176)	(931)	(2 570)	(44)
Movement in other comprehensive income	—	—	(699)	32
Issues	—	—	—	—
Settlements	—	—	—	—
Transfer to Level 3	142	2 807	2 353	—
Transfer out of Level 3	(1 830)	(496)	(1 395)	—
Closing balance at the end of the reporting period	2 502	13 597	11 912	496

58.2.1 Significant transfers between levels

During the 2021 and 2020 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity. Transfers between Level 1 and Level 2 are not considered significant for disclosure.

Transfers have been reflected as if they had taken place at the beginning of the year.

Group					
2021					
Investments linked to investment contracts Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits Rm	Total liabilities at fair value Rm
618	29 125	173	—	4 682	4 855
—	227	—	—	—	—
—	(7)	—	—	—	—
—	769	48	—	(118)	(70)
—	7 554	—	—	5	5
—	(7 121)	—	—	—	—
—	(138)	—	—	117	117
—	—	55	—	6 216	6 271
—	(60)	(1)	—	(7 554)	(7 555)
—	(11)	—	—	—	—
—	1 351	—	—	—	—
(618)	(3 651)	(2)	—	(151)	(153)
—	28 038	273	—	3 197	3 470

2020					
Investments linked to investment contracts Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits Rm	Total liabilities at fair value Rm
81	31 952	1 131	19	4 457	5 607
—	329	—	—	—	—
—	(1 852)	(706)	—	306	(400)
537	1 503)	—	—	—	—
—	(3 721)	—	—	—	—
—	(667)	—	—	(55)	(55)
—	—	38	34	1 804	1 876
—	—	(263)	(53)	(1 104)	(1 420)
—	5 302	—	—	77	77
—	(3 721)	(27)	—	(803)	(830)
618	29 125	173	—	4 682	4 855

58. Fair value disclosures (continued)

58.3 Unrealised gains and losses on Level 3 assets and liabilities

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

	Group 2021				
	Trading and hedging portfolio assets Rm	Loans and advances Rm	Investment securities Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	576	1 833	19	—	2 428

	2020				
	Trading and hedging portfolio assets Rm	Loans and advances Rm	Investment securities Rm	Investments linked to investment contracts Rm	Total assets at fair value Rm
Gains and (losses) from banking and trading activities	1 774	3 192	(115)	—	4 851

	Group 2021		
	Trading and hedging portfolio liabilities Rm	Deposits Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	189	1 190	1 379

	2020		
	Trading and hedging portfolio liabilities Rm	Deposits Rm	Total liabilities at fair value Rm
Gains and (losses) from banking and trading activities	(104)	(490)	(594)

58. Fair value disclosures (continued)

58.4 Sensitivity analysis of valuations using unobservable inputs

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

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

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

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

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

		2021	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits	Absa Group Limited/ Absa funding spread	126/(138)	—/—
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount		(240)/251
Loans and advances	Credit spreads	(979)/1 060	
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(41)/41	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(37)/37	—/—

58. Fair value disclosures (continued)

58.4 Sensitivity analysis of valuations using unobservable inputs (continued)

		2020	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
	Significant unobservable parameters	Favourable/(Unfavourable) Rm	Favourable/(Unfavourable) Rm
Deposits	Absa Group Limited/ Absa funding spread	344/(394)	—/—
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	—/—	(170)/175
Loans and advances	Credit spreads	(782)/848	—/—
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(18)/19	—/—
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	(37)/37	—/—

The significant unobservable inputs used in determining the fair value of the investment properties are annual rent, discount rates, prevailing bulk selling prices and annual growth rate. Significant increases/decreases of these inputs in isolation would result in a significantly lower/higher fair value measurement of the investment properties.

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

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

	Group	
	2021 Rm	2020 Rm
Opening balance at the beginning of the reporting period	**(446)**	(407)
New transactions	**(212)**	(105)
Amounts recognised in profit or loss during the reporting period	**137**	66
Closing balance at the end of the reporting period	**(521)**	(446)

58.6 Third-party credit enhancements

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

58. Fair value disclosures (continued)

58.7 Financial assets and financial liabilities not held at fair value

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

	Group				
	2021				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	17 521	17 521	17 521	—	—
Balances with the SARB	27 684	27 684	27 684	—	—
Coins and bank notes	14 577	14 577	14 577	—	—
Cash, cash balances and balances with central banks	59 782	59 782	59 782	—	—
Investment securities	36 670	37 689	33 906	2 659	1 124
Other assets	20 995	20 995	8 854	4 337	7 804
RBB	618 195	621 991	—	—	621 991
Home Loans	270 276	266 310	—	—	266 310
Vehicle and Asset Finance	98 076	100 807	—	—	100 807
Everyday Banking	60 404	60 578	—	—	60 578
Card	38 960	38 960	—	—	38 960
Personal loans	18 610	18 784	—	—	18 784
Transactions and deposits	2 834	2 834	—	—	2 834
Relationship Banking	125 712	130 573	—	—	130 573
RBB ARO	63 727	63 723	—	—	63 723
CIB	308 429	308 200	—	—	308 200
CIB South Africa	248 143	249 166	—	—	249 166
CIB ARO	60 286	59 034	—	—	59 034
Head Office, Treasury and other operations	774	774	—	—	774
Loans and advances to customers	927 398	930 965	—	—	930 965
Loans and advances to banks	46 653	46 647	28 655	17 992	—
Loans and advances	974 051	977 612	28 655	17 992	930 965
Non-current assets held for sale	842	842	—	—	842
Total assets (not held at fair value)	1 092 340	1 096 920	131 197	24 988	940 735
Financial liabilities					
Other liabilities	43 776	43 776	24 287	19 489	—
Call deposits	136 443	136 443	136 443	—	—
Cheque account deposits	301 215	301 215	301 215	—	—
Credit card deposits	2 137	2 137	2 137	—	—
Fixed deposits	182 369	178 783	—	176 308	2 475
Foreign currency deposits	54 075	54 075	—	54 075	—
Notice deposits	70 148	70 148	33 623	36 525	—
Other deposits	1 268	1 268	—	1 268	—
Saving and transmission deposits	249 068	249 068	52 847	18 082	178 139
Deposits due to customers	996 723	993 137	526 265	286 258	180 614
Deposits from banks	53 862	53 851	9 492	44 359	—
Deposits	1 050 585	1 046 988	535 757	330 617	180 614
Debt securities in issue	106 339	105 662	—	105 662	—
Borrowed funds	26 600	26 423	—	26 423	—
Total liabilities (not held at fair value)	1 227 300	1 222 849	560 044	482 191	180 614

58. Fair value disclosures (continued)

58.7 Financial assets and financial liabilities not held at fair value (continued)

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

	Group				
	2020				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Balances with other central banks	13 441	13 441	13 441	—	—
Balances with the SARB	25 467	25 467	25 467	—	—
Coins and bank notes	14 403	14 403	14 403	—	—
Cash, cash balances and balances with central banks	53 311	53 311	53 311	—	—
Investment securities	31 773	34 246	32 498	321	1 427
Other assets	17 123	17 123	8 195	3 244	5 684
RBB[1]	571 756	566 705	—	—	566 705
Home Loans	247 679	245 702	—	—	245 702
Vehicle and Asset Finance	89 129	87 739	—	—	87 739
Everyday Banking	58 022	57 305	—	—	57 305
Card	36 405	36 405	—	—	36 405
Personal loans	18 410	17 693	—	—	17 693
Transactions and deposits	3 207	3 207	—	—	3 207
Relationship Banking[1]	121 605	120 638	—	—	120 638
RBB ARO	55 321	55 321	—	—	55 321
CIB[2]	301 614	305 231	—	—	305 231
CIB South Africa[2]	248 686	253 055	—	—	253 055
CIB ARO	52 928	52 176	—	—	52 176
Head Office, Treasury and other operations	1 064	1 064	—	—	1 064
Loans and advances to customers[2]	874 434	873 000	—	—	873 000
Loans and advances to banks[2]	44 342	44 301	23 032	21 148	121
Loans and advances	918 776	917 301	23 032	21 148	873 121
Total assets (not held at fair value)	1 020 983	1 021 981	117 036	24 713	880 232
Financial liabilities					
Other liabilities	29 068	29 068	11 025	18 043	—
Call deposits[2]	114 788	114 788	114 788	—	—
Cheque account deposits	268 696	268 696	268 696	—	—
Credit card deposits	2 033	2 033	2 033	—	—
Fixed deposits	187 777	191 690	—	185 430	6 260
Foreign currency deposits[2]	46 814	46 804	—	46 804	—
Notice deposits	74 139	74 139	28 742	45 397	—
Other deposits	1 267	1 267	—	1 267	—
Saving and transmission deposits	208 689	208 689	53 378	8 348	146 963
Deposits due to customers[2]	904 203	908 106	467 637	287 246	153 223
Deposits from banks[2]	56 864	57 169	16 542	40 516	111
Deposits	961 067	965 275	484 179	327 762	153 334
Debt securities in issue	121 637	122 334	—	122 334	—
Borrowed funds	20 761	20 902	—	20 902	—
Total liabilities (not held at fair value)	1 132 533	1 137 579	495 204	489 041	153 334

[1] Numbers have been restated, refer to 1.21.2.

[2] Numbers have been restated, refer to 1.21.1.

59. Credit risk of financial instruments designated at fair value

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

	Group		Credit risk mitigation	
	2021 Rm	2020 Rm	2021 Rm	2020 Rm
Assets				
Investment securities	3 701	2 447	—	—
Loans and advances	29 514	26 133	—	1 448
Loans and advances to banks	—	121	—	121
Loans and advances to customers	29 514	26 012	—	1 327
	33 215	28 580	—	1 448

The Group utilised credit derivatives and credit linked notes as a mechanism to hedge its exposure to credit risk for financial instruments designated at fair value through profit or loss. The value of collateral has been limited to the fair value of the instrument.

Contractual obligation at maturity of financial liabilities designated at fair value through profit or loss

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

	Group			
	2021		2020	
	Carrying amount Rm	Contractual obligation Rm	Carrying amount Rm	Contractual obligation Rm
Liabilities				
Deposits	123 181	129 499	86 933	101 064
Deposits from banks[1]	44 168	44 825	32 706	35 784
Deposits due to customers[1]	79 013	84 674	54 227	65 280
Other liabilities	59	59	34	34
Debt securities in issue	24 737	29 180	24 103	28 054
Liabilities under investment contracts	24 301	24 301	27 533	27 533
	172 278	183 039	138 603	156 685

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

	Group	
	2021 Rm	2020 Rm
Liabilities		
Deposits from banks and customers	(36)	(116)
Cumulative adjustments in fair value attributable to changes in own risk		
Liabilities		
Deposits from banks and customers	510	474

The following approach is used in determining changes in fair value due to changes in own credit risk for deposits from banks and customers designated at fair value through profit or loss:

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

[1] These numbers have been restated, refer to 1.21.1.

60. Risk management

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

The Group actively identifies and assesses risks arising from internal and external environments, while also proactively identifying emerging risks. To ensure effective implementation, this consolidated response is monitored as follows:

- An integrated and dynamic governance structure at Group, country, business and enterprise core function levels, promoting a sound risk culture.
- Well-defined material risk categories, known as principal risks, for complete risk coverage.
- A combined assurance model with clear accountability for managing and overseeing the effective execution of assurance throughout the Group.
- Comprehensive and structured processes for evaluating, responding to and monitoring risks.
- An entrenched risk culture underpinning an effective risk operating model and appropriate risk practices, tools and techniques to support the Group's strategy.

The role of risk management is to evaluate, respond to and monitor risks in the execution of the Group's strategy. The Group's strategy is supported by an effective ERMF. The Group's risk function performs conformance reviews; checks and challenges the risk profile; and retains independence in analysis and decision-making, underpinned by regular reporting to the Executive Committee and the Board. The GCRO assumes responsibility for the ERMF.

The ERMF:

- Outlines the approach to the management of risk and provides the basis for setting frameworks and policies, and establishing appropriate risk practices throughout the Group;
- Defines the risk management process and sets out the activities, tools, techniques and the operating model to ensure material risks can be identified and managed;
- Ensures appropriate responses are in place to protect the Group and its stakeholders; and
- Sets out principal risks and assigns clear ownership and accountability for these risks.

The principal risks as defined in the ERMF are credit, traded market, treasury, insurance, business, model, operational, resilience, conduct, financial crime, reputational and sustainability. Risks are defined in recognition of their significance to the Group's strategic ambitions.

The ERMF is reviewed and approved annually by the Board.

Strategy and risk appetite

The risk strategy is developed alongside the Group's business strategy and forms an integral part of the integrated planning process. Within the risk strategy, risk appetite defines the nature and amount of risk that the Group is willing to take to meet its strategic objectives. This forms part of the strategic planning process to ensure the business strategy is achievable within risk appetite, and risk information is considered in the organisation's decision-making and planning process.

The Group's risk appetite:

- Specifies the level of risk the Group is willing to take.
- Considers all principal and material risks individually and, where appropriate, in aggregate.
- Consistently measures, monitors and communicates the level of risk for different risk types, expressed in qualitative and quantitative terms.
- Describes agreed parameters for the Group's performance under varying levels of financial stress relating to earnings, capital adequacy, leverage and liquidity ratios.
- Is considered in key decision-making processes, including business planning, mergers and acquisitions, new product approvals and business change initiatives.

The Group's risk appetite is stated qualitatively in terms of risk principles and risk preferences, and refers to the types of risk the Group actively seeks as well as those it accepts and avoids. In addition, the maximum amount of risk that the Group is prepared to accept to achieve its business objectives is defined using a range of quantitative metrics relating to capital adequacy, earnings volatility, liquidity and leverage. These are cascaded to the level of principal risk, legal entity and business unit.

Stress testing and scenario planning

Stress testing and scenario analyses are key elements of the Group's integrated planning and risk management process. The use thereof allows the Group to assess the performance and resilience of its business model in specific economic environments.

Stress tests provide a forward-looking view of risks under adverse circumstances to estimate the potential impact on the financial system and the Group, including its subsidiaries and business lines/portfolios. This is supported by a framework, policies, procedures and consideration of international best practice and infrastructure platforms.

The Group Risk and Capital Management Committee is responsible for oversight of the stress testing results with senior management committees such as the Executive Risk Committee tasked with developing, reviewing and challenging the robustness of the process.

Credit risk

Credit risk is the risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on its contractual obligations.

Traded market risk

The risk of the Group's earnings or capital being adversely impacted due to changes in the level or volatility of prices affecting the positions in its active trading activities across the Group. This includes but is not limited to changes in interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels.

Liquidity risk

The risk that the Group is unable to meet its contractual or contingent liquidity obligations or that it does not have the appropriate amount, tenor and composition of funding to support its assets.

Capital risk

The risk that the Group has an insufficient level or inappropriate composition of capital to support its normal business activities and to remain within its Board-approved capital target ranges under normal operating conditions or above regulatory capital requirements under stressed conditions.

Interest rate risk in the banking book

The risk that the Group's current or projected financial condition and resilience might be adversely affected by changes in interest rate levels, yield curves and spreads. This risk arises in the banking book, due to re-pricing differences between assets, liabilities and equity, and also includes funding spread risk and foreign exchange rate risk.

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Notes to the consolidated financial statements

for the reporting period ended 31 December

60. Risk management (continued)

60.2 Credit risk

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

	Group			
	2021			
		Stage 1[1]		
Maximum exposure to credit risk	Gross maximum exposure Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Balances with other central banks	17 543	5 934	10 613	—
Balances with the SARB	27 684	27 684	—	—
Money market assets	2 242	2 242	—	—
Cash, cash balances and balances with central banks	47 469	35 860	10 613	—
Government bonds	121 640	105 325	16 315	—
Other	9 977	6 038	1 063	—
Treasury bills	43 288	36 647	3 454	—
Investment securities	174 905	148 010	20 832	—
Accounts receivable	12 312	3 954	8 305	—
Settlement accounts	8 782	5 984	2 798	—
Other assets	21 094	9 938	11 103	—
RBB	654 712	65 751	451 789	25 531
Home Loans	277 414	27 784	197 952	10 469
Vehicle and Asset Finance	104 093	10 384	68 021	8 746
Everyday Banking	72 953	12 401	35 949	5 782
Card	46 779	11 712	21 512	2 070
Personal loans	22 571	444	12 593	3 417
Transactional and deposits	3 603	245	1 844	295
Relationship Banking	130 948	13 208	95 661	—
RBB ARO	69 251	1 974	54 206	534
RBB Other	53	—	—	—
CIB	313 628	139 393	125 071	212
CIB South Africa	251 020	135 164	81 022	200
CIB ARO	62 608	4 229	44 049	12
Head Office, Treasury and other operations	416	343	9	—
Loans and advances to customers	968 756	205 487	576 869	25 743
Loans and advances to banks	46 735	31 883	11 719	—
Loans and advances	1015 491	237 370	588 588	25 743
Off-statement of financial position exposure				
Guarantees	48 828	28 707	16 392	22
Letters of credit	17 782	2 207	12 759	—
Revocable and irrevocable debt facilities[2]	233 430	66 606	156 814	750
Total off-statement of financial position exposure	300 040	97 520	185 965	772

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

[2] Includes revocable debt facilities with a risk of draw down.

Group			
2021			
Stage 2[1]			Stage 3[1]
DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
—	996	—	—
—	—	—	—
—	—	—	—
—	996	—	—
—	—	—	—
253	1 752	—	871
—	3 187	—	—
253	4 939	—	871
—	53	—	—
—	—	—	—
—	53	—	—
927	34 954	24 101	51 659
529	10 003	10 678	19 999
32	3 568	6 207	7 135
100	4 690	3 376	10 655
22	3 233	1 477	6 753
14	946	1 766	3 391
64	511	133	511
266	13 464	—	8 349
—	3 229	3 840	5 468
—	—	—	53
6 023	32 322	689	9 918
6 023	23 035	142	5 434
—	9 287	547	4 484
—	64	—	—
6 950	67 340	24 790	61 577
—	3 021	112	—
6 950	70 361	24 902	61 577
63	2 649	406	589
—	2 724	90	2
652	5 674	941	1 993
715	11 047	1 437	2 584

60. Risk management (continued)

60.2 Credit risk (continued)

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

		2020		
		Stage 1[1]		
Maximum exposure to credit risk	Gross maximum exposure Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Balances with other central banks	13 451	3 500	9 882	—
Balances with the SARB	25 460	25 460	—	—
Money market assets	2 867	2 867	—	—
Cash, cash balances and balances with central banks	41 778	31 827	9 882	—
Government bonds[2]	105 508	93 014	10 844	—
Other[2]	13 607	9 440	2 025	—
Treasury bills	21 205	16 061	5 043	—
Investment securities	140 320	118 515	17 912	—
Accounts receivable	9 393	6 516	2 826	—
Settlement accounts	7 799	2 671	5 128	—
Other assets	17 192	9 187	7 954	—
RBB[1]	610 762	43 108	422 052	23 360
Home Loans	255 131	10 111	191 811	8 815
AVAF	94 877	1 293	65 769	9 494
Everyday Banking	73 731	10 952	32 992	4 901
Card	45 875	10 470	19 203	2 053
Personal loans	23 785	228	12 246	2 421
Transactional and deposits	4 071	254	1 543	427
Relationship Banking[3]	127 050	17 140	84 813	—
RBB ARO	59 920	3 612	46 667	150
RBB Other	53	—	—	—
CIB[3,4]	306 693	133 964	113 870	3
CIB South Africa[3,4]	251 548	128 738	75 811	2
CIB ARO	55 145	5 226	38 059	1
Head Office, Treasury and other operations in South Africa	612	369	21	—
Loans and advances to customers[4]	918 067	177 441	535 943	23 363
Loans and advances to banks[z]	44 405	34 798	6 919	371
Loans and advances	962 472	212 239	542 862	23 734
Off-statement of financial position exposure				
Guarantees	45 405	21 190	16 684	63
Letters of credit	12 722	1 555	7 335	3
Revocable and irrevocable debt facilities[5]	225 589	97 438	116 087	536
Total off-statement of financial position exposure	283 716	120 183	140 106	602

[1] Refer to note 1.2.1.3 for DG bucket definitions.
[2] The numbers reported in December 2020 have been restated to correctly classify Government bonds previously disclosed under other debt securities to Government bonds.
[3] These numbers have been restated, refer to note 1.21.2.
[4] These numbers have been restated, refer to note 1.21.1.
[5] Includes revocable debt facilities with a risk of draw down.

	2020			
	Stage 2[1]			Stage 3[1]
	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm	Default Rm
	—	69	—	—
	—	—	—	—
	—	—	—	—
	—	69	—	—
	—	1 650	—	—
	792	1 350	—	—
	—	101	—	—
	792	3 101	—	—
	50	1	—	—
	—	—	—	—
	50	1	—	—
	4 651	42 680	17 778	57 133
	3 101	10 299	7 180	23 814
	1 230	5 084	4 291	7 716
	114	7 110	3 411	14 251
	56	4 496	1 622	7 975
	19	1 690	1 591	5 590
	39	924	198	686
	206	17 546	—	7 345
	—	2 641	2 896	3 954
	—	—	—	53
	11 841	35 957	1 702	9 356
	11 749	27 610	1 503	6 135
	92	8 347	199	3 221
	—	222	—	—
	16 492	78 859	19 480	66 489
	778	1 476	63	—
	17 270	80 335	19 543	66 489
	357	5 813	302	996
	221	3 410	107	91
	1 508	6 573	477	2 970
	2 086	15 796	886	4 057

60. Risk management (continued)

60.2 Credit risk (continued)

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

	2021			
Maximum exposure to credit risk	**Gross carrying amount Rm**	**DG1 – 9 Rm**	**DG10 – 19 Rm**	**DG 20 – 21 Rm**
Cash, cash balances and balances with central banks	4 017	4 017	—	—
Money market assets	4 017	4 017	—	—
Investment securities	7 490	7 146	344	—
Government bonds	15	15	—	—
Other	3 509	3 165	344	—
Treasury bills	3 966	3 966	—	—
Trading and hedging portfolio assets	160 313	114 376	45 714	223
Debt instruments	79 394	52 439	26 955	—
Derivative assets	60 887	50 531	10 133	223
Money market assets	20 032	11 406	8 626	—
Other assets	13	13	—	—
Accounts receivable	13	13	—	—
Loans and advances	118 206	52 696	65 510	—
Loans and advances to customers	89 988	38 685	51 303	—
Loans and advances to banks	28 218	14 011	14 207	—
Reinsurance assets	732	732	—	—
Insurance contracts	732	732	—	—
Investment linked to investment contracts	2 038	2 038	—	—
Debt instruments	1 978	1 978	—	—
Money market assets	60	60	—	—
Total	292 809	181 018	111 568	223

60. Risk management (continued)

60.2 Credit risk (continued)

	2020			
Maximum exposure to credit risk	Gross carrying amount Rm	DG1 – 9 Rm	DG10 – 19 Rm	DG 20 – 21 Rm
Cash, cash balances and balances with central banks	4 503	4 503	—	—
Money market assets	4 503	4 503	—	—
Investment securities	7 913	7 739	174	—
Government bonds	15	15	—	—
Other	5 154	4 980	174	—
Treasury bills	2 744	2 744	—	—
Trading and hedging portfolio assets	188 197	136 700	51 270	227
Debt instruments	67 218	47 872	19 346	—
Derivative assets	109 852	80 398	29 227	227
Money market assets	11 127	8 430	2 697	—
Other assets	19	19	—	—
Accounts receivable	19	19	—	—
Loans and advances	95 731	54 237	41 494	—
Loans and advances to customers[1]	70 147	36 087	34 060	—
Loans and advances to banks[1]	25 584	18 150	7 434	—
Reinsurance assets	680	680	—	—
Insurance contracts	680	680	—	—
Investment linked to investment contracts	3 013	3 013	—	—
Debt instruments	1 705	1 705	—	—
Derivative instruments	2	2	—	—
Money market assets	1 306	1 306	—	—
Total	300 056	206 891	92 938	227

[1] These numbers have been restated, refer to note 1.21.1.

60. Risk management (continued)

60.2 Credit risk (continued)

Concentration of credit risk

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

	Group				
	2021				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	—	20 526	30 960	51 486
Investment securities	8 951	13 399	57 591	102 454	182 395
Trading portfolio assets	1 820	21 579	23 723	108 032	155 154
Hedging portfolio assets	—	—	2	5 157	5 159
Other assets	60	71	4 951	16 025	21 107
Loans and advances	32 113	51 698	172 709	877 177	1 133 697
Reinsurance assets	—	—	570	162	732
Investments linked to investment securities	—	—	—	2 038	2 038
Subject to credit risk	42 944	86 747	280 072	1 142 005	1 551 768
Off-statement of financial position exposures					
Guarantees	2 130	3 436	16 444	26 818	48 828
Letters of credit	1 345	303	12 665	3 469	17 782
Revocable and irrevocable debt facilities[1]	404	543	24 316	208 167	233 430
Subject to credit risk	3 879	4 282	53 425	238 454	300 040

	2020				
Geographical concentration of risk	Asia, Americas and Australia Rm	Europe Rm	Africa Regions Rm	South Africa Rm	Total Rm
On-statement of financial position exposure					
Cash, cash balances and balances with central banks	—	15	16 805	29 461	46 281
Investment securities	10 947	955	42 765	93 566	148 233
Trading portfolio assets	2 291	22 529	18 313	134 064	177 197
Hedging portfolio assets	—	—	2	10 998	11 000
Other assets	150	247	3 521	13 293	17 211
Loans and advances	39 597	51 253	149 468	817 885	1 058 203
Reinsurance assets	—	—	418	262	680
Investments linked to investment securities	—	—	—	3 013	3 013
Subject to credit risk	52 985	74 999	231 292	1 102 542	1 461 818
Off-statement of financial position exposures					
Guarantees	210	4 211	12 795	28 189	45 405
Letters of credit	1 688	522	9 746	766	12 722
Revocable and irrevocable debt facilities[1]	111	15	21 030	204 433	225 589
Subject to credit risk	2 009	4 748	43 571	233 388	283 716

[1] Includes revocable debt facilities with a risk of draw down.

60. Risk management (continued)

60.2 Credit risk (continued)

IFRS disclosures in terms of credit mitigation

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

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

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

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

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

Collateral includes:

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

60. Risk management (continued)

60.2 Credit risk (continued)

	Group				
	2021	Collateral – credit impaired financial assets			
Analysis of credit risk mitigation and collateral	Gross maximum exposure[1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Debt instruments	79 396	—	—	—	—
Derivative assets	60 886	—	—	—	—
Money market assets	20 031	—	—	—	—
Trading portfolio assets	160 313	—	—	—	—
RBB	779 692	388	29 668	132	133
Home Loans	332 256	—	17 906	—	—
Vehicle and Asset Finance	106 560	—	5 354	—	—
Everyday Banking	110 630	—	—	—	—
Card	79 300	—	—	—	—
Personal loans	23 108	—	—	—	—
Transactional and deposits	8 222	—	—	—	—
Relationship Banking	155 168	173	4 377	57	54
RBB ARO	75 025	215	2 031	75	79
RBB Other	53	—	—	—	—
CIB	511 722	75	1 262	2	370
CIB South Africa	426 327	—	456	—	—
CIB ARO	85 395	75	806	2	370
Head Office, Treasury and other operations	760	—	—	—	—
Loans and advances to customers	1292 174	463	30 930	134	503
Loans and advances to banks	74 953	—	—	—	—
Loans and advances	1367 127	463	30 930	134	503
Off-balance sheet					
Guarantees	48 828	21	12	—	—
Letters of credit	17 782	—	—	—	—
Total off-statement of financial position exposure	66 610	21	12	—	—

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

[1] Included in the gross maximum exposure is the off-statement of financial position exposure for irrevocable debt facilities and revocable debt facilities with a risk of draw down.

		2021					
		Collateral – credit impaired financial assets					
Unsecured Rm	Total maximum exposure credit impaired financial assets[1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm	Total maximum exposure not credit impaired financial assets[1] Rm
—	—	—	—	—	—	79 396	79 396
—	—	—	—	3 723	47 111	10 052	60 886
—	—	—	—	—	—	20 031	20 031
—	—	—	—	3 723	47 111	109 479	160 313
23 216	53 537	3 807	497 187	1 586	2 019	221 556	726 155
2 138	20 044	—	289 364	—	—	22 848	312 212
1 781	7 135	—	55 320	—	—	44 105	99 425
12 208	12 208	—	—	—	—	98 422	98 422
8 276	8 276	—	—	—	—	71 024	71 024
3 396	3 396	—	—	—	—	19 712	19 712
536	536	—	—	—	—	7 686	7 686
3 781	8 442	2 073	134 262	887	181	9 323	146 726
3 255	5 655	1 734	18 241	699	1 838	46 858	69 370
53	53	—	—	—	—	—	—
7 946	9 655	6 888	54 799	686	90 629	349 065	502 067
4 600	5 056	—	44 321	—	85 497	291 453	421 271
3 346	4 599	6 888	10 478	686	5 132	57 612	80 796
—	—	—	—	—	—	760	760
31 162	63 192	10 695	551 986	2 272	92 648	571 381	1228 982
—	—	2	—	—	28 874	46 077	74 953
31 162	63 192	10 697	551 986	2 272	121 522	617 458	1303 935
557	590	751	5 559	1 429	94	40 405	48 238
2	2	96	57	198	20	17 409	17 780
559	592	847	5 616	1 627	114	57 814	66 018

60. Risk management (continued)

60.2 Credit risk (continued)

		2020 Collateral – credit impaired financial assets			
Analysis of credit risk mitigation and collateral	Gross maximum exposure[1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm
Debt instruments	67 218	—	—	—	—
Derivative assets	109 852	—	—	—	—
Money market assets	11 127	—	—	—	—
Trading portfolio assets	188 197	—	—	—	—
RBB[2]	740 807	80	32 238	89	244
Home Loans	308 820	—	21 583	—	—
Vehicle and Asset Finance	96 167	—	5 673	—	—
Everyday Banking	111 207	—	2	—	—
Card	77 676	—	—	—	—
Personal loans	24 343	—	—	—	—
Transactional and deposits	9 188	—	2	—	—
Relationship Banking[2]	159 468	31	3 828	57	53
RBB ARO	65 092	49	1 152	32	191
RBB Other	53	—	—	—	—
CIB[2,3]	472 384	440	1 823	—	772
CIB South Africa[2,3]	400 756	354	636	—	35
CIB ARO	71 628	86	1 187	—	737
Head Office, Treasury and other operations	612	—	—	—	—
Loans and advances to customers[3]	1 213 803	520	34 061	89	1 016
Loans and advances to banks[3]	69 989	—	—	—	—
Loans and advances	1 283 792	520	34 061	89	1 016
Off-balance sheet					
Guarantees	45 405	23	156	0	11
Letters of credit	12 722	—	26	—	—
Total off-statement of financial position exposure	58 127	23	182	0	11

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

[1] Included in the gross maximum exposure is the exposure for off-statement of financial position exposure for irrevocable debt facilities and revocable debt facilities with a risk of draw down.
[2] These numbers have been restated, refer to note 1.21.2.
[3] These numbers have been restated, refer to the note 1.21.1.

		2020					
		Collateral – credit impaired financial assets					
Unsecured Rm	Total maximum exposure credit impaired financial assets [1] Rm	Guarantees, credit insurance and credit derivatives Rm	Physical collateral Rm	Cash collateral Rm	Other Rm	Unsecured Rm	Total maximum exposure not credit impaired financial assets [1] Rm
—	—	—	—	—	—	67 218	67 218
—	—	—	—	3 169	74 288	32 395	109 852
—	—	—	—	—	—	11 127	11 127
—	—	—	—	3 169	74 288	110 740	188 197
27 320	59 971	4 157	463 101	2 155	1 966	209 457	680 836
2 307	23 890	—	263 420	—	—	21 510	284 930
2 043	7 716	—	48 809	—	—	39 642	88 451
16 826	16 828	—	—	—	—	94 379	94 379
10 475	10 475	—	—	—	—	67 201	67 201
5 607	5 607	—	—	—	—	18 736	18 736
744	746	—	—	—	—	8 442	8 442
3 454	7 423	2 129	134 903	1 217	195	13 601	152 045
2 637	4 061	2 028	15 969	938	1 771	40 325	61 031
53	53	—	—	—	—	—	—
6 449	9 484	9 161	69 226	912	41 859	341 742	462 900
5 107	6 132	537	50 555	4	35 392	308 136	394 624
1 342	3 352	8 624	18 671	908	6 467	33 606	68 276
—	—	—	—	—	—	612	612
33 769	69 455	13 318	532 327	3 067	43 825	551 811	1 144 348
—	—	390	—	—	18 664	50 935	69 989
33 769	69 455	13 708	532 327	3 067	62 489	602 746	1 214 337
806	996	724	5 796	784	217	36 888	44 409
65	91	325	1 406	1 249	476	9 175	12 631
871	1 087	1 049	7 202	2 033	693	46 063	57 040

60. Risk management (continued)

60.2 Credit risk (continued)

Financial assets written off during the financial period but still subject to enforcement activities

Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity:

	Group	
	2021 Rm	2020[1] Rm
Assets written off during financial period still subject to enforcement activities	13 505	7 415

Reconciliation of impairment loss allowance

The following tables show reconciliations from the opening to closing balance of the loss allowances by classes of financial assets:

	Group 2021			
		Lifetime expected credit losses ('LEL')		
Cash, cash balances and balances with central banks at amortised cost	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	2	0	(0)	2
Asset moved/allowance transferred to stage 2	(14)	14	—	—
Current period provision	18	2	—	20
Balance at the end of the reporting period	6	16	—	22

	2020			
		Lifetime expected credit losses ('LEL')		
Cash, cash balances and balances with central banks at amortised cost	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	4	0	—	4
Asset moved/allowance transferred to stage 2	(0)	0	—	—
Current period provision	(2)	0	(0)	(2)
Balance at the end of the reporting period	2	0	(0)	2

	Group 2021			
		Lifetime expected credit losses ('LEL')		
Investment securities at amortised cost and FVOCI	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	158	69	—	227
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Asset moved/allowance transferred to stage 2	(53)	53	—	—
Current period provision	80	(103)	210	187
Foreign exchange movements	(2)	2	—	—
Balance at the end of the reporting period	184	20	210	414

60. Risk management (continued)

60.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Investment securities at amortised cost and FVOCI	2020			
		Lifetime expected credit losses ('LEL')		
	Stage 1 Rm	Stage 2[1] Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	50	15	—	65
Asset moved/allowance transferred to stage 1	3	(3)	—	—
Asset moved/allowance transferred to stage 2	(0)	0	—	—
Current period provision	111	60	—	171
Foreign exchange movements	(6)	(3)	—	(9)
Balance at the end of the reporting period	158	69	—	227

Loans and advances at amortised cost and undrawn facilities	Group 2021			
		Lifetime expected credit losses ('LEL')		
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	7 405	8 561	28 324	44 290
Asset moved/allowance transferred to stage 1	2 550	(1 892)	(658)	—
Asset moved/allowance transferred to stage 2	(554)	2 772	(2 218)	—
Asset moved/allowance transferred to stage 3	(463)	(1 923)	2 386	—
Current period provision	(2 140)	(318)	10 125	7 667
Amounts written off	—	—	(13 505)	(13 505)
Foreign exchange movements	381	(4)	274	651
Net change in interest	—	—	2 817	2 817
Balance at the end of the reporting period	7 179	7 196	27 545	41 920

Loans and advances at amortised cost and undrawn facilities[2]	2020			
		Lifetime expected credit losses ('LEL')		
	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	4 620	5 235	20 550	30 405
Asset moved/allowance transferred to stage 1	1 368	(1 070)	(298)	—
Asset moved/allowance transferred to stage 2	(383)	682	(299)	—
Asset moved/allowance transferred to stage 3	(302)	(1 522)	1 824	—
Current period provision	2 224	5 365	12 803	20 392
Amounts written off	—	—	(7 415)	(7 415)
Foreign exchange movements	(122)	(129)	(1 283)	(1 534)
Net change in interest	—	—	2 442	2 442
Balance at the end of the reporting period	7 405	8 561	28 324	44 290

[1] These numbers have been restated to include ECL related to investment securities measured at amortised cost.
[2] These numbers have been restated to include loans and advances to banks, refer to note 1.21.1.

60. Risk management (continued)

60.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Although gross loans and advances increased to **R1 134bn** (2020: R1 058bn) during the period, particularly driven by a **7%** growth in RBB secured lending products and a **6%** growth in CIB, ECL allowances decreased due to:

- Higher write-offs in RBB South Africa of **R9.8bn** (2020: R5.6bn) in the unsecured portfolios and the workout of NPLs as backlogs in legal processes started to clear.
- Sale of unsecured legal balances in Personal Loans of **R881m** and Card of **R512m**.
- Benefits realised from model enhancements and the revised application of the existing definition of default which now aligns more closely with industry practice. Refer to note 1.1.2 Changes to the use of estimates, assumptions and judgements – RBB expected credit loss model enhancements.
- The improvement in forward-looking assumptions relative to initial expectations and consumption of the macro-overlay as anticipated risks have either materialised or dissipated over time. Refer to the Impact of COVID-19.

The net change in interest relates only to stage 3 assets where contractual interest is suspended, and interest income is recognised based on the net carrying value of the exposures. The amount of **R2 817m** (2020: R2 442m) disclosed is therefore reflective of the amount of interest not recognised during the current reporting period.

	Group			
	2021			
		Lifetime expected credit losses ('LEL')		
Guarantees and letters of credit	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	120	65	138	323
Asset moved/allowance transferred to stage 1	4	(4)	—	—
Asset moved/allowance transferred to stage 2	(4)	4	—	—
Asset moved/allowance transferred to stage 3	—	(4)	4	—
Current period provision	(2)	18	240	256
Foreign exchange movements	4	11	6	21
Balance at the end of the reporting period	122	90	388	600

	2020			
		Lifetime expected credit losses ('LEL')		
Guarantees and letters of credit	Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total expected credit losses Rm
Balance at the beginning of the reporting period	73	37	48	158
Asset moved/allowance transferred to stage 1	1	(1)	—	—
Asset moved/allowance transferred to stage 2	(3)	3	—	—
Asset moved/allowance transferred to stage 3	—	(4)	4	—
Current period provision	58	35	87	180
Foreign exchange movements	(9)	(5)	(1)	(15)
Balance at the end of the reporting period	120	65	138	323

60. Risk management (continued)

60.2 Credit risk (continued)

Reconciliation of impairment loss allowance (continued)

Other financial assets measured at amortised cost:

The ECL recognised on other assets for the current financial year amounted to **R99m** (2020: R69m).

Modified financial assets

The following table provides information on financial assets that were modified during the reporting period, without resulting in derecognition, while they had a loss allowance measured at an amount equal to lifetime ECL:

	Group	
	2021 Rm	2020 Rm
Financial assets modified during the period		
Loans and advances		
Amortised cost before modification	**3 546**	3 042
Net modification loss	**(247)**	(33)

There were no financial assets modified during the year for which loss allowance has changed to 12-month measurement.

60. Risk management (continued)

60.3 Equity investment risk

Equity risk in the banking book (ERBB) is defined as the risk of a loss arising from a decline in the value of investments in equity or an equity type instrument. This can be caused by the deterioration in the underlying operating asset performance, net asset value, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

Banking book equity risk is governed under the Non-traded Equity Risk and Purchased Debt Standard. Its purpose is to set the criteria for in-scope non-traded equity, lay out the minimum approval requirements, outline the minimum monitoring requirements and controls, and defines the key criteria covering the methodology for investment valuation. Banking book equity limits consume banking book capital, while equity exposures in the trading book are managed by market risk and consume capital in the trading book.

Strategic investments are typically Board-approved investments for the Group (such as investments in subsidiaries), investments for public interest or in utilities. Within each equity portfolio, the Group aims to achieve a level of asset diversification to manage concentration risk.

Approach

The Group's governance of equity investments is based on the following key fundamental principles:

- a formal approval governance process;
- key functional specialists reviewing investment proposals;
- adequate monitoring and control after the investment decision has been implemented; and
- ongoing implementation of best practice standards based on current market trends, hurdle rates and benchmarks.

Criteria considered for new investments and investment reviews cover a comprehensive set of financial, commercial, legal (and technical, where required) matters. The performance of these investments is monitored relative to the objectives of the portfolio.

The majority of the Group's equity investments are held in CIB and RBB – Business Banking. Equity and other investments held by insurance entities are addressed in the insurance risk management section of this report.

Risk measurement

Equity investment risk is monitored monthly in terms of regulatory and economic capital (EC) requirements and is complemented by a range of additional risk metrics and stress testing. The equity investment risk profile is further tracked across a range of dimensions such as geography, industry and currency. Risk monitoring is done in accordance with a risk appetite, mandate and scale limits framework.

The Group employs the market-based simple risk weight approach as prescribed by Regulation 31 of the Regulations relating to Banks to calculate risk-weighted assets (RWA) and regulatory capital (RC) and a historical simulation approach with volatility scaling to calculate EC for ERBB.

Consequently, the RWA requirement is calculated using adjusted risk weightings of **318%** (2020: 318%) and **424%** (2020: 424%) for listed and unlisted equity investments, respectively. For investments in which the Group owns between 10% and 20% of the issued common share capital of a financial entity, a 250% risk weight is applied. For investments not in the common share capital of financial entities, as well as any investments in financial entities (in common and non-common share capital) with a shareholding percentage of more than 20%, the Group applies a common equity Tier 1 capital deduction, also referred to as the threshold deduction, in accordance with Regulation 38 of the Regulations relating to Banks. RC requirements in respect of investments in associates and joint ventures, defined as financial companies in the Regulations relating to Banks, are calculated with reference to either the pro rata consolidation methodology or the deduction approach.

The approach in determining the EC requirement employs a historical simulation, which assumes that historical price movements of a different industry sector can be used to proxy the changes in the market value of the portfolio and a volatility forecast is applied to scale the historical returns to better reflect current market conditions. This allows for the capturing of diversification between individual industry sectors.

The Solvency Assessment Management (SAM) regime is a risk-based regulatory and solvency regime, prescribed by the Insurance Act of 2017, and applies to regulated insurance entities and insurance groups. Absa Financial Services entities' liabilities, capital and solvency positions will continue to be reported under parallel processes accordingly.

Analysis of equity investment risk in the banking book

The table below illustrates the equity sensitivity analysis and discloses the impact on pre-tax profit or loss and equity after the effect of hedges. Debt instruments have been excluded from the sensitivity analysis.

60. Risk management (continued)
60.3 Equity investment risk (continued)

	Group									
	2021					2021				
	Impact of a 5% or 10% reduction in fair value[1]			Impact of a 5% or 10% increase in fair value[1]		Impact of a 5% or 10% reduction in fair value[1]			Impact of a 5% or 10% increase in fair value[1]	
	Profit or loss Rm	Equity Rm	Fair value Rm	Profit or loss Rm	Equity Rm	Profit or loss Rm	Equity Rm	Fair value Rm	Profit or loss Rm	Equity Rm
Insurance activities' listed and unlisted equity investments[2,3]	**(94)**	**(58)**	**2 702**	**94**	**58**	(79)	(46)	2 208	79	46
Listed equity investments	**(61)**	**(58)**	**2 376**	**61**	**58**	(50)	(46)	1 919	50	46
Unlisted equity investments	**(33)**	**—**	**326**	**33**	**—**	(29)	—	289	29	—
Group listed and unlisted equity investments, excluding insurance activities' investments	**(248)**	**(95)**	**3 981**	**248**	**95**	(184)	(99)	3 070	184	99
Listed equity investments	**(32)**	**(21)**	**1 072**	**32**	**21**	(11)	(13)	487	11	13
Unlisted equity investments	**(216)**	**(74)**	**2 909**	**216**	**74**	(173)	(86)	2 583	173	86
Total on Group equity investments	**(342)**	**(153)**	**6 683**	**342**	**153**	(263)	(145)	5 278	263	145

[1] The sensitivity impact analysis on listed investments is based on 5% whereas unlisted investments is based on 10%.

[2] The above sensitivities were only calculated on shareholder and non-linked policyholder assets (for unit linked policyholder liabilities there is no impact on the sensitivity analysis due to the fact that the asset and liability is 100% matched) and exclude all assets linked to investment and unit linked contracts due to the fact that the asset and liability is 100% matched.

[3] The figures exclude all associates and joint ventures, which account for the differences in fair value compared to that shown in the table titled equity investments in the banking book.

60. Risk management (continued)

60.4 Market risk

Traded market risk

Traded market risk is the risk of the Group's earnings or capital being adversely impacted by changes in the level or volatility of prices affecting positions in its trading activities across the Group. This includes but is not limited to changes in interest rates, credit spreads, commodity prices, equity prices and foreign exchange levels.

The Traded Market Risk Committee (TMRC) meets monthly to review, challenge and make recommendations concerning the traded market risk profile, including risk appetite, policies, limits, risk utilisation, valuation risk and the effectiveness of the control environment.

The Trading Risk Committee (TRC) and Market Risk Infrastructure, Data, Governance and Control Committee (MRIDGCC) are subcommittees of the TMRC that provide oversight of specific traded market risks and the traded market risk control environment.

Approach

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, providing risk management solutions, generating revenues from assuming and managing risk, and execution of syndications.

Interest rate risk in the banking book is subjected to the same rigorous measurement and control standards as in the trading book, but the associated sensitivities are reported separately as 'Interest rate risk in the banking book' as part of the Treasury Risk framework.

Risk appetite

The risk appetite for market risk is based on:

- proposed business strategy;
- budgeted revenue growth;
- statistical modelling measures; and
- risk equated to capital projection under normal and stressed market conditions.

Risk measurement

A number of techniques are used to measure and control traded market risk on a daily basis, which include:

- value at risk (VaR) based measures including both VaR and stressed value at risk (sVaR);
- tail metrics;
- position and sensitivity reporting;
- stress testing;
- backtesting; and
- standardised general and specific risk, as relevant.

Daily value at risk

Daily value at risk (DVaR) is an estimate of the potential loss that may arise from unfavourable market movements if current positions were to be held unchanged for one business day.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 99%.

The historical simulation methodology can be split into three parts:

- Calculate hypothetical daily profit or loss for each position over the most recent two years, using observed daily market moves.
- Sum of all hypothetical profits or losses for day one across all positions, giving one total profit or loss. Repeat for all other days in the two-year history.
- DVaR is the 99th percentile loss selected from the resultant two-year historically simulated strip of daily hypothetical net profit or loss. Daily losses in excess of the DVaR figure are likely to occur, on average, up to six times over the two-year period.

This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level for regulatory back testing and regulatory capital (RC) calculation purposes, respectively. The VaR internal model has been approved by the PA to calculate RC for trading book portfolios in South Africa. The approval covers general position risk across interest rate, foreign exchange, commodity, equity and traded credit products. As part of this approval, the PA has assigned a DVaR and sVaR model multiplier to be used in RC calculations. In addition to the VaR internal model, products which have not received IMA approval are capitalised under the standardised approach.

Issuer-specific risk is currently reported in accordance with the regulatory standardised approach across the Group. Additionally, any new products, which are awaiting regulatory approval, are capitalised by using the regulatory standardised approach. General position risk in trading books in the Absa Regions is also capitalised under the regulatory standardised approach.

DVaR is an important market risk measurement and control tool that is used by the Group. Consequently, the performance of the model is regularly assessed for continued suitability. The main technique employed is backtesting, which counts the number of days when daily trading losses exceed the corresponding VaR estimate. Backtesting measures daily losses against VaR assuming a one-day holding period and a 99% level of confidence. Backtesting reports are monitored daily.

60. Risk management (continued)

60.4 Market risk (continued)

Daily value at risk (continued)

VaR estimates have a number of limitations:

- Historical simulation assumes that the past is a good representation of the future, which may not always be the case.
- The assumed time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within this time horizon.
- VaR does not indicate the potential loss beyond the selected percentiles.
- VaR is based on positions as at the close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured.
- Prudent valuation practices are used in the VaR calculation when there is difficulty obtaining rate/price information.

sVaR uses a similar methodology to VaR, but is based on a one-year period of financial stress which is reviewed quarterly and assumes a 10-day holding period and a worst case loss. The period of stress used for RC is currently the 2008/2009 financial crisis.

Loss thresholds, tail risk metrics, position and sensitivity reporting and stress testing are used to complement VaR in the management of traded market risk.

Analysis of traded market risk exposure

The following table reflects the DVaR and expected shortfall statistics for trading book activities as measured by the internal models approach (IMA). Traded market risk exposure, as measured by average total DVaR, decreased to **R51.86m** (2020: R62.87m) for the reporting period, which is a **18%** (2020: 23%) decrease on the prior year average. This was principally due to reduced overnight risk being held across the markets trading portfolio, as the business remained cautious in light of the economic uncertainty arising from historic high asset prices and low interest rates, alongside increasing inflation and the COVID-19 pandemic concerns.

	Group							
	2021				2021			
	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm	Average Rm	High[1] Rm	Low[1] Rm	As at the reporting date Rm
Interest rate risk	**56.64**	**174.77**	**26.00**	**62.67**	45.35	86.82	27.51	42.07
Foreign exchange risk	**21.75**	**58.94**	**5.01**	**14.43**	23.10	54.23	6.78	47.79
Equity risk	**10.98**	**30.64**	**3.03**	**16.83**	32.40	81.28	3.95	5.34
Commodity risk	**0.85**	**4.85**	**0.39**	**0.54**	1.39	4.36	0.26	1.30
Inflation risk	**35.83**	**117.64**	**13.36**	**43.69**	17.63	76.36	5.53	17.43
Credit spread risk	**10.33**	**11.69**	**8.36**	**9.17**	7.73	10.23	4.05	8.44
Diversification effect	**(84.52)**	**—**	**—**	**(94.31)**	(64.73)	(204.14)	(15.24)	(56.10)
Total DVaR	**51.86**	**83.33**	**30.53**	**53.01**	62.87	109.14	32.84	66.27
Expected shortfall[2]	**81.29**	**221.71**	**41.92**	**70.03**	90.68	49.59	150.12	97.37
Regulatory VaR[2]	**51.86**	**83.33**	**30.53**	**53.01**	62.87	109.14	32.84	66.27
Regulatory sVaR[2]	**78.60**	**121.65**	**48.18**	**65.23**	106.01	158.90	63.86	104.31

Other market risks

The Group maintains different pension plans with defined benefit and defined contribution structures for current and former employees. In respect of defined benefit plans, the ability to meet the projected pension payments is maintained through investments and regular contributions. Market risk arises when the estimated market value of the pension plan assets declines, their investment returns reduce, or when the estimated value of the pension liabilities increases, resulting in a weaker funding position or shortfall. In these circumstances, the Group may choose to make additional contributions or be required to make good the shortfall of the plan.

Asset management income risk arises where the fee and commission income earned by asset management products and businesses is affected by a change in market levels, primarily through the link between income and the value of assets under management. The risk is measured in terms of the likely volatility in the annual earnings over the next year to reflect the sensitivity of earnings to shocks in financial markets. Group policy dictates that businesses monitor, report and regularly assess potential hedging strategies relating to this risk. Exposure to this risk currently arises in the Wealth segment.

[1] The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) total DVaR. Consequently, a diversification effect number for the high (and low) DVaR figures would not be meaningful and is therefore omitted.

[2] Regulatory VaR and sVaR are reported with a one-day holding period at a 99% confidence level. The sVaR period is subject to ongoing review for appropriateness.

60. Risk management (continued)

60.5 Treasury risk

Treasury risk comprises liquidity risk, capital risk and interest rate risk in the banking book.

- **Liquidity risk:** The risk that the Group is unable to meet its contractual or contingent cash obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- **Capital risk:** The risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board-approved capital target ranges and above regulatory capital requirements.
- **Interest rate risk in the banking book (IRRBB):** The risk that the Group is exposed to capital or income volatility because of a mismatch between the interest rate exposures of its banking book assets and liabilities.

60.5.1 Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its contractual or contingent liquidity obligations or that it does not have the appropriate amount, tenor and composition of funding to support its assets. These outflows would deplete available cash resources for client lending, trading activities and investments. Such outflows could be through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of group-specific and market-wide events.

Liquidity risk is monitored at Group level under a single comprehensive Treasury Risk Framework. The Treasury Risk Framework was designed to deliver an appropriate tenor structure and composition of funding consistent with the risk appetite set by the Board. This framework is delivered through a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring.

Priorities

The Group's liquidity risk management objectives are:.

- Preserve the Group's liquidity position in line with risk appetite.
- Focus on growing core retail, relationship bank, corporate and public sector deposits.
- Manage the funding and HQLA position in line with the Board-approved framework and ensure compliance with regulatory requirements.
- Continue to lengthen and diversify the funding base to support asset growth and other strategic initiatives, while optimising funding costs.
- Collaborate with the regulatory authorities and other stakeholders on the SARB's approach to resolution planning, depositor insurance schemes and the monetary policy implementation framework in South Africa.

Approach to liquidity risk

The efficient management of liquidity is essential for safeguarding the Group's depositors, preserving market confidence and maintaining the Group's brand. The Group considers sustainable access to appropriate liquidity for each of its entities to be extremely important. Liquidity risk is managed under the Liquidity Risk Policy in line with the Treasury Risk Framework to:

- Maintain liquidity resources that are sufficient in amount and quality together with a funding profile that is appropriate to meet the risk appetite as expressed by the Board.
- Maintain market confidence.
- Set limits to manage liquidity risk within and across lines of business and legal entities.
- Price liquidity costs accurately and incorporate these into product pricing and performance measurement.
- Monitor early warning indicators (EWIs) to immediately identify the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources.
- Fully project over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items.
- Maintain a recovery plan that incorporates a contingent funding plan (CFP) that is comprehensive and proportionate to the nature, scale and complexity of the business and regularly tested to ensure it is operationally robust.

Stress and scenario testing

Under the Treasury Risk Framework, the Group established the internal liquidity stress metric (ILSM), which sets the level of liquidity risk the Group chooses to take to achieve its business objectives and in meeting its regulatory requirements. It is measured with reference to the anticipated stressed net contractual and contingent outflows for a variety of stress scenarios and is used to determine the appropriate size of the liquidity pool, along with the LCR.

Each entity in the Group undertakes a range of stress tests appropriate to its business. Stress tests consider both name-specific and market-wide scenarios. The results of the stress tests are used to determine the liquid asset buffer, to develop the CFP which is a component of the Group's recovery plan. Stress testing results are also considered when setting limits for the management of liquidity risk and the business planning process.

As part of stress and scenario testing, the relevant liquid assets portfolio serves as the main source of liquidity under stress. Liquidity value is also assigned to unsecured funding lines, readily marketable investment securities and price-sensitive overnight loans.

Contingency funding planning

The Contingency Funding Plan (CFP) includes, inter alia:

- the roles and responsibilities of senior management in a crisis.
- authorities for invoking the plan.
- communications strategy.
- an analysis of a realistic range of market-wide and Group-specific liquidity stress tests.
- scenario analyses and the extent to which each stress test and scenario can be mitigated by the management of the balance sheet.
- a range of early warning indicators (EWIs), which assist in informing management when deciding whether the CFP should be invoked.

Each banking entity in the Group must establish local processes and procedures to manage local liquidity stresses that are consistent with the Group's plan. The CFPs set out the specific requirements to be undertaken locally in a crisis. This could include monetising the liquidity pool, slowing the extension of credit, increasing the tenor of funding and securitising or selling assets. For the Group the CFP was merged with the recovery plan.

The Group's liquidity risk position was resilient, in line with risk appetite, and above the minimum regulatory requirements.

The Group's foreign currency funding position remained robust with diversified funding facilities from international banks and appropriate tenors to meet term funding asset growth.

Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the 'on demand' time bucket at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.1 Liquidity risk (continued)

	Group					
	2021					
	Carrying amount (excluding impairment losses on amortised cost instruments)					
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Impairment losses Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	61 770	4 129	164	—	(22)	66 041
Investment securities	12 774	72 816	71 029	32 293	(14)	188 898
Trading and hedging portfolio assets	202 647	551	3 494	904	—	207 596
Derivative assets	55 938	551	3 494	904	—	60 887
Non-derivative assets	146 709	—	—	—	—	146 709
Other financial assets	8 553	12 336	218	—	(99)	21 008
Loans and advances	188 789	291 793	380 997	272 118	(41 440)	1 092 257
Non-current assets held for sale	714	128	—	—	—	842
Reinsurance assets	—	541	139	52	—	732
Investments linked to investment contracts	729	1 493	5 713	11 868	—	19 803
Financial assets	475 976	383 787	461 754	317 235	(41 575)	1 597 177
Non-financial assets						43 656
Total assets						1 640 833
Liabilities[1]						
Trading and hedging portfolio liabilities	72 835	383	2 535	725	—	76 478
Derivative liabilities	48 185	383	2 535	725	—	51 828
Non-derivative liabilities	24 650	—	—	—	—	24 650
Other financial liabilities	27 788	12 014	279	—	—	40 081
Deposits	706 218	397 411	60 652	9 485	—	1 173 766
Debt securities in issue	462	53 505	68 817	8 292	—	131 076
Liabilities under investment contracts	1 896	1 476	5 141	12 613	—	21 126
Policyholder liabilities under insurance contracts	1 260	1 988	22	2 461	—	5 731
Borrowed funds	50	7 803	18 747	—	—	26 600
Financial liabilities	810 509	474 580	156 193	33 576	—	1 474 858
Non-financial liabilities						18 666
Total liabilities						1 493 524
Equity						147 309
Total equity and liabilities						1 640 833
Net liquidity position of financial instruments	(334 533)	(90 793)	305 561	283 659	(41 575)	122 319

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in note 42.

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.1 Liquidity risk (continued)

Discounted maturity	2020 Carrying amount (excluding impairment losses on amortised cost instruments) On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Impairment losses Rm	Total Rm
Assets						
Cash, cash balances and balances with central banks	57 129	3 381	174	—	(2)	60 682
Investment securities	8 885	44 020	47 976	52 630	(7)	153 504
Trading and hedging portfolio assets	212 443	949	8 695	1 353	—	223 440
Derivative assets	98 855	949	8 695	1 353	—	109 852
Non-derivative assets	113 588	—	—	—	—	113 588
Other financial assets	8 386	8 646	178	—	(69)	17 141
Loans and advances[1]	172 847	254 164	371 899	259 293	(43 696)	1 014 507
Reinsurance assets	—	456	143	81	—	680
Investments linked to investment contracts	612	6 931	3 620	10 110	—	21 273
Financial assets	460 302	318 547	432 685	323 467	(43 774)	1 491 227
Non-financial assets						39 893
Total assets						1 531 120
Liabilities[1]						
Trading and hedging portfolio liabilities	108 992	235	1 193	3 424	—	113 844
Derivative liabilities	87 944	235	1 193	3 424	—	92 796
Non-derivative liabilities	21 048	—	—	—	—	21 048
Other financial liabilities	14 699	10 361	137	—	—	25 197
Deposits[2]	646 900	317 441	69 504	14 155	—	1 048 000
Debt securities in issue	143	64 842	66 778	13 977	—	145 740
Liabilities under investment contracts	4 601	6 981	5 048	10 903	—	27 533
Policyholder liabilities under insurance contracts	821	1 615	164	1 598	—	4 198
Borrowed funds	114	6 629	14 018	—	—	20 761
Financial liabilities	776 270	408 104	156 842	44 057	—	1 385 273
Non-financial liabilities						13 544
Total liabilities						1 398 817
Equity						132 303
Total equity and liabilities						1 531 120
Net liquidity position of financial instruments	(315 968)	(89 557)	275 843	279 410	(43 774)	105 954

[1] The above table does not include the maturity analysis of finance lease receivables, which is detailed in note 42.

[2] Prior period numbers have been restated, refer to note 1.21.1

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.1 Liquidity risk (continued)

Undiscounted maturity[1] (statement of financial position value with impact of future interest)	Group 2021 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Trading and hedging portfolio liabilities	72 836	389	3 180	1 384	(1 311)	76 478
Derivative liabilities	48 186	389	3 180	1 384	(1 311)	51 828
Non-derivative liabilities	24 650	—	—	—	—	24 650
Other financial liabilities	27 788	12 083	326	—	(116)	40 081
Deposits	706 232	400 641	70 352	19 886	(23 345)	1 173 766
Debt securities in issue	462	54 569	81 228	14 206	(19 389)	131 076
Liabilities under investment contracts	1 896	1 502	6 137	23 214	(11 623)	21 126
Policyholder liabilities under insurance contracts	1 260	2 066	24	6 250	(3 869)	5 731
Borrowed funds	50	7 927	23 573	—	(4 950)	26 600
Financial liabilities	810 524	479 177	184 820	64 940	(64 603)	1 474 858
Non-financial liabilities						18 666
Total liabilities	—	—	—	—	—	1 493 524
Off-statement of financial position						
Financial guarantee contracts	48 828	—	—	—	—	48 828
Loan commitments	108 195	71 828	—	—	—	180 023

Undiscounted maturity[1] (statement of financial position value with impact of future interest)	Group 2020 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
Trading and hedging portfolio liabilities	108 992	239	1 397	5 689	(2 473)	113 844
Derivative liabilities	87 944	239	1 397	5 689	(2 473)	92 796
Non-derivative liabilities	21 048	—	—	—	—	21 048
Other financial liabilities	14 699	10 423	156	—	(81)	25 197
Deposits[2]	646 900	320 914	78 068	29 415	(27 297)	1 048 000
Debt securities in issue	143	65 779	76 355	21 422	(17 959)	145 740
Liabilities under investment contracts	4 601	7 086	5 874	20 437	(10 465)	27 533
Policyholder liabilities under insurance contracts	821	1 674	176	4 203	(2 676)	4 198
Borrowed funds	114	6 774	17 919	—	(4 046)	20 761
Financial liabilities	776 270	412 889	179 945	81 166	(64 997)	1 385 273
Non-financial liabilities						13 544
Total liabilities						1 398 817
Off-statement of financial position						
Financial guarantee contracts	45 405	—	—	—	—	45 405
Loan commitments	102 161	74 103	—	—	—	176 264

[1] The above table does not include the maturity analysis of finance lease payables, which is detailed in note 42.

[2] Prior period numbers have been restated, refer to note 1.21.1.

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.2 Capital management

Capital risk is the risk that the Group has an insufficient level or inappropriate composition of capital supply to support its normal business activities while remaining within its Board capital target ranges and above regulatory capital requirements.

The Group's capital management strategy, which is in line with and in support of the Group's strategy, is to create sustainable value for shareholders within the boundaries imposed by the Group's risk appetite.

The Group's capital management priorities are to:

- Create sustainable value for shareholders while maintaining sufficient capital supply for growth, with capital ratios within the Board-approved risk appetite and above minimum levels of regulatory capital.
- Maintain adequate capital buffers to allow for the removal of the COVID-19 pandemic capital relief and subsequent uplift in the pillar 2A requirement from 1 January 2022.
- Monitor and assess upcoming regulatory developments that may affect the capital position. These include the Basel III enhancements, including FRTB; the proposed amendments to the regulations relating to banks; the resolution framework and the financial conglomerate supervisory framework in South Africa.
- After the publication of the Financial Sector Laws Amendment Bill (FSLAB) prioritise the issuance of first loss after capital (Flac) instruments.
- Appropriately deploy and repatriate capital to and from subsidiaries.

Various processes play a role in ensuring that the Group's capital management priorities are met, including:

- The Internal Capital Adequacy Assessment Process (ICAAP);
- Stress testing; and
- Recovery and Resolution Planning.

The capital management process in the Group encompasses all regulated entities within it (including insurance entities and banking subsidiaries in the Absa Regional Operations). Appropriate Board-approved capital buffers, above the minimum regulatory requirements, are held at an entity level. The Group ensures that all regulated entities are adequately capitalised in terms of their respective minimum capital adequacy requirements (CARs). The Group's capital target ranges for the current reporting period were set after considering the following:

- Capital risk appetite;
- The preference of rating agencies for loss absorbing capital;
- Stress scenarios and its impact on the integrated plan, including the capital position of the Group;
- Current and future Basel III requirements and accounting developments; and
- Peer analysis

In anticipation of credit risk-induced pressure on Group's capital brought on by the pandemic, specific temporary dispensation has been provided by the PA in relation to relief initiatives enacted by banks during the stress period, where those relief measures are effectively regarded as short-term liquidity solutions only.

Capital adequacy ratios (unaudited)

Group	2021	2021	2021 Board target ranges %	2021 Minimum regulatory capital requirements[1] %	2020 Board target ranges %	2020 Minimum regulatory capital requirements %
Statutory capital ratios (includes unappropriated profits) (%)						
Common Equity Tier 1	**12.8**	11.2	**11.0 – 12.5**	**8.0**	11.0 – 12.0	7.5
Tier 1	**14.6**	12.2	**>12.0**	**9.5**	12.0 – 13.0	9.3
Total	**17.0**	15.0	**>14.5**	**11.5**	14.5 – 15.5	11.5
Capital supply and demand for the reporting period (Rm)						
Qualifying capital	**158 717**	137 454				
Total RWA	**931 524**	915 061				

Regulatory capital comprises the following:
Common Equity Tier 1 – ordinary share capital, share premium and retained earnings including reserves, less regulatory deductions.
Tier 1 – Common Equity Tier 1 plus perpetual, non-cumulative instruments with principal loss-absorption features issued in terms of the Basel III rules.

Total Capital – Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III. Subordinated debt issued under Basel I and Basel II is included in total capital but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

During the past year, the Group complied in full with all externally imposed capital requirements (2020: the same).

60.5.3 Interest rate risk in banking book (IRRBB)

Approach

IRRBB is the risk that the Group's financial position might be adversely affected by changes in interest rate levels, yield curves and spreads. Non-traded interest rate risk arises in the banking book from the provision of retail and wholesale (non-traded) banking products and services, and certain structural exposures within the balance sheet from re-pricing differences between assets, liabilities and equity. These risks impact both the earnings and economic value of the Group.

The Group's objective for managing IRRBB is to ensure a higher degree of interest rate margin stability and reduced interest rate risk over an interest rate cycle. This is achieved by transferring the interest rate risk from the business to local treasury or Group Treasury, which is mandated to hedge material net exposures with the external market. Interest rate risk may arise when some of the net position remains with treasury as a result of timing considerations. A limit framework is in place to ensure that the retained risk remains within approved risk appetite.

[1] The 2021 minimum total regulatory capital adequacy requirement of **11.5%** (2020: 11.5%) includes the capital conservation buffer, Pillar 2A at zero percent and the D-SIB add-on but excludes the bank specific individual capital requirement (Pillar 2B add-on) as required by regulatory guidance.

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.3 Interest rate risk in banking book (IRRBB) (continued)

Risk mitigation

Risk management strategies considered include:

- Strategies regarding changes in the volume, composition, pricing and interest rate risk characteristics of assets and liabilities; and
- The execution of applicable derivative contracts to maintain the Group's interest rate risk exposure within limits.
  - Where possible, hedge accounting is applied to derivatives that are used to hedge IRRBB. In cases where hedge relationships do not qualify for hedge accounting, mismatches may arise due to different bases used in fair valuing the hedges and the underlying banking book exposure. Applicable accounting rules, as detailed in the Group's accounting policies, are followed.
  - Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity, and is managed by Group Treasury. Interest rate risk also arises in each of the Absa Regional Operations treasuries in the normal course of managing the balance sheet and facilitating customer activity. The risk is managed by the local treasury functions, subject to risk limits and other controls.

Key assumptions

Embedded optionality risk may also give rise to IRRBB:

- Prepayment risk arises in relation to transactions where an early settlement option is embedded in the product. This risk most commonly arises in relation to fixed rate loans offered to retail customers, where the customer has an option to repay the loan prior to contractual maturity and where the Group is unable to collect full market-related compensation. This risk is managed by modelling the loans on a behaviouralised basis for both pricing and risk measurement. This treatment is also applied to non-maturing customer deposits.
- Recruitment risk arises when the Group commits to providing a product at a predetermined price for a period into the future. Customers have the option to take up this offer. Processes are in place to enable robust management of these additional forms of IRRBB.

Risk measurement

The techniques that are used to measure and control IRRBB include re-pricing profiles, annual earnings at risk (AEaR), DVaR and tail metrics, economic value of equity (EVE) sensitivity and stress testing. DVaR and tail metrics are assessed on a daily basis while re-pricing profiles, AEaR and EVE are assessed on a monthly basis.

Re-pricing profiles

With the re-pricing profile, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour. The re-pricing profiles take the assumed behavioural profile of structural product balances into account.

Annual earnings at risk (AEaR)/Net interest income (NII) sensitivity

AEaR/NII sensitivity measures the sensitivity of NII over the next 12 months to a specified shock in interest rates. AEaR is assessed across a range of interest rate scenarios, including parallel and key rate shocks and yield curve twists and inversions as appropriate for each business. AEaR is monitored against approved internal limits.

Daily value at risk (DVaR)

The Group uses a sensitivity-based approach to calculate DVaR at a 95% confidence level for measuring IRRBB. The DVaR is monitored against approved internal limits, and is used as a complementary metric to AEaR. The DVaR is supplemented by non-DVaR, stress and tail metrics.

Economic value of equity (EVE) sensitivity

EVE sensitivity measures the sensitivity of the present value of the banking book at a specific point in time (PIT) to a specified shock to the yield curve. Similar to DVaR, EVE is a present value sensitivity and is complementary to income sensitivity measures such as AEaR. EVE sensitivity is measured against regulatory guidelines and not against approved internal limits.

Stress testing

Stress testing is tailored to each banking book and consists of a combination of stress scenarios and historical stress movements applied to the respective banking books. Stress testing is carried out by Market Risk to supplement the DVaR and AEaR metrics for South Africa. Stress testing for the ABSA Regional Operation is carried out by Market Risk and the risk functions in each country and has been adopted as one of the primary risk metrics for the Rest of Africa and is monitored against formal internal limits.

Risk control

Market risk is controlled through the use of AEaR, DVaR and stress limits as appropriate and supported by non-DVaR metrics (position and sensitivity limits), as well as the monthly monitoring of the risk profiles and EVE sensitivity. Limits are set and monitored in accordance with the limit framework. Limits for AEaR, DVaR and stress are agreed by the GMRC. Compliance with limits is monitored by the respective Rest of Africa market risk team with oversight provided by Market Risk.

Risk reporting

DVaR and supporting metrics are reported daily for Group Treasury, with the exception of two businesses, where reporting is performed on a monthly basis. The re-pricing profiles, AEaR, EVE sensitivity and stress results are reported monthly for Group Treasury.

Interest rate sensitivity analyses

Three separate interest rate sensitivity analyses for the Group's banking book are set out in the table that follows, namely, the re-pricing profile of the book, the potential effect of changes in market interest rates on annual earnings and impact on equity reserves.

Re-pricing profile

The re-pricing profile of the Group's banking books shows that the banking book remains asset sensitive, as interest-earning assets re-price sooner than interest-paying liabilities before and after derivative hedging activities. Accordingly, future net interest income remains vulnerable to a decrease in market interest rates.

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.3 Interest rate risk in banking book (IRRBB) (continued)

	Group			
	2021			
Expected re-pricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	135 961	(26 896)	(31 272)	(43 958)
Derivatives[2]	(148 911)	31 819	26 036	91 056
Net interest rate sensitivity gap	(12 950)	4 923	(5 236)	47 098
Cumulative interest rate gap	(12 950)	(8 027)	(13 263)	33 835
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	(1.0)	(0.6)	(1.0)	2.5
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	27 444	(5 396)	(8 962)	(9 593)
Derivatives[2]	—	—	—	—
Net interest rate sensitivity gap	27 444	(5 396)	(8 962)	(9 593)
Cumulative interest rate gap	27 444	22 048	13 086	3 493
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	10.34	8.31	4.93	1.32
Total				
Cumulative interest rate gap	14 494	14 021	(177)	37 328
Cumulative gap as a percentage of the Group's total assets (%)	0.9	0.9	(0.0)	2.3

	2020			
Expected re-pricing profile	On demand – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	Over 12 months Rm
Domestic bank book[1]				
Interest rate sensitivity gap	99 420	(18 587)	(54 924)	(11 609)
Derivatives[2]	(97 813)	13 051	10 090	74 672
Net interest rate sensitivity gap	1 607	(5 536)	(44 834)	63 063
Cumulative interest rate gap	1 607	(3 929)	(48 763)	14 300
Cumulative gap as a percentage of Absa Bank Limited's total assets (%)	0.1	(0.3)	(3.8)	1.1
Foreign subsidiaries' bank books				
Interest rate sensitivity gap	28 735	1 433	(4 797)	(9 196)
Derivatives[2]	—	—	—	—
Net interest rate sensitivity gap	28 735	1 433	(4 797)	(9 196)
Cumulative interest rate gap	28 735	30 168	25 371	16 174
Cumulative gap as a percentage of foreign subsidiaries' total assets (%)	1.9	2.0	1.7	1.1
Total				
Cumulative interest rate gap	30 342	26 239	(23 392)	30 474
Cumulative gap as a percentage of the Group's total assets (%)	2.0	1.7	(1.5)	2.0

[1] Includes exposures held in the CIB banking book.

[2] Derivatives for interest rate risk management purposes (net nominal value).

62. Risk management (continued)

62.5 Treasury risk (continued)

60.5.3 Interest rate risk in banking book (IRRBB) (continued)

Impact on earnings

The following table shows the impact on AEaR/NII for 100 and 200 bps up and down movements in market interest rates for the Group's banking books. Assuming no management action is taken in response to market interest rate movements, a hypothetical, immediate and sustained parallel decrease of 200 bps in all market interest rates would, at the reporting date, result in a pre-tax reduction in projected 12-month net interest income of **R1.668bn** (2020: R1.684bn). A similar increase would result in an increase in projected 12-month net interest income of **R1.216bn** (2020: R1.361bn). AEaR decreased to **3.2%** (2020: 3.4%) of the Group's net interest income.

Annual earnings at risk for 100 and 200 bps changes in market interest rates

	Group			
	2021 Change in market interest rates			
	200 bps decrease	**100 bps decrease**	**100 bps increase**	**200 bps increase**
Domestic bank book (Rm)[1]	**(700)**	**(290)**	**209**	**414**
Foreign subsidiaries' bank books (Rm)[2]	**(968)**	**(506)**	**401**	**802**
Total (Rm)	**(1 668)**	**(796)**	**610**	**1 216**
Percentage of the Group's net interest income (%)	**(3.2)**	**(1.5)**	**1.2**	**2.3**
Percentage of the Group's equity (%)	**(1.1)**	**(0.5)**	**0.4**	**0.8**

	2020 Change in market interest rates			
	200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Domestic bank book (Rm)[1]	(857)	(438)	267	534
Foreign subsidiaries' bank books (Rm)[2]	(827)	(413)	413	827
Total (Rm)	(1 684)	(851)	680	1 361
Percentage of the Group's net interest income (%)	(3.4)	(1.7)	1.4	2.8
Percentage of the Group's equity (%)	(1.3)	(0.6)	0.5	1.0

Impact on equity reserves

Market interest rate changes may affect equity (capital) in the following three ways:

- Higher or lower profit after tax resulting from higher or lower net interest income;
- Higher or lower fair value through other comprehensive income reserve reflecting higher or lower fair values of fair value through other comprehensive income financial instruments; and
- Higher or lower values of derivatives held in the cash flow hedging reserve.

The pre-tax effect of net interest income sensitivity is reported in the preceding sensitivity analysis. The effect of taxation can be estimated using the effective tax rate for the reporting period.

The equity reserve sensitivities that follow are illustrative, based on simplified scenarios and consider the impact on the cash flow hedges and fair value through other comprehensive income portfolios which are mark-to-market through reserves. The impact on equity is calculated by revaluing the fixed rate fair value through other comprehensive income assets, including the effect of any associated hedges and derivatives designated as cash flow hedges, for an assumed change in market interest rates. The increase in sensitivity of the fair value through other comprehensive income reserves is mainly due to the increase in the net directional risk.

[1] Includes exposures held in the CIB banking book.

[2] African subsidiaries' interest rate sensitivities are shown on a 100% (rather than actual) shareholding basis.

60. Risk management (continued)

60.5 Treasury risk (continued)

60.5.3 Interest rate risk in banking book (IRRBB) (continued)

Sensitivity of reserves to market interest rate movements

	Group					
	2021			2020		
	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm	Impact on equity at the reporting date Rm	Maximum impact[1,2] Rm	Minimum impact[1,2] Rm
+100 bps parallel move in all yield curves						
Fair value through other comprehensive income reserve	1 877	2 405	1 119	(343)	(404)	(226)
Cash flow hedging reserve	(1 148)	191	(5 287)	(2 745)	(2 766)	(2 043)
	729	2 596	(4 168)	(3 088)	(3 170)	(2 269)
As a percentage of Group equity (%)	0.5	1. 8	(2. 8)	(2.3)	(2.4)	(1.7)

The sensitivity of reserves to market interest rate movements exhibit very little convexity resulting in a materially equivalent change in value for -100 bps parallel move. Basis risk has remained constant.

60.6 Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk, namely, transactional and translational risk.

Transactional foreign exchange risk

Transactional foreign exchange risk arises when the banking assets and liabilities are not denominated in the functional currency of the transacting entity. The Group's policy is for transactional foreign exchange risk to be concentrated and managed within the trading book.

In accordance with the Group's policy, there were no significant net open currency positions outside the trading book at the reporting date that would give rise to material foreign exchange gains and losses being recognised in the statement of comprehensive income or in equity as a result of a foreign exchange rate shock.

Foreign currency translation sensitivity analysis

The following table depicts the carrying value of foreign currency net investments and the pre-tax impact on equity of a 5% change in the exchange rate between the ZAR and the relevant functional foreign currencies.

Functional foreign currency

	Group			
	2021		2020	
	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm	Foreign currency net investment Rm	Impact on equity from 5% currency translation shock Rm
Botswana pula	3 498	175	3 151	158
Ghana cedi	5 734	287	4 871	244
Kenya shilling	7 983	399	6 263	313
Mauritian rupee	1 244	62	1 206	60
Mozambican metical	2 009	100	1 510	76
Namibian dollar	93	5	96	5
Nigerian naira	50	3	49	2
Seychelles rupee	716	36	414	21
Pound sterling	394	20	474	24
Tanzanian shilling	3 081	154	2 551	128
Uganda shilling	2 767	138	2 018	101
United States dollar	5 465	273	4 922	246
Zambia kwacha	2 034	102	848	42
	35 068	1 754	28 373	1 420

1 The maximum and minimum impacts for each reserve category did not necessarily occur for the same months.

2 The number represents the maximum or minimum potential combined impact for both reserve categories in a single month (and does not equate to the sum of the minimum and maximum per month as indicated in footnote 1 above).

60. Risk management (continued)

60.7 Insurance risk management

Definition

Insurance risk is the risk that future claims, expenses, policyholder behaviour and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing. Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio;
- Premiums are not invested to adequately match the duration, timing and size of expected claims and expense outflows;
- Unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in an insurance entity; or
- Counterparties to an agreement are unable or unwilling to fulfil their obligations. This is primarily driven by exposure on reinsurance contracts and investments, but can also arise due to outstanding premiums and broker exposure.

Objectives

The Group's insurance risk management objectives are to:

- Pursue profitable growth opportunities within the financial volatility and solvency risk appetite approved by the Board;
- Balance exposure between, and within, life and short-term insurance to allow for better diversification, and optimal risk-adjusted returns; and
- Leverage off the Absa presence and infrastructure across Africa.

Governance

Insurance entities are standalone legal entities within Absa Group, and each has its own board. All Absa insurance legal entities fall within Absa Financial Services Ltd (AFS), which is a regulated insurance group. As such, AFS has its own board, committee structures and governance requirements. Insurance entities form part of the Retail and Relationship Banking (RBB) structure and have representation in RBB committees.

The following AFS and RBB committees oversee all elements of the Insurance Principal Risk Management Framework (IPRMF) as well as all other risks within insurance entities:

Committee	Main objectives
AFS and entity boards	Review, approve and monitor the strategy and financial plans of the businesses. Approve risk appetite and ensure that management maintain a system of internal control incorporating combined assurance which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. Responsible for ensuring that management maintains an effective risk management and oversight process. Set and implement governance arrangements that ensure reliable and transparent financial reporting. Ensure that regulatory matters are properly prioritised and dealt with expeditiously and accurately.
AFS Audit, Risk and Compliance Committee (ARCC)	Committee of the AFS Board. Oversight on behalf of the AFS and entity boards. Oversees internal controls, risk, compliance, internal and external audit matters.
AFS Group Actuarial Committee (GAC)	Committee of the AFS Board. Assists the Board on actuarial and technical matters, discharging its fiduciary duties toward policyholders and shareholders. Also assists the Head of Actuarial Function in fulfilling their professional and statutory duties.
Social and Ethics Committee (SEC)	The purpose of the committee is to specifically monitor the Insurance Group's activities, having regard to any relevant legislation, or prevailing codes of best practice on matters relating to social and economic development; good and responsible corporate citizenship; the environment, health and public safety; labour and employment; conduct and ethics; consumer relationships; stakeholder management and transformation. Monitor implementation of policies that protect the interests of policyholders and other stakeholders.
RBB Insurance Risk Committee (IRC)	A management committee that is responsible for insurance risk oversight and monitoring across the Absa Group, with a particular emphasis on the AFS, the regulated insurance group, and associated licensed insurance entities. Agree risk appetite limits for insurance risk and insurance model risk, and monitor adherence thereto. Oversee the relevant Own Risk and Solvency Assessment processes, and capital management. Refresh of relevant Insurance Principal Risk Management Frameworks, and supporting policies.
Executive Risk Committee (ERC)	Responsible for the oversight of all risks applicable to the business unit. Reviews and monitors the control environment as well as the risk culture of the business unit, monitors the risk profile against the approved appetite, as well as assurance activities.
Insurance Governance Control Forum (IGCF)	The role of the IGCF is to provide independent oversight and challenge of the Insurance Risk control environment of all the insurance business units within AFS. The IGCF is established in line with the requirements of the ERMF which requires the Insurance Principal Risk Officer to establish a Principal Risk Forum where the effectiveness and the adherence to the IPRMF is monitored and challenged. This is required to enable assurance to be provided to the Insurance Principal Risk Officer.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Committee	Main objectives
Life Insurance Financial and Actuarial Management Committee/Non-Life Financial Risk Committee	These committees support the management of the relevant business units and Boards of Directors in discharging their responsibility regarding the governing of financial risk, and also advise on the management and oversight of financial risk and capital management as a function of the ERC.
Absa Group Remuneration Committee	Sets and oversees the implementation of the Group's Remuneration Policy principles to deliver fair and responsible pay aligned with current and emerging market practice and to meet regulatory and corporate governance requirements, and to align the behaviour of executives with the strategic direction of the Group. It approves the total remuneration spend, including fixed pay, short-term and long-term incentives, and any other remuneration arrangements, and the particulars of a defined senior population. It also considers and approves the Group's remuneration disclosure policies and ensures that disclosures are accessible, understandable, accurate, complete and transparent; and that the Group remunerates fairly and responsibly across the Group in the context of overall employee remuneration, with a particular focus on remuneration differentials.
Absa Board Finance Committee	Assists the Board in reviewing and approving certain levels of investment, outsourcing, acquisition and divestments within the committee's mandate; considers and recommends to the Board the short-term and medium-term financial plan underpinning the Group strategy; and considers and finalises the profit commentary as it relates to the interim and year-end financial results. It also approves the publication of the dividend declarations within the parameters determined by the Board.

IPRMF and supporting policies

The IPRMF defines the management processes for the collection of related insurance risk management activities and is one of the supporting frameworks of the ERMF. The IPRMF is supported by policies and standards which provide more detail on expectations of business areas and employees in order to effectively manage insurance risk. AFS's insurance entities are required to comply with the IPRMF and the eight supporting insurance risk policies:

- Insurance Asset Liability Management Policy;
- Insurance Capital and Liquidity Management Policy;
- Insurance Concentration and Credit Policy;
- Insurance Investment Management Policy;
- Insurance Own Risk and Solvency Assessment (ORSA) Policy;
- Insurance Reserving Policy;
- Insurance Underwriting Policy; and
- Reinsurance and Risk Transfer Policy.

Other policies required by the Governance and Operational Standard for Insurers (GOI) 3 such as Operational Risk are addressed in the ERMF under other risk types.

Insurance risk subtypes

The types of insurance risk that can occur are broad and varied. The insurance risk subtypes below reflect this broad spectrum of financial risk types inherent to insurance entities. Insurance risk subtypes are reviewed at least annually.

- **Capital risk:** The risk that the firm has an insufficient level or inadequate composition of capital to support its normal business activities; and to meet its regulatory capital requirements under the normal operating environment and stressed conditions (both actual and as defined for internal planning or regulatory testing purposes).
- **Concentration risk:** Concentration risk arises from insufficient diversification of counterparties, i.e., due to concentrations in asset classes, sectors, counterparties, and maturities. Primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on- and off-balance sheet counterparties (including policyholders with significant exposure and geographically concentrated exposures).
- **Counterparty default risk:** The risk that a counterparty to an agreement will be unable or unwilling to fulfil its obligations. This is primarily driven by counterparty exposure on reinsurance contracts and investments, but can also arise due to on- and off-balance sheet counterparties.
- **Liquidity risk:** The risk that an insurance entity, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

Insurance risk subtypes (continued)

- **Market risk:** The exposure to movements in the value of the investment portfolio (including concentration and investment-related credit risks) and the risk that assets and liabilities are mismatched:
  - Asset-liability mismatch risk: An asset-liability mismatch arises when the assets backing insurance products do not grow as expected or their proceeds do not materialise timeously to match expected insurance policy outflows during and at the end of the policy term.
  - Investment management risk: The risk of adverse investment experience impacting the ability of the entity to provide for policy obligations and capital adequacy requirements, as well as the ability to provide shareholders with an acceptable return on assets retained in the business.
- **Reserving risk:** The risk that current reserves are insufficient to cover current and future claims and the expenses associated with the management of the portfolio.
- **Underwriting risk:** The risk that aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio.
- **Reinsurance risk:** The inability to obtain and contractually agree reinsurance arrangements that provide suitable cover. Arrangements are considered suitable where they ensure that an insurance entity's risk profile remains within appetite, whilst providing a desired risk adjusted return on capital and not resulting in undue secondary risks..

Non-financial risks that insurance legal entities are exposed to are covered by the Absa Group non-financial risk frameworks.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Insurance risk management methodology

The IPRMF applies the three-step process evaluate-respond-monitor to insurance risk, comprising of the following elements:

Risk management step	Element	Description and purpose of element
Evaluate	Risk measurement	An insurance entity must quantify all insurance liabilities and assets as required for local regulatory and financial reporting purposes. An insurance entity must quantify the capital adequacy requirements defined for local regulatory, insurance group regulatory (as required) and internal solvency purposes.
	Critical process assessment	Critical Process Assessment (CPA) is an integrated process-based risk and control self-assessment tool adopted by the Group. This integrated assessment covers processes end-to-end and specific process enablers such as systems, human resources and external dependencies are also included. Critical processes that underpin insurance risk have been identified and are subjected to the CPA process at least annually.
	Stress and scenario testing	Stress and scenario testing is used to assess plausible risks on a mild, adverse and extreme basis, to understand the potential impacts on the business, its performance and capital cover results and the suitability of mitigating actions. This method is also used as part of the capital assessment and risk appetite setting process.
	Emerging risk assessment	Performed in line with the requirements set out in the Operational Risk Management Framework (ORMF), which applies to all risks within the ERMF.
	ORSA	Where required by local regulation, the insurance risk management process supports the ORSA – the internal process undertaken by an insurance entity to assess the adequacy of its risk management and its current and prospective solvency positions.
	Assurance	Assurance is performed for all material risks and key controls; it is performed across the three lines of defence and includes control testing and conformance review, and is designed to provide comfort that material risks and key controls are being effectively managed. Assurance requirements for insurance risk operate consistently with other risks in the ERMF and so are not covered further in the IPRMF.
Respond	Insurance risk appetite	Monitoring takes place against set risk limits and tolerance thresholds for insurance risk so that Absa's insurance legal entities take risk decisions which are within Board-approved risk appetite (as expressed in quantitative and qualitative terms). Each business area also operates within defined insurance risk limits, with an understanding of the risks it will take and the risks it will avoid. Insurance risk appetite is considered from three perspectives: • **Capital adequacy:** Defined as the degree of capital headroom required in excess of regulatory minimum requirements in order to satisfy financial solvency expectations of stakeholders (policyholders, regulators, shareholders). • **Financial volatility**: The level of potential deviation from expected performance that the Group is prepared to sustain at an appropriate near term return period. • **Mandates, limits and preferences:** A risk management approach that seeks to formally review and control business activities to ensure that they are within Absa's mandate, manage concentration risk in the business and are of an appropriate scale and mix to achieve a targeted risk-adjusted return. Further entity specific key metrics and influencers of risk, with associated limits, should be contained in each entity's risk appetite statements.
	Authorisation/ delegation of insurance risk activity	Insurance entities which are permitted to conduct insurance business have to meet all the regulatory and Group requirements in order to maintain this permission. This includes a clear set of criteria for the identification of insurance lines of business and product types which each insurance entity is permitted to write.
	Policies for managing insurance risk	Insurance risk policies describe key components of the insurance risk life cycle and define clear control principles and requirements which can then be expanded on in the form of standards (as required) to articulate the specific controls required by local practice, regulation or business.
Monitor	Metrics monitoring	Key Performance Indicators (KPI) and Key Risk Indicators (KRI) are established during the annual Medium Term Plan (MTP) and risk appetite setting process. The levels of these metrics are monitored on at least a quarterly basis to compare the actual risk and performance profiles against their associated planned thresholds and limits.
	Report	The Insurance Risk Profile, together with supporting rationale and responses, are reported to the various committees.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Life insurance risks

Life insurance underwriting activities are undertaken by Absa Life Limited, Absa Life Botswana Limited (ALB), Absa Life Zambia Limited (ALZ), Absa Life Assurance Kenya Limited (ALAK), and Global Alliance Seguros Mozambique (GAM).

The table that follows summarises the main risk exposures per life insurance product line.

Product line	Description of product	Absa Life	ALB	ALZ	ALAK	GAM (Life)	Main risk exposures
Underwritten life	Provides cover for some or all of death, disability and critical illness. Cover and associated premiums are based on an assessment of each customer's risk profile.	✓	✓	×	×	×	Mortality, morbidity, lapse
Limited underwritten life	Provides cover for some or all of death, disability and critical illness. Underwriting can be a limited number of questions, the application of waiting periods, pre-existing condition exclusions, the phasing in of sums insured, or some combination thereof.	✓	✓	✓	✓	✓	Mortality, morbidity, lapse
Funeral	Provides cover for death and the costs associated with having a funeral. Underwriting is limited to the application of waiting periods which are governed by regulation in some markets.	✓	✓	✓	✓	✓	Mortality, lapse
Credit life	Provides for the payment of the obligations due under a credit agreement due to some or all of death, disability, critical illness and loss of income of the borrower. Demographic shifts might introduce additional insurance risk as premiums generally do not differ by gender, age or smoker status.	✓	✓	✓	✓	✓	Mortality, morbidity retrenchment, lapse
Embedded	Provides cover to Bank customers for some or all of death, disability and retrenchment. Typically, the policyholder and premium payer is the Bank. Demographic shifts might introduce additional insurance risk as premiums generally do not differ by gender, age or smoker status.	✓	✓	✓	✓	✓	Mortality, morbidity retrenchment, lapse
Group life	Provides cover for the employees or members of a group under a single insurance contract where the policyholder is typically an employer or an entity such as a labour organisation.	✓	✓	✓	✓	✓	Mortality, morbidity, longevity, concentration
Investments	Endowment and/or living annuity products where benefits are linked to investment returns.	✓	✓	×	×	×	Lapse, other financial risks taken by the policyholder include investment, longevity and tax
Health	Provides cover for critical illness and defined benefits upon admission to a hospital.	✓	×	✓	✓	✓	Morbidity, lapse

60. Risk management (continued)

60.7 Insurance risk management (continued)

Underwriting risk

The underwriting process involves underwriting risks on an individual basis in order to apply terms commensurate with the risk. The process is automated for lower risk cases, but experienced underwriters manually assess cases that present increased risk whilst following established underwriting guidelines. The outcome of the underwriting process can be to accept cases at standard terms, accept with increased premiums, accept with specific conditions or events excluded, to decline or to defer the application.

The product development process is managed under the Market Conduct Risk Policy and Product Risk Standard. The design of new or amendments to existing products are informed through various types of research, including customer, competitor and market research, with further engagement and collaboration with functional and risk subject matter experts. Prototypes are developed in some instances to test the usability of the solution with customers and to inform further design changes. The proposed design is then presented as new, major or minor amendments at the Product Risk Committee, for approval in principle. A subsequent risk assessment process is followed whereby the relevant risk and functional areas review the product proposal and provide their approval and/or in some instances raise pre- or post-launch conditions. All new products and product amendments will be presented at the Product Risk Committee for final sanction (new products and major amendments) or noting (minor amendments). The ongoing relevance and appropriateness of the products are formally considered at least every one to three years (depending on the risk rating of the product) whilst various forums and committees manage the products and product performance on a regular basis.

Pricing (including re-pricing) is conducted under the requirements of the Insurance Underwriting Policy and Insurance Model Risk Standard. Various reviews and approvals are required before implementing and operationalising new premiums, including independent review by the Head of the Actuarial Function. Reviews are conducted to ensure the premiums remain appropriate and result in new business profit margin and claim ratios which are in line with hurdle rates as approved by the Life Insurance Financial and Actuarial Management Committee. The hurdle rates aim to balance the interests of shareholders and policyholders whilst having regard to the risk associated by product line.

The experience related to all risks underwritten are reviewed regularly to determine whether underwriting guidelines and rules need to be adjusted and/or risk parameters extended. The business relies on annual experience investigations, ongoing studies and analysis of surplus investigations to set pricing and valuation parameters. The non-economic pricing and reserving assumptions (i.e. mortality, morbidity, persistency and expense assumptions) are reviewed to determine changes in trends that are likely to continue in the future.

Effective claims management processes ensure that all valid claims are honoured in line with policy documentation and appropriate allowances made in setting premiums or valuing liabilities. Proactive fraud detection capabilities continue to be developed and improved to minimise fraudulent claim payouts.

Reinsurance and reinsurer credit risk

Reinsurance is used in respect of large individual risks and in respect of risks where the life insurance entity needs to build knowledge and experience as well as obtain technical assistance from the reinsurers. Catastrophe reinsurance is used as a protection against a large number of simultaneous losses

Reinsurer credit risk is managed by transacting solely within mandated levels as defined in the counterparty credit risk mandates. Mandates prescribe the maximum exposure to the relevant credit rating buckets per entity, give consideration to country-specific mandatory cession requirements, and are governed and approved by the Insurance Risk Committee. The counterparty exposure is monitored against these mandates to take corrective actions should the creditworthiness of a counterparty deteriorate or if the relative nature of the exposure changes materially.

		2021		2020	
Standard and Poor's rating[1]	**Description**	**Number of reinsurers**	**Total premiums ceded Rm**	Number of reinsurers	Total premiums ceded Rm
AA- and above	Very strong	**7**	**405**	6	429
A-	Strong	**1**	**72**	1	64
BBB+	Good	**5**	**66**	4	31
Unrated	N/A	**3**	**76**	4	77
Total		**16**	**619**	15	601

The total premiums received in relation to the above risk amounted to **R4.1 billion** (2020: R3.9 billion).

The individual ratings of the various reinsurers, knowledge of disputes and collection experience are used to determine whether the reinsurance assets should be impaired. As at 31 December 2021, the reinsurance assets were unimpaired (2020: unimpaired).

[1] Long Term Financial Strength International Scale Local Currency Ratings.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Reserving risk

Reserving risk arises from weaknesses in the actuarial processes of quantifying reserves, for example inappropriate assumptions, methodology, data or approximations.

Assumption risk

Assumption risk is the risk that the assumptions used in the most recent valuation are not appropriate. Best estimate assumptions are derived from annual investigations into the demographic experience of the business and economic assumptions are based on observable, actual, consistent economic indicators. Margins are added to best estimate assumptions to allow for variability in the assumptions. These margins include compulsory margins prescribed by the Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa (ASSA), or local regulation where applicable. Further, judgement is applied by the first line actuarial team in instances where it is deemed that past experience may not be a fair reflection of future experience or to defer the release of profits in line with policy design.

The Head of the Actuarial Function will assess the reasonability of such judgement. Earnings volatility associated with assumption risk is somewhat reduced as a result of accounting policy decisions made.

The risk discount rate used to discount future profits includes a margin over assumed investment returns to reflect any risks associated with the emergence of future shareholder cash flows that are not allowed for elsewhere in the valuation. The government bond yield curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free yield curve. The economic assumptions used, including certain representative points on the risk-free yield curve, are disclosed in Annexure A: Embedded value report for the Life insurance entities.

The results of the sensitivities disclosed in the following table indicate that assumptions regarding future mortality and morbidity experience have a significant impact on the quantum of the actuarial liability. Future developments in mortality and morbidity experience, whether positive or negative, will impact profits in future years. The business is also sensitive to expense assumptions.

Sensitivity analysis (South African entities only)

Sensitivity analysis	**2021 Potential effect recorded in (profit) or loss Rm**	2020 Potential effect recorded in (profit) or loss Rm
Mortality and morbidity +10%	**351**	287
Lapse rate +10%[1]	**(18)**	5
Renewal and termination expenses +10%	**107**	80
Expense inflation +1%[1]	**85**	67
Investment return -1%[1]	**7**	(22)

Mortality risk

The life business is exposed to mortality risk if an inappropriate allowance has been made for mortality in the pricing and valuation bases. The premiums may then be insufficient to meet claims as they fall due.

Pandemic risk

The life insurance business is exposed to Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) risk if an insufficient allowance has been made in the pricing and valuation bases. To manage risk for the business that is medically underwritten, HIV tests are performed as part of the normal underwriting process.

For Absa Life (excluding cells) a COVID-19 provision of **R408m** (2020: R200m) is being held to meet the expected short-term outgoes related to COVID-19 experience. The majority of this provision is for increased expected mortality claims with the remainder for increased expected lapses.

The mortality component allows for the impact of Wave 4 that emerged at the end of 2021 as well as the impact of a further Wave 5 that is expected to emerge in 2022 (with increased mortality to the end of 2022/early into 2023). Further waves have not been allowed for as the implicit assumption is that excess COVID-19 mortality is unlikely to be material at this time, for example due to herd immunity (whether due to vaccines or prior infection), improvements to vaccines or other medications. The mortality component of the provision is based on Absa Life excess deaths during Wave 3, with an allowance for lower expected severity of Wave 4 (as demonstrated by national COVID-19 death statistics) and lower expected severity of Wave 5 (due to projected increased vaccination rates as well as increases in natural acquired immunity). The lapse component has been based on projections of higher than expected lapses in 2022 due to poor economic conditions.

COVID-19 provisions have also been raised for Absa Life cells as well as ALB, ALZ, ALAK and GAM (Life) on a similar basis to that described above, i.e. allowing for a mortality component and a lapse component.

[1] Total policyholder reserves are made up of positive and negative policy-level reserves. The impact of sensitivities may thus change year on year, as the balance between positive and negative policy level reserves change.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Lapse risk

Lapse risk is the risk of not recouping expenses such as commission and/or underwriting costs generally incurred at the inception of the policy or not generating the anticipated profit margins, as a result of adverse lapse experience. In such instances, a loss is incurred if the policy lapses before the costs have been recouped. This risk is managed by entering into clawback arrangements with financial advisers, whereby at least a portion of the commission is recouped. Annual investigations of lapse experience are performed to ensure pricing and valuation assumptions are appropriate, relevant and in line with experience.

Expense risk

Expense risk refers to the risk of variations in the expenses incurred relative to those allowed for in pricing and reserving bases in servicing insurance obligations, including the risk from the growth in expenses over and above that of inflation. An allowance for future maintenance and claim expenses, inflated at the assumed expense inflation rate, is included in liability calculations based on the current level of maintenance and claim expenses per policy. The risk of understating and pricing insufficiently for this risk is managed by:

- Conducting annual expense investigations based on the most recent operating expenditure incurred;
- Monitoring costs monthly to ensure they remain within anticipated levels and identifying trends at an early stage; and
- Basing the assumed future inflation rate on observable economic indicators and experience.

Where actual business volumes are lower than those that inform expenses assumptions in pricing and reserving exercises, further expense risk may be introduced.

Retrenchment risk

The life business is exposed to retrenchment risk if an inappropriate allowance has been made for retrenchment inception rates in the pricing and valuation bases.

Concentration risk

The risk of several claims arising simultaneously ('concentration risk') on individual lives is small, while the retained exposure per life is relatively low. The table below shows the value of benefits insured by benefit band before and after reinsurance for individual insurance business (excluding cell captive business).

Benefit band per life assured (RSA entities only) (R'000)	2021 Number of policies	2021 Total benefits assured: Gross of reinsurance Rm	%	2021 Net of reinsurance Rm	%	2020[1] Number of policies	2020[1] Total benefits assured: Gross of reinsurance Rm	%	2020[1] Net of reinsurance Rm	%
0 – 250	4 299 307	128 712	51	122 800	62	4 174 992	122 613	52	119 059	62
250 – 500	62 920	26 559	10	22 226	11	57 471	27 049	11	23 713	12
500+	66 984	98 952	39	54 142	27	60 328	87 701	37	48 701	26
	4 429 211	254 223	100	199 168	100	4 292 791	237 363	100	191 473	100

In the case of the Group Life business, geographic concentration of risk exists. For Absa Life Limited, the largest concentration risk is in Johannesburg introduced by the Absa Staff Group Life Scheme. In addition to comprehensive quota share reinsurance, the Company also uses catastrophe reinsurance to provide further protection against an accumulation of losses in respect of risk retained.

Asset-liability mismatch risk

Mismatch risk refers to cash flow matching as well as assets backing liabilities in the balance sheet moving differently from each other. A mismatch arises if the assets backing non-linked products do not grow sufficiently or materialise timeously to match specified amounts guaranteed on death, disability, critical illness or retrenchments, or on survival to the end of the policy. Mismatch risk is managed through setting asset allocations which appropriately match assets to underlying liabilities.

Through the use of asset-liability modelling, appropriate investment strategies for the assets backing policyholder liabilities are determined to mitigate mismatch risk as far as possible. These investment strategies are reviewed annually and the asset manager mandates amended accordingly. For guaranteed mortality, morbidity and retrenchment benefits as well as projected expenses, an asset allocation comprising cash and bonds of various terms to maturity is used. Quarterly meetings are held with asset managers to monitor adherence to the mandated asset durations and targeted levels.

Longevity risk

Longevity risk arises from claims on Group Life products such as pensions and disability income benefit where there is a guarantee to make payments in the event of the survival and/or continued disability, sickness or injury of the policyholder. It is the risk of loss or adverse change in the value of insurance obligations resulting from a decrease in mortality rates. The management of longevity risk includes the monitoring of experience and annual experience investigations; pricing philosophy; and reinsurance. The risk management process is similar to the process covered under underwriting risk.

Non-life insurance risks

Non-life insurance underwriting activities are undertaken by Absa Insurance Company Limited (AIC), Absa Insurance Risk Management Services Limited (AIRMS), Global Alliance Seguros (Mozambique) (GAM) and First Assurance Kenya (FAK).

[1] 2020 figures were updated to include Flexisave business (previously excluded because this business was not modelled).

60. Risk management (continued)

60.7 Insurance risk management (continued)

The table that follows summarises the main risk exposures per non-life insurance product line and entity.

Product line	Description of product	AIC	AIRMS	GAM (ST)	FAK	Main risk exposures
Personal lines	Protects families or individuals against financial losses. This includes Motor and Home cover as well as personal liability cover.	✓	×	✓	✓	Underwriting; Concentration; Reinsurer default
Commercial lines	A subset of property and liability type insurance that covers businesses, rather than property belonging to an individual.	✓	✓	✓	✓	Underwriting; Concentration; Reinsurer default
Specialist lines	Two types of products: unusual or non-traditional insurance and higher risk accounts.	×	✓	✓	✓	Underwriting; Investment; Reinsurer default

Underwriting risk

Management monitors loss ratios on a regular basis and identifies areas of the business where claims experience is not in line with expectations, where this is found corrective action is taken. The non-life business adopts an agile pricing methodology, enabling quick pricing and product changes to occur as and when the need arises. In addition, reviews of policy conditions are carried out, when necessary, to determine if any changes are needed. Volumes of business and strike rates are monitored for increases in volumes out of line with expectations, this occurs across the portfolio as well as for any specific initiatives. Actions are then derived from this monitoring. There are extensive measures in place to control claims, which include assessing claims, checking total potential claims against the sum insured and procurement management on service providers required for repair of damaged insured items. Artificial intelligence aids the business in improving processes (improving cost to serve and reduced turnaround times) and minimising fraudulent behaviour.

Non-life insurance underwriting risk is managed in line with the Insurance Underwriting policy by means of underwriting authority mandates and with oversight by an Underwriting Review Forum, as and when required. A subset of the Underwriting Review Forum is the Pricing Forum, which has representation from Risk, Business, Analytics and Actuarial. This forum ensures that all pricing model monitoring occurs timeously and rigorously, and the actions that follow are commensurate with the risk. This forum monitors lapses, cancellations, new business rates, strike rates, renewal rates, marketing spend on sales initiatives, fraud prevention, lead generation and quality as well as the risk profile of the business (as measured by expected claim frequency and expected claim severity).

Reinsurance and reinsurance credit risk

The impact of large individual non-life insurance claims is limited through the purchase of reinsurance that reduces the exposure to large claims. The South African entities have a comprehensive reinsurance programme in place, which includes the following key elements:

- Automatic surplus reinsurance cover which provides protection against significant property related claims. By covering against excessive losses, surplus treaty reinsurance provides security to the company's equity and solvency coverage when unusual or major events occur.
- Further large loss cover is purchased in the form of risk excess-of-loss cover to protect our net retention.
- Facultative reinsurance cover is bought when a risk exceeds the set underwriting limits.
- Catastrophe cover is bought to protect the net retention (after surplus reinsurance) following a catastrophe event. The treaty covers various perils (including hail and earthquake), protection is bought in line with the output from catastrophe models that analyse risks at a location level. The catastrophe cover purchased covers losses of up to **R3.2bn** (2020: R3.0bn); the cover has been increased year-on-year to manage the solvency position of the company.

The ARO entities also have a comprehensive reinsurance programme in place. The programme consists of proportional and non-proportional covers to protect against income statement volatility as well as balance sheet protection.

Reinsurance risk is managed through oversight from the Reinsurance Forum which includes representation from business and relevant subject matter experts. All structural changes to the reinsurance programme (e.g. change in treaty type, attachment points or cover limits) are formally approved by the Reinsurance Forum, Executive Committee as well as the Non-Life Financial Risk Committee.

The credit risk in respect of reinsurance partners is managed by ensuring the entities only transact with reinsurers with good credit ratings and within limits that are approved on an annual basis. The creditworthiness of reinsurers is regularly monitored. To qualify as a reinsurance partner, reinsurers must be assigned a minimum 'A-' rating (international scale, long-term) by the Standard & Poor's (or equivalent) rating agency. An agreement with a reinsurer with a lower credit rating can qualify provided sufficient reasoning and approval has been obtained from the Insurance Risk Committee. Consideration is also given to approved versus non-approved regulatory status of reinsurers in relevant territories.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Reinsurance and reinsurance credit risk (continued)

Standard & Poor's rating[1]	Description	2021 Number of reinsurers	2021 Total premiums ceded Rm	2020 Number of reinsurers	2020 Total premiums ceded Rm
AA- and above	Very strong	**7**	**62**	8	58
A-	Strong	**25**	**72**	26	60
BBB+	Good	**2**	**3**	2	3
Unrated	N/A	**—**	**—**	—	—
Total		**34**	**137**	36	121

Reserving risk

Reserving risk includes the risk that the outstanding claims reserves and incurred but not reported claims reserves (including incurred but not enough reported claims reserves) are insufficient. Reserves calculated for the ARO entities are based on the in-country regulatory requirements.

Outstanding claims reserves are held for claims which have been notified, but which have not been fully settled. Individual estimates are sourced from claims assessors and are reviewed as and when new information regarding a claim becomes available. The claims provision includes the expected claim cost and any associated claim handling costs. Claims development patterns are regularly monitored to assess trends and to determine the appropriate level of reserving. The provision for the active South African entities at the reporting date amounted to **R353m** (2020: R348m)

A stochastic reserving model is applied to calculate the Incurred But Not Reported ('IBNR[1]') claim provision for the majority of the business. The IBNR claim provision is calculated using well-known actuarial techniques such as basic Chain Ladder and the Bornheuter-Ferguson Method. Where detailed data is not available, the provision is calculated by referencing the experience to date and prior year investigations. The IBNR provision at the reporting date amounted to **R101m** (2020: R92m).

The IBNR provision is determined by taking the following factors, per reserving cohort, into account: actual and expected claims experience; actual and expected reporting patterns; premium volumes and claim process changes. These factors affect the sensitivity of the IBNR and are taken into account in setting the level of reserves required. These calculations, together with changes in the underlying risk profile of the business, impact the final balances. Margins are added to the best estimate assumptions in order to allow for uncertainty. The margins for the active South African entities are calculated using the Bootstrap method. The margin is equal to the difference between the 75th percentile and the best estimate reserve. This margin protects Absa from volatility in claims experience.

The Unearned Premium Reserve ('UPR') is determined by the 365th method and is held to cover claims and expenses related to the unexpired risk on the book. An Additional Unexpired Risk Reserve is raised if there is a risk of the UPR being insufficient. This is often determined by considering the past and expected combined ratios on the book. An expected combined ratio greater than 100% would often point to raising the Additional Unexpired Risk Reserve ('AURR').

Claims development tables

The presentation of the claims development tables is based on the actual date of the event that caused the claim (incident year basis). The claims development tables represent the development of the actual claims paid.

Payment development

Non-life insurance claims – gross (AIC only)

Rm		Total actual claims cost	2021	Claims paid in respect of 2020	2019	2018	2017 and prior
Reporting year							
	2021	**1 464**	**1 165**	283	8	4	3
	2020	**1 382**	**—**	1 002	366	7	8
	2019	**1 443**	**—**	—	980	446	18
	2018	**1 192**	**—**	—	—	986	206
	2017	**1 212**	**—**	—	—	—	1 212
Cumulative payments to date		**6 693**	**1 165**	1 285	1 354	1 443	1 447

Prior period figures were updated to include Flexisave business (previously excluded because this business was not modelled).

[1] Long Term Financial Strength International Scale Local Currency Ratings.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Reporting development

Non-life insurance claims provision – gross (AIC only)

			Accident year during which claims occurred			
Rm	Total claims provision	2021	2020	2019	2018	2017 and prior
Reporting year						
2021	**429**	**388**	18	10	3	10
2020	**409**	**—**	348	37	16	8
2019	**443**	**—**	—	261	121	61
2018	**412**	**—**	—	—	366	46
2017 and prior	**1 465**	**—**	—	—	—	1 465

* The above table considers the AIC business only

Prior period figures were updated to include Flexisave business (previously excluded because this business was not modelled).

Cash-back reserves

These reserves allow for the cash back bonus provided to Absa Activate and idirect policyholders. Absa idirect policyholders receive the cash-back after a specified number of claim-free months. The cash-back percentages of total premiums collected are: 10% after 36 months, 15% after the following 12 months and 20% for every 12 months thereafter. Absa Activate policyholders receive a cash-back every four weeks, with the amount of the cash-back being dependent on a driving score. The driving score is based a number of underlying metrics that is influenced by the driving behaviour of the policyholder. The cash-back reserve provision at the reporting date amounted to **R47.8m** (2020: R48.4m).

Assumption risk

Assumptions are required in order to set premium rates and to assess the eventual cost of liabilities. Absa continually monitors its experience relative to that assumed when setting premiums or valuing liabilities to reduce potential losses because of assumption risk.

Concentration risk (unaudited)

The main source of concentration risk is exposure to personal property, personal lines and commercial insurance business. The table below shows the geographical exposure based on the sum assured in each region.

	2021		2020	
	Rm	%	Rm	%
South Africa				
Pretoria	**118 560**	**14.6**	120 132	15.2
Johannesburg	**109 863**	**13.5**	109 700	13.8
East Rand	**92 299**	**11.3**	92 765	11.7
Cape Town	**123 694**	**15.2**	124 137	15.7
Others	**370 231**	**45.4**	345 680	43.6
	814 647	**100**	792 414	100

The maximum expected loss for a one in 250-year event is a loss of **R2.4bn** (2020: R2.4bn). This shows a 'real' decrease in the catastrophe exposure when compared to the premium growth achieved. The reason for the decrease is due to the declining number of high sum-insured risks in the property book. Catastrophe cover is purchased to cover losses up to **R3.2bn** (2020: R3.0bn).

Insurance risks applicable to both life and non-life insurance

Insurance-related investment risks

Investment risk relates to the variability in the value of life and non-life shareholder assets and of assets backing policyholder liabilities. Interest rate/equity risk relates to the change in investment value of assets due to a change in market interest rates/equity performance. Foreign exchange risk is the risk that a change in the exchange rate could affect the financial results of the insurance entity. Investment risk is mitigated through diversified asset allocations and investment mandates.

For entities outside of South Africa, the shareholder funds are invested in property, money market type instruments and government bonds. The table below shows the shareholder funds asset allocation for Absa Life excluding the effect of intragroup transactions.

The Life insurance shareholders' funds in South Africa are invested in domestic cash investments.

Counterparty credit risk in respect of investments is managed by investing with a spread of issuers as required by the IPRMF.

A single investment strategy is maintained for non-life insurance shareholder assets and for assets backing non-life insurance policy holder liabilities. Assets are invested in short-dated interest-earning assets. The duration of interest-earning assets is monitored against a maximum effective duration.

60. Risk management (continued)

60.7 Insurance risk management (continued)

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The life insurance businesses are less exposed to liquidity risks due to the low risk of large cumulative claims. Liquidity risk is managed through close management of potential cash outflow in discussion with asset managers, as well as the use of a liquidity fund consisting of cash and money market investments – set aside to meet large outflows.

Liquidity risk is managed in the non-life insurance businesses by investing in short-dated interest-earning assets, with limits on investments in less liquid assets such as preference shares and corporate bonds.

Capital management for insurance entities

Regulatory capital

SAM is a risk-based regulatory regime established for the prudential regulation of South African insurers. The Solvency Capital Requirement (SCR) under SAM is determined using prescribed South African Prudential Standards Financial Soundness Standards for Insurers (FSI) methodology which is calibrated to correspond to the value-at-risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period. The in-country solo capital requirements for non-South African insurance entities are based on relevant local regulatory requirements.

The AFS insurance group SCR is aggregated using SAM Deduction and Aggregation approach and is based on the Financial Soundness Standards for Insurance Groups (FSG). For aggregation into the insurance group, all solo insurance entities, including non-South African insurance entities, must apply the FSI methodology.

Current target capital levels and dividend policies for South African entities are set with reference to the SAM regulatory reporting regime.

Solvency position (unaudited)

The table below shows the regulatory capital position for the solo insurance entities as at 31 December 2021. Licensed insurance entities did not declare dividends in December 2021

Entity	Country	Type	Solo in-country regulatory capital cover 31 December 2021	Solo in-country regulatory capital cover 31 December 2020
Absa Life	South Africa	Life insurance	**1.40**	1.51
AIC	South Africa	Non-life insurance	**1.48**	1.65
AIRMS	South Africa	Non-life insurance	**7.36**	2.97
ALB	Botswana	Life insurance	**2.78**	4.24
ALZ	Zambia	Life insurance	**1.89**	1.53
ALAK	Kenya	Life insurance	**3.27**	3.45
FAK	Kenya	Non-life insurance	**1.44**	1.25
GAM	Mozambique	Composite insurance	**3.93**	2.66

The SAM solvency position for AFS as an insurance group as at 31 December 2021 will be submitted to the regulator by 30 April 2022. AFS is solvent as at 31 December 2021, with an unaudited capital cover of 1.26 (31 December 2020: 1.39).

61. Going concern

The directors assess the Group's future performance and financial position on an ongoing basis. In light of the continued impact of COVID-19, the directors have assessed the Group's ability to continue as a going concern and acknowledged the risk of lower revenue in the medium term. The directors have concluded that there are no material uncertainties that could have cast significant doubt over the Group's ability to continue as a going concern for at least one year from the date of approval of the consolidated financial statements. For this reason, these consolidated financial statements are prepared on a going concern basis.

62. Events after the reporting period

During the budget speech presented on 23 February 2022, the finance minister announced that the corporate tax rate will be reduced from 28% to 27%. Based on the assessment of the impact, the Group does not expect the tax rate change to have a significant impact on the deferred tax balances reported as at 31 December 2021 but may have a larger impact on temporary differences arising in future.

Furthermore, the Russia Ukraine conflict has significantly increased already high levels of global uncertainty and is expected to impact global markets, outlooks and the expectations of the markets in which the Group operates. This is expected to materially heighten risks faced by financial market participants and global and domestic economies. Active monitoring of the events unfolding in Europe and continuous assessments of the Group's exposure and potential risks, both direct and indirect, is ongoing as the impact on various markets will not be uniform. The Group has assessed that its direct exposure to Russia is currently negligible and thus monitoring is focused mainly on the indirect exposures and risks. Sensitivity to energy inflation and certain commodity prices will be elevated and are being monitored. The Group's focus remains on proactive risk and capital management to positively position itself as the spillover impact of the conflict unfolds. Risks are actively identified, and the consolidated response monitored to ensure effective implementation achieving the targeted result. Scenario analyses is used in the early detection of potential areas of weakness and to assess response effectiveness.

The directors are not aware of any events, other than the aforementioned (as defined per IAS 10 *Events after the Reporting Period*) after the reporting date of 31 December 2021 and the date of authorisation of these annual consolidated and separate financial statements.

63. Directors' and prescribed officers' remuneration

The Group's Remuneration Committee's (RemCo) mandate includes ensuring that reward practices are aligned with shareholder interests, both in the performance of our employees and the values they uphold. The Group strives to promote reward practices that foster sustainable high performance and accordingly, the Group rewards both short and longer term performance. All elements of remuneration are benchmarked against the market, as well as local and international best practice.

The RemCo reviews executive director and prescribed officer performance against a balanced scorecard of objectives, which ensures rigorous focus on business imperatives including, importantly, financial performance. The outcomes of this are a primary input to variable remuneration decisions. Risk management is carefully considered.

The Group's remuneration approach complies with the regulatory and statutory provisions relating to remuneration governance, in all the countries where the Group operates and in accordance with relevant requirements in Africa and other relevant jurisdictions in which we conduct business operations.

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Notes to the consolidated financial statements

for the reporting period ended 31 December

63. Directors' and prescribed officers' remuneration (continued)

Combined tables for 2021 total remuneration

Executive directors Awarded remuneration	Jason Quinn 2021 R	Jason Quinn 2020 R	Punki Modise[6] 2021 R	Punki Modise[6] 2020 R
Salary	5 418 952	5 422 836	1 866 091	—
Role-based pay	—	—	—	—
Medical aid	119 604	115 128	156 811	—
Retirement benefits	411 749	412 862	159 877	—
Other employee benefits	59 008	58 487	210 403	—
Total fixed remuneration	6 009 313	6 009 313	2 393 182	—
Non-deferred cash award[1]	9 000 000	—	5 500 000	—
Deferred share award[2]	8 000 000	4 800 000	4 500 000	—
Total short-term incentive[3]	17 000 000	4 800 000	10 000 000	—
Face value of long-term incentive award (on-target award)[4]	12 500 000	10 000 000	10 000 000	—
Other payments[5]	—	—	816 546	—
Total awarded remuneration	35 509 313	20 809 313	23 209 728	—

Prescribed officers Awarded remuneration	Arrie Rautenbach 2021 R	Arrie Rautenbach 2020 R	Charles Russon 2021 R	Charles Russon 2020 R
Salary	6 444 479	6 450 191	5 585 822	5 593 432
Role-based pay	—	—	—	—
Medical aid	161 892	155 820	202 428	194 844
Retirement benefits	158 651	159 261	162 055	162 550
Other employee benefits	494 316	494 132	59 008	58 487
Total fixed remuneration	7 259 338	7 259 404	6 009 313	6 009 313
Non-deferred cash award[1]	6 750 000	—	6 750 000	—
Deferred share award[2]	5 750 000	4 800 000	5 750 000	4 000 000
Total short-term incentive	12 500 000	4 800 000	12 500 000	4 000 000
Face value of long-term incentive award (on-target award)[4]	12 500 000	10 250 000	10 000 000	7 000 000
Other payments[5]	2 007 617	—	—	—
Total awarded remuneration	34 266 955	22 309 404	28 509 313	17 009 313

Board appointment dates and contract terms

Jason Quinn was appointed to the Board on 1 September 2016, and was appointed as Interim Group Chief Executive with effect from 20 April 2021. Punki Modise was appointed as Interim Group Financial Director with effect from 23 April 2021 and also joined the Board on this date. Daniel Mminele was appointed to the Board on 15 January 2020 and stepped down on 20 April 2021. Peter Matlare was appointed to the Board on 1 August 2016 and sadly passed away on 7 March 2021. Arrie Rautenbach and Charles Russon became prescribed officers on 19 April 2018 and 5 November 2018 respectively. All executive directors and prescribed officers have a notice period of six months.

1 Executive directors and prescribed officers did not receive cash short-term incentive awards in respect of 2020 performance, aligned to the Prudential Authority guidance. In light of the passing of Peter Matlare on 7 March 2021, the Board approved the payment in cash of the short-term incentive that was awarded to him, as deferred awards would, in the normal course, be accelerated in the event of the death of a participant. Short-term incentive awards in respect of 2021 performance will be subject to deferral into Absa Group shares on 50% of the value of the award that exceeds R1m, with the balance paid as cash, as set out in the remuneration policy.

2 All deferral in respect of the short-term incentive award made for 2021 performance will be in Absa Group shares. Deferred awards disclosed in 2021 will be granted in April 2022. The full award made in respect of 2020 performance was deferred into Absa Group shares, with vesting in equal proportions on the first, second and third anniversaries of the award date. Release will be subject to the additional CET 1 safety and soundness validation. The award was granted in April 2021.

3 Short-term incentives are not defined as incentives that are settled in the next 12 months after the reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's remuneration policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period (three years). For deferred short-term incentives awarded in 2021 for 2020 performance, an additional CET 1 safety and soundness validation will apply at vesting. In contrast to this, the long-term incentives relate to awards which have future Group performance criteria that will determine the final vesting outcome, in addition to a continued service condition. Total awarded remuneration disclosed in 2020 includes the fixed remuneration paid during 2020, the total short-term incentive in respect of 2020 performance (consisting only of a deferred award granted in April 2021, other than in respect of Peter Matlare) and the face value of the long-term incentive to be granted in April 2021. Amounts disclosed in 2021 follow the same principle, except that the short-term incentive awarded for 2021 performance consist of a cash award and a deferred share award.

4 This is the 'on-target' value of the award. The awards reflected in 2020 were made in April 2021, and those reflected in 2021 are to be made in April 2022.

5 'Other payments' reflect all payments made to Daniel Mminele on termination of employment (see note 7) and for other executive directors and prescribed officers, the encashment of leave as a consequence of changes to our leave policy. For Peter Matlare, the payment is in respect of accrued leave to the date of his passing – excludes any death benefit due from Group benefit funds.

6 Punki Modise was appointed as the Interim Financial Director effective 23 April 2021. Fixed remuneration amounts shown are prorated from appointment date. Both STI and LTI shown at full value.

7 Daniel Mminele stepped down as a Director on 20 April 2021 and ceased being an employee on 30 April 2021. All remuneration paid to him in 2021 has been included in this disclosure. This includes separation payments, contractual notice payments and leave payments which are shown as 'Other payments'.

8 René van Wyk served as Chief Executive from 1 January to 14 January 2020. He was an Executive Director from 15 January to 31 January 2020. Remuneration received in 2020 as a non-executive director from 1 August 2020 to 31 December 2020 is set out in the table on non-executive directors' remuneration.

Daniel Mminele[7]		Peter Matlare		René van Wyk[8]		Total	
2021 R	2020 R	2021 R	2020 R	2021 R	2020 R	2021 R	2020 R
2 922 288	8 430 191	**1 617 039**	6 501 664	**—**	833 333	**11 824 370**	21 188 024
—	—	**—**	—	**—**	—	**—**	—
—	—	**55 632**	188 280	**—**	—	**332 047**	303 408
51 466	154 680	**89 621**	537 727	**—**	—	**712 713**	1 105 269
26 247	75 102	**7 726**	31 642	**—**	28 842	**303 384**	194 073
3 000 001	8 659 973	**1 770 018**	7 259 313	**—**	862 175	**13 172 514**	22 790 774
—	—		3 300 000	**—**	—	**14 500 000**	3 300 000
—	5 000 000	**—**	—	**—**	—	**12 500 000**	9 800 000
—	5 000 000	**—**	3 300 000	**—**	—	**27 000 000**	13 100 000
—	15 000 000	**—**	—	**—**	—	**22 500 000**	25 000 000
30 466 273	—	**893 316**	—	**—**	—	**32 176 135**	—
33 466 274	28 659 973	**2 663 334**	10 559 313	**—**	862 175	**94 848 649**	60 890 774

Total	
2021 R	2020 R
12 030 301	12 043 623
—	—
364 320	350 664
320 706	321 811
553 324	552 619
13 268 651	13 268 717
13 500 000	—
11 500 000	8 800 000
25 000 000	8 800 000
22 500 000	17 250 000
2 007 617	—
62 776 268	39 318 717

63. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based long-term incentives

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period).

	2021			
	Number of shares under award at 1 January 2021	Number of shares/cash awarded during 2021	Share price on award R	Number of shares/cash released during 2021
Executive directors				
Daniel Mminele[1]				
Share incentive plan deferral 2021 – 2024	—	39 234	127.44	—
Share incentive plan performance 2020[4]	162 902	—	—	—
Share incentive plan performance 2021[4]	—	117 702	127.44	—
Total	162 902	156 936		—
Peter Matlare[2]				
Share value plan 2018 – 2020	10 144	—	—	10 144
Share value plan 2019 – 2021	21 190	—	—	21 190
Share incentive plan deferral 2020	59 731	—	—	59 731
Long-term incentive award 2019[3]	84 449	—	—	16 045
Total	175 514	—		107 110
Jason Quinn				
Share value plan 2018 – 2020[6]	4 057	—	—	4 057
Share value plan 2019 – 2021	11 352	—	—	5 676
Share incentive plan deferral 2020 – 2023	62 446	—	—	20 815
Share incentive plan deferral 2021 – 2024	—	37 664	127.44	—
Long-term incentive award 2019[4]	86 615	—	—	—
Share incentive plan performance 2020[4]	130 321	—	—	—
Share incentive plan performance 2021[4]	—	78 468	127.44	—
Total	294 791	116 132		30 548
Punki Modise[5]				
Share value plan 2018 – 2020[6]	609	—	—	609
Share value plan 2019 – 2021	1 741	—	—	870
Share incentive plan deferral 2020 – 2023	9 991	—	—	3 330
Share incentive plan deferral 2021 – 2024	—	980	127.44	—
Long-term incentive award 2019	24 915	—	—	—
Share incentive plan performance 2020	32 580	—	—	—
Share incentive plan performance 2021	—	25 109	127.44	—
Total	69 836	26 089		4 809

[1] Daniel Mminele's ceased to be an executive director on 20 April 2021 and subsequently terminated his service with Absa Group on 30 April 2021. All his awards were forfeited on termination of service date.

[2] Peter Matlare passed away on 7 March 2021. In terms of the scheme rules all the awards were accelerated to vest on the date of death.

[3] The number of shares to vest was based on the measurement of the predetermined performance conditions linked to the performance awards.

[4] For all executive directors, the award will vest over a five-year period.

[5] Punki Modise's outstanding share-based long-term awards include awards received prior to becoming an executive director on 23 April 2021. Punki Modise`s Long Term Incentive award 2019, Share Plan Incentive Performance award 2020 and Share Plan Incentive award 2021 vest over a three-year period since the awards were made prior to her becoming an executive director.

[6] The scheduled vesting date for the 1 March 2021 share value plan vesting moved to 18 March 2021, due to the original vesting dates falling within a prohibited/ closed period.

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2021					
Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2021	Number of shares under award/option at 31 December 2021	Last scheduled vesting date
—	—	—	39 234	—	2024/04/01
—	—	—	162 902	—	2025/04/01
—	—	—	117 702	—	2026/04/01
	—	—	319 838	—	
129.61	1 314 764	299 140	—	—	2021/03/07
129.61	2 746 436	412 160	—	—	2021/03/07
129.61	7 741 735	575 857	—	—	2021/03/07
129.61	2 079 592	312 101	68 404	—	2021/03/07
	13 882 527	1 599 258	68 404	—	
126.98	515 158	117 203	—	—	2021/03/18
126.98	720 738	108 187	—	5 676	2022/03/18
124.17	2 584 599	192 339	—	41 631	2023/04/01
—	—	—	—	37 664	2024/04/01
—	—	—	—	86 615	2024/03/18
—	—	—	—	130 321	2025/04/01
—	—	—	—	78 468	2026/04/01
	3 820 495	417 729	—	380 375	
126.98	77 331	17 523	—	—	2021/03/18
126.98	110 473	16 507	—	871	2022/03/18
124.17	413 486	30 670	—	6 661	2023/04/01
—	—	—	—	980	2024/04/01
—	—	—	—	24 915	2022/09/02
—	—	—	—	32 580	2023/04/01
—	—	—	—	25 109	2024/04/01
	601 290	64 700	—	91 116	

63. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based long-term incentives (continued)

	2021			
	Number of shares under award at 1 January 2021	Number of shares/cash awarded during 2021	Share price on award R	Number of shares/cash released during 2021
Prescribed officers				
Arrie Rautenbach				
Share value plan 2018 – 2020[1,2]	9 130	—	—	9 130
Share value plan 2019 – 2021	21 758	—	—	10 880
Share incentive plan deferral 2020 – 2023	59 731	—	—	19 910
Share incentive plan deferral 2021 – 2024	—	37 664	127.44	—
Long-term incentive award 2019[3]	88 780	—	—	—
Share incentive plan performance 2020[3]	130 321	—	—	—
Share incentive plan performance 2021[3]	—	80 430	127.44	—
Total	309 720	118 094		39 920
Charles Russon				
Share value plan 2018 – 2020[2,4]	8 114	—	—	8 114
Share value plan 2019 – 2021	8 041	—	—	4 021
Share incentive plan deferral 2020 – 2023	45 341	—	—	15 114
Share incentive plan deferral 2021 – 2024	—	31 387	127.44	—
Long-term incentive award 2019[3]	60 630	—	—	—
Share incentive plan performance 2020[3]	99 370	—	—	—
Share incentive plan performance 2021[3]	—	54 927	127.44	—
Total	221 496	86 314		27 249

[1] Arrie Rautenbach's outstanding share-based long-term awards include awards received prior to becoming a precribed officer on 19 April 2018.
[2] The scheduled vesting date for the 1 March 2021 share value plan vesting moved to 18 March 2021, due to the original vesting dates falling within a prohibited/closed period.
[3] For all prescribed officers, the award will vest over a five-year period.
[4] Charles Russon's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 5 November 2018.

2021					
Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2021	Number of shares under award/option at 31 December 2021	Last scheduled vesting date
126.98	1 159 327	263 864	—	—	2021/03/18
126.98	1 381 542	207 231	—	10 878	2022/03/18
124.17	2 472 225	183 896	—	39 821	2023/04/01
—	—	—	—	37 664	2024/04/01
—	—	—	—	88 780	2024/03/18
—	—	—	—	130 321	2025/04/01
—	—	—	—	80 430	2026/04/01
	5 013 094	654 991	—	387 894	
126.98	1 030 316	234 405	—	—	2021/03/18
126.98	510 587	76 569	—	4 020	2022/03/18
124.17	1 876 705	139 567	—	30 227	2023/04/01
—	—	—	—	31 387	2024/04/01
—	—	—	—	60 630	2024/03/18
—	—	—	—	99 370	2025/04/01
—	—	—	—	54 927	2026/04/01
	3 417 608	450 541	—	280 561	

63. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based long-term incentives (continued)

The table below outlines share-based and long-term incentive awards (awarded in respect of performance in a prior period).

	2020			
	Number of shares under award at 1 January 2020	Number of shares/cash awarded during 2020	Share price on award R	Number of shares/cash released during 2020
Executive directors				
Daniel Mminele				
Share incentive plan performance 2020[1, 2]	—	162 902	92.08	—
Total	—	162 902		—
Peter Matlare				
Share value plan 2017 – 2019[3]	2 533	—	—	2 533
Share value plan 2018 – 2020	20 286	—	—	10 142
Share value plan 2019 – 2021	31 786	—	—	10 596
Share incentive plan deferral 2020 – 2023[1]	—	59 731	92.08	—
Long-term incentive award 2017[3]	134 770	—	—	86 657
Long-term incentive award 2019[2]	84 449	—	—	—
Total	273 824	59 731		109 928
Jason Quinn				
Share value plan 2017 – 2019[3]	3 167	—	—	3 167
Share value plan 2018 – 2020	8 115	—	—	4 058
Share value plan 2019 – 2021	17 028	—	—	5 676
Share incentive plan deferral 2020 – 2023[1]	—	62 446	92.08	—
Restricted award – Share value plan 2017	7 112	—	—	7 112
Long-term incentive award 2017[3]	96 758	—	—	62 215
Long-term incentive award 2019[2]	86 615	—	—	—
Share incentive plan performance 2020[1, 2]	—	130 321	92.08	—
Total	218 795	192 767		82 228

[1] During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Incentive Plan and Share Value Plan rules, with awards from 2020 onwards made under the new scheme rules. The terms of awards granted prior to 2020 were not modified and as such there was no impact on the accounting treatment of such awards.

[2] For all executive committee members, the award will vest over a five-year period.

[3] The scheduled vesting date for the 1 March 2020 share value plan vesting and the 31 July 2020 long-term incentive award vesting were moved to 13 March 2020 and 24 August 2020 respectively, due to the vesting dates falling within a prohibited/closed period.

2020					
Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2020	Number of shares under award/option at 31 December 2020	Last scheduled vesting date
—	—	—	—	162 902	2025/04/01
	—	—	—	162 902	
119.62	302 997	67 585	—	—	2020/03/13
119.62	1 213 186	172 971	—	10 144	2021/03/01
119.62	1 267 494	89 237	—	21 190	2022/03/18
—	—	—	—	59 731	2023/04/01
80.48	6 974 155	1 870 355	48 113	—	2020/08/24
—	—	—	—	84 449	2024/03/18
	9 757 832	2 200 148	48 113	175 514	
119.62	378 837	84 452	—	—	2020/03/13
119.62	485 418	69 140	—	4 057	2021/03/01
119.62	678 963	47 728	—	11 352	2022/03/18
—	—	—	—	62 446	2023/04/01
88.95	632 612	144 010	—	—	2020/09/30
80.48	5 007 063	1 342 809	34 543	—	2020/08/24
—	—	—	—	86 615	2024/03/18
—	—	—	—	130 321	2025/04/01
	7 182 893	1 688 139	34 543	294 791	

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63. Directors' and prescribed officers' remuneration (continued)

Outstanding share-based long-term incentives (continued)

	2020			
	Number of shares under award at 1 January 2020	Number of shares/cash awarded during 2020	Share price on award R	Number of shares/cash released during 2020
Prescribed officers				
Arrie Rautenbach[1]				
Share value plan 2017 – 2019[2]	5 699	—	—	5 699
Share value plan 2018 – 2020	18 258	—	—	9 128
Share value plan 2019 – 2021	32 638	—	—	10 880
Share incentive plan deferral 2020 – 2023[3]	—	59 731	92.08	—
Restricted award – Share value plan 2017	11 853	—	—	11 853
Long-term incentive award 2017[2]	103 669	—	—	66 659
Long-term incentive award 2019[4]	88 780	—	—	—
Share incentive plan performance 2020[3, 4]	—	130 321	92.08	—
Total	260 897	190 052		104 219
Charles Russon[5]				
Share value plan 2017 – 2019[2]	5 066	—	—	5 066
Share value plan 2018 – 2020	16 230	—	—	8 116
Share value plan 2019 – 2021	12 062	—	—	4 021
Share incentive plan deferral 2020 – 2023[3]	—	45 341	92.08	—
Restricted award – Share value plan 2017[2]	11 853	—	—	11 853
Long-term incentive award 2017[2]	93 302	—	—	59 993
Long-term incentive award 2019[4]	60 630	—	—	—
Share incentive plan performance 2020[3, 4]	—	99 370	92.08	—
Total	199 143	144 711		89 049

1 Arrie Rautenbach's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 19 April 2018.

2 The scheduled vesting date for the 1 March 2020 share value plan vesting and the 31 July 2020 long-term incentive award vesting were moved to 13 March 2020 and 24 August 2020 respectively, due to the vesting dates falling within a prohibited/closed period.

3 During 2020, new Share Incentive Plan scheme rules replaced the previous Long-Term Incentive Plan and Share Value Plan rules, with awards from 2020 onwards made under the new scheme rules. The terms of awards granted prior to 2020 were not modified and as such there was no impact on the accounting treatment of such awards.

4 For all executive committee members, the award will vest over a five-year period.

5 Charles Russon's outstanding share-based long-term awards include awards received prior to becoming a prescribed officer on 5 November 2018.

2020					
Market price on release date R	Value of release (pre-tax) R	Value of dividend released (pre-tax) R	Number of shares/options lapsed/(forfeited) in 2020	Number of shares under award/option at 31 December 2020	Last scheduled vesting date
119.62	681 714	152 157	—	—	2020/03/13
119.62	1 091 891	155 506	—	9 130	2021/03/01
119.62	1 301 466	91 629	—	21 758	2022/03/18
—	—	—	—	59 731	2023/04/01
88.95	1 054 324	239 987	—	—	2020/09/30
80.48	5 364 716	1 438 741	37 010	—	2020/08/24
—	—	—	—	88 780	2024/03/18
—	—	—	—	130 321	2025/04/01
	9 494 111	2 078 020	37 010	309 720	
119.62	605 995	135 171	—	—	2020/03/13
119.62	970 836	138 281	—	8 114	2021/03/01
119.62	480 992	33 852	—	8 041	2022/03/18
—	—	—	—	45 341	2023/04/01
88.95	1 054 324	239 987	—	—	2020/09/30
80.48	4 828 237	1 294 843	33 309	—	2020/08/24
—	—	—	—	60 630	2024/03/18
—	—	—	—	99 370	2025/04/01
	7 940 384	1 842 134	33 309	221 496	

63. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based long-term awards

	2021				
	Value under award at 1 January 2021 R	Maximum potential value at 1 January 2021 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
Executive directors					
Jason Quinn					
Cash value plan 2018 – 2020	800 000	993 333	—	800 000	—
Cash value plan 2019 – 2021	1 966 000	2 260 900	—	983 000	—
Total	2 766 000	3 254 233	—	1 783 000	—
Punki Modise[1]					
Cash value plan 2018 – 2020	120 000	156 000	—	120 000	—
Cash value plan 2019 – 2021	301 453	346 671	—	150 727	—
Total	421 453	502 671	—	270 727	—
Prescribed officers					
Charles Russon					
Cash value plan 2019 – 2021	1 392 667	1 601 567	—	696 333	—
Total	1 392 667	1 601 567	—	696 333	—

[1] Punki Modise's outstanding cash-based long-term awards include awards received prior to becoming an executive director on 23 April 2021.

2021						
Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit lapsed/(forfeited) in the year R	Value under award at 31 December 2021 R	Maximum potential value at 31 December 2021 R	Last scheduled vesting date
—	—	193 333	—	—	—	2021/03/01
—	—	—	—	983 000	1 277 900	2022/03/18
—	—	193 333	—	983 000	1 277 900	
—	—	36 000	—	—	—	2021/03/01
—	—	—	—	150 726	195 944	2022/03/18
—	—	36 000	—	150 726	195 944	
—	—	—	—	696 334	905 234	2022/03/18
—	—	—	—	696 334	905 234	

63. Directors' and prescribed officers' remuneration (continued)

Outstanding cash-based long-term awards (continued)

	2020				
	Value under award at 1 January 2020 R	Maximum potential value at 1 January 2020 R	Value awarded in the year R	Value released in the year R	Value forfeited in the year R
Executive directors					
Peter Matlare					
Cash value plan 2017 – 2019	400 000	520 000	—	400 000	—
Total	400 000	520 000	—	400 000	—
Jason Quinn					
Cash value plan 2017 – 2019	500 000	650 000	—	500 000	—
Cash value plan 2018 – 2020	1 600 000	1 793 333	—	800 000	—
Cash value plan 2019 – 2021	2 949 000	3 243 900	—	983 000	—
Total	5 049 000	5 687 233	—	2 283 000	—
Prescribed officers					
Arrie Rautenbach[1]					
Cash value plan 2017 – 2019	900 000	1 170 000	—	900 000	—
Total	900 000	1 170 000	—	900 000	—
Charles Russon[2]					
Cash value plan 2017 – 2019	800 000	1 040 000	—	800 000	—
Cash value plan 2019 - 2021	2 089 000	2 297 900	—	696 333	—
Total	2 889 000	3 337 900	—	1 496 333	—

[1] Arrie Rautenbach's outstanding cash-based long-term awards include awards received prior to becoming a prescribed officer on 19 April 2018.

[2] Charles Russon's outstanding cash-based long-term awards include awards received prior to becoming a prescribed officer on 5 November 2018.

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2020						
Converted to equity R	Service credit awarded in the year R	Service credit released in the year R	Service credit lapsed/(forfeited) in the year R	Value under award at 31 December 2020 R	Maximum potential value at 31 December 2020 R	Last scheduled vesting date
—	—	120 000	—	—	—	2020/03/01
—	—	120 000	—	—	—	
—	—	150 000	—	—	—	2020/03/01
—	—	—	—	800 000	993 333	2021/03/01
—	—	—	—	1 966 000	2 260 900	2022/03/18
—	—	150 000	—	2 766 000	3 254 233	
—	—	270 000	—	—	—	2020/03/01
—	—	270 000	—	—	—	
—	—	240 000	—	—	—	2020/03/01
—	—	—	—	1 392 667	1 601 567	2022/03/18
—	—	240 000	—	1 392 667	1 601 567	

63. Directors' and prescribed officers' remuneration (continued)

Group Chairman and non-executive directors' fees

	2021					
			Subsidiary boards, committees and trusts			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2021 Total[16] R
Alex Darko[1,9]	943 239	1 303 823	8 608	—	—	**2 255 670**
Colin Beggs[1,10]	496 292	539 400	—	—	218 099	**1 253 791**
Dhanasagree (Daisy) Naidoo	904 774	832 767	—	812 307	—	**2 549 848**
Daniel (Dan) Hodge	—	—	—	—	—	**—**
Daniel (Dan) Hodge (Barclays Plc)	—	—	—	—	—	**—**
Francis Okomo-Okello[1,3]	933 894	862 707	101 925	—	73 386	**1 971 912**
Fulvio Tonelli[2]	922 129	1 054 702	—	—	—	**1 976 831**
Ihron Rensburg[3]	913 202	564 336	—	—	73 386	**1 550 924**
John Cummins[4]	75 650	84 021	—	—	—	**159 671**
Mark Merson[1,11]	921 795	1 723 235	101 925	—	660 658	**3 407 613**
Mohamed Husain	—	—	—	—	—	**—**
Nonhlanhla Mjoli-Mncube	940 569	424 638	—	—	—	**1 365 207**
Rene van Wyk[5]	927 302	888 901	—	—	—	**1 816 203**
Rose Keanly[6,12]	929 889	1 006 736	—	425 629	—	**2 362 254**
Sello Moloko[7]	50 433	67 933	8 608	—	—	**126 974**
Sipho Pityana[1,13]	907 404	1 260 056	93 317	—	—	**2 260 777**
Swithin Munyantwali	924 549	511 033	—	—	—	**1 435 582**
Tasneem Abdool-Samad[1,14]	953 501	1 944 540	101 925	495 629	—	**3 495 595**
Wendy Lucas-Bull (Group Chairman)[8,15]	6 627 100	—	—	—	—	**6 627 100**
Total	18 371 722	13 068 828	416 308	1 733 565	1 025 529	**34 615 952**

[1] The Group Audit and Compliance Committee (GACC), Group Risk and Capital Management Committee (GRCMC), Remuneration Committee (RemCo) and Social and Ethics Committee (SEC) Chairmen receive fees equal to two and a half times the fee payable to members of these committees. Chairmen of the remaining committees receive fees equal to two times the member fee.
[2] Fulvio Tonelli joined the Board Finance Committee (BFC) on 15 November 2021.
[3] Francis Okomo-Okello and Ihron Rensburg are trustees of the Absa Foundation Trust (reported under Other).
[4] John Cummins joined the Group Board, GRCMC and Group Credit Risk Committee (GCRC) on 15 November 2021.
[5] René van Wyk joined the GACC on 1 September 2021.
[6] Rose Keanly joined the SEC on 1 July 2021.
[7] Sello Moloko joined the Group Board, Bank Board, GRCMC, RemCo, SEC and DAC on 1 December 2021.
[8] Wendy Lucas-Bull stepped down from the Chairmanship of the AFS Board on 31 May 2021.
[9] Alex Darko joined the Bank Board and DAC on 1 December 2021.
[10] Colin Beggs retired from the Board effective 4 June 2021. Other fees include Absa Pension Fund fees paid to Colin Beggs.
[11] Mark Merson is the Chairman of the Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported under Other).
[12] Rose Keanly was appointed the Chairman of Absa Financial Service (AFS) Social and Ethics Committees (SEC) effective 1 June 2021.
[13] Sipho M Pityana stepped down from Directors' Affairs Committee (DAC) and the RemCo Chairmanship on 12 November 2021; and ceased to be an Absa Board member on 24 November 2021.
[14] Tasneem Abdool-Samad was appointed the Chairman of AFS Board effective 1 June 2021.
[15] The fee applicable to Wendy Lucas-Bull, the Group Chairman, covers chairmanship of the Absa Group, Absa Bank and the Absa Financial Services (AFS) Boards (the latter until 31 May 2021) as well as the membership of all Board committees and sub-committees.
[16] The fees indicated above are exclusive of VAT. Where applicable VAT has been levied by the non-executive directors and such fees plus VAT were paid to the non-executive directors concerned (subject to the issue of a valid tax invoice).

63. Directors' and prescribed officers' remuneration (continued)

Group Chairman and non-executive directors' fees

	2020					
			Subsidiary boards, committees and trusts			
	Group Board R	Group Board committees and sub-committees R	Absa Bank R	Absa Financial Services R	Other R	2020 Total[6] R
Alex Darko[1]	596 213	1 529 994	105 880	—	—	2 232 087
Colin Beggs[1,2]	596 213	1 623 995	80 880	—	261 616	2 562 704
Dhanasagree (Daisy) Naidoo	596 213	835 219	—	301 281	—	1 732 713
Daniel (Dan) Hodge	317 345	454 178	—	—	—	771 523
Daniel (Dan) Hodge (Barclays Plc)	254 457	184 870	—	—	—	439 327
Francis Okomo-Okello[1,3]	596 213	497 593	58 333	—	24 000	1 176 139
Fulvio Tonelli	292 934	579 800	—	—	111 597	984 331
Ihron Rensburg[3]	596 213	324 606	—	—	24 000	944 819
Mark Merson[1,4]	596 213	1 617 940	139 213	—	529 995	2 883 361
Mohamed Husain[1]	303 280	566 128	89 213	—	—	958 621
Nonhlanhla Mjoli-Mncube	122 056	51 551	—	—	—	173 607
René van Wyk[1]	244 111	276 375	—	—	—	520 486
Rose Keanly	596 213	744 963	—	136 355	—	1 477 531
Sipho Pityana[1]	596 213	675 420	58 333	—	—	1 329 966
Swithin Munyantwali	596 213	495 281	—	—	—	1 091 494
Tasneem Abdool-Samad[1]	596 213	1 396 334	58 333	517 062	—	2 567 942
Wendy Lucas-Bull (Group Chairman)[1,5]	6 501 939	70 287	—	—	—	6 572 226
Total	13 998 252	11 924 534	590 185	954 698	951 208	28 418 877

[1] The Group Audit and Compliance Committee (GACC), Group Risk and Capital Management Committee (GRCMC), Remuneration Committee (RemCo) and Social and Ethics Committee (SEC) Chairmen receive fees equal to two and a half times the fee payable to members of these committees. Chairmen of the remaining committees receive fees equal to two times the member fee.

[2] Other fees include Absa Pension Fund fees paid to Colin Beggs.

[3] Francis Okomo-Okello and Ihron Rensburg are trustees of the Absa Foundation Trust (reported under Other).

[4] Mark Merson is the Chairman of the Absa Securities United Kingdom Limited, a subsidiary of Absa Group Limited (reported under Other).

[5] The fee applicable to Wendy Lucas-Bull, the Group Chairman, covers chairmanship of the Absa Group, Absa Bank and the Absa Financial Services (AFS) Boards as well as the membership of all Board committees and sub-committees.

[6] The fees indicated above are exclusive of VAT. Where applicable VAT has been levied by the non-executive directors and such fees plus VAT were paid to the non-executive directors concerned (subject to the issue of a valid tax invoice).

Annexure A: Embedded value report for life insurance entities (unaudited)

Scope of the embedded value report

This report deals with the embedded value of the life insurance entities (including Absa Life Limited, Absa Life Botswana Proprietary Limited, Absa Life Zambia Limited, Global Alliance Seguros S.A., Absa Life Assurance Kenya, Woolworths Financial Services and Instant Life), including the value of new business written during the current reporting period in respect of these entities.

The embedded value as at 31 December 2021 has been calculated in accordance with the principles contained in the Actuarial Society of South Africa's guidance note APN 107: Embedded value reporting.

Embedded value

The present value of in-force covered business (PVIF) is the discounted value of the projected stream of future after tax shareholder profits arising in the company's accounts from covered business in-force at the valuation date. Covered business is taken to be all long-term insurance business written on the company's licences.

The free surplus is the excess of assets over the sum of liabilities and required capital, with assets and liabilities valued according to IFRS 4. The required capital takes into account the solvency capital requirements as well as internal liquidity requirements, in line with the company's dividend policy.

Value of new business

The value of new business is the discounted value, at the date of sale, of the projected after tax shareholder profits from new covered business (net of the opportunity cost of the required capital for new business). New covered business is defined as long-term insurance contracts written by the respective life insurance licences during the financial year and for which at least one premium has been recognised in the financial statements. The value of new business is calculated using closing assumptions for all basis items.

Embedded value and value of new business

	Group	
	2021 Rm	2020 Rm
Free surplus	**193**	822
Required capital	**862**	735
Covered business adjusted net worth (ANW)	**1 055**	1 557
Present value of in-force business (PVIF)	**4 550**	4 339
Cost of required capital (CoC)	**(262)**	(217)
Total embedded value (EV)	**5 343**	5 679
Value of new business (before CoC)	**631**	455
CoC	**(35)**	(25)
Value of new business (VNB)	**596**	430
Present value of future premiums (gross of reinsurance premiums)	**8 503**	6 372
Value of new business as a percentage of the present value of future premiums		
All business (%)	**7.0**	6.7
Excluding investment business (%)	**13.0**	12.5

Annexure A: Embedded value report for life insurance entities (unaudited)

Assumptions

The value of the covered in-force and new business is determined using assumptions regarding future mortality, morbidity, discontinuance rates and expenses which all equal the 'best estimate' assumptions. These assumptions were based on recent experience investigations.

For Absa Life Limited, the government bond curve is used to determine the risk-free rate of return assumptions and the assumed returns on the other asset classes are calculated using a constant differential from the risk-free rate curve. The economic assumptions used including certain representative points on the risk-free curve are as follows (gross of tax where applicable):

	2021 Absa Life Limited Rm	2020 Absa Life Limited Rm
Risk-free rate of return:		
1-year term	5.45	4.47
5-year term	8.30	6.51
10-year term	10.71	10.32
20-year term	12.31	14.16
Equity return differential	3.36	3.36
Cash return differential	(2.00)	(2.00)
Overall investment return differential	(0.45)	(0.45)
Risk discount rate differential	3.15	3.15

For the non-South African life licences, all values are discounted using an assumed country-specific risk discount rate. Each risk discount rate was set equal to the country-specific risk-free rate of return plus the fixed beta percentage of 90% multiplied by the assumed equity risk premium of 3.5%, plus a further company risk specific margin of 0.25%. The economic assumptions used including the country-specific risk-free rates for the non-South African life insurance entities are as follows (gross of tax where applicable):

	2021				2020			
	Absa Life Botswana Proprietary Limited %	Absa Life Zambia Limited %	Global Alliance Seguros S.A. %	Absa Life Assurance Kenya Limited %	Absa Life Botswana Proprietary Limited %	Absa Life Zambia Limited %	Global Alliance Seguros S.A. %	Absa Life Assurance Kenya Limited %
Risk-free rate of return	5.2	20.1	11.3	13.6	4.3	18.3	13.0	13.3
Cash return	3.2	18.1	9.3	n/a	2.3	16.3	11.0	n/a
Overall investment return	4.7	18.9	10.3	13.7	3.8	17.1	12.0	13.3
Risk discount rate	8.6	23.5	14.7	17.1	7.7	21.7	16.4	16.7
Expense inflation	3.8	10.6	6.3	6.5	3.0	8.7	8.0	6.0

Sensitivities

The following table summarises the sensitivity of the embedded value and value of new business calculation of Absa Life Limited (South Africa) to changes in the underlying assumptions. In each of the scenarios, no offsetting management actions were assumed to occur.

	Group							
	2021							
Percentage change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0.9	Equity returns +1%	Mortality/ morbidity x 0.95	Mainte-nance expenses x 0.9	Lapse/ surrender x 0.9	Initial expenses x 0.9
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
PVIF	(3.4)	3.4	(0.4)	0.1	7.0	3.5	4.2	n/a
CoC	7.7	5.3	0.0	0.0	8.3	0.0	5.3	n/a
EV	(3.2)	2.8	(0.3)	0.1	5.7	3.0	3.4	n/a
VNB	(3.6)	5.5	(0.3)	(0.1)	6.7	4.0	9.2	2.6

Annexure A: Embedded value report for life insurance entities (unaudited)

Sensitivities (continued)

Percentage change	Risk discount rate +1%	Interest rates –1%	Equity capital values x 0.9	Equity returns +1%	Mortality/ morbidity x 0.9	Mainte-nance expenses x 0.9	Lapse/ surrender x 0.9	Initial expenses x 0.9
	2020							
ANW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
PVIF	(3.3)	4.1	(0.6)	0.1	5.9	2.9	5.3	n/a
CoC	8.6	5.2	0.0	0.0	7.0	0.0	6.7	n/a
EV	(2.9)	3.0	(0.4)	0.1	4.4	2.3	3.9	n/a
VNB	(4.0)	4.6	(3.2)	(3.0)	3.5	0.7	11.7	1.3

The development of the embedded value of Absa Life Limited (South Africa) can be analysed as follows:

	Group	
	2021 Rm	2020* Rm
Embedded value at the end of the reporting period	**4 287**	4 578
Dividends accrued or paid	**182**	1 003
Embedded value at the beginning of the reporting period	**(4 540)**	(5 543)
Embedded value earnings	**(71)**	38
Components of embedded value earnings:		
Value of new business at point of sale[1]	**473**	321
Expected return on covered business (unwinding)	**293**	429
Expected profit transfer	**(46)**	0
Operating experience variances[2]	**(560)**	(229)
Operating assumption and model changes	**(135)**	(462)
Covid-19 provision	**(185)**	(264)
Change in share-based payment (SBP) reserve	**(9)**	4
Release of gross-up reserve	**(23)**	(5)
Expected return on ANW	**26**	53
Embedded value operating return	**(166)**	(153)
Investment return variances on in-force covered business	**38**	(3)
Investment return variances on ANW	**22**	36
Effect of economic assumption changes	**35**	158
Embedded value earnings	**(71)**	38
Return on embedded value (%)	**(1.6)**	1.0

Review by the independent actuaries

The embedded value and the value of new business written during the year have been reviewed and agreed by the independent consulting actuaries, Deloitte and Touche.

* 2020 results as published in the FY20 HAF APN103 report in the Absa Group financial statements.

1 The 2021 increase is mainly due to higher new business volumes (present value of new business premiums increased by 34%) as well as higher new business margin.

2 The unfavourable 2021 impact is mainly due to COVID-19 excess death claims.

Company financial statements

Company statement of financial position

as at 31 December

		Company	
	Note	2021 Rm	2020 Rm
Assets			
Loans and advances[1]	2	**1 733**	646
Investment securities	3	**14 595**	6 101
Other assets	4	**26**	26
Current tax assets		**20**	83
Deferred tax assets	5	**1**	17
Non-current assets held for sale	6	**70**	—
Subsidiaries	7	**73 415**	75 866
Total assets		**89 860**	82 739
Liabilities			
Other liabilities	8	**244**	242
Borrowed funds	9	**26 757**	20 576
Total liabilities		**27 001**	20 818
Equity			
Capital and reserves			
Attributable to ordinary equity holders of the Company:			
Ordinary share capital	10	**1 696**	1 696
Ordinary share premium	10	**23 786**	23 786
Retained earnings		**30 329**	29 385
Other reserves		**44**	50
		55 855	54 917
Additional Tier 1 capital	11	**7 004**	7 004
Total equity		**62 859**	61 921
Total equity and liabilities		**89 860**	82 739

[1] The description has changed from prior year, refer to restatement note 1.12.1.

Company statement of comprehensive income

for the reporting period ended 31 December

	Note	Company 2021 Rm	Company 2020 Rm
Net interest income	12	52	16
Non-interest income		4 281	6 739
Gains and losses from investment activities	13	3 579	6 022
Other operating income	14	702	717
Total income		4 333	6 755
Impairment losses		(22)	—
Operating income before operating expenditure		4 311	6 755
Operating expenses		(55)	(192)
Operating expenses	15	(35)	(38)
Other impairments	16	(20)	(154)
Operating profit before income tax		4 256	6 563
Taxation expense	17	(99)	(119)
Profit for the reporting period		4 157	6 444
Profit attributable to:			
Ordinary equity holders		3 572	5 855
Additional Tier 1 capital		585	589
		4 157	6 444
Earnings per share			
Basic earnings per share	18	421.3	690.6
Diluted earnings per share	18	421.3	690.6

	Company 2021 Rm	Company 2020 Rm
Profit for the reporting period	4 157	6 444
Other comprehensive income		
Items that are or may be subsequently reclassified to profit or loss	(6)	(5)
Movement in cash flow hedging reserve	(6)	(5)
Fair value (losses)/gains	(6)	(5)
Total comprehensive income for the reporting period	4 151	6 439
Total comprehensive income attributable to:		
Ordinary equity holders	3 566	5 850
Additional Tier 1 capital	585	589
	4 151	6 439

Company statement of changes in equity

for the reporting period ended 31 December

	Company								
	2021								
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
Balance at the beginning of the reporting period	**847 750**	**1 696**	**23 786**	**29 385**	**50**	**50**	**54 917**	**7 004**	**61 921**
Total comprehensive income	—	—	—	3 572	(6)	(6)	3 566	585	4 151
Profit for the period	—	—	—	3 572	—	—	3 572	585	4 157
Other comprehensive income	—	—	—	—	(6)	(6)	(6)	—	(6)
Dividends paid during the reporting period	—	—	—	(2 628)	—	—	(2 628)	—	(2 628)
Distributions paid during the reporting period	—	—	—	—	—	—	—	(585)	(585)
Balance at the end of the reporting period	**847 750**	**1 696**	**23 786**	**30 329**	**44**	**44**	**55 855**	**7 004**	**62 859**
Note	10	10	10					11	

	2020								
	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	Cash flow hedging reserve Rm	Total equity attributable to ordinary equity holders Rm	Additional Tier 1 capital Rm	Total equity Rm
Balance at the beginning of the reporting period	847 750	1 696	23 786	28 786	55	55	54 323	5 795	60 118
Total comprehensive income	—	—	—	5 855	(5)	(5)	5 850	589	6 439
Profit for the period	—	—	—	5 855	—	—	5 855	589	6 444
Other comprehensive income	—	—	—	—	(5)	(5)	(5)	—	(5)
Dividends paid during the reporting period	—	—	—	(5 256)	—	—	(5 256)	—	(5 256)
Distributions paid during the reporting period	—	—	—	—	—	—	—	(589)	(589)
Issuance of Additional Tier 1 capital	—	—	—	—	—	—	—	1 209	1 209
Balance at the end of the reporting period	847 750	1 696	23 786	29 385	50	50	54 917	7 004	61 921
Note	10	10	10					11	

Company statement of cash flows

for the reporting period ended 31 December

	Note	Company 2021 Rm	2020 Rm
Cash flow from operating activities			
Profit before tax		**4 256**	6 563
Other impairments	16	**20**	154
Cash flow from operating activities before changes in operating assets and liabilities		**4 276**	6 717
Net increase in investment securities		**(8 501)**	(273)
Net decrease in other assets		**—**	6
Net increase/(decrease) in other liabilities		**1 899**	(621)
Income taxes paid		**(20)**	(188)
Net cash (utilised in)/generated from operating activities		**(2 346)**	5 641
Cash flow from investing activities			
Purchase of equity investment in subsidiaries		**—**	(1 299)
Proceeds from equity investment in subsidiaries		**217**	184
Proceeds from debt instruments in subsidiaries		**2 121**	786
Net cash generated from/(utilised in) investing activities		**2 338**	(329)
Cash flow from financing activities			
Dividends paid		**(2 628)**	(5 255)
Proceeds from borrowed funds		**6 940**	3 015
Repayment of borrowed funds		**(2 655)**	(3 733)
Issuance of Additional Tier 1 capital		**—**	1 209
Distributions paid to Tier 1 capital holders		**(585)**	(589)
Net cash generated from/(utilised in) financing activities		**1 072**	(5 353)
Net increase/(decrease) in cash and cash equivalents		**1 064**	(41)
Cash and cash equivalents at the beginning of the reporting period		**646**	687
Cash and cash equivalents at the end of the reporting period	2	**1 710**	646

As part of operating activities, net interest expense amounting to **R12m** (2020: R56m) was paid in cash.

Notes to the Company financial statements

for the reporting period ended 31 December

1. Accounting policies

The financial statements of the Company are prepared according to the same accounting principles used in preparing the consolidated financial statements of the Group. For detailed accounting policies, refer to the Group's financial statements.

	Company 2021 Rm	Company 2020 Rm
2. Loans and advances to banks		
Gross loans and advances to bank	1 733	646
	1 733	646

The aforementioned loans are at variable rates.

	Company 2021 Rm	Company 2020 Rm
3. Investment securities		
Debt securities	14 595	6 101
	14 595	6 101

	Company 2021 Rm	Company 2020 Rm
4. Other assets		
Accounts receivable and prepayments	26	26
	26	26

	Company 2021 Rm	Company 2020 Rm
5. Deferred tax		
5.1 Reconciliation of net deferred tax (liability)/asset		
Balance at the beginning of the reporting period	17	(59)
Charge to profit or loss (refer to note 17)	(16)	76
Balance at the end of the year	1	17
5.2 Deferred tax (liability)/asset		
Tax effects of temporary differences between tax and book value for:		
Exchange differences – unrealised	1	17
Net deferred tax (liability)/asset	1	17

	Company 2021 Rm	Company 2020 Rm
6. Non-current assets and non-current liabilities held for sale		
Non-current assets held for sale		
Transfer of subsidiaries	70	—
Balance at the end of the reporting period	70	—

A total of R70m was reclassified into the non-current assets held for sale category relating to the sale of subsidiaries, targeted for conclusion in 2022. Please refer to note 6 of the Group financial statements for further details.

	Company 2021 Rm	Company 2020 Rm
7. Subsidiaries		
Equity investments	**60 567**	60 874
Debt instruments	**12 848**	14 992
	73 415	75 866

Refer to note 48.2 of the Group's financial statements for a list of significant subsidiaries. The loans are South African facing exposures, classified in stage 1 DG1-9 and are unsecured. The related ECL of **R22m** was raised in the current year.

	Company 2021 Rm	Company 2020 Rm
8. Other liabilities		
Unclaimed dividends	**244**	241
Other	**—**	1
	244	242

Notes to the Company financial statements

for the reporting period ended 31 December

9. Borrowed funds

Subordinated callable notes issued by Absa Group Limited

Interest rate	Final maturity date	Note	Company 2021 Rm	Company 2020 Rm
11.74%	20 August 2026	i	—	140
11.81%	3 September 2027	ii	**737**	737
12.43%	5 May 2026	iii	—	200
Three-month JIBAR + 2.13%	17 May 2030	iv	**2 676**	2 676
Three-month JIBAR + 2.40%	11 April 2029	v	**1 580**	1 580
Three-month JIBAR + 2.45%	29 November 2028	vi	**1 500**	1 500
Three-month JIBAR + 3.60%	3 September 2027	vii	**30**	30
Three-month JIBAR + 4.00%	5 May 2026	viii	—	31
Three-month JIBAR + 4.00%	20 August 2026	ix	—	1 510
Three-month JIBAR + 4.00%	3 November 2026	x	—	500
Three-month JIBAR + 3.78%	17 March 2027	xi	**642**	642
Three-month JIBAR + 3.85%	25 May 2027	xii	**500**	500
Three-month JIBAR + 3.85%	14 August 2029	xiii	**390**	390
Three-month JIBAR + 3.15%	30 September 2027	xiv	**295**	295
Three-month JIBAR + 3.45%	29 September 2029	xv	**1 014**	1 014
USD 6.25%	25 April 2028	xvi	**4 952**	4 952
USD 6.375%	n/a	xvii	**6 866**	—
Other				
Accrued interest			**140**	157
Foreign exchange movements			**2 523**	902
			23 845	17 756

Non-subordinated debt extended by Absa Group Limited

Interest rate	Final maturity date	Note	Company 2021 Rm	Company 2020 Rm
Three-month JIBAR + 1.20%	11 September 2025	xviii	**58**	58
Three-month JIBAR + 1.40%	15 January 2021	xix	—	114
Three-month JIBAR + 1.20%	30 January 2025	xx	**301**	301
Three-month JIBAR + 1.225%	29 January 2024	xxi	**197**	197
Three-month JIBAR + 1.225%	19 July 2023	xxii	**88**	88
Three-month LIBOR + 1.85%	26 March 2025	xxiii	**758**	870
Three-month LIBOR + 0.92%	30 March 2026	xxiv	**149**	153
Three-month LIBOR + 0.89%	27 January 2026	xxv	**456**	497
Three-month LIBOR + 1.52%	16 October 2024	xxvi	**371**	374
Three-month LIBOR + 1.54%	18 March 2025	xxvii	**339**	339
Three-month LIBOR + 1.20%	25 February 2026	xxviii	**74**	—
Other				
Accrued interest			**37**	84
Foreign exchange movements			**84**	(255)
			2 912	2 820
			26 757	20 576

i The 11.74% fixed rate notes were redeemed in full on 20 August 2021.

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

iii. The 12.43% fixed rate notes were redeemed in full on 5 May 2021.

iv. The three-month JIBAR plus 2.13% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 May 2025. Interest is paid quarterly in arrears on 17 February, 17 May, 17 August and 17 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 May 2025. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

v. The three-month JIBAR plus 2.40% floating rate notes may be redeemed in full at the option of Absa Group Limited on 11 April 2024. Interest is paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October. Absa Group Limited has the option to exercise the redemption on any interest payment date after 11 April 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

9. Borrowed funds (continued)

vi. The three-month JIBAR plus 2.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 November 2023. Interest is paid quarterly in arrears on 28 February, 29 May, 29 August and 29 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 November 2023. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

vii. The three-month JIBAR plus 3.60% floating rate notes may be redeemed in full at the option of Absa Group Limited on 3 September 2022. Interest is paid quarterly in arrears on 3 March, 3 June, 3 September and 3 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 3 September 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

viii. The three-month JIBAR plus 4.00% floating rate notes were redeemed in full on 5 May 2021.

ix. The three-month JIBAR plus 4.00% floating rate notes were redeemed in full on 20 August 2021.

x. The three-month JIBAR plus 4.00% floating rate notes were redeemed in full on 3 November 2021.

xi. The three-month JIBAR plus 3.78% floating rate notes may be redeemed in full at the option of Absa Group Limited on 17 March 2022. Interest is paid quarterly in arrears on 17 March, 17 June, 17 September and 17 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 17 March 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xii. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 25 May 2022. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 25 May 2022. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xiii. The three-month JIBAR plus 3.85% floating rate notes may be redeemed in full at the option of Absa Group Limited on 14 August 2024. Interest is paid quarterly in arrears on 14 February, 14 May, 14 August and 14 November. Absa Group Limited has the option to exercise the redemption on any interest payment date after 14 August 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

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

xv. The three-month JIBAR plus 3.45% floating rate notes may be redeemed in full at the option of Absa Group Limited on 29 September 2024. Interest is paid quarterly in arrears on 29 March, 29 June, 29 September and 29 December. Absa Group Limited has the option to exercise the redemption on any interest payment date after 29 September 2024. No step-up will apply on the coupon rate, should Absa Group Limited not exercise the redemption option.

xvi. The 6.25% fixed rate reset callable USD notes with a nominal amount of USD400m may be redeemed in full at the option of Absa Group Limited on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October of each year. Absa Group Limited has the option to exercise the redemption on 25 April 2023. If Absa Group Limited does not exercise the redemption option from (and including) 25 April 2023, the interest rate per annum will be equal to the reset interest rate which shall be determined by the calculation agent on 27 April 2023. The reset margin is 3.523% per annum.

xvii. The 6.375% fixed rate reset unsecured and perpetual notes with a nominal amount of USD500m have no fixed redemption date. The notes qualify as Additional Tier 1 capital for the Group. The Group is obliged to pay interest on each interest payment date unless: (a) it elects not to pay the relevant interest amount on such interest payment date in whole or in part and for any reason; (b) it is in breach of either (i) the Capital Regulations or (ii) the Solvency Condition on the business day prior to such interest payment date or would be in breach of the Capital Regulations or the Solvency Condition if the relevant interest amount were paid on such interest payment date; or (c) at any time the Prudential Authority imposes a mandatory prohibition on the payment by the Issuer of such interest amount. The interest is payable semi-annually in arrears on 27 May and 27 November each year, commencing on 27 November 2021. The reset dates are every 5 years. The interest rate is 6.375% from the issue date to (but excluding) the first reset date, 27 November 2026. Thereafter, the interest rate will be reset to an interest applicable to the relevant reset period.

xviii. The three-month JIBAR plus 1.20% floating rate notes should be redeemed in full by Absa Group Limited by 11 September 2025. Interest is paid quarterly in arrears on 11 March, 11 June, 11 September and 11 December. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xix. The three-month JIBAR plus 1.40% floating rate notes were redeemed in full on 15 January 2021.

xx. The three-month JIBAR plus 1.20% floating rate notes should be redeemed in full by Absa Group Limited by 30 January 2025. Interest is paid semi-annually in arrears on 30 January and 31 July. Absa Group Limited may redeem a portion (being a minimum of R100m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxi. The three-month JIBAR plus 1.225% floating rate notes should be redeemed in full by Absa Group Limited by 29 January 2024. Interest is paid semi-annually in arrears on 29 July and 29 January. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxii. The three-month JIBAR plus 1.225% floating rate notes should be redeemed in full by Absa Group Limited on 19 July 2023. Interest is paid annually in arrears on 31 May. Absa Group Limited may redeem a portion (being a minimum of R50m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

9. Borrowed funds (continued)

xxiii. The three-month LIBOR plus 1.85% floating rate notes should be redeemed in full by Absa Group Limited by 26 March 2025. Interest is paid quarterly in arrears on 26 March, 26 June, 26 September and 26 December. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxiv. The three-month LIBOR plus 0.92% floating rate notes should be redeemed in full by Absa Group Limited by 30 March 2026. Interest is paid quarterly in arrears on 30 June, 30 September, 30 December and 30 March. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxv. The three-month LIBOR plus 0.89% floating rate notes should be redeemed in full by Absa Group Limited by 27 January 2026. Interest is paid quarterly in arrears on 27 April, 27 July, 27 October and 27 January. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxvi. The three-month LIBOR plus 1.52% floating rate notes should be redeemed in full by Absa Group Limited on 16 October 2024. Interest is quarterly in arrears on the 16 January, 16 April, 16 July and 16 October. Absa Group Limited may redeem a portion (being a minimum of R10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxvii. The three-month LIBOR plus 1.54% floating rate notes should be redeemed in full by Absa Group Limited by 18 March 2025. Interest is paid quarterly in arrears on 18 March, 18 June, 18 September and 18 December. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

xxviii. The three-month LIBOR plus 1.20% floating rate notes should be redeemed by Absa Group Limited by 25 February 2026. Interest is paid quarterly in arrears on 25 February, 25 May, 25 August and 25 November. Absa Group Limited may redeem a portion (being a minimum of $10m) or full amount on any interest payment date, by giving the lender not less than 20 business days prior notice.

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

Notes xvi to xvii is listed on the London Stock Exchange.

Note xviii to xxviii have been issued to Absa Bank Limited.

In accordance with its memorandum of incorporation, the borrowing powers of Absa Group Limited are unlimited.

	Company 2021 Rm	Company 2020 Rm
10. Share capital and premium		
Ordinary share capital		
Authorised		
891 774 054 (2020: 891 774 054) ordinary shares of R2.00 each	**1 784**	1 784
Issued		
847 750 679 (2020: 847 750 679) ordinary shares of R2.00 each	**1 696**	1 696
Total issued capital		
Share capital	**1 696**	1 696
Share premium	**23 786**	23 786
	25 482	25 482

Authorised shares
There were no changes to the authorised share capital during the current reporting period.

Unissued shares
The unissued shares are under the control of the directors, subject to a limit of 5% of issued ordinary share capital as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Company.

Shares issued
There were no shares issued during the current and prior reporting periods.

All shares issued by the Company were paid in full.

		Company 2021 Rm	Company 2020 Rm
11. Other equity: Additional Tier 1 capital			
Subordinated callable notes issued by Absa Group Limited			
Interest rate	**Date of issue**		
Three-month JIBAR + 5.65%	11 September 2017	**1 500**	1 500
Three-month JIBAR + 4.75%	9 October 2018	**1 241**	1 241
Three-month JIBAR + 4.50%	28 May 2019	**1 678**	1 678
Three-month JIBAR + 4.25%	5 December 2019	**1 376**	1 376
Three-month JIBAR + 4.55%	26 October 2020	**1 209**	1 209
		7 004	7 004

The Additional Tier 1 capital notes represent perpetual, subordinated instruments redeemable in full at the option of Absa Group Limited (the Issuer) on 12 September 2022, 10 October 2023, 28 November 2024 and 5 June 2025 subject to regulatory approval. These instruments include a write-off provision which is required under Basel III. This provision is triggered by the Prudential Authority and shall be instituted at the earlier of (i) a decision that a write-off, without which the Issuer would become non-viable, is necessary; or (ii) a decision to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. In addition, the Additional Tier 1 Notes do not have a contractual obligation to pay interest. Accordingly, the instruments are classified as equity instruments.

	Company 2021 Rm	Company 2020 Rm
12. Net interest income/(expense)		
Net interest and similar income/(expense)	**52**	16

	Company 2021 Rm	Company 2020 Rm
13. Gains and losses from investment activities		
Dividends received from subsidiaries	**3 579**	6 022

	Company 2021 Rm	Company 2020 Rm
14. Other operating income		
Foreign exchange differences	**116**	114
Sundry income	**586**	603
	702	717

	Company 2021 Rm	Company 2020 Rm
15. Operating expenses		
Administrative and other expenses	**35**	38

	Company 2021 Rm	Company 2020 Rm
16. Other impairments		
Equity investment in subsidiaries[1]	**20**	154

[1] Management has impaired investments in subsidiaries totalling **R20m** (2020: R154m). during the current reporting period.

	Company 2021 Rm	Company 2020 Rm
17. Taxation expense		
Current		
Current tax	38	69
Current tax – previous reporting period	(26)	41
Foreign tax	71	85
	83	195
Deferred (refer to note 5)	16	(76)
Other	—	(67)
Exchange difference	16	(9)
	99	119
Reconciliation between operating profit before income tax and the taxation expense		
Operating profit before income tax	4 256	6 563
Tax calculated at a tax rate of 28%	1 192	1 838
Expenses not deductible for tax purposes	12	40
Dividend income	(1 158)	(1 843)
Other income not subject to tax	13	(68)
Items of a capital nature	(5)	26
South African current taxation prior year	(26)	41
Foreign tax	71	85
	99	119

18. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company, obtained from the profit and loss component of the statement of comprehensive income, by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares, of which there are none.

	Company 2021 Rm	Company 2020 Rm
Basic and diluted earnings attributable to ordinary equity holders of the Company	3 572	5 855
Weighted average number of ordinary shares in issue (millions)	847.8	847.8
Issued shares at the beginning and end of the reporting period	847.8	847.8
Basic earnings per share/diluted earnings per ordinary share (cents)	421.3	690.6

Notes to the Company financial statements

for the reporting period ended 31 December

	Company			
	2021		2020	
	Gross Rm	Net Rm	Gross Rm	Net Rm
19. Headline earnings				
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Company		3 572		5 855
Total headline earnings adjustment:		20		154
IAS 36 - Impairment of investment in subsidiary (refer to note 16)	20	20	154	154
Headline earnings/diluted headline earnings		3 592		6 009
Headline earnings per ordinary share/diluted headline earnings per ordinary share (cents)		423.7		708.8

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

	Company	
	2021 Rm	2020 Rm
20. Dividends per share		
Dividends declared to ordinary equity holders		
Interim dividend **(16 August 2021: 310 cents per share (cps)** (2020: 0 cps)	2 628	—
Final dividend **(14 March 2022: 475 cps)** (11 March 2021: 0 cps)	4 027	—
	6 655	—
Distributions declared to Additional Tier 1 capital note holders		
Distribution		
11 January 2021: 20 214.47 Rands per note (rpn);		
10 January 2020: 29 049.32 Rands per note (rpn)	25	36
27 January 2021: 20 085.45 rpn	24	—
26 February 2021: 19 268.38 rpn; 28 February 2020: 28 502.36 rpn	32	47
05 March 2021: 18 786.19 rpn; 05 March 2020: 27 569.26 rpn	26	38
12 March 2021: 22 301.37 rpn; 14 March 2020: 31 039.73 rpn	33	47
12 April 2021: 20 922.52 rpn; 14 April 2020: 30 061.64 rpn	26	37
28 April 2021: 20 423.89 rpn	25	—
28 May 2021: 20 299.23 rpn; 28 May 2020: 27 143.01 rpn	34	46
07 June 2021: 20 326.60 rpn; 05 June 2020: 27 075.73 rpn	28	37
14 June 2021: 23 971.29 rpn; 12 June 2020: 30 392.77 rpn	36	46
12 July 2021: 20 984.85 rpn; 10 July 2020: 24 669.86 rpn	26	31
27 July 2021: 20 280.82 rpn	25	—
30 August 2021: 21 074.03 rpn; 28 August 2020: 21 487.67 rpn	36	36
06 September 2021: 19 778.16 rpn; 07 September 2020: 21 138.41 rpn	27	29
13 September 2021: 23 268.58 rpn; 14 September 2020: 24 702.68 rpn	35	37
11 October 2021: 21 047.18 rpn; 12 October 2020: 22 212.33 rpn	26	28
27 October 2021: 20 751.67 rpn	25	—
29 November 2021: 20 361.56 rpn; 30 November 2020: 20 453.37 rpn	34	34
06 December 2021: 19 738.27 rpn; 07 December 2020: 19 177.32 rpn	27	26
13 December 2021: 23 248.63 rpn; 14 December 2020: 22 500.68 rpn	35	34
	585	589
Dividends paid to ordinary equity holders		
Final dividend **(2021: 0 cps)** (20 April 2020: 620 cents)	—	5 256
Interim dividend **(20 September 2021: 310 cps)** (2020: 0 cps)	2 628	—
	2 628	5 256

	Company 2021 Rm	Company 2020 Rm

21. Related parties

Refer to note 48 of the Group's financial statements for the full disclosure of related-party transactions. In addition to this disclosure the following related party transactions and balances exist for the Company.

21.1 Balances and transactions with subsidiaries

Debit amounts are shown as positive, credit amounts are shown as negative.

	Company 2021 Rm	Company 2020 Rm
Balances		
Loans and advances to banks	1 733	646
Investment securities	14 595	6 101
Loan to subsidiaries	12 848	14 992
Borrowed funds	(2 912)	(2 820)
Transactions		
Net interest income	(2 343)	(1 437)
Operating income	(585)	(589)
Dividends received	(3 579)	(6 022)

22. Risk management

In order to gain an understanding of the risk management framework applied by the Company please refer to note 60 of the Group's financial statements.

Credit risk	Company 2021 Gross maximum exposure – Stage 1 Rm	Company 2020 Gross maximum exposure – Stage 1 Rm
Maximum exposure to credit risk		
Loans and advances to banks	1 733	646
Investment securities	14 595	6 101
Other assets	26	26
Subsidiaries	12 870	14 992
	29 224	21 765

22. Risk management (continued)

Treasury risk

Liquidity risk

Analysis of liquidity risk:

	Company					
	2021					
	Carrying amount (excluding impairment losses on amortised cost instruments)					
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Impairment losses Rm	Total Rm
Assets						
Investment securities	203	—	—	14 392	—	14 595
Loans and advances	1 733	—	—	—	—	1 733
Other financial assets	1	—	—	—	—	1
Subsidiaries	751	1 562	10 557	—	(22)	12 848
Financial assets	2 688	1 562	10 557	14 392	(22)	29 177
Non-financial assets						60 683
Total assets						89 860
Liabilities						
Other financial liabilities	242	2	—	—	—	244
Borrowed funds	—	2 380	24 289	88	—	26 757
Financial liabilities	242	2 382	24 289	88	—	27 001
Non-financial liabilities						—
Total liabilities						27 001
Equity						62 859
Total equity and liabilities						89 860
Net liquidity position of financial instruments	2 446	(820)	(13 732)	14 304	(22)	2 176

	2020					
	Gross carrying amount					
Discounted maturity	On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Impairment losses Rm	Total Rm
Assets						
Investment securities	203	—	—	5 898	—	6 101
Loans and advances to banks	646	—	—	—	—	646
Other financial assets	1	—	—	—	—	1
Subsidiaries	717	2 381	11 894	—	—	14 992
Financial assets	1 567	2 381	11 894	5 898	—	21 740
Non-financial assets						60 999
Total assets						82 739
Liabilities						
Other financial liabilities	242	—	—	—	—	242
Borrowed funds	199	3 125	17 252	—	—	20 576
Financial liabilities	441	3 125	17 252	—	—	20 818
Non-financial liabilities						—
Total liabilities						20 818
Equity						61 921
Total equity and liabilities						82 739
Net liquidity position of financial instruments	1 126	(744)	(5 358)	5 898	—	922

22. Risk management (continued)

Undiscounted maturity (statement of financial position value with impact of future interest)	Company 2021 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Other financial liabilities	242	2	—	—	—	244
Borrowed funds	—	2 417	28 983	193	(4 836)	26 757
Total liabilities	242	2 419	28 983	193	(4 836)	27 001

Undiscounted maturity (statement of financial position value with impact of future interest)	2020 On demand Rm	Within 1 year Rm	From 1 year to 5 years Rm	More than 5 years Rm	Discount effect Rm	Total Rm
Liabilities						
On-statement of financial position						
Other financial liabilities	242	—	—	—	—	242
Borrowed funds	199	3 184	20 120	—	(2 927)	20 576
Total liabilities	441	3 184	20 120	—	(2 927)	20 818

Interest rate risk in the banking book
Impact on earnings

	2021 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	4	2	(2)	(4)
Percentage of the Company's net interest income (%)	(7)	(4)	4	7
With respect to investment securities balance	207	205	201	199

Interest rate risk in the banking book
Impact on earnings

	2020 Change in market risk 200 bps decrease	100 bps decrease	100 bps increase	200 bps increase
Change in projected net interest income (Rm)	(4)	(2)	2	4
Percentage of the Company's net interest income (%)	22	11	(11)	(22)
With respect to investment securities balance	199	201	205	207

Notes to the Company financial statements

for the reporting period ended 31 December

23. Fair value disclosures

23.1 Assets and liabilities not held at fair value

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

	Company				
	2021				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Investment securities	14 595	14 595	—	14 595	—
Loans and advances to banks	1 733	1 733	—	1 733	—
Subsidiaries	12 848	12 848	—	12 848	—
Other assets	1	1	—	1	—
Total financial assets (not held at fair value)	29 177	29 177	—	29 177	—
Financial liabilities					
Other liabilities	244	244	—	244	—
Borrowed funds	26 757	26 757	—	26 757	—
Total financial liabilities (not held at fair value)	27 001	27 001	—	27 001	—

	2020				
	Carrying amount Rm	Fair value Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets					
Investment securities	6 101	6 101	—	6 101	—
Loans and advances to banks	646	646	—	646	—
Subsidiaries	14 992	14 992	—	14 992	—
Other assets	1	1	—	1	—
Total financial assets (not held at fair value)	21 740	21 740	—	21 740	—
Financial liabilities					
Other liabilities	241	241	—	241	—
Borrowed funds	20 576	20 576	—	20 576	—
Total financial liabilities (not held at fair value)	20 817	20 817	—	20 817	—

23. Fair value disclosures (continued)

23.2 Assets and liabilities held at fair value

The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Company			
	2021			
	Quoted prices for Level 1 Rm	Valuations with reference to observable prices Level 2 Rm	Valuation reference to unobservable prices Level 3 Rm	Total Rm
Non-recurring fair value measurements				
Non-current assets held for sale	—	—	70	70

	2020			
	Quoted prices for Level 1 Rm	Valuations with reference to observable prices Level 2 Rm	Reference to unobservable prices Level 3 Rm	Total Rm
Non-recurring fair value measurements				
Non-current assets held for sale	—	—	—	—

Refer to note 1.2 of the Group's financial statements for valuation methodology and valuation techniques of fair value and the fair value of non-fair value items.

24. Derivatives

Hedges of net investments in foreign operations

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

During the current reporting period, net loss of **R6m** (2020: R5m have been recognised in other comprehensive income.

Refer to note 56.8 of the Group's financial statements for IBOR disclosures in which the Companys' borrowings are subject to.

25. Going concern

The directors assess the Company's future performance and financial position on an ongoing basis. In light of the continued impact of COVID-19, the directors have assessed the Company's ability to continue as a going concern and acknowledged the risk of lower revenue in the medium term. The directors have concluded that there are no material uncertainties that could have cast significant doubt over the Company's ability to continue as a going concern for at least one year from the date of approval of the company financial statements. For this reason, these company financial statements are prepared on a going concern basis.

26. Events after the reporting period

During the budget speech presented on 23 February 2022, the finance minister announced that the corporate tax rate will be reduced from 28% to 27%. Based on the assessment of the impact, the Group does not expect the tax rate change to have a significant impact on the deferred tax balances reported as at 31 December 2021 but may have a larger impact on temporary differences arising in future.

Furthermore, the Russia Ukraine conflict has significantly increased already high levels of global uncertainty and is expected to impact global markets, outlooks and the expectations of the markets in which the Group operates. This is expected to materially heighten risks faced by financial market participants and the global and domestic economies. Active monitoring of the events unfolding in Europe and continuous assessments of the Group's exposure and potential risks, both direct and indirect, is ongoing as the impact on various markets will not be uniform. The Group has assessed that its direct exposure to Russia is currently negligible and thus monitoring is focused mainly on the indirect exposures and risks. Sensitivity to energy inflation and certain commodity prices will be elevated and are being monitored. The Group's focus remains on proactive risk and capital management to positively position itself as the spillover impact of the conflict unfolds. Risks are actively identified, and the consolidated response monitored to ensure effective implementation achieving the targeted result. Scenario analyses is used in the early detection of potential areas of weakness and to assess response effectiveness.

The directors are not aware of any events, other than the aforementioned (as defined per IAS 10 *Events after the Reporting Period*) after the reporting date of 31 December 2021 and the date of authorisation of these annual consolidated and separate financial statements.

Bastion

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